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Senate Hearings

Before the Committee on Appropriations

Agriculture, Rural Development, and Related Agencies Appropriations

Fiscal Year 2005

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H.R. 4766/S. 2803

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

Agriculture, Rural Development, and Related Agencies Appropriations, 2005
(H.R. 4766/S. 2803)

**AGRICULTURE, RURAL DEVELOPMENT, AND RE-
LATED AGENCIES APPROPRIATIONS FOR FIS-
CAL YEAR 2005**

HEARINGS

BEFORE A

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

SECOND SESSION

ON

H.R. 4766/S. 2803

AN ACT MAKING APPROPRIATIONS FOR AGRICULTURE, RURAL DEVELOPMENT, FOOD AND DRUG ADMINISTRATION, AND RELATED AGENCIES PROGRAMS FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 2005, AND FOR OTHER PURPOSES

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

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**AGRICULTURE, RURAL DEVELOPMENT, AND
RELATED AGENCIES APPROPRIATIONS FOR
FISCAL YEAR 2005**

THURSDAY, MARCH 25, 2004

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

The subcommittee met at 1:36 p.m., in room SD-192, Dirksen Senate Office Building, Hon. Robert F. Bennett (chairman) presiding.

Present: Senators Bennett, Bond, Craig, Kohl, Harkin, Dorgan, and Durbin.

DEPARTMENT OF AGRICULTURE

OFFICE OF THE SECRETARY

STATEMENT OF ANN M. VENEMAN, SECRETARY

ACCOMPANIED BY:

KEITH COLLINS, CHIEF ECONOMIST
STEPHEN DEWHURST, BUDGET OFFICER

Senator BENNETT. The Subcommittee will come to order, and we welcome you all here to the first hearing of the Agriculture Subcommittee of the Senate Appropriations Committee.

Last year was a very challenging year, because our allocation was almost \$1 billion less than the previous year in fiscal 2003, but with some heavy lifting and a lot of help by Senator Kohl, we managed to write a balanced bill that seemed to solve the problems, and we congratulated ourselves and thought that we had set the level that we might be asked to hold this year.

However, the budget request for this year is over a half a billion dollars less than last year. So maybe there is no virtue, Senator Kohl, in having given at the office. They come back to us again. But we do not have our formal allocation, but at least from the budget request, it looks as if it is going to be even more challenging this year than it was last, and I very much appreciate the cooperation and continuing support that Senator Kohl has given.

Before we begin, I would like to acknowledge the efforts of Secretary Veneman with respect to recently announced 110 metric tons of wheat destined for export to Iraq. This is a significant contribution toward moving Iraq in the direction which we want it to move, and we are grateful to the Secretary for her efforts in bringing that to pass.

We have a host of issues that we are facing and expect to talk about many of them this afternoon, and so, with a lot of ground to cover, I would ask the witnesses if they would summarize their statements. And we will be using the 5 minute timer, both for opening statements and for questioning. We can do additional rounds if Senators wish to do that, but given the number of things we need to talk about, I would like to have the discipline of the 5 minute timer.

And to try to set the example, I will now cease here and recognize Senator Kohl.

Senator KOHL. I thank you, Mr. Chairman, Senator Bennett. I want to congratulate you for the superb job you and your staff have done in guiding this Subcommittee last year and for crafting the fiscal year 2004 bill under trying circumstances.

Secretary Veneman, we want to welcome you and your colleagues to appear before us once again this year. We just passed through a most challenging year for USDA and all of us involved in U.S. agriculture. The year ahead shows no signs of relief. We will continue to focus on the needs of farmers and ranchers, invasive pests and disease, demands for food assistance, threats to public health and consumer confidence, notably the December discovery of mad cow disease, and many other challenges.

However, the President has submitted a budget proposal for us for the second year in a row with major reductions, reductions which are among the very largest of any Federal department. Madam Secretary, we hope that you will be able to explain to us today why the budget for the Department of Agriculture continues on a severe downward slope. You are the primary spokesperson in this country for rural America, and your voice needs to be heard and heard loudly within the highest levels of the administration.

As challenging as your tasks continue to be, Madam Secretary, our job this coming year will be no less difficult. Downward budget pressures on this Subcommittee will continue to make our choices difficult and leave our opportunities diminished.

So, Mr. Chairman, I look forward to continuing our strong working relationship in order to meet the problems ahead of us.

Thank you very much.

Senator BENNETT. Thank you, Senator. I appreciate that very much.

Senator Craig.

Senator CRAIG. Mr. Chairman, thank you. I will be brief.

We are anxious to hear your testimony. As I have done privately, let me publicly again congratulate you, Madam Secretary, for your leadership in several areas, but most important to my state and I expect to the State of Utah and to Senator Kohl's state was I think the masterful way that USDA and you handled the issue of mad cow.

I say so because it was a volatile issue. You stayed on top of it. You were quick to demonstrate to the American consumer the safety of the American meat supply while at the same time moving judiciously and responsibly to get it under control. So my congratulations to you on that.

I am, as most of us are, extremely frustrated by some things going on in farm country today against production agriculture; that

is, outside their control. While we look at the increase of \$4 billion in mandatory spending in your budget and about a \$720 million decrease in discretionary outlays, that is no small sum and a very real frustration as we try to solve a couple of issues or work with Agriculture to do so.

Let me point out a couple of them. In the 2002 Farm Bill, we worked hard to improve the energy title. We were not able to do that. We will work again to be able to do that this year, to extend larger loans, guarantees and grants to farmers and ranchers and rural businesses purchasing renewable energy systems, because energy has become a huge factor in production agriculture at this moment, and it will be in the near future.

Yesterday, Madam Secretary, I was visiting with a banker from Idaho who extends a lot of lines of credit to Idaho agricultural producers. He said he had just called all of his managers of the branches together on a conference call and asked them to examine all of the lines of credit of his farmers this year, and if those lines would handle at least a 20 percent increase based on one sole input factor: energy and the cost of energy.

Energy as an input part of production agriculture this year will go up between 25 and 30 percent at the farm gate. Nothing will offset that. There is not a commodity out there that is going to increase enough this year in any way to offset that. And that is a direct response to the inability of this Congress to produce a national energy policy and get us back into the business of production.

Let me give you one other figure that has just come out. In the 46 months since 2000 until today, increased natural gas prices have taken \$130 billion out of this economy: in industrial consumers, \$66 billion; residential consumers, \$39 billion; commercial consumers, \$25 billion. Shame on Congress. Shame on those who stand in the way of energy production in this country today.

And what does that do to the farmer? You and I both know. The input cost of fertilizer this year, 100 percent up from a year ago; 100 percent. Now, that will do one of two things. First of all, the farmers I talk to are saying we are not buying forward; we are buying it as delivered. We will use much less fertilizer this year than we did last. Maybe in some areas, that is okay. But it runs the risk of the overall production in agriculture dropping this year as it relates to the ability to produce at certain levels, and those margins of production, in some instances, were the margin of profitability, and now, you drive that cost of production up, and so, you ultimately drive production down because of its cost factors.

You have no control of the price of energy, nor does this administration. But the Congress has fumbled and fumbled and fumbled once again, and for 10 years, we have debated national energy policy. We have done nothing since 1992 in any positive way as it would relate to the increased production of energy.

How do we, then, for the American farmer, offset those dramatic increases in production costs? That is a phenomenal challenge for you and for this Congress in difficult budget times. So shame on Congress for standing in the way of this country beginning to produce once again for its consumer and especially for American agriculture.

Thank you, Mr. Chairman.

PREPARED STATEMENTS

Senator BENNETT. Thank you very much, Senator Craig. The Subcommittee has received statements from Senators Byrd and Johnson which will be placed in the record. [The statements follow:]

PREPARED STATEMENT OF SENATOR ROBERT C. BYRD

Secretary Veneman, thank you for coming before this committee today.

Over the past 3 years, I have made funding for the proper enforcement of the Humane Methods of Slaughter Act one of my top priorities. In the fiscal year 2001 supplemental appropriations bill, I secured \$1.25 million for the hiring of 17 District Veterinary Medical Specialists at the Food Safety Inspection Service. Report language accompanying that bill instructed these new inspectors to work solely on the enforcement of the Humane Methods of Slaughter Act. Prior to my securing this funding for DVMS personnel, there were no inspectors employed by the USDA exclusively for this purpose.

During the consideration of the fiscal year 2003 omnibus appropriations bill, the Senate included, at my request, \$5 million for the hiring of at least 50 full-time equivalent humane slaughter inspectors also for the sole purpose of humane slaughter enforcement. The fiscal year 2004 omnibus appropriations bill includes continued funding for the 50 full-time equivalent humane slaughter inspectors and the 17 District Veterinary Medical Specialists.

Last year, Secretary Veneman, when you testified before this committee, I expressed my deep concern about the proper use of the \$5 million for at least 50 full-time equivalent humane slaughter inspectors by the U.S. Department of Agriculture. The purpose of this funding is to ensure that the industry works to minimize pain and suffering of defenseless animals. By adding 50 full-time equivalent inspectors devoted exclusively to enforcing humane slaughter methods, along with 17 District Veterinary Medical Specialists, the USDA will finally have the resources to enforce a law that was enacted nearly 25 years ago.

Earlier this year I was pleased to learn that the 50 FTE inspectors are now in place at the USDA. The Department is now heading down the right path with regard to humane slaughter enforcement. But there is still more that can and needs to be done to eliminate operations that raise and slaughter livestock in unspeakable conditions—conditions where the animals do not even have room to lie down and where animals are not properly stunned before beginning the process of dismemberment. Such facilities are operating illegally and it is the responsibility of the USDA to identify these violations and stop the production line when violations are observed. Today it is my hope that we will hear from you, Madame Secretary, about the progress that has been made by the USDA over the last year regarding humane slaughter enforcement with the funding this committee provided, and how the USDA plans to continue to improve its enforcement of the Humane Methods of Slaughter Act with future funding.

PREPARED STATEMENT OF SENATOR TIM JOHNSON

Mr. Chairman and Members of the Agriculture Appropriations Subcommittee, I appreciate the opportunity to submit a statement at today's hearing, and address important issues for our Nation's farmers and ranchers. As the Senate considers the fiscal year 2005 Agriculture Appropriations bill, I find several issues at the forefront for the producers in my home state of South Dakota and across the Nation. I would like to take this opportunity to address these important issues, and question United States Department of Agriculture Secretary Ann Veneman on the Department's action, or in some unfortunate circumstances, inaction, on these concerns.

Country of origin labeling (COOL) remains an overwhelmingly popular concept with American consumers and producers. Not only would this provision facilitate consumer choice and confidence, it would also be greatly beneficial for our Nation's producers and the agricultural economy in general. The General Accounting Office (GAO) study that I requested during the summer of 2002, along with my colleague Senator Tom Daschle, confirms that COOL would be feasible to implement not only from a budget perspective, but also by incorporating existing regional and state programs for record-keeping and tracking purposes. GAO found that "USDA used higher estimates of the hourly cost of complying with the recordkeeping requirements

of the COOL law than it used in developing similar estimates for other programs and it has no documented evidence to justify these differences.”

The Administration’s handling of the country of origin labeling delay, in addition to their position on the country of origin labeling debate, has consistently been problematic and difficult. While opponents of COOL were successful in securing a 2-year delay on implementation of labeling for meat and produce, many unanswered questions still exist regarding what type of delay was enacted. While the mandatory date of implementation was postponed for 2 years, I believe the rulemaking process has remained unhindered by the delay language included in the 2004 Omnibus Appropriations measure. I wrote USDA on December 11, 2003, requesting clarification of the department’s interpretation of the language delaying the implementation of COOL. I was greatly disappointed by the vague and ambiguous response in the letter I received dated February 10, 2004.

To deny country of origin labeling to America’s consumers and producers is unacceptable; for USDA to remain evasive and unresponsive in attending to this issue is inexcusable. I intend to seek clarification of the rule pertaining to the delay. My first meat labeling bill was introduced in the House of Representatives 12 years ago, in 1992, and I will persist in working to speed up implementation of this invaluable and effective law with my colleagues. A majority of producer groups support implementation of COOL and consumers are expecting swift implementation. Country of origin labeling should be implemented for all products in a timely fashion, not only for the fish producers whose special interests were represented during closed-door consideration of the fiscal year 2004 Omnibus Appropriations bill.

Furthermore, I am very concerned that an adequate amount of funds be available for small and medium-sized producers. Our family farmers and ranchers in South Dakota and across the Nation deserve adequate representation in the fiscal year 2005 Agriculture Appropriations bill. I was pleased to see that Senator Charles Grassley’s (R-Iowa) amendment, which would alter payment limitations and cap excessive compensation to large farms, was adopted on this year’s budget resolution. I support this amendment. This funding would instead be channeled toward worthwhile and essential conservation and development programs, which are beneficial to producers in South Dakota and across the Nation.

With respect to the President Bush’s budget recommendation, the President has cut spending to seven of the fifteen Cabinet level agencies, including an unacceptable 8.1 percent cut to agriculture and an astounding 10 percent cut to rural development programs. Conservation programs have experienced a 12 percent cut, and research has been cut by 3 percent. Our rural communities are irreplaceable, and regardless of budgetary constraints, we must place a high priority on rural America. It is an essential component for a stable and productive Nation.

Furthermore, we must ensure that a marketplace exists for the quality products our Nation’s farmers produce, and we must ensure that consumer confidence in our food supply remains high. I sent a letter to President Bush requesting that he make funding for meat and livestock testing a priority in his fiscal year 2005 budget request. USDA’s budget includes \$60 million in new spending for Bovine Spongiform Encephalopathy (BSE) related programs, while allotting \$17 million for an additional 40,000 BSE tests a year. While I am pleased to see an increase in funding for animal disease measures, there are several problematic aspects of testing which must be resolved. Animals can only be tested after slaughter, and it can take up to two weeks to receive test results. USDA should be committed to the development of a rapid, live test, which is an endeavor that we cannot afford to compromise. Producers in my home state of South Dakota continue to suffer from closed export markets, and USDA must do everything they can to ensure the viability of our agriculture economy.

Additionally, the President’s budget includes \$33 million for the development of a national animal identification program. I am concerned that we have no information as to how this money will be spent, nor do we have any knowledge of how this system will work. It is my understanding that at the March 4, 2004, Senate Marketing, Inspection, and Product Promotion Subcommittee oversight hearing on a national animal identification plan, USDA’s testimony left a lot to be desired. The broad statement that was given provided little substantive information on issues of cost and transparency. Cost estimates are all over the board, and are often twice the amount allotted by the President’s budget. This lack of consistency is disturbing.

Implementing a national animal identification program is a substantial endeavor with direct impacts on our Nation’s farmers and ranchers, and we must ensure that the process by which this system is established is open and transparent. It is imperative that an animal identification system is effective and feasible for all parties involved. Questions regarding confidentiality and cost to the producer are still an-

swered. It is my hope that USDA will work jointly with the affected parties to arrive at a sound system.

In conclusion, I am hopeful that USDA will respond appropriately to the looming concerns for our Nations' farmers and ranchers. I will do everything possible to ensure they get a fair deal and are well-represented as Congress considers such important issues, which will affect their bottom line and productivity.

Senator BENNETT. Secretary Veneman, when I talked about opening statements to 5 minutes, I did not mean you.

Secretary VENEMAN. Oh, good. I was panicking.

Senator BENNETT. You were panicking; all right.

We will give you 6½ minutes.

No, we appreciate your being here, and we recognize that while you will, I am sure, submit your written statement for the record, we want to give you ample time for your verbal statement, and we now turn to you and very much appreciate your appearing here.

STATEMENT OF ANN M. VENEMAN

Secretary VENEMAN. Thank you very much, Mr. Chairman and members of the Committee. It is a pleasure to be with you today. I appreciate the opportunity to appear before you today.

Senator BENNETT. I do not think your microphone is on. There is a button to press.

Secretary VENEMAN. Okay.

Senator BENNETT. That helps, yes.

Secretary VENEMAN. I want to thank the Subcommittee and each of you for the support of the Department and for the support of American agriculture, and we look forward to continuing to work with all of you as we craft the 2005 budget.

As you indicated, we have a longer statement for the record, and we would ask that it be included in the record. But I wanted to provide a quick overview of what our budget does provide. First, it is consistent with the policy book that we put out at the beginning of this Administration, Food and Agriculture Policy: Taking Stock for the 21st Century, and it supports USDA's strategic plan, both of which are designed to enhance economic opportunities for agricultural producers, support increased economic opportunities and improve the quality of life in rural America, protect America's food supply and our agriculture system, improve nutrition and health; and conserve and enhance our natural resources and environment.

As you know, we are in a time of fiscal constraint. The President has proposed a responsible budget across the Federal Government, which holds non-defense and non-homeland security discretionary spending increases to no less than 1 percent. At the same time, his budget funds key priorities such as continuing the war on terror, protecting homeland security, strengthening the economy and jobs and health care affordability.

His budget puts our Nation on track to reduce the deficit by one-half within 5 years. The budget for USDA faces those same fiscal realities. Our proposals focus and maintain resources to meet our strategic goals. The numbers and data we present today build upon the Omnibus Appropriations Bill for 2004, and of course this means we do not have the confusion we had last year when we were working on the 2004 budget without a 2003 budget, which made comparison very difficult.

The 2005 budget focuses on our key priorities, as I indicated, including strengthening food safety and pest and disease prevention and eradication, continuing the administration of the 2002 Farm Bill, and that includes many increases in conservation funding, providing an unprecedented funding for a food and nutrition safety net, expanding agricultural trade, investing in our rural sector, supporting basic and applied sciences, and improving USDA's program delivery and customer service.

The 2005 USDA budget calls for \$82 billion in spending. This is an increase of \$4 billion or about 5 percent above the 2004 level. The Department's request for discretionary appropriations for ongoing programs within the jurisdiction of the Subcommittee is \$16.2 billion. Due to some user fee proposals and other adjustments reflected in the budget, the net amount requested is \$14.9 billion.

And now, I would like to review some of the details: first, looking at the safeguarding of America's homeland and protecting the food supply, the President's 2005 budget funds an interagency initiative to improve the Federal Government's capability to rapidly identify and characterize a bioterrorist attack. This initiative will improve national surveillance capabilities in human health, food, agriculture and environmental monitoring.

In keeping with the President's commitment to homeland security, the USDA budget for 2005 includes \$381 million, to support the Food and Agriculture Defense Initiative. These funds would enhance monitoring and surveillance of pests and diseases in plants and animals, support research on emerging animal diseases, increase the availability of vaccines, establish a system to track select disease agents of plants; expand the Regional Diagnostic Network to all 50 States; and the bulk of the funding goes to completing the National Centers for Animal Health in Ames, Iowa, which is the single largest item under this initiative at \$178 million.

The research and diagnostic activities at the Ames complex are a critical part of our Bovine Spongiform Encephalopathy (BSE) response as well as our work on other animal diseases. In light of the discovery of a BSE-positive cow, first in Canada last May 20 and another on December 23 in Washington State, I announced on December 30 a series of actions to strengthen protection of the food supply, public health and animal health.

USDA's actions are based on our BSE response plan, which has been in place since 1990, and it has continuously evolved, based on current knowledge of the disease. We are committed to ensuring that there is a strong BSE surveillance program in place in this country, and in that regard, on March 15, I announced the details of an expanded surveillance program which reflects the recommendations of the international scientific panel.

Our goal is to greatly expand the testing of high-risk cattle as well as testing a sampling of the normal, older cattle population. The budget also requests increases in funding for other BSE-related activities in the amount of \$60 million, which includes increases for advanced animal testing, acceleration of the National Animal Identification System and some funds for the Grain Inspection, Packers and Stockyards Administration to enable rapid re-

sponse teams to deal with BSE-related complaints regarding contracts or lack of prompt payment.

It would also include some funds for our Food Safety and Inspection Service to conduct monitoring and surveillance of compliance with regulations for specified risk materials and advanced meat recovery.

As we have responded to the BSE situation, we have been constantly guided by what has been in the best interests of public health. We received a report from an international panel of experts about how the BSE incident in Washington was handled which indicated that the Department had done a comprehensive and thorough epidemiological investigation, and the investigation was concluded on February 9.

Protecting the food supply and public health is one of the primary missions of USDA, and this focus is reflected in the budgets of this Administration. The budget for 2005 seeks a record level of support for USDA's Food Safety and Inspection Service, or what we call FSIS, meat and poultry food safety programs as well as increases to strengthen food and agriculture protection systems. These areas of our budget have been top priorities for the Administration since we came into office.

This additional funding continues to build upon a solid record of achievement to further strengthen our agricultural protection systems to ensure the integrity of our food supply. The FSIS funding request would increase to a program level of \$952 million, which would be an increase of \$61 million over the 2004 level. This represents an increase of \$170 million or 22 percent in food safety programs since the Administration took office in 2001.

The \$952 million for FSIS comprises \$828 million in appropriated funds and the continuation of existing user fees as well as \$124 million in new user fees for inspection services that are provided beyond one approved inspection shift. The FSIS funding would support 7,690 meat and poultry inspectors, and it would provide specialized training for the inspection work force, increase microbiological testing and sampling, strengthen foreign surveillance programs and increase public education efforts.

USDA is working on the Nation's fastest growing public health problem—obesity. As part of the President's Healthier US Initiative, USDA is working with the Department of Health and Human Services to promote good nutrition and physical activity. The Department's 2005 budget includes just over \$700 million for nutrition research, education and promotion programs, including an increase of \$33 million, most of which is focused on obesity-related initiatives.

I also would like to point out that for the first time, the subject of a healthier food supply and the topic of obesity were major issues at this year's Agricultural Outlook Forum. As I said in my Outlook speech, we need to make people more aware of the dangers of being overweight and figure out ways to reverse what is becoming an increasingly dangerous trend in America's eating habits.

Next, the President's budget supports the continued implementation of the 2002 Farm Bill. Our employees at USDA have worked very, very hard to implement this Farm Bill, and they have done so quickly and efficiently. We appreciate their outstanding efforts,

both from our staff here in Washington, DC, as well as the staff all over the country in our county and state offices.

Funds are provided in the budget to support continued implementation of the Farm Bill, and we are in the process of implementing the largest and most far-reaching Farm Bill conservation title ever. It represents an unprecedented investment in conservation that will have significant and long-lasting environmental benefits. Total program-level funding for Farm Bill conservation programs increases from about \$2.2 billion in 2001 when this Administration took office to \$3.9 billion in the 2005 budget proposal. This is an increase of \$385 million or almost 11 percent over the amount of 2004.

The expanded programs include \$2 billion for the Conservation Reserve Program, an increase of \$76 million over 2004; \$1 billion for the Environmental Quality Incentives (EQIP) Program, which is an increase of \$25 million over 2004; \$295 million for the Wetlands Reserve Program, to enroll an additional 200,000 acres, which is an increase of \$15 million; \$209 million for the new Conservation Security Program, which is an increase of \$168 million; and \$125 million for the Farm and Ranch Lands Protection Program, an increase of \$13 million.

The 2005 budget also reflects the Bush Administration's continued commitment to nutrition and fighting hunger by including a record \$50.1 billion for domestic food assistance programs, which is a \$2.9 billion increase over 2004. Our continued support for these programs follows the course of compassion that has been set by President Bush. The Food and Nutrition Service's budget supports an estimated 24.9 million Food Stamp participants, and that compares to 23.7 million in 2004; a record level of 7.86 million low-income nutritionally at-risk Women, Infants and Children Program (WIC) participants, which compares to 7.8 million in fiscal year 2004; and an average of 29.2 million school lunch children each day in the school lunch program, and that compares to 28.7 million in fiscal year 2004.

Particularly with the WIC and School Lunch Programs, we are reaching more Americans and helping to educate them about healthy eating and the importance of balanced diets. These efforts help support the President's Healthier US Initiative, and many of these services are delivered in cooperation with our partners under the President's Faith-Based and Community Initiatives. The budget includes a \$3 billion contingency reserve for the Food Stamp Program and \$125 million contingency reserve for the WIC program to be available to cover unanticipated increases in participation in these programs.

One of the most important ways to expand opportunities for American agriculture is through trade, by maintaining and opening markets for our products. We have seen this close tie between agriculture and markets with the BSE situation. The 2005 budget continues a strong commitment to export promotion and foreign market development efforts by proposing \$6.6 billion for our international programs and activities.

Since this Administration took office, these programs have experienced significant growth by increasing by more than \$1.4 billion or 27 percent since 2001. Funding for USDA's market development

programs, including the Market Access Program and Cooperator Program are maintained at the current year level of \$173 million. Funding is provided for a new initiative to modernize FAS's IT systems and applications and improve telecommunications systems in order to provide more effective and efficient services to cooperators and the public and to help bolster our trade policy and trade expansion efforts.

A program level of \$4.5 billion is provided for the Commodity Credit Corporation export credit guarantees activities. Concerning global food aid, the efficiency and productivity of American farmers has allowed the United States to lead the world in this important area. More than \$1.5 billion is requested for U.S. foreign food assistance activities, including \$75 million for the McGovern-Dole International Food for Education and Child Nutrition Program, a 50 percent increase over 2004. So clearly, this budget continues to provide strong support for development of markets and assistance to those most in need around the world.

We have also worked hard in this budget to provide funding for infrastructure and to enhance economic opportunities and the quality of life in rural America. The Administration proposes \$11.6 billion for rural development programs, down from the 2004 level, due in large part from lower projections of the demand for loans, particularly electric and distance learning loans.

Of the total amount, \$3.8 billion is for direct and guaranteed Section 502 single-family housing loans. These programs are a crucial part of USDA's effort to support the President's Minority Homeownership Initiative, which has the goal of homeownership for an additional 5.5 million minority families by the end of the decade. In addition, \$1.4 billion is requested for the Water and Waste Disposal Loan Program, which will provide about 650,000 rural families with new or improved water and waste disposal facilities.

The budget proposes \$331 million for broadband loans and loan guarantees in 2005, building upon the \$2.2 billion in funding that has been provided over the last several years. Finally, the budget supports the Department's strategic plan and our continued efforts to implement the President's management agenda, which focuses on improving performance and results in government. USDA is one of only eight out of a total of 26 Federal agencies to be scored at green, or the highest level, for our progress toward all five of the major areas in the President's management agenda, and for the second year in a row and only the second time ever, USDA again received a clean audit of our financial statements.

As part of our implementation of the President's management agenda, USDA is working on several initiatives to better integrate computer systems and technology support functions. In so doing, we are providing employees with the tools necessary to quickly and efficiently deliver services and to benefit our customers. The 2005 budget will allow us to build on our program delivery progress and our management priorities by providing resources needed to improve customer service through continued modernization of technology.

This includes \$137 million in 2005, an increase of \$18 million, to upgrade technology in the county office service centers in order to continue to improve administration of farm programs and customer

service. Electronic government is a major focus for USDA in 2004. By increasing our customers' ability to interact with us over the Internet, we can save them and USDA time and money. As part of these efforts, we are nearing completion of a new basic computing infrastructure for all of our field agencies so that employees and customers will be able to share data electronically.

The budget also proposes to strengthen the security of the Department's facilities and information technology. The budget increases funds to focus on strengthening civil rights and equal treatment under our programs. We need to ensure there are adequate resources to implement our civil rights initiatives. The budget proposes \$22 million for USDA's Office of Civil Rights, an increase of \$4 million over 2004. This includes an increase of \$2 million to process complaints in a more timely manner and an increase of \$1 million to improve our tracking and analyses of civil rights complaints.

That completes my overview of some of the key points in this budget. Again to summarize: the 2005 budget is a responsible budget, and it funds key priorities and programs at USDA by focusing on the Food and Agriculture Defense Initiative, BSE-related activities, record level support for farm conservation programs, food safety and nutrition programs.

PREPARED STATEMENT

With that, Mr. Chairman and members of the Committee, I want to again thank you for the opportunity to be here today. We look forward to working with the Committee, and we would be pleased, along with our team, to answer the questions posed by the Committee.

Thank you very much.
[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 today to discuss the 2005 budget for the Department of Agriculture (USDA). I have with me today Chief Economist, Keith Collins; and our Budget Officer, Steve Dewhurst.

I want to thank the Committee again this year for its support of USDA 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, as well as the other Members to make progress on these issues during the 2005 budget process and ensure strong programs for our Nation's farm sector—but as well—the many other USDA mission areas.

The 2005 budget calls for \$82 billion in spending, an increase of \$4 billion, or about 5 percent, above the level for 2004. Discretionary outlays are estimated at \$20.8 billion, a decrease of \$720 million, over 3 percent below the 2004 level. The Department's request for discretionary appropriations for 2005 before this Committee is \$16.2 billion. Due to some user fee proposals and other adjustments reflected in the budget the net amount requested is \$14.9 billion.

The Department's budget for 2005 is consistent with this Administration's policy book "Food and Agricultural Policy for the 21st Century" and it supports the USDA's Strategic Plan. Both are designed to enhance economic opportunities for agricultural producers; support increased economic opportunities and improved quality of life in rural America; protect America's food supply and agriculture system; improve nutrition and health; and conserve and enhance our natural resources and environment.

As you know, we are in a time of fiscal constraint. The President has proposed a responsible budget across the Federal Government which holds non-defense and non-homeland security discretionary spending increases to less than 1 percent. At

the same time, the budget funds key priorities, such as the continuing War on Terror, protecting Homeland Security, strengthening the economy and jobs as well as health care affordability. It puts the Nation on track to reduce the deficit by one-half within 5 years.

The budget for USDA faces those same fiscal realities. Because the budget is constrained, the Department's request is focused on key priorities which include:

- Ensuring a safe and wholesome food supply and safeguarding America's homeland.
- Continuing administration of the 2002 Farm Bill—the major provisions of which we have implemented in the past year—and includes providing historic increases for conservation funding.
- Providing record funding for a food and nutrition safety net.
- Expanding agricultural trade.
- Providing housing for rural citizens and investing in America's rural sector.
- Providing continued support for basic and applied sciences in agriculture.
- Improving USDA's program delivery and customer service.

With this as an overview, I would now like to focus on the specific budget proposals for 2005.

FOOD AND AGRICULTURE DEFENSE

The infrastructure developed in response to September 11, 2001, has enabled the Department to become a strong partner in the Administration's biodefense initiative. The Department has worked closely with other Government agencies participating in the Homeland Security Council to prepare for any potential bioterrorist acts. The 2005 budget funds an interagency initiative to improve the Federal Government's capability to rapidly identify and deal with such threats. This initiative will improve national surveillance capabilities in human health, food, agriculture, and environmental monitoring. It will promote data sharing and joint analysis among these sectors at the Federal, State, and local levels and also will establish a comprehensive Federal-level multi-agency integration capability led by the Department of Homeland Security (DHS) to rapidly compile these streams of data and preliminary analyses and integrate and analyze them.

The highlights of the \$381 million USDA request to support the Food and Agriculture Defense Initiative include:

- Strengthening food defense by requesting increases totaling \$38 million to:
 - Establish a Food Emergency Response Network (FERN) with participating laboratories, including implementation of the Electronic Laboratory Exchange Network (eLEXNET) and an electronic methods repository;
 - Develop diagnostic methods to quickly identify pathogens and contaminated foods;
 - Improve surveillance and monitoring of pathogens and other hazards in meat, poultry and eggs and establishing connectivity with the integration and analysis function at DHS; and
 - Upgrades laboratories, improve physical security; and enhance biosecurity training and education.

Strengthening agriculture defense by requesting increases of:

- \$178 million to complete the consolidated state-of-the-art biosafety level-3 (BSL-3) animal research and diagnostic laboratory at Ames, Iowa;
- \$50 million for the Animal and Plant Health Inspection Service (APHIS) to substantially enhance the monitoring and surveillance of pests and diseases of plants and animals, increase the availability of vaccines through the national veterinary vaccine bank, increase State Cooperative Agreements to better identify plant and animal health threats, provide biosurveillance connectivity with the integration and analysis function at DHS, and establish a system to track select disease agents of plants.
- \$27 million for the Cooperative State Research, Education, and Extension Service (CSREES) to expand the Regional Diagnostic Network, and to establish a Higher Education Agrosecurity Program that will provide capacity building grants to universities for interdisciplinary degree programs to prepare food defense professionals.
- \$9 million for the Agricultural Research Service (ARS) to establish a National Plant Disease Recovery System that will quickly coordinate with the seed industry to provide producers with resistant stock before the next planting season, and to conduct research on identifying, preventing and controlling exotic plant diseases.

BSE RELATED ACTIVITIES

The Department has taken aggressive actions to deal with the recent detection of a cow that tested positive for bovine spongiform encephalopathy (BSE) in the State of Washington. The actions taken were based on a BSE response plan which has been in place since 1990 and has been continuously updated to reflect the latest available knowledge about this disease. As late as August 2003, Harvard University reaffirmed the findings of an initial 2001 study that the risk of BSE spreading extensively within the United States is low because of the firewalls already in place. In general, we have effectively responded to this incident.

- Our tracing efforts were remarkably successful. After an international panel of experts indicated that the Department had done a comprehensive and thorough epidemiological investigation, our investigation was concluded on February 9. The panel also indicated that actions the Department announced on December 30 and subsequent the Food and Drug Administration announcements have further enhanced the protections for human and animal health.
- We also traced the products from the slaughter of these animals and determined that high-risk products such as brain and spinal cord did not enter the food system. Nevertheless, all of the beef that came out of that plant on the day in question was recalled.
- Throughout the investigation, we regularly held briefings to inform the public about the incident. In one week's time we announced a series of actions to further enhance the Department's already strong safeguards. These included, among other actions, an immediate ban on nonambulatory or so-called downer animals from the food system and further restrictions on specified risk materials such as brain and spinal cord from entering the food supply. Retailers and food service outlets are reporting virtually no adverse effects on consumer demand as a result of the BSE finding.
- The Department's Chief Information Officer is overseeing the design of a National Animal Identification Program. Every effort is being taken in the design of this system to ensure it is technology neutral, cost effective, and does not place an undue cost burden on the producer.
- We are also in the process of approving the use of BSE rapid test kits to enhance our national surveillance efforts.
- We have continued to work with trading partners. Regaining export markets is a top priority for the Administration, and the international response must reflect what science tells us. Unfortunately, most export markets for U.S. beef, including key buyers—Japan, Mexico, Korea and others—immediately closed their markets to U.S. beef, accounting for 10 percent of U.S. beef production that now must be absorbed in the domestic market. The loss of exports had an immediate impact on the cattle market, resulting in an initial drop of 15 to 20 percent in cattle prices on cash and futures markets while remaining above year-ago levels. Despite this decline, USDA's current fed cattle price forecast of \$74 to \$79 per hundredweight remains above the previous 5-year average and would be the second highest average price in the past 11 years.
- We are committed to ensuring that a robust BSE surveillance program continues in this country. On March 15, we announced the details of our expanded surveillance program which is based on recommendations of an international scientific review panel. The enhanced program has a goal to test as many cattle as possible in the high-risk population, as well as to test a sampling of the normal, aged cattle population. USDA has begun to prepare for the increased testing, with the anticipation that the program will be ready to be fully implemented on June 1, 2004. In the meantime, BSE testing will continue at the current rate, which is based on a plan to test 40,000 animals in 2004. Testing will be conducted through USDA's National Veterinary Services Laboratory in Ames, Iowa, and a network of laboratories around the country.

As part of the President's Budget for 2005, we are requesting \$60 million, an increase of \$47 million which will permit us to:

- Further accelerate the implementation of a verifiable National Animal ID System;
- Increase the current BSE surveillance program;
- Conduct advanced research and development of BSE testing technologies;
- Strengthen the monitoring and surveillance of compliance with the regulations for specified risk materials and advanced meat recovery; and
- Dispatch rapid response teams to markets experiencing BSE related complaints regarding contracts or lack of prompt payment.

BETTER NUTRITION FOR A HEALTHY US

USDA is also working on the Nation's fastest growing public health problem—obesity. The Department has a special responsibility to ensure that participation in nutrition assistance programs such as the School Lunch and Breakfast programs, the Special Supplemental Nutrition Program for Women, Infants and Children (WIC) and Food Stamps, contributes as much as it can to healthier diets and improved health outcomes. USDA research is essential in understanding the role of the diet in obesity and healthy weight management. USDA along with its Federal partners at the Department of Health and Human Services (DHHS) is responsible for developing the revised Dietary Guidelines for Americans to be issued jointly by USDA and DHHS in January 2005. On a parallel track, the Department is undertaking a complete reassessment and update of the Food Guide Pyramid. These documents are the cornerstone of Federal nutrition promotion efforts directed at all Americans. With these efforts, USDA plays a key role in the President's Healthier US initiative. And as part of this, USDA is working closely with DHHS to promote good nutrition and adequate physical activity.

The Department's 2005 budget includes about \$700 million for nutrition research, education, and promotion programs, including an increase of \$33 million which is focused mainly on obesity-related initiatives. Spending for nutrition education and promotion programs accounts for the largest share of this spending, over \$540 million or almost 80 percent in 2005. These Federal funds are augmented by significant spending by State and local partners who conduct a wide range of nutrition education and promotion activities designed by local officials to meet local needs.

Spending for basic research on nutritional requirements, monitoring food consumption patterns, analyzing social and behavioral factors affecting diets, and conducting demonstration projects accounts for the rest of our spending. We are a partner with the National Center for Health Statistics for the food consumption data that supports research on diets conducted by the growing number of Federal and non-Federal scientists looking at the causes and possible ways to curb the obesity epidemic.

FARM AND FOREIGN AGRICULTURAL SERVICES

Currently, major sectors of the diverse farm economy are experiencing favorable market conditions. Net cash farm income was at a record level in 2003. The President's budget for 2005 supports continued administration of the Farm Bill which has now been largely implemented, although work is proceeding on the substantial expansion of the conservation programs provided by the bill. In addition, the budget supports a strong crop insurance program and an aggressive international trade program that will be critical to the continued improvement on farm economy in the next few years.

Farm Program Delivery

The Farm Service Agency (FSA) salaries and expenses are funded at \$1.3 billion in 2005, an increase of \$50.9 million over 2004. This would support staffing levels of about 6,000 Federal staff years and nearly 10,300 county non-Federal staff years, including about 1,000 temporary staff years. Temporary staff will be reduced from the high levels required in 2003 and 2004 because the heavy workload associated with the initial implementation of the new farm programs has been completed. However, we expect the ongoing workload for FSA to remain at significant levels in 2005. Therefore, permanent county non-Federal staff levels are maintained at current levels. In addition, the budget provides for an additional 100 Federal staff years to improve service provided to farm credit borrowers. The budget also requests continued funding for FSA's information technology (IT) efforts related to the Service Center Modernization Initiative.

International Trade

Trade is vitally important for American agriculture. The United States is the world's largest agricultural exporter. The value of our agricultural exports equals nearly one-fourth of farm cash receipts, making the agricultural sector twice as dependent on trade as the overall U.S. economy. With gains in productive capacity continuing to outpace growth in demand here at home, the economic growth and future prosperity of America's farmers and ranchers depend heavily upon our continued success in reducing trade barriers and expanding overseas markets. Accordingly, the expansion of international market opportunities is one of the key objectives set forth in the Department's strategic plan.

The 2005 budget proposals fully support the Administration's commitment to export expansion and overseas market development by providing a program level of

over \$6.6 billion for the Department's international programs and activities. These programs have increased significantly since this Administration took office and have increased by more than \$1.4 billion, or 27 percent, since 2001.

The Foreign Agricultural Service (FAS) is the lead agency for the Department's international activities. Through its network of 80 overseas offices and its headquarters staff here in Washington, FAS carries out a wide variety of activities that contribute to expanding and preserving overseas markets. Our budget requests \$148 million for FAS activities in 2005. This is an increase above the 2004 level of nearly \$12 million and is designed to ensure the agency's continued ability to conduct its activities effectively and provide important services to U.S. agriculture. This funding would enable FAS to meet higher overseas operating costs, improve telecommunications systems, and implement a high priority initiative to modernize the agency's IT systems and applications.

The Department's export promotion and market development programs, which FAS administers, play a key role in our efforts to expand international market opportunities. Commodity Credit Corporation (CCC) export credit guarantees are the largest of these programs. As overseas markets for U.S. agricultural products continue to improve, that improvement will be reflected in export sales facilitated under the guarantee programs. For 2005, the budget projects a program level of \$4.5 billion for the guarantee programs, an increase of just over \$250 million above the current estimate for 2004.

The budget continues funding for the Department's market development programs, including the Market Access Program and Cooperator Program, at the current level of \$173 million. It also includes \$53 million for the Dairy Export Incentive Program and \$28 million for the Export Enhancement Program.

The efficiency and productivity of our producers allows the United States to be a leader in global food aid efforts. For 2005, the budget supports a program level of over \$1.5 billion for U.S. foreign food assistance activities. This includes \$1.3 billion for the Public Law 480 Title I credit and Title II donation programs. For the McGovern-Dole International Food for Education and Child Nutrition Program, funding is increased to \$75 million, a 50 percent increase over 2004. The budget also includes an estimated program level of \$149 million for the CCC-funded Food for Progress program, which is expected to support 400,000 metric tons of assistance as required by the authorizing statute.

Farm Credit

The budget supports a program level of about \$3.8 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 about \$300 million higher than last year. Due to lower subsidy costs for the direct loan programs, the amount of subsidy requested is less than for 2004. In addition, funding has been realigned to better accommodate the actual demand in these programs. The budget also includes a request of \$25 million for the emergency loan program. Also, any unused funding from prior year appropriations will carry over for use in 2005.

Crop Insurance

The budget provides full funding for the crop insurance program. The budget includes "such sums as may be necessary" for the mandatory costs associated with program delivery and the payment of indemnities. The current estimate of the mandatory costs is about \$3.7 billion.

The budget includes a request of \$92 million for the discretionary costs of the Rural Management Agency (RMA), an increase of \$21 million above the level provided in 2004. The increased funding is urgently needed for the modernization of the RMA IT infrastructure as well as to provide for 30 additional staff years. The additional staffing will be used, in part, to monitor companies and producers participating in the crop insurance program, to detect and prevent fraud, waste, and abuse.

MARKETING AND REGULATORY PROGRAMS

Marketing and Regulatory Program agencies provide 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 is a primary responsibility of APHIS. The 2005 budget requests an appropriation of \$828 million for salaries and expenses, an

increase of about \$112 million (16 percent) above the 2004 estimate. The majority of this increase is for the Food and Agriculture Defense Initiative and for BSE related activities.

Increases are also requested for efforts to deal with low-pathogenic avian influenza, emerging plant pests (especially citrus canker and Emerald Ash Borer), Mediterranean fruit fly, tuberculosis, scrapie and a \$6.6 million increase is requested to enhance the Department's ability to strengthen its regulatory system for the testing of biotechnology based crops.

Marketing

For 2005, the Agricultural Marketing Service (AMS) budget proposes a program level of \$732 million, of which \$87 million or 12 percent, is funded by appropriations and the remainder through user fees and Section 32. AMS, in cooperation with the Food and Nutrition Service and FSA, purchases commodities to meet the needs of domestic feeding programs and to help stabilize market conditions. The 2005 budget includes an increase of \$10 million in appropriated funds to begin the critically needed replacement of our outdated IT systems used by three USDA agencies to manage and coordinate commodity orders, purchases, and delivery.

Another important proposal in the marketing and regulatory programs area involves the Grain Inspection, Packers and Stockyards Administration (GIPSA). For 2005, the budget proposes a program level for salaries and expenses of about \$44 million. Of this amount, \$20 million is devoted to grain inspection activities for standardization, compliance, and methods development and \$24 million is for Packers and Stockyards Programs. The 2005 budget includes \$7.7 million in increases to:

- Conduct market surveillance and ensure that marketing and procurement contracts are honored in the aftermath of the BSE finding.
- Significantly upgrade the agency's IT functions, including the ability to securely accept, analyze, and disseminate information relevant to the livestock and grain trades.
- Monitor the various technologies that livestock and meatpacking industries use to evaluate carcasses to ensure fair and consistent use of those technologies. Producer compensation is increasingly dependent not simply on the weight of the animals they bring to slaughter, but the characteristics of the carcasses as well (e.g., fat content).
- Enable GIPSA to better address and resolve international grain trade issues, thus precluding disruption of U.S. exports.

The GIPSA budget includes two user fee proposals which have been submitted to the authorizing committees. 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 \$6 million to cover these costs. Also, the Packers and Stockyards Programs would be funded by new license fees of about \$23 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.

FOOD SAFETY

USDA plays a critical role in safeguarding the food supply and plays a pivotal role in protecting the Nation's food supply from bioterrorist attack. This Administration believes that continued investment in the food safety infrastructure is necessary to achieve USDA's goal of enhancing the protection and safety of the Nation's agriculture and food supply.

For 2005, the budget for the Food Safety and Inspection Service (FSIS) provides a program level of \$952 million, an increase of \$61 million over 2004. The budget includes an increase for pay to support 7,690 meat and poultry inspectors, which are necessary to provide uninterrupted inspection services to the industry.

The budget for FSIS requests \$5.0 million to continue the work funded in 2003 and 2004 to fully enforce the Humane Methods of Slaughter Act. With this funding, the agency has allocated 63 staff-years to ensuring the humane treatment of livestock in 900 federally inspected establishments. With the increased emphasis on humane handling verification, the agency was able to increase humane handling inspection procedures from 86,810 performed in 2002 to 111,117 performed in 2003, a 28 percent increase. Although difficult to estimate, FSIS reports that a resultant increase in the number of enforcement actions and violations was the result of training and correlation efforts of FSIS District personnel, Front Line Supervisors and veterinarians to better understand the application of the Agency's rules and enforcement process to inhumane handling situations. As recommended by the General Ac-

counting Office, FSIS will continue to make improvements in the inspection process to ensure proper enforcement of the law and accurate tracking of both verification activities and enforcement actions.

The budget includes an increase of approximately \$33.6 million to support programmatic improvements aimed at achieving FSIS' strategic objective to reduce the prevalence of foodborne hazards from farm to table. The majority of this increase is for the Food and Agriculture Defense Initiative and BSE related activities.

The budget provides an increase of \$7.1 million for a broad-based training initiative for meat and poultry inspection personnel. This is more than a 50 percent increase in the FSIS training budget from 2004. Under this initiative, all entry level inspectors will receive formal classroom training for performing basic inspection duties within one year of employment. Currently, only 20 percent of new employees receive this type of training. In addition, current inspectors will receive supplemental training to improve the enforcement of the Pathogen Reduction/Hazard Analysis and Critical Control Point Systems regulation and food safety sampling. The increased level of training will improve the consistency and effectiveness of inspectors in the performance of their duties and ensure a safer food supply.

The 2004 budget also repropose legislation submitted to Congress in August 2003 to collect an additional \$124 million in user fees annually by recovering 100 percent of the cost of providing inspection services beyond an approved primary shift. Assessing user fees in this manner promotes equity among producers that have enough production for a full second shift paid for by the Government and other establishments that may only have enough production for a partial shift which they must currently pay for themselves. 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 \$50.1 billion for USDA's domestic nutrition assistance programs, an increase of \$2.9 billion, and the highest level ever requested. The budget will ensure access to nutrition assistance for low-income families and individuals as they work toward economic self-sufficiency. USDA is working hard to provide information to help improve nutritional intakes, increase breastfeeding rates, and reduce obesity and overweight among Americans. In addition to its work with the President's Healthier US Initiative, USDA will work with nutrition assistance program stakeholders to identify strategies to improve health outcomes for eligibles.

The WIC program is expected to be reauthorized this year and is budgeted at \$4.8 billion. This is a record high funding request, which will help record numbers of low-income, at-risk participants. The request continues special increments to fast track State information systems development, increase breastfeeding rates through the use of peer counselors, and increase support of childhood obesity prevention projects. Ensuring a WIC Program that yields healthy birth outcomes and nutritional habits with the best possible outcomes is a top Administration priority.

The Food Stamp Program, the cornerstone of America's effort to ensure access to an adequate diet for low-income people, is funded at \$33.6 billion. The budget anticipates modest food cost inflation and participation growth of about 1.2 million participants or a 5 percent increase above 2004 estimates. The budget includes a \$3 billion contingency reserve, \$1.4 billion for Nutrition Assistance for Puerto Rico, \$2.4 billion for the Federal share of State administrative expenses, and about \$300 million to support employment and training. Significant progress has been made in reducing payment errors in the program. In 2002, 91.74 percent of payments were made accurately, with overpayment error at 6.16 percent of benefits. Changes in financial incentives to States for good management as authorized by the 2002 Farm Bill are on track for implementation in 2005. This is the time line anticipated by the Farm Bill, and this will help improve program access as well as program integrity.

Child Nutrition Programs are funded at \$11.4 billion with increases provided for food cost inflation, growth in the number of meals served and program integrity. Also, the budget includes funding for several key provisions that are expiring such as the exclusion of military housing allowances for eligibility determination. The Administration will continue work with Congress on a reauthorization bill this Spring to ensure that all aspects of the program continue without interruption, including those key provisions expiring at the end of March.

The Administration is committed to ensuring that funds for school meals are well targeted to those in need and that any savings achieved in reauthorization will be reinvested in the program.

NATURAL RESOURCES AND ENVIRONMENT

The 2002 Farm Bill represents an unprecedented commitment to conservation and its continued implementation is an ongoing challenge as well as a high priority for the Department. To do this successfully, the budget proposes not only to increase funding for Farm Bill programs but also to continue support for the underlying conservation programs that form the basis for the Department's ability to address the full range of conservation issues at the national, State, local and farm levels.

The 2005 budget request for the Natural Resources Conservation Service (NRCS) includes \$1.9 billion in mandatory CCC financial assistance funding for Farm Bill conservation programs in addition to \$2.0 billion for the Conservation Reserve Program administered by FSA. This represents an increase of more than \$200 million over the 2004 level and includes \$1 billion for the Environmental Quality Incentives Program that will allow nearly 40,000 producers to participate in this vital program. It also includes \$295 million for the Wetlands Reserve Program to enable the Department to enroll an additional 200,000 acres. Another \$209 million will support expansion of the new Conservation Security Program that supports ongoing conservation stewardship and rewards those producers who maintain and enhance the condition of their natural resources. The remaining \$351 million in CCC funding will support the other Farm Bill programs including the Grassland Reserve Program, the Wildlife Habitat Incentives Program and the Farm and Ranch Lands Protection Program.

On the appropriated side, the 2005 budget proposes a total funding level of \$908 million which includes \$604 million for conservation technical assistance (CTA) that forms the base program that supports the Department's conservation partnership with State and local entities. The budget also proposes a separate account totaling \$92 million to fund technical assistance activities in support of the Wetlands Reserve and Conservation Reserve Programs. This would limit the amount of funding that would have to be redirected from other Farm Bill programs and maximize the financial assistance made available to producers. Overall CTA funding will also enable the Department to continue to address natural resource issues such as maintaining agricultural productivity and improving water quality and grazing lands.

In the watershed programs area, the budget proposes reductions in funding for watershed implementation, planning and rehabilitation. This will enable NRCS to redirect some resources to address the more pressing Farm Bill implementation issues while still funding the most critical watershed work. With emergency spending being so difficult to predict, the budget proposes to not seek appropriated funding for emergency work and instead to address disaster funding as emergencies arise.

Finally, the Department's 2005 budget will maintain its support for all 375 Resource Conservation and Development areas that are now authorized. This important activity will continue to improve State and local leadership capabilities in planning, developing and carrying out resource conservation programs.

RURAL DEVELOPMENT

Rural America is home to over 60 million people, most of whom are not farmers. It is a place of employment for workers in numerous industries that contribute to the Nation's wealth. It is also very diverse, including areas that are facing declining population and employment opportunities as well as areas that are growing at a rapid pace and becoming urbanized. Thus, the challenges differ from area to area, and require planning and coordination, to ensure that State and local priorities are served along with national goals. USDA embraces this reality and is committed to supporting increased economic opportunities and improved quality of life in rural America.

The Department's rural development programs are both traditional and forward looking. Many of these programs were created to bring electricity, telephone service and other amenities to the Nation's farms and rural towns. These programs have made enormous contributions to economic productivity and quality of life of rural America. In addition, USDA has played a significant role in providing homeownership opportunities and rental housing for rural residents, and support for rural business and industry.

Modern technology has brought new challenges. Perhaps the most striking example is in the area of telecommunications. Basic telephone service is no longer adequate. High speed broadband communications, including data as well as voice transmission, are needed to stay abreast of the ever changing world of information for both business and personal use. In addition, new approaches are needed to diversify rural economies, for example, through value-added processing of agricultural products.

The 2005 budget supports \$11.6 billion in loans, grants and technical assistance for rural development. This is a realistic level of support in light of the need to balance budgetary constraint against the demands for program assistance. While it is significantly below the level available for 2004, more than half of the reduction is due to lower projections of the demand for selected loans.

In particular, the 2005 budget reflects a reduction in electric loans from almost \$5 billion in 2004 to \$2.6 billion in 2005. In recent years, Congress appropriated much higher levels for such loans than the Administration requested. The additional funding, including the amount available for 2004, has helped meet the needs of rural electric cooperatives for upgrading their systems. Although more remains to be done, it is anticipated that the high levels of lending in recent years will provide a cushion that will result in fewer applications for 2005.

Also in the electric area, the 2005 budget does not include a \$1 billion add-on by Congress to the 2004 Appropriations Act for guaranteeing electric and telephone notes of certain private lenders. This program was authorized in the 2002 Farm Bill. USDA published a proposed rule for implementing the program on December 30, 2003, with a 60-day comment period. Until the public comments are reviewed and a final rule published, it is difficult to know the extent of demand for the program and for that reason the program was not included in the 2005 budget.

The 2005 budget also does not include funding for distance learning and telemedicine loans, which accounts for a \$300 million reduction from 2004, because there has been little demand in the past few years for these loans. Further, there is a reduction in discretionary funding for broadband loans from \$598 million in 2004 to about \$331 million in 2005 because there remains a substantial amount of unused mandatory carry-over funding that was provided by the 2002 Farm Bill. Currently, there is about \$1.6 billion available for such loans and about \$1.0 billion in applications, many of which will require additional work before they are complete and can be considered for funding.

For single family housing loans, the 2005 budget includes \$1.1 billion for direct loans and \$2.5 billion in guaranteed loans for purchases and \$225 million in guaranteed loans for refinancing. While there is a proposed reduction in direct loans, guaranteed loans are maintained at the 2004 levels. Further, legislation is being proposed to allow guaranteed loans to exceed 100 percent of appraised value by the amount of the fee on such loans. This proposal will make the program more accessible to families with limited resources for paying closing costs and will contribute to the President's Initiative to Increase Minority Homeownership. The combined level of almost \$3.8 billion in direct and guaranteed loans is expected to provide up to 40,000 homeownership opportunities for rural residents. Continuation of recent increases in housing costs will reduce the number of homeownership opportunities that can be provided in 2005 compared to prior years.

The total water and waste disposal loan and grant program for 2005 is \$1.42 billion compared to \$1.67 billion for 2004. Within this total, loans are maintained at about \$1.1 billion. It should be noted that the subsidy rate for these loans has increased such that we are asking you to increase the budget authority for loans from \$34 million in 2004 to \$90 million in 2005 just to reach the \$1.1 billion level. This increase is due to a rise in the Government's cost of financing the loans. Grants would be reduced from \$563 million in 2004 to \$346 million in 2005. With interest rates remaining low, more projects are viable at a higher loan to grant ratio.

In addition, the 2005 budget for rural rental housing continues the Administration's policy to focus on servicing the existing portfolio which includes about 17,000 projects that provide housing for about 450,000 rural households. Many of these projects require repair and rehabilitation, for which the 2005 budget includes \$60 million in direct loans. It also includes \$100 million in guaranteed loans for new rental projects. In addition, the 2005 budget includes \$592 million for rental assistance payments, up from \$581 million available in 2004. Most of this funding is for the renewal of expiring contracts, consistent with the policy established by Congress in the 2004 Appropriations Act to renew contracts on a 4-year cycle. About a quarter of a million rural households receive this assistance. We are nearing completion of a comprehensive study of the existing portfolio to help identify opportunities for revitalizing the management of these projects.

The budget includes \$300 million in direct loans and \$210 million in guaranteed loans for essential community facilities that meet a wide range of public safety, health and other purposes. This reflects a reduction in direct loans, from \$500 million in 2004, but exceeds the 2003 level of \$261 million. This pattern mirrors a change in subsidy costs which went from 6 percent in 2003 to zero in 2004 and up to 4 percent for 2005, due largely to very small differences in interest rates. For business and industry programs, the 2005 budget supports \$600 million in guaranteed loans, up from \$552 million in 2004 and \$34 million for the intermediary re-

lending program, compared to \$40 million for 2004. Together, these programs are expected to account for most of an estimated 66,000 jobs that will be created or saved by a combination of rural development programs that assist business and industry. This estimate reflects direct employment. Many rural development programs also impact on employment indirectly by creating a demand for products and services.

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.

The 2005 budget for the four Research, Education and Economics (REE) agencies is approximately \$2.4 billion. The budget proposes reductions in unrequested earmarks of about \$335 million, and program increases in high priority areas, such as food and agriculture security, genomics, human nutrition and climate change, where national needs and returns are the greatest.

One increase directly related to the Food and Agriculture Defense Initiative is to fund the remaining \$178 million required to complete the modernization of the National Centers for Animal Health in Ames, Iowa. These funds will allow the completion of the \$460 million project that will provide a world-class research and testing facility commensurate with the magnitude and economic importance of the \$100 billion U.S. livestock industry. Upon completion in October 2007, there will be nearly one million gross square feet of new and renovated laboratory and support space. Extensive site and infrastructure upgrades and miscellaneous office, animal care, and support facilities will also be integrated into the design.

The 2005 budget for 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 research on invasive species and animal diseases, such as bovine spongiform encephalopathy and foot and mouth disease; as well as research which will lead to improved vaccines and therapeutics, rapid diagnostic tests, and genome data on biosecurity threat agents. The budget includes an increase of \$5 million for research in support of the President's Healthier US Initiative. And, as part of this, USDA will work closely with the Department of Health and Human Services to promote good nutrition. In support of the Administration's Food and Agriculture Defense Initiative, food safety research will see an increase of \$14 million to support the development of rapid diagnostic tests that will accurately detect and identify pathogenic bacteria, viruses and chemicals of food safety concern. Finally, the ARS budget will provide \$5 million to support the President's Climate Change Research Initiative. These funds will be used to conduct interagency research that will build the scientific foundation for forecasting responses of ecosystems to environmental changes and for developing resources that can be used to support decision making.

The 2005 budget for CSREES includes funds to continue the formula programs at current levels. There are 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 the recruitment of minority graduate students. Additional increases are proposed for the Expanded Food and Nutrition Education Program which assists low income youth and low-income families with children in acquiring the skills, attitudes, and changed behavior necessary to formulate nutritionally sound diets.

The proposal for the National Research Initiative (NRI) in the 2005 budget is consistent with the greater overall constraints of the 2005 budget. The proposal includes \$180 million as compared to \$164 million in 2004, for the NRI to finance work that will have a far reaching impact on such issues as genomics, nutrition, and obesity.

The budget for the Economic Research Service (ERS) includes an increase of \$8.7 million to develop a consumer data information system, to provide information to support decision making in the food, health, and consumer arenas. There are three components: a food market surveillance system that will provide information to identify and explain consumer food consumption patterns; a rapid consumer response module that will provide real-time information on consumer reactions to un-

foreseen events such as the recent discovery of BSE; and a flexible consumer behavior survey module that will assess the relationship between individuals' knowledge and attitudes about dietary guidance and food safety and their food choices, complementing the Centers for Disease Control and Prevention and ARS data on health outcomes and food consumption.

The budget for the National Agricultural Statistics Service (NASS) includes an increase for two initiatives to improve its statistical programs, and a decrease of \$2.6 million for the Census of Agriculture, reflecting the decrease in staffing and activity levels to be realized in 2005 due to the cyclical nature of the 5-year census program.

To improve NASS' statistical accuracy, an increase of \$7.4 million is requested to continue the restoration and modernization of its 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 payment rates provided under the 2002 Farm Bill.

The second initiative requires an increase of \$2.5 million for NASS' Locality-Based Agricultural County estimates program to continue the improvements begun in 2003. These local estimates are one of the most requested data sets, and are especially important to RMA for their risk rating process, (affecting premium levels paid by producers), and to FSA for calculating national loan deficiency payments.

CIVIL RIGHTS

This budget will allow the Assistant Secretary for Civil Rights to continue making progress in addressing Equal Employment Opportunity (EEO) and Program-related civil rights issues. The Assistant Secretary for Civil Rights also has responsibility for outreach and conflict prevention and resolution. The challenging task of implementing changes within USDA's civil rights organization is now underway. A comprehensive action plan has been developed to address structural, operational, procedural accountability and systems challenges.

This budget is critical in ensuring adequate resources to implement Civil Rights initiatives. Specifically, the budget will support a reduction in the time it takes to process both EEO and Program-related complaints. The Department continues to make progress toward meeting regulatory timeframes for complaint processing. Tracking and analysis of complaints will be improved and analytical information will be used to identify further improvements and allocate resources. Additional funds will be devoted to technical assistance, training, and outreach activities.

This budget clearly reflects the high priority that the Department places on providing equal opportunity, equal access and fair treatment for all USDA customers and employees. .

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.

Due to the efforts of these offices, the Department has made significant progress in improving management. For example, the Department received its first-ever unqualified or "clean" opinion on the 2002 financial statements and received a clean opinion again in 2003. To meet the mandate of the Government Paperwork Elimination Act, USDA agencies are deploying new departmentwide electronic signature technologies that allow customers to conduct business transactions over the Internet, saving both customers and the Department time and money.

The 2005 budget builds upon that progress by continuing funding levels for these offices and providing key funding increases in order to:

- Continue efforts to modernize the Service Center agencies (FSA, NRCS, and the Rural Development) IT activities to improve efficiency and customer service. As part of this initiative, efforts to expand the use of the Geographic Information Systems continue and will lead to improved soil and land-use analyses. A scheduled integration of the IT support functions of the Service Center agencies into a single organization under the Chief Information Officer will further improve these activities.
- Strengthen the security of the Department's facilities and IT systems through certifying and accrediting USDA systems, improving a Departmentwide Information Survivability program, implementing an automated risk management system, and establishing a Cyber-Security Operations Center.

- Support the creation of remote backup capabilities to protect the National Finance Center accounting, payroll and related services data for USDA and other agencies from malicious intrusions and natural catastrophes.
 - Implement an electronic commodity market information system that will consolidate all of the Department's commodity data, analyses and forecasts into a single public website.
 - Support the Administration's goal to increase procurement of biobased products, with the purpose of creating new economic opportunities in rural areas while reducing our dependence on fossil energy-based products derived from foreign oil and natural gas. The Office of the Chief Economist (OCE) will implement and administer a government-wide biobased product procurement program, mandated by the 2002 Farm Bill. OCE will work with Departmental Administration to develop a model biobased product procurement plan that can be adopted by Federal agencies, and will support interagency biobased product procurement efforts.
 - Continue renovations of the South Building to ensure that employees and customers have a safe and modern working environment.
- That concludes my statement. I look forward to working with the Committee on the 2005 budget so that we can better serve those who rely on USDA programs and services.

NATIONAL ANIMAL IDENTIFICATION PROGRAM

Senator BENNETT. Thank you very much, Madam Secretary. We appreciate your statement, and we appreciate your being here.

I understand you are working to design a National Animal Identification Program. Can you tell us how you envision such a program being implemented? Any timing that you might have on this? And do you expect it to be mandatory or voluntary? And do you have statutory authority to implement this, or when you have got the work done, are you going to come back to the Congress and ask for additional authority? Could you explore that whole area with us?

Secretary VENEMAN. I will, Mr. Chairman, and thank you for that question.

As you know, on December 30, I announced aggressive actions that we were taking in response to the BSE find on December 23. One of the things I said we would do is accelerate a national verifiable system of animal identification. A tremendous amount of work had been done over the past 18 months involving an effort by a number of agriculture producing groups, and government employees to look at the kinds of standards that should be applied in an animal identification system.

So we were fortunate that the work had already been done. I then asked our Chief Information Officer to begin to look at how do we put together the architecture for such a system. As we continued into this process, we expanded our CIO's group to include Keith Collins, our Chief Economist; and Nancy Bryson, our General Counsel, because of the legal issues involved, and they are now in the process of putting together an overall plan with recommendations. I will have Keith comment on that.

With regard to the authorities, we have also been looking at that issue, and as I have testified at other hearings, the one issue that is of concern to many of the producers is making sure that they can maintain confidentiality of the information that will be put into this system. We have been working with a number of the Committees to determine the kind of statutory language we may need to ensure that information provided into this system can be maintained as confidential information.

I would like Keith Collins to comment briefly on what the USDA committee has been doing on this system.

Mr. COLLINS. I would be happy to do that, Madam Secretary.

A lot of work has been done, as the Secretary said, particularly by a group called the USAIP, United States Animal Identification Plan team, which represents some 100 people and 70 organizations. They have developed a tremendous amount of infrastructure recommendations such as data standards for identifying premises, for identifying animals, and for tracking movements.

What we have envisioned is to be able to implement a national plan, first on a voluntary basis because we have such a complicated animal agricultural sector in the United States with very little experience with individual animal identification. A survey taken in 1997 indicated that about half of all operations had no experience whatsoever with individual animal identification.

When you consider that we have over 1 million cattle operations alone, and we have some 3,000 meat packing and feed lot operations in excess of that, we felt it was important to start this program on a voluntary basis. We believe that for it to work over time, all animals will have to be in the system, so at some point, this could very well become a mandatory program.

The first thing we want to do is to look at the USDA-funded programs that have operated over the last couple of years and select one of those systems to serve as the national animal allocator for premise numbers and a national animal allocator for individual animal numbers. Once we scale up one of the existing systems to be able to operate in that capacity, then, we plan to work with states, with tribes, and eventually with third parties to, through cooperative agreements, and some funding by USDA, enable them to interface with the national premise allocator and with the animal number allocator.

Our first priority would be to issue premise numbers, identify places where animals are located, develop a uniform definition of a premise, sign up states, tribes and third parties and issue premise numbers. As you know, in this budget, there is a request for \$33 million for 2005 to continue the development of that process that I just described. That initiative would grow in 2005.

Senator BENNETT. Fine, thank you very much.

Senator Kohl.

HUNGER TASK FORCE PILOT PROGRAM

Senator KOHL. Madam Secretary, in March 2003, I was able to assist a nonprofit in Milwaukee, the Hunger Task Force, in receiving approval from the USDA to carry out an innovative pilot program. They received nonfat dry milk from USDA and worked with a local Wisconsin dairy to turn this into about 20,000 pounds of mozzarella cheese.

The cheese was distributed to needy families at food pantries throughout the region, and it was very popular. Ninety-three percent of the recipients surveyed said that they would much rather receive cheese than nonfat dry milk. Because it was such a popular program, the Hunger Task Force has asked USDA to let them continue their program. They would propose to use 516,000 pounds of

nonfat dry milk every year, less than one-half of 1 percent of the 960 million pounds USDA has in storage.

As you know, we have been working on this together for a year now, and we have talked about it, you and I and your Department a great deal. It would be nice if we could reach a conclusion. Is it possible that you have anything to say to us on this issue?

Secretary VENEMAN. Well, Senator, as you and I discussed, I indicated to you that after a review of this pilot program, there are significant concerns that have been raised regarding the operation of the program from the perspective of how it interrelates with the dairy price support program, particularly if the pilot goes beyond the limited application it now has.

Given the conversations that you and I had yesterday, we will be agreeing to extend the pilot program for a year, under the limited basis, to further evaluate the pilot. But again, there are some significant concerns over the long term that are being looked at both in terms of the price support program and the overall impact on the dairy program.

Senator KOHL. Well, I consider that to be a very positive development, and I want to thank you for your willingness to be so cooperative and supportive. I know that the Hunger Task Force, and more importantly, the people they serve, will be very gratified by your response and will feel indebted to you for this. Thank you so much.

WIC CONTINGENCY FUNDS

Madam Secretary, it is my understanding that states are already starting to take action to conserve WIC dollars because they are afraid they do not have enough money to finish out this year. As you know, we have a \$125 million contingency fund to prevent things like this from happening, and states need to be given as much advance notice as possible if additional money will be made available. Do you anticipate using any of the contingency fund this year, and if so, will an announcement be made with regard to this?

Secretary VENEMAN. We are reviewing the possibility, for the very reasons that you state, of tapping into that contingency fund primarily because of increased prices for formula. That has been the primary driver in the increased cost of the WIC program. So we are looking very carefully at the possibility of tapping into that contingency reserve. Of course, that would have implications for the budget you are now considering, because it is anticipated in the 2005 budget proposal that the reserve would not have been tapped into and would roll forward.

So all of that has to be considered, but given the difficulty that many of the states are having, I think we will be looking very carefully at tapping into some of that reserve for 2004.

ANIMAL WELFARE ACT VIOLATIONS

Senator KOHL. All right. As you know, included in the fiscal year 2004 bill is \$800,000 to help address violations of the Animal Welfare Act, including illegal animal fighting. Along with other problems, bird fighting played a key role in spreading Exotic Newcastle Disease in 2002 and 2003, which ultimately cost taxpayers about \$200 million to contain. I know your department has tried to de-

velop some cases against people who have participated in this activity but has had a tough time because the Federal law provides only misdemeanor penalties, and the U.S. attorneys are reluctant to prosecute misdemeanor cases.

Does the administration support legislation, S. 736, to upgrade the penalties for Federal animal fighting violations from a misdemeanor to a felony, and if not, do you have suggestions on how to deal with this problem?

Secretary VENEMAN. Senator Kohl, I absolutely agree with you that this is a serious issue. We encountered the outbreak of Exotic Newcastle Disease, that was focused in the area of Southern California. Not only did we begin to better understand the problem of birds that were being transported for bird fighting purposes but also I think all of our regulatory agencies and the state agencies, including the state regulatory agencies, were surprised to find out just how many—what we call backyard birds—were in homes around Southern California, in the L.A. area, which made the task of controlling Exotic Newcastle Disease and looking for the problems much more difficult.

We worked with our Inspector General and with our Animal and Plant Health Inspection Service and with local law enforcement to see how we could better control some of the movement of these animals and birds. Of course, another problem with the birds is the live bird markets. There has been a lot of concern expressed about that, particularly with the outbreaks of avian influenza here on the East Coast.

I am not familiar with the penalties legislation that you have indicated. We would be happy to review it to determine whether or not, with our authorities, it would provide the kinds of assistance that would help us better control some of this movement of birds that can cause these animal diseases. As you know, these outbreaks have a tremendous impact on our international trade when we get these diseases of poultry and other animals. We have had several disruptions over the past 2 or 3 years, and we have been doing everything we can to address these issues as completely and effectively as we can.

CENTRAL FILING SYSTEM PROGRAMS

Senator KOHL. All right. Mr. Chairman, I had just one other question regarding current central filing system programs and the need to eliminate any potential for identity theft, which was brought to my attention by the Wisconsin Department of Financial Institutions.

However, in the interest of preserving time, I will submit that for the record and look for a response. Thank you, Mr. Chairman.

Senator BENNETT. Thank you. We can get to it in the next round if you are so inclined.

Senator Craig.

Senator CRAIG. Thank you, Mr. Chairman.

NATIONAL ANIMAL IDENTIFICATION SYSTEM

Madam Secretary, the Chairman asked the first question that I had planned to, and I appreciate your response to a national ID system. Senator Hagel, myself, and a good number of others are

looking at different approaches. But we do appreciate your sensitivity to it, the Department's. A lot of work—you are right—has already been done. The vet sciences and all of that type of thing; I am glad you are approaching it with caution in the sense of timing and testing things.

We here in the Congress sometimes think we are pretty smart, but we are not as smart as the cattlemen when it comes to knowing how something will work on the ground that can effectively develop a chain of identification, and I appreciate, and I have had the concern of confidentiality expressed to me by a variety of our cattlemen. At the same time, they know, and they are ready to respond to a national ID system as long as it is the right system and it works, and it is something that is manageable and cost-effective.

We dare not, in a marginal industry at times, drive up the costs simply because we are going to command and control a system. It has to function.

NATIONAL RURAL DEVELOPMENT PARTNERSHIP

Through the decade of the nineties, Idaho was not unlike other States. Many of our urban areas prospered, and many of our rural areas floundered. And as a result of that executive order by President Bush in 2002 to look at rural economic development was the right thing to do. And we here on the Hill responded; I responded with legislation to develop a National Rural Development Partnership. It happened. And we have it implemented, now, across America and beginning to work.

Unfortunately, although I have tried hard to secure stable funding for this what I believe is a common sense vision of bringing together varieties of resources and focusing them effectively in a teaming approach as the kind that the executive order and our President proposed, we are still struggling to be able to effectively do that with natural resources or with resources. I have discussed the issue with former Rural Development Secretary Tom Dorr, and frankly, we have not seen much change.

With resources as scarce as they are, what are your thoughts in regard to the NRDP with its role in helping rural communities and states better coordinate and understand the resources that are available to them?

Secretary VENEMAN. As you indicate, our Rural Development programs are an important part of the USDA portfolio, one that many people often forget, and I think that one of the things that former Under Secretary Dorr was able to do was to help people to understand that we need to look at these programs as the venture capital for rural America. And I think that concept is very appropriate as we look at these kinds of programs.

One of the things that our Rural Development team has done is they have begun to put together a new partnership of all of the Rural Development agencies and programs, so that they are working in much more of a coordinated effort with rural communities. I think this partnership will be very positive as we implement it and go forward with it because rural communities are often going to one of our housing programs, for one thing, and somewhere else for an economic development grant.

If we can begin to integrate our efforts more with specific communities, I think it will help to bring together a number of the kinds of issues that you are talking about with the Rural Development Partnerships where we are also trying to work with the States and the local communities.

We have tried to be very forward looking in terms of our Rural Development programs. Our housing initiatives, especially, have been ones where we have really tried to target towards homeownership. We have our business development loans and our business loans and grants for rural businesses that can help stimulate economic activity. We also have a range of utility loans and water and sewer loans, which are very popular, and all of these programs help rural America have the kind of infrastructure they need to attract capital and attract jobs that they need to thrive for the future.

So we certainly will continue to work with you on the issues of rural development as we move forward.

Senator CRAIG. Well, thank you, Mr. Chairman.

Teaming in this issue is phenomenally important. The coordination of bringing them all together, instead of communities rushing one place and another to try to find resources is clearly the right approach, and I do believe the partnership is moving in that direction to do a comprehensive, coordinated effort, and so, I encourage you to pursue that. We will try to find the bucks to help you pursue it a little more aggressively than your budget reflects, because many of our rural communities are really struggling to come alive in a new context that agriculture will just not provide them anymore.

Thank you.

Senator BENNETT. Thank you.

Senator Durbin.

Senator DURBIN. Thanks, Mr. Chairman.

Secretary Veneman, welcome, and I welcome all those who are with you, especially your chief economist, Dr. Keith Collins, and your budget officer, Stephen Dewhurst. They are gifted, patient, long-suffering stalwarts of the U.S. Department of Agriculture who have in their careers seen more of Congressmen and Senators than any living American—

With the possible exception of the attending physician in the Capitol.

And I am glad that they are with you today.

SINGLE FOOD SAFETY AGENCY

We spend a lot of time talking about food safety, and we certainly have since we found that one sick cow. And I have been pushing for a single food safety agency to combine the 12 different agencies of the Federal Government that have some mandate when it comes to food safety and the 35 different laws and the scores of committees. I have really been able to convince every aspiring Secretary of Agriculture and every retiring Secretary of Agriculture. I just had my problem with current Secretaries of Agriculture who do not want to support it.

So this is your chance to step out and to say it is time for us to get together on a single, science-driven food safety agency; that it

is mindless to have the Food and Drug Administration responsible for the feed given to cattle and the USDA responsible for the cattle once fed, and it is time to put it all under one roof. I give you that chance at this moment.

Secretary VENEMAN. Well, Senator, you and I have talked about this issue on other occasions, and as you know, I think it is very important for us to coordinate very carefully on food safety issues. We have made a concerted effort in this Administration to do just that, and in fact, we have been working very, very closely with the Food and Drug Administration throughout the issue of the BSE find.

The FDA has been involved in our briefings with the press and they have been involved in our meetings in determining where we go from here. Again, we have worked very, very closely with them. There has been a lot of discussion about forming a separate agency, taking, for example, the Food Safety and Inspection Service out of USDA, and along with FDA, putting it into a brand new agency.

There are pros and cons to that strategy, but I would say to you that I think that the BSE situation has illustrated one reason why it has been so important to have the Food Safety and Inspection Service in the U.S. Department of Agriculture, and that is the intersection with BSE between animal health and human health and the safety of the food supply given an animal health issue. As you know, these two agencies were under the same Undersecretary or Assistant Secretary for a number of years in USDA. They were split apart about 10 years ago but are still under the same department in USDA.

We have found that these agencies have had to work seamlessly throughout this BSE incident. I think that as hard as we are working with FDA, it would not have been as easy to begin the traceback, which we were doing through the Animal and Plant Health Inspection Service, when we found the BSE cow and then the trace forward to the product, which we were doing through the Food Safety and Inspection Service.

All of these things have been very, very well coordinated as a result of the fact that we have had the agencies together in USDA.

Senator DURBIN. Well, I will not dwell on the question, because as I said, no current Secretary of Agriculture every supports it.

Once you have retired, you will be in my corner.

But that will be many years from now.

BSE TESTING

Let me say, though, that the logic behind the creation of the Department of Homeland Security is the same logic behind bringing together food safety. I want to ask you specifically about the announcement of the USDA about testing for BSE: 200,000 cattle from high risk, 20,000 from normally old cattle. I have written to you three different letters, three different subjects, I should say, on BSE, soybean rust and childhood obesity, and I am hoping that your Department can get me a response soon to all of those letters.

In the meantime, though, as I understand it, we do not know the ambulatory status of the Washington State holstein cow that tested positive. I understand an investigation by the OIG has been opened. If it turns out that the only animal that has been tested

for BSE in the United States was clinically normal and was found only through chance, then we must question the USDA's BSE surveillance program that focuses only on suspect, nonambulatory and dead cattle.

So I would like to ask you, how do you happen to believe that it makes sense for us, since we have millions of cattle, mostly aged dairy cows in the United States, that are older than the FDA ruminant feed restrictions of August 1997 not to be universally testing those older animals; instead, taking a very small sample which may not even tell the story of what happened in Washington State?

Secretary VENEMAN. Senator, as you know, we recently announced our expanded surveillance plan on March 15. One of the reasons that we wanted to wait to make an announcement and to decide on our surveillance plan is that we wanted to wait for the international review committee to return with their analysis of how we conducted the BSE investigation and what steps we should undertake in addition to what we have already done to move forward.

We had already said we were going to increase our surveillance, but we asked them for specific recommendations on surveillance. What they recommended was an expanded surveillance plan for a period of about a year to get a baseline of what the extent of the BSE problem is in the United States. As a result of that, we worked with our Animal and Plant Health Inspection Service as well as our Chief Economist's Office to get a statistically valid sampling process established. Now, that is still targeting, as the international organizations recommend, the highest-risk animals: those with central nervous system disorder signs, those that are dead, dying, or downers.

We know from the countries that have had a much greater incidence of BSE than we obviously have had in North America, that these are the cows that are most likely to have BSE. But as you indicate, we included in our surveillance plan a random sampling of older, healthy animals, and the importance of that is to target the animals you are talking about, that is, those animals that are older than the feed ban primarily. Not just to say that if animals are over 30 months, we are going to randomly sample them but to really target those animals that are over the age of the feed ban. We think it is important to get a random sampling of that group of animals.

I think you have probably seen a lot of the debate about this particular instance in Moses Lake in Washington State. There has been a great amount of debate about whether or not this cow was indeed a downer. I have to say that as our OIG is investigating it, the Government Reform Committee has been very involved in looking into this.

Our veterinarian from FSIS clearly deemed this cow to be non-ambulatory, a downer, thereby putting it in the higher risk category. But apparently, according to this process, this company was bringing in animals that they called, "back door animals" and many of those animals were tested under the BSE testing protocol, but the company was not calling them downers because they were saying that we do not kill any downers in our plant, because they had customers who did not want downer cows.

Senator DURBIN. It has been 4 months, and we still cannot answer that basic question: what was the ambulatory status of this diseased cow?

Secretary VENEMAN. Our veterinarian deemed it to be a downer.

Senator DURBIN. Nonambulatory.

Secretary VENEMAN. Right.

Senator DURBIN. Mr. Chairman, I know my time has expired. I have a series of questions on BSE, soybean rust, which was not mentioned in the Secretary's remarks, but I have spoken to her personally, and on the whole question of school lunch programs dealing with childhood obesity, which I would like to submit to her for response.

Thank you, Mr. Chairman.

Senator BENNETT. Be happy to do that, and we do intend to have another round if you—

Senator DURBIN. Thank you.

Senator BENNETT. If you have got an opportunity.

Senator DORGAN.

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

Madam Secretary, thank you for being here and thanks to your staff.

BSE AND CATTLE FROM CANADA

I want to just make a couple of comments and then follow with a question, and the comments will not surprise you. One is the issue of BSE or mad cow disease. You know I have written to you, and I hope very much that we will not move quickly to open the border to live cattle with Canada. We know there is discussion going on, there is a process, but I feel very strongly about that issue. I regret very much that a case of mad cow disease was found in Canada; a case of BSE was found in the United States, apparently with a cow that was imported from Canada.

But first and foremost, our objective must be to protect our beef industry, and I really hope you will move cautiously. I do not think this is the time to open the market to the import of live cattle from Canada. Second, I want to again say, many of us, as you know, feel very strongly about country of origin labeling. And we have had a long, tortured debate about this legislation, and, you know, this has kicked around a long while. We need to move on that and get that done.

AGRICULTURAL TRADE AND CAFTA

And third, I want to discuss something that you are not directly involved in in terms of responsibility, but I know you have an acquaintance of, and that is the agricultural trade issue. I would just say for the interest of the administration, the negotiation of CAFTA, the negotiation of US-Australia falls far short, from my standpoint. I regrettably would oppose CAFTA if it is brought to the floor, and with respect to Australia, the promise by the trade ambassador to deal with the elimination of state trading enterprises was not done with Australia, and I regret that.

STANDARD REINSURANCE AGREEMENT

So those are just a couple of things, and I know that it is not your primary responsibility to deal with ag trade. That is a message, really, for the Trade Ambassador.

I would like to mention to you, the Risk Management Agency of USDA is engaged in negotiations with the crop insurance providers for a new product called SRA or Standard Reinsurance Agreement, and I have been visited by farm organizations and others about it. One major farm organization that came in to talk to me about the first draft of the SRA, were very concerned about it.

They said that draft was so onerous that a number of private companies and reinsurers could abandon their participation in the program, leaving farmers and ranchers with less competitiveness than they have today. I do not admit to being an expert in this area, but I will just ask you to take a look at what is happening there, because having crop insurance that works, that is good for producers, is very important to us, and we do not want to leave farmers and ranchers without the choices that they need and deserve.

IMPORTATION OF LIVE CATTLE FROM CANADA

We, I believe, are going to be meeting on another subject dealing with the issue of broadband loans, which is a program, I know, that you are beginning to initiate, and I am anxious to get that done. We will talk about that at a later time. But I did want to just mention those issues, and if you would give me just an answer on the issue of the importation of live cattle from Canada, given the BSE situation. Would you respond to that?

Secretary VENEMAN. I would be happy to, Senator.

As you know, when Canada announced that it had a single find of BSE on May 20, our standard protocol was to close the border, which we did. We then looked from a risk-based perspective, a scientific perspective, at reopening the border for the lowest-risk product, which was deemed to be boneless boxed beef from animals under 30 months, and we did that. The effective time of that was about the end of August, the beginning of September.

We then also published a proposed rule that would allow live cattle to reenter the U.S. market that were under 30 months of age and that were going directly to slaughter. I know that you said in your remarks that we need to protect our beef industry. This would have not put these cattle into the general population, but they would have had to be destined directly for slaughter.

The comment period on that rule was to close on January 5. This, as you know, was just after we discovered BSE in this country. So on January 2, I announced that we would allow the comment period to close, but that we would not take action on the proposed rule until we had time to finish our investigation, which we did in February. In March, we repropoed the same, or a very similar rule, I should say, and opened the comment period again for 30 days. The comment period will close, I think, on April 7, and we will then evaluate the comments that we have received.

But again, this border opening would be limited, and as I have been around the country lately, I realize there is a lot of confusion

about what this importation rule would do. This rule, as it is proposed, would limit importation to those animals under 30 months destined for slaughter. My Canadian counterpart indicates that we should move quickly to allow all cattle to come into the United States, but the way we set this up is in a two-stage process based upon the risk.

So I think that it is very important that we take actions with regard to trade on sound science. We have also been working with other countries. Obviously, we have lost most of our beef trade because of the BSE find here. We have had some success in partially reopening the Mexican market. We are working hard with our markets in Asia and other places. But it is very important that we set a good example in terms of basing our decisions that pertain to border opening and other issues on sound science, and that is what we have attempted to do throughout this BSE situation.

Senator DORGAN. If I might just make a final comment, Mr. Chairman, I understand that. I also believe that in Japan, they have discovered animals with BSE, mad cow disease, under 30 months of age. I wish no ill for the Canadian producers. Our heart breaks for them as well. But our first and foremost job is to protect our country's industry. And with the release a week or so ago of information about two Canadian feed plants, you know, the question is what were British cows, cows that were banned for importation into the United States since 1988, doing in Canadian cattle feed in 1997, 9 years later?

All of those things just raise a lot of questions, and I would just ask that we not rush to open that border to the import of live cattle from Canada. I think it is very important.

Madam Secretary, thanks for all of the work that you do. We from time to time agree on things and disagree on things, but your office is always responsive, and I appreciate that.

Secretary VENEMAN. Thank you.

Senator BENNETT. Senator Bond.

Senator BOND. Thank you very much, Mr. Chairman.

EXPORTS TRANSPORTATION INFRASTRUCTURE

Madam Secretary, I do not know if you remember or if you saw the December 1 last year Wall Street Journal. The headline on the front page said railroad log jams threaten boom in the farm belt, delays in grain shipments reduce potential profits, may affect overall economy. Log jams worst since 1997. Corn and soybean on the ground; rail prices doubled over the past 6 months, close quotes.

In general, in your view, how critical is it that we have efficient shipment transportation options for our exporters, and is an efficient waterways system essential if we are going to export in an increasingly competitive international marketplace?

Secretary VENEMAN. Well, Senator, I believe it is. As you know, we are very dependent in our agriculture sector on the export market. We produce much more than we consume, and so, the global market is very important. We are projecting that our agricultural exports for this year, 2004, will be at \$59 billion. This is even with the difficulties we have had because of our beef exports and our poultry exports with BSE and avian influenza. That exports projec-

tion is nearing our record high level of exports of \$60 billion in 1996.

But one of the reasons we are able to be such an abundant producer and be such an important exporter in the world market is because we do have an infrastructure that allows us to move that product. Whether it is on the railroads, and I would like to point out that I did send a letter to all of the railroad executives asking them to make sure that they were addressing the issue of agricultural commodities when the transportation infrastructure issue was going on, but we also depend, to a great extent, on the waterways as well for the movement of agricultural commodities.

Senator BOND. Thank you. And I think the best way to assure—we need all forms of transportation, and the more competition we have the more efficient and more economical every one of them is going to be. You are probably aware the Mississippi River has locks and dams built 70 years ago that were designed to last 50 years. I have seen them leak and the water flow through. They are a source of congestion. It is a straitjacket on our shipping growth in a region where two-thirds of our corn and almost half our beans for export must travel.

I am working with Senators Harkin, Durbin, Grassley and others, because it takes 870 trucks to carry the same amount of corn as one single medium-size tow on the Mississippi. The Corps of Engineers is now in the 12th year of their 6 year, \$70 million study and in great need of some adult supervision and guidance from USDA. AMS and Deputy Hawks have been working on this to ensure that farmers are not left to the mercy of a dilapidated water transport system and a railroad monopoly. I appreciate your keeping an eye on this to ensure that we maintain an efficient means of getting our farm products to market.

TRANSPORTATION EFFICIENCY

Let me turn to Dr. Collins. How do you see the relationship between transportation efficiency and the ability of farmers to win markets at higher prices?

Mr. COLLINS. I think they are fundamentally related, Senator Bond. A great example of that is simply what has happened in the world soybean market over the last 10 years or so. Everyone knows that Brazil has a very low cost of production of soybeans. However, we have an advantage in transportation infrastructure. And that has enabled us, despite the large growth in soybean production in Latin America, to continue to increase our exports and be competitive around the world. So I think they are closely related.

CORN SHIPMENTS

Senator BOND. I just hope we maintain that edge.

Over the next 10 years, Dr. Collins, what would you estimate the increase in corn shipped through the Gulf to be?

Mr. COLLINS. Senator, we have recently completed a 10-year analysis that forecasts through the 2013 crop year. We do not project specific exports through the Gulf. I know you have asked me this question. Our exports of corn in total over the next 10 years are projected to rise about 45 percent, and about 70 percent of all corn export increases would be expected to go out through the

Gulf. So we would say something in the range of about 435 to 550 million bushels of corn, over and above where we are now, would be going out through Gulf ports by the year 2013.

Senator BOND. I was interested that you do your baseline projections for 10 years. The Corps has tried to figure out what is going to happen 50 years from now. Why do you do it for 10, not 20, 30 or 50?

Mr. COLLINS. Doing it for 10 is heroic enough.

Senator BOND. You are joined in that by the National Academy of Sciences, which said nobody can predict anything 50 years from now, and I very much appreciate your projections and your interest.

Mr. COLLINS. I think that is right. There are just too many risk factors for us to go much beyond a decade.

Senator BOND. Thank you.

Senator BENNETT. Senator Harkin.

CONSERVATION SECURITY PROGRAM

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

I apologize for being late, but I thank you for this opportunity.

I welcome you again, Madam Secretary, and I want to cover a couple of programs with you, the Conservation Security Program and the bio-based program which includes, the Federal requirement to purchase bio-based products, both of which were in the Farm Bill.

Secretary Veneman, as you know, the Conservation Security Program is an important new program included in the 2002 Farm Bill. It embodies all the important features included in your own Food and Agricultural Policy report. The payments fall under the WTO green box for trade purposes. It encourages not only maintenance of conservation practices, but additional new conservation, and it is a voluntary national program to diminish the need for environmental regulations for farmers and ranchers.

Despite the promise of CSP, despite the clear wording in the law that we passed and the President signed, USDA has drug its feet and has issued a proposed rule that provides such limited payments and very difficult eligibility requirements with multiple obstacles that almost no producers can get in, and the few that can may find it financially impossible to participate.

The program in your proposed rule bears little resemblance to what was passed in the Farm Bill. Quite frankly, Madam Secretary, you have made up the rules out of thin air. Now, not only have members of Congress told you that; I have here a recent letter that 56 members of the Senate signed. Last summer, we sent you another bipartisan letter. This later one was bipartisan, too with 56 members. I could have gotten more, but I ran out of time.

But every Senator I have talked to has heard from their farm groups, the major groups, the Farm Bureau, the Farmers Union and also the other crops: the corn growers, soybean producers, cotton, rice, everybody. And as I understand it, you have gotten over 12,000 comments, sent to you expressing similar sentiments and disappointment.

Now, after you published the proposed CSP rule, Congress passed and the President signed into law the fiscal 2004 Consoli-

dated Appropriation Act that restored the CSP funding to what it was in the Farm Bill. Now, in your proposed rule, you have said here, that Congress is currently considering legislation that amends funding for the CSP. Pending the enactment of the legislation, NRCS intends to publish a supplement to this proposed rule. Well, we changed the law, but there is no supplement to the proposed rule.

So now, USDA's rulemaking, simply, it seems to me, is going on in some kind of a black box. We do not know what is going on. For example, I was shocked to find out that despite the fact that the comment period closed on March 2, the public and the press still does not have access to the comments. My staff that I deputized to do this have repeatedly requested and asked for access to the comments, and we have been denied. The press has been denied.

Madam Secretary, with all due respect, I have never in all my 20 some years here encountered an agency denying access to public comments in this way, never. And so, you know my frustration. I am saying it this way because the farmers I have talked to are extremely frustrated by this, so I am asking you for the record whether you will commit to America's farmers and ranchers, to our Nation's citizens, to your own words in your farm policy report that you will revise the CSP rules and carry out the program as written in the Farm Bill and which the President signed.

Will you commit yourself to that?

Secretary VENEMAN. Senator, let me just say that this CSP is part of the larger Farm Bill, as we have talked about. We have had a tremendous amount of work to do with regard to this Farm Bill, and as we have discussed on many occasions, the CSP was not described in detail in the Farm Bill, and there were many decisions left to be made. We have gone out and had a number of public hearings, a number of processes to get public input, and as you say, our proposed rule was then published.

The comment period has now closed, and as you have rightfully indicated, there were over 12,000 comments. We are now in the process of evaluating those comments to determine what the final rule should look like. I certainly can commit to you that we are going to review all of the comments that we received. I frankly had been unaware of the fact that you had not had access to the comments, and I commit to you that I will look at that issue to determine whether or not we can get you the comments that you are requesting. I was not aware that the comments were not available.

Senator HARKIN. I would also hope that you would let the press have access—these are public comments.

Secretary VENEMAN. I understand.

Senator HARKIN. There should be no secrecy. There are no state secrets.

Secretary VENEMAN. I understand, Senator. I just was unaware that there was a problem.

Senator HARKIN. Well, it is a big problem.

Secretary VENEMAN. I will go back and try to determine what is the issue there.

Senator HARKIN. All right; I appreciate it.

Secretary VENEMAN. But I think as you indicate, this has been a long process primarily because it is a new program, and we want

to do it right. I have not seen the comments. I do not know what the various issues are, but I can tell you that because the funding has been limited, we have had to make some decisions about how we structure this CSP program. Are they the right ones? I do not know. But this is what you have: a notice of proposed rulemaking and we have comments for the proposal and so, as we go forward, I cannot tell you what the final rule is going to look like, but certainly, we will review the comments and take into account as much as we possibly can in developing a final rule.

Now, Dr. Collins has been part of our overall group that has been responsible for implementing the Farm Bill, and he may want to make a couple of other comments about how we have tried to work to get to where we are on the CSP rule.

Senator BENNETT. Let me warn you, Dr. Collins, the vote is on, so that we need to be as brief as we can. We will not have another round, after I have been promising it all afternoon, because we have to go vote.

Mr. COLLINS. I did not know that.

Senator BENNETT. But go ahead.

Mr. COLLINS. Mr. Chairman, I would only say very quickly that there has been a different balance that the agency has had to cast here. We have a statute with a legislative history of it being capped. It is capped for fiscal year 2004. It also has a limitation on technical assistance funds.

Senator HARKIN. Is it capped beyond fiscal year 2004?

Mr. COLLINS. It is not capped beyond 2004.

Senator HARKIN. Thank you. I want that for the record to be clear. Fiscal year 2005 and beyond is not capped.

Mr. COLLINS. It is not. But we have had a legislative history of caps in the out years, and the Administration has proposed a cap in the out years, although statutorily, it is not capped in the out years.

Senator HARKIN. Thank you, the law we are following in the law in effect now.

Mr. COLLINS. Correct. There is also a 15 percent limitation on technical assistance, which also does serve as a constraint in the Natural Resources Conservation Service's ability to deal with the potential 1.8 million farms that would be eligible for a wide-open environmental stewardship program. So I think there were those kinds of constraints that the agency felt they needed to deal with in developing this regulation.

Senator HARKIN. Well, I know we have to go, Mr. Chairman, but when were the rules supposed to come out under law? What date? February of 2003. We are now more than a year past that. I think we, all of us here and on the authorizing committee, have been more than understanding of saying, okay, fine, things take time.

But we are getting to the point now where farmers are just saying you are scoffing at the law. The Department of Agriculture is just scoffing at the law that we wrote and not doing anything to implement this. The proposed rules bear no resemblance to what is in the law. That is why you have got over 12,000 comments. I have not read them. I take you at your word you are going to try to let us have access to those. As I have said, I have never had an agency ever say that we could not look at public comments.

But all I know is that the agricultural producers and groups have contacted me who have sent in comments. To a person, I am sure that close to 100 percent were opposed to the rules that you proposed, so I just am hoping that you do have a revision of these rules. I would forego the supplement at this point to the proposed rule. You do not need a supplement. That will just delay the final rule some more. But if you get these rules out and carefully follow the comments, then, perhaps we can start signing people up soon.

And I am glad, Mr. Collins, you have pointed out that it was capped this year; the law got changed. We got it put back the way it was in the Farm Bill, and it will not, I can assure you, change again until this Farm Bill is up again. And so you should prepare for a program that reflects the law beyond this year.

Thank you, Mr. Chairman.

Senator BENNETT. Thank you.

Senator HARKIN. I did not get to the bio-based products program.

Senator BENNETT. Well, you can submit those for the record.

Senator HARKIN. I appreciate it. Thank you.

Senator BENNETT. And she will be happy to respond in writing.

SECTION 521 RENTAL ASSISTANCE

Madam Secretary, I have two quick items; also, you can respond in writing for the record. GAO recently reviewed the Rural Housing Service's Section 521 Rental Assistance Program, and the information that I am seeking is very specific, so I will provide a written request and would ask that you respond in writing both to myself and to Senator Kohl by the 6th of April if you possibly can.

CYBER SECURITY

And then, the second quick item, this is a hobby horse of mine, but I cannot resist it: cyber security, IT weakness. GAO did a study on the cyber security of the department and found, quote, significant and pervasive, close quote, information security weaknesses. And we will give you again some information in writing, and the only comment I want to make about this based on my experience with Y2K, when we had that challenge governmentwide, the mantra I repeated over and over again, to which the Clinton administration responded, was this is not a CIO problem; this is a CEO problem.

When the Secretary or the administrator or whoever the CEO of the agency was made it clear that this was her priority or his priority, then it got done. If it got turned over to the CIO and say, well, this is a technical thing, you fix it, then, it did not get done, because nobody recognized how important it was, and the GAO report indicates the many problems they found are fixable, and I am sure that it can be fixable.

I simply wanted to call it to your attention as the CEO, to ask you to give it the kind of leadership of which you are more than capable and which I think the problem demands.

Secretary VENEMAN. Mr. Chairman, if I might make one comment on that. I do take cyber security very seriously, as does our CIO. We had money in the 2004 budget for cyber security, and it was denied by the Congress. We have money again in the 2005 budget request for cyber security, and we hope that, given your

strong interest in this, that we will be able to maintain that money in the budget so that we can do the things that we know we need to do.

Senator BENNETT. Properly noted, and I will be a bulldog on it this year.

Senator HARKIN. Just 60 seconds, please.

ADDITIONAL COMMITTEE QUESTIONS

Senator BENNETT. All right. I will time you.

Senator HARKIN. Secretary Veneman, the learning I did not want to leave on that note. I told you I was going to be hard on you on the CSP, and I am going to continue to be hard on you. But I wanted to end it on a positive note. I want to thank you, Madam Secretary, for what you have done for the Ames Lab and for coming out for the dedication of it. You have been great. You have put money into this critical project.

It is needed, Mr. Chairman, to make sure that we have the best laboratory facilities in the world in answering animal disease problems and especially with the issues about BSE. We are moving ahead at Ames, and I just wanted to thank you, Mr. Chairman, Senator Kohl and your staff, along with Secretary Veneman, very much for all of your support and help with the Ames lab.

Secretary VENEMAN. Thank you for being there with us.

[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

RD STATE OFFICES

Question. We understand that RD state offices have been told that there will not be sufficient money to fund all rental assistance needs this year—in particular, that some rehabilitation and repair loans may be funded without rental assistance. We also understand that the state offices have been told to reexamine their unused rental assistance and to consider using unused rental assistance funds for rehabilitation and repair loans. Your calculations for rental assistance needs seem inconsistent.

Please explain your fiscal year 2004 calculations and provide us with documented information that explains the discrepancy between your original and current calculations. Also, please document what new information, if any, has resulted in the change regarding your ability to fund rehabilitation and repair loans.

Answer. The fiscal year 2004 calculation of \$740,000,000 was reduced by Congress to \$730,000,000. Then 20 percent was taken off to account for 4-year contracts instead of 5 years. There was a rescission to bring the number to \$580,550,000. Of the total, \$10,000,000 was allocated to new construction, farm labor and preservation, which left \$570,550,000 for renewals. At \$14,000 per unit for 4 years, we estimated 40,754 contracts could be renewed. This resulted in no rental assistance for rehabilitation. We expect to use \$55.8 million of the \$116 million available for the Sec. 515 loan program for repair rehabilitation process.

RHS/GAO REPORT ON RENTAL ASSISTANCE

Question. The Rural Housing Service (RHS) has reported that in implementing its new automated budget estimation process, 3 to 4 staff will work together on generating the budget estimates and allocating the resulting funds to rental assistance contracts.

In light of the concerns reported in the GAO report, “Standardization for Budget Estimation Processes Needed for Rental Assistance Program” (GAO-04-424), over the lack of segregation of duties at RHS, how will you document that these key duties have been divided among 3 to 4 different people to reduce the risk of error or fraud? Furthermore, will these 3 or 4 staff come from different offices within Rural

Development, e.g., budget, finance, and program offices, or will they all be from the program office? If from the same office, please comment on how you plan to maintain the segregation of duties.

Answer. The agency has not made a decision on how to address this issue. Several options are being considered. One of the options would include a national office staff person responsible for the day-to-day administration of rental assistance and a supervisory-level person to handle the policy issues. The allocation process would be developed in the national office and then presented to a "Rental Assistance Advisory Committee" made up of the national office staff who administer the rental assistance program and a person from RD Budget Staff, a person from the Finance Office, and the Deputy Administrator for Multi-Family Housing. This committee would concur with the proposed allocation method presented by the national office staff. The concurred allocation method would be presented to the Administrator for approval.

Question. To what extent is the RHS national office monitoring the activity of rental assistance transfers at the state and local levels? For example, how many units and how much rental assistance funding was transferred in fiscal year 2003? How does RHS ensure that units are transferred according to the regulations, and that transferred units are used in a timely manner?

Answer. The national office provides procedures and advice to the field staff for the proper administration of rental assistance. We also perform Management Control Reviews (MCR) of the program, which consist of visits to four representative states to see if the program is being correctly administered. The MCR results and recommendations are provided to all states for educational and consistency purposes.

In fiscal year 2003 5,166 rental assistance units and \$48,436,455 were transferred.

To address the issue of unused rental assistance, we are reviewing and providing monthly reports to the field staff and the management team to ensure this valuable resource is properly and promptly used.

Question. Last year this subcommittee was told that USDA had acquired a team of professionals from inside and outside of government to create a new rental assistance forecasting tool. Who were the outside professionals that helped create the tool and what did they do?

Answer. The Agency 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 developed a model based on relevant informational elements using several software applications. The Rental Assistance Forecasting Tool was completed in November 2003, was reviewed by GAO in December 2003, and has undergone several months of testing to ensure accuracy and debugging. The Department expects to use the Forecasting Tool to develop the fiscal year 2006 Rental Assistance Renewal budget estimate.

RURAL PROGRAMS

Question. There are currently different definitions of rural among various rural development programs throughout USDA and the Federal Government. A town needs to have a population under 2,500 to be eligible for some USDA rural development programs and rural towns with populations of 20,000 or 50,000 are eligible for other USDA rural programs. Rural health programs in HHS use non-metropolitan criteria. Also, some programs use county data, others use census tract information, and still others use commuting area designations.

Should there be a more consistent definition with common criteria for rural programs throughout USDA and the Federal Government?

Answer. Due to the diversity of rural communities across the country and the wide variety of programs funded by the Federal Government for rural residents, businesses, and communities, it is difficult to develop one definition for "rural" that is appropriate for all purposes. Past efforts have been found to be harmful to some segment of the population or overly generous to another segment. Nevertheless, we support simplification of the myriad of definitions and criteria used to define and allocate resources to rural areas.

Question. I understand that RHS has started a capital needs assessment and, as outlined in the GAO report (GAO-02-397), is developing a protocol for evaluating the physical, financial, and market needs of the section 515 multifamily portfolio. I also understand that a private contractor is evaluating a 3 percent sample of the portfolio to develop the protocol. Who selected the 3 percent sample, and what methodology was used for the selection? In particular, (1) did all properties have an equal

chance of being selected, or (2) were other factors, such as the age of or the percentage of rental assistance in each property considered in the sampling process?

Answer. The Agency consulted with Department economists who, after reviewing the data, provided us with the sample size that would result in a 90 percent confidence level. The 333 Section 515 properties selected were a mix of family and elderly complexes in operation for more than 5 years, and categorized by property size (less than 12 units, 12–24 units, 25–50, 51–100 and 101 units or more). All of these factors were used to sort the total database to develop a representative sample. The percentage of rental assistance was not a factor in selecting the sample.

RD INFORMATION TECHNOLOGY

Question. In July 1993 testimony, GAO stated “USDA has substantially increased its use of information technology. But most of the information system expenditures to date have been for automating the systems associated with providing program benefits. However, these systems are not providing managers with the data they need to manage and make decisions, nor is the information produced in a form that can easily be shared with other agencies.”

How much have we progressed in the past 11 years? For example, how many different information systems are used to manage the various housing and community development programs in USDA’s Rural Development Mission Area?

Answer. Over the past 11 years, Rural Development has progressed significantly beyond the automation capabilities supporting the mission area at that time. Several new, modern state-of-the-art systems have been constructed and deployed in support of Agency business needs. Some key major accomplishments in this area include:

- The Agency purchased and deployed a new commercial-off-the-shelf mortgage servicing system in support of the Single Family Housing Direct Loan Program and in support of the Centralized Servicing Center in St. Louis. Deployed in support of this commercial system were several new technologies including document management technologies including scanning and imaging, workflow management, and content management; automated mail handling; and automated call center technologies including voice response and predictive dialing. These capabilities have not only been extended to other business processes within Rural Development but to other USDA agencies and the Department.
- A new guaranteed loan system supporting all Rural Development loan programs (and Farm Services Agency guaranteed loans) has been fully deployed and major new enhancements have already been completed. This system now includes a funds reservation application, an electronic data interchange capability with participating lenders, and a web-enabled user interface. Application and project tracking capabilities for Business & Industry and Community Facility loans and grants have been added to this system.
- A new system is in the process of being designed, developed, and deployed to replace obsolete legacy systems dating back to the Rural Electrification Agency. The initial capabilities of this new system have been deployed and key financial and program management capabilities are in development.
- In a joint effort with the Farm Services Agency, Rural Development has purchased and deployed a new program funds control system that is compliant with the Joint Financial Manager’s Integrity Act.
- A new Multi-Family Housing project management system has been deployed and new enhancements are being added to meet emerging needs identified to improve the overall management and oversight of this program. This new web-enabled system permitted the retirement of three, stove-pipe legacy systems.

While much progress has been made in RD’s information technology (IT) capabilities, the 2005 Budget requests an additional \$14.1 million to upgrade IT systems. Upgrades are needed to improve RD program accountability and customer service, and to correct a material deficiency in RD direct loan systems.

Question. How compatible are the systems?

Answer. Each system is designed to meet the unique needs of the loan and grant programs they support. However, all new systems and applications are built using “re-useable components” and technologies that are relatively easy to extend to other systems and applications. Integration of data is achieved through the construction of a data warehouse that will eventually become the single source of all Rural Development management data. Although much Agency data has been extracted and moved into the data warehouse and made available to Agency managers and staff, there is much more to accomplish. Also included in the data warehouse is census data which allows program managers to better monitor the effectiveness of their programs. Tabular data has been geo-coded to permit the graphical display of data

by creating maps; maps showing eligibility areas for specific programs have already been developed. Rural Development systems are being built through a vision of a fully-open technology architecture and data integration is being achieved by moving all data required to support Agency loan and grant programs into a single data warehouse.

COORDINATION OF USDA RURAL PROGRAMS

Question. What efforts have you implemented to facilitate the coordination of programs across USDA for the benefit of rural communities?

Answer. Within USDA, we have developed guidelines regarding the delivery of all Rural Development programs and required the state offices to reorganize themselves to meet those guidelines in order to bring consistency to how programs are delivered nationwide.

Question. What is the Department's rural policy?

Answer. The Department's rural policy recognizes the diversity of rural America and that there is no single recipe for prosperity that will be applicable nationwide. It further recognizes that agriculture is no longer the anchor for most rural communities and the availability of non-farm jobs and income are the drivers of rural economic activity. The creation of an economic environment to save or create jobs in rural areas is the challenge and doing so will require attracting private investment; creating a rural population with the education and skills needed by businesses; and the development of the technology, infrastructure and community facilities needed to make rural communities attractive to new businesses is critical if the communities are to prosper. Finally, there is the recognition that we need to enhance the market base for agricultural producers to find new markets for their products, including the development of alternative fuels. A more thorough discussion of the Department's rural policy is outlined in the USDA publication "Food and Agricultural Policy—Taking Stock for the New Century" which was published in September 2001.

Question. USDA Rural Development is mandated under the Farm Bill to create the National Rural Development Coordinating Committee. What is the status of that effort?

Answer. Rural Development is developing a course of action regarding creating the National Rural Development Coordinating Committee. The Farm Bill mandates certain representation on the Coordinating Committee, but implementation of that mandate could be pursued in a variety of ways. Rural Development may publish a notice in the Federal Register requesting public comment and input on how to accomplish that mandate.

Question. The Farm Bill also mandates that USDA present a report to Congress on the National Rural Development Partnership. What is the status of that report?

Answer. Section 6021(b)(3)(B) of the Farm Security and Rural Investment Act states that the Governing Panel in conjunction with the National Rural Development Coordinating Committee and state rural development councils shall prepare and submit to Congress an annual report on the activities of the Partnership. This annual report cannot be submitted this year because neither the Governing Panel nor the National Rural Development Coordinating Committee yet exists.

PILOT PROGRAM

Question. In September 2000, GAO noted that in some rural areas, new agribusiness jobs are available in off-farm processing plants, such as aquaculture and poultry processing operations. In response to the GAO report, USDA noted that it had undertaken a pilot program in California and was considering a potential demonstration program in the future. What resulted from the pilot program and has USDA undertaken any similar pilots?

Answer. In the fiscal year 2001 Agriculture Appropriations Bill, Congress authorized the Rural Housing Service (RHS) to provide almost \$5 million in housing assistance (grants) for agriculture, aquaculture, and seafood processing workers in the states of Mississippi and Alaska. On February 12, 2001, RHS published a Request for Proposals in the Federal Register and on September 14, 2001, six proposals were selected for funding. The six selected proposals are in different stages of development. Some have completed construction and are now providing housing to processing workers. Other proposals have not completed construction.

In the fiscal year 2004 Agriculture Appropriations Bill, Congress authorized RHS to provide almost \$5 million in housing assistance (grants) for processing and/or fishery workers in the states of Alaska, Mississippi, Utah and Wisconsin. On April 6, 2004, RHS published a Request for Proposals in the Federal Register. The deadline to submit a proposal is July 6, 2004.

NATIONAL BOARD ON RURAL AMERICA

Question. What is the status of the National Board on Rural America created under the Farm Security and Rural Investment Act of 2002? Is such a board needed to promote business and community development in rural America?

Answer. The Board was to implement the Rural Strategic Investment Program. Funding for the program was rescinded by Congress. Without funding to cover their administrative expenses, the Board cannot function and has, therefore, not been named.

The promotion of business and community development in rural areas occurs in a variety of ways through outreach from government, non-profit and profit organizations. The establishment of the National Board on Rural America is not critical to this function.

MULTI FAMILY HOUSING

Question. How effective has the agency been in encouraging more lenders to get involved with the Section 538 guaranteed multifamily housing program? Is anything being contemplated through regulation, or through a statutory change to allow the program to provide more multifamily affordable housing for moderate-income families?

Answer. Lender participation in the program has been increasing because the industry has created a secondary market for the program. The Section 538 lender pool currently consists of 15 Approved Lenders, which are lenders with closed Section 538 loans, and 16 Eligible Lenders, which are lenders that are processing a Section 538 loan. The eligible lenders will become approved once they close the 538 loan. In addition, the publication of the program's final rule this summer will allow Ginnie Mae lenders to participate in the program.

The purpose of the Section 538 Proposed Rule, which was published for comment on June 10, 2003, was to make the program more industry friendly to the secondary market. We expect the final rule to be published this summer.

In addition to moderate-income families, the program also serves very-low-income (with section 8 vouchers) and low-income families. Eighty-five percent of the Section 538 housing portfolio has been financed with Low-Income Housing Tax Credits (LIHTC) equities and, therefore, must follow the LIHTC low-income occupancy restrictions.

RURAL BUSINESS AND COOPERATIVE SERVICE

Question. The Inspector General has reported that the Rural Business Cooperative Service's business and industry loan program continues to have problems in applying its own policies and procedures for underwriting and managing the loans and performing adequate lender oversight. What can be done to ensure that the loan approval process and monitoring of the loans will reduce the number of defaults and better protect the government's financial interests?

Answer. The Agency revamped its internal control review of the State Offices. The review is called a Business Program Assessment Review. We contracted with another Agency (experienced in completing Safety and Soundness reviews) to improve upon the National Office review. National Office reviewers have been trained and we are working with the contractor agency in conducting these reviews.

As a result of these reviews, we are evaluating:

- the need for reducing/removing loan approval authorities delegated to individual State Offices,
- the need for implementing changes to protect the portfolio,
- the need for training/closer monitoring of loan approval(s),
- changes to the regulations to improve portfolio development, and
- the need for lender training.

BUSINESS AND INDUSTRY PROGRAM

Question. Considering the problems with the business and industry program and the complex nature of the deals, does your field staff have the training and capacity to effectively negotiate with lenders and the borrowers?

Answer. The level of expertise varies between states. Several initiatives are underway to provide staff with tools and training that will ensure more timely and consistent analysis in the processing of applications/servicing actions.

The Agency has purchased and distributed Moody's financial analysis software to field staff to improve and provide consistent credit analysis of loans that are considered for funding.

We have had national meetings with the National Office and selected State Office Program Directors/Loan Specialists and we have contracted with other institutions, i.e. Farm Credit Association, to provide specific training. With budget constraint, we have explored ways to provide telephonic training, regional teleconferences, web cast, Intranet and etc., to provide guidance to our field personnel.

The Agency has identified the need for a core curriculum of training that will provide staff the training necessary for them to perform their assigned duties. An accreditation plan that will identify this core curriculum is under development. Current field staffs are being surveyed to determine the basic core training needs.

Each delegation of authority to State Offices for loan processing and servicing actions is based on experience as well as the performance record of the personnel in the state. We will continue to make every effort to ensure authorities are issued to employees with the necessary skill set to protect the taxpayer's investment.

FARM CREDIT ADMINISTRATION REVIEW

Question. How effective has the Farm Credit Administration been in identifying problems with nontraditional lenders using the B&I program? What is the annual cost of this contract? Has the cost of the contract been justified based on Farm Credit Administration reviews?

Answer. The Farm Credit Administration (FCA) has been quite effective in its review of nontraditional lenders. The particular arm of FCA with which the agency has contracted conducts safety and soundness examinations not only of the banks within FCA but has also contracted with the Small Business Administration (SBA) to perform the same function for specific SBA lenders. FCA is a recognized expert in lender examinations, internal controls, and program oversight. These examinations provide the agency and the nontraditional lenders with recommendations. We monitor the lenders to assure that recommendations are implemented.

The cost for lender examinations by FCA in fiscal year 2004 is \$104,501.

We believe the involvement of FCA in the examination of lenders participating in the B&I Guaranteed Loan Program has been cost effective. Improvements in lender loan underwriting, risk identification, and servicing as well as a better understanding of the Agency's regulations are examples of the benefit of FCA's lender reviews. FCA reviews have supported the Agency's actions to debar an individual from participation in Government programs. The results of FCA reviews have been instrumental in identifying weaknesses in lender practices and have assisted the Agency in determining lender fraud, misrepresentation or negligent servicing. This assistance helps save millions of dollars for taxpayers.

CENTRALIZED SERVICING CENTER

Question. The Centralized Servicing Center in St. Louis reported a 32.5 percent reduction in the number of loans serviced from the year the center opened in 1997 to 2003. Have any staff reductions occurred as a result? Has the Centralized Servicing Center in St. Louis attracted any additional work from other Federal agencies? If not, what efforts are underway to attract any new business? Without new business, at what point will the loan volume become too small to keep the operation viable?

Answer. Thank you for recognizing the success of our Single Family Housing program and Centralized Servicing Center. As you are aware, customers are required to "graduate" to other credit when they no longer require Federal assistance. We are pleased that over 30 percent of our direct homeownership customers were able to graduate to the private sector. In response to your specific questions, we offer the following explanation:

In 1997, the Centralized Servicing Center (CSC) supplemented its permanent workforce with 100 private-sector temporary staff and the equivalent of 50 staff with overtime. The CSC no longer uses private-sector temporaries and has reduced overtime usage by 50 percent. This is equivalent to a reduction of 125 staff years or 20 percent, without negatively impacting service to our customers.

The CSC has acquired additional work. It recently began the centralization process for approving loss mitigation plans and processing loss claims for National Lenders participating in our guaranteed homeownership program. The guaranteed homeownership program has the second largest dollar portfolio within Rural Development. By providing a single point of contact at CSC, loan servicers are provided greater consistency and efficiency in obtaining approval for loss mitigation plans and processing of claims. The Agency also benefits through better internal controls and improved monitoring of losses. More than 40 percent of all loss mitigation activity for guaranteed lenders will be handled at CSC by the end of May and more than 60 percent by year-end. This is an ongoing and growing initiative.

In addition, the graduation process for direct loan customers has been centralized at CSC. This is the process used to identify, notify and support customers who are eligible for private financing. An average of 10 percent of our customers graduate annually. Naturally this supports self-sufficiency, while reducing ongoing costs for the government.

CSC is also working with Rural Development's Business and Industry (B&I) program to service a portion of its receivables. CSC's Real Estate Owned (REO) website has also been expanded to include B&I, as well as Multi-Family Housing and guaranteed program properties. CSC is also working with the Veterans Administration and the Department of Housing and Urban Development to establish a common government website for all government-owned housing.

CSC is currently using its imaging technology to archive historical executive correspondence files on behalf of the USDA Office of the Executive Secretariat. CSC is also participating in the project to establish a web-based correspondence tracking system for Department-wide use.

CSC is devoting approximately 75 staff years to these and other new initiatives. Since CSC's inception, the rate of delinquent loans has declined to a new record of 12.93 percent as of March 30, 2004. This is a 37.5 percent reduction in delinquency since 1998. The delinquency rate net of foreclosures is 9.24 percent which compares favorably to the latest reported Federal Housing Administration (FHA) delinquency rate net of foreclosures of 12.23 percent.

In summary, CSC staff years have declined by 20 percent, important new work has been and continues to be assumed, while dramatic improvements in program results are being attained. The combination of reduction in FTE and new work acquired is equivalent to savings of 200 staff years or 32 percent.

With the existing portfolio, new loans being added every day, and new business, CSC will continue to be an efficient and effective operation and asset to USDA. CSC continues to look for other services that can be provided to other USDA Agencies and throughout the government.

MERGING OF URBAN AND RURAL HOUSING AND COMMUNITY DEVELOPMENT PROGRAMS

Question. When the Congress decided to separate rural development from urban development programs in the 1930s, the world was different. Today we have super-highways, information highways, and the boundaries of rural and urban areas are often unclear. Access to credit, a major factor behind the creation of rural specific programs, is no longer a major issue in rural areas. Today, affordability is the key problem in rural as in urban areas.

Given the changes in rural demographics, the current budget constraints, and your need to focus on food security and safety issues, is it time to merge both urban and rural housing and community development programs into one housing and community development agency?

Answer. Rural areas, like urban areas, are constantly changing, but for many parts of the country, the rural areas continue to be far different places than urban communities. We do not believe one housing and community development agency for both rural and urban areas would be helpful to rural families and communities. Most rural communities, especially the smallest and the poorest, do not have the staff to develop the loan and grant requests needed to effectively compete for limited funding against larger, more urban communities. These requests are often developed by the elected officials of small communities who are totally inexperienced in such an effort. Providing this type of assistance is a key function of USDA Rural Development field staff. Access to credit, especially private credit, continues to be very limited in the poorest communities. We have found there are pockets throughout the country where private lenders are not interested in making single family housing loans in rural areas. In some areas, private lenders are not even available. Rural Development has several pilots underway in rural areas that have no local banking facilities to involve the state housing authorities. Rural Development staff works with the family to prepare their application and then submits it to the state housing authority for consideration as a guaranteed loan.

RENTAL ASSISTANCE PRESERVATION

Question. We understand you are committed to preserving rural rental housing. We also understand that you cut half of the \$5.9 million that this subcommittee set aside for rental assistance preservation funding. How do you plan to address the waiting list for rental assistance preservation?

Answer. We have successfully reduced this waiting list over the last 12 months to the point where few borrowers are currently on the list.

Question. We understand that as a result of legal action, 2 properties in Oregon have prepaid their Section 515 loans resulting in 44 households at risk of being displaced. I understand that RHS has the authority to issue vouchers under section 542 of the Housing Act of 1949 to tenants in such a situation. Why has no funding ever been requested for this voucher authority that could be used in this type of emergency situation?

Answer. Until recently, the need for RHS rental assistance vouchers was not recognized for the preservation program. Currently, the Agency is conducting a comprehensive property assessment of its multi-family housing portfolio. Upon completion of that study, the Agency expects to consider many policy options, which may include the use of vouchers for the situation you have described above.

USDA KEY INFORMATION SECURITY WEAKNESSES

Question. GAO reported that a key reason for USDA's weaknesses in information security system controls was that it had not yet fully developed and implemented a comprehensive security management program.

What steps are you taking to ensure that an effective information security management program is implemented?

Answer. Beginning in 2000, using initial funds provided by the Congress as well as existing resources, USDA embarked on a new approach to securing its critical information assets. Since its formation, the Department's Cyber Security Program has engaged in a number of activities and projects designed to address USDA's most serious cyber security deficiencies. I will provide some additional details for the record.

[The information follows:]

Examples of progress made during the past year include:

- Initiation of a USDA Certification and Accreditation Program that will position USDA mission critical systems to comply with Federal system certification requirements. In fiscal year 2004, USDA compiled a Departmental inventory of over 500 systems that we are now using to track the certification and accreditation (C&A) of these systems. OCIO has challenged USDA agencies to schedule accreditation of each of these systems by the end of the fiscal year 2004. To assist agencies with the certification and accreditation process, OCIO has established a contract vehicle through which agencies can acquire contract support.
- Development and establishment of a Risk Management Program that incorporates the widespread use of security self-assessment tools that address both overall security management and specific technical platforms. OCIO has developed a comprehensive USDA Risk Assessment Methodology that addresses the full spectrum of risk management, including sensitivity, assessment, remediation, and business case.
- With a contract vehicle established for conducting independent risk assessments according to OCIO methodology, dozens of risk assessments have been conducted on the Department's more important systems. This activity has positioned agencies to move forward with full certification and accreditation, a major priority for fiscal year 2004.
- Release of guidance and tools to USDA agencies that provide the ability to analyze existing information security controls and technical environments.
- Establishment and management of an enterprise-wide Intrusion Detection System and procedures for detecting and reporting intrusion incidents. OCIO is requesting funds in fiscal year 2005 to further strengthen this system by establishing a Departmental security operation center to continuously evaluate and manage gathered security information.
- Development and issuance of new or revised policies and interim guidance on specific security areas and provide precise requirements. These include policies addressing: (1) mainframe security, (2) incident reporting, (3) security plan guidance, (4) security requirements for the use of private Internet access providers, (5) user ID and password requirements, (6) server and firewall security, use of network protocol analyzers, and (7) physical security standards and use of configuration management.

Guidance issued during fiscal year 2003 and 2004 includes policies addressing: (1) Privacy Impact Assessments, (2) Encryption of Sensitive But Unclassified (SBU) Information, (3) Revised Capital Planning and Investment Control Requirements, (4) Security Awareness and Training, (5) Contingency Planning, (6) Telework and Remote Access Security, (7) Trusted Facilities Manual Requirements, (8) Security Features Users Guide Requirements, (9) Portable Electronic Devices (PED) and Wireless Technology Security, and (10) Life Cycle Approach to Security Controls.

—For the broader USDA security community, and to meet the Federal requirement for on-going training for security specialists, OCIO is providing instruction in the areas of security controls, forensics, intrusion detection, risk management, vulnerability assessments, contingency planning and other security-related issues.

More recent security training has been provided in the areas of systems security scanning, patch management, Certification and Accreditation, and Federal Information Security Management Act (FISMA) requirements.

—Development of an enhanced security awareness program that includes partnership with the Government-wide eLearning initiative. This program provides Department-wide web-based training on security issues to all USDA staff. As of September 30, 2003, over 39,000 employees (of 60,000 total), including the Secretary, have logged on and completed this course. Other objectives of the Department's Security Awareness and Training Program include: defining a security and awareness scope, identifying executive briefing package materials, surveying and assessing security and awareness products, and identifying security and awareness assessment methodologies.

In 2003, the Secretary declared September as USDA Cyber Security Awareness Month. The Secretary recorded a video focusing on the need for every employee to be aware of and comply with Departmental security requirements.

—Oversight has been increased for both Capital Investment Planning and technology deployment to ensure that security is considered throughout the entire life-cycle of system development. Annual reporting instructions are issued and requests for approval to invest in technology are carefully scrutinized to ensure security is adequately addressed.

—A rigorous reporting and monitoring process has been established to oversee USDA's activities related to the Federal Information Security Management Act (FISMA). In particular, OCIO manages the Department's annual self-assessment process and oversight of the action plans and schedules designed to address weakness discovered.

—OCIO has negotiated and executed USDA-wide contracts for security services and products. These contracts, managed by OCIO, provide USDA agencies with access to quality security controls and expertise in the areas of scanning devices, virus detection and protection, software security patch management, vulnerability assessments, and security planning.

—The Department has initiated an Information Survivability Program through which Disaster Recovery and Business Resumption Plans will be developed and tested. Software that supports the development of these plans has been purchased for use by all USDA agencies and offices. Contract support has been engaged to support agency personnel in this endeavor.

While much remains to be done to improve USDA's information security program, these steps and strategies provide evidence that the Department is committed to eliminating its long-standing security deficiencies.

HOLDING SENIOR MANAGEMENT ACCOUNTABLE FOR INFORMATION SECURITY

Question. How does USDA hold senior management of the department and its component agencies accountable for ensuring adequate information security? For example, does it affect their performance evaluations?

Answer. We have taken a number of steps, both directly and through delegated authority to the CIO, to ensure program and IT executives and managers understand and perform their information security responsibilities. These include:

—Establishing an information security performance measure within the performance plan of each under and assistant secretary, agency head, and staff office director. Performance in this measure is rated and considered in each executive's annual performance review.

—Focusing senior management attention on certifying and accrediting all USDA IT systems. The USDA CIO briefed the Subcabinet on this critical effort, and agency management have been advised that funding will not be approved for any new systems development efforts until agencies identify the resources and milestones to certify and accredit their systems.

—Evaluating and approving each investment in the USDA IT Portfolio to ensure cyber security is addressed, staffed, budgeted, and assessed for compliance with USDA Cyber Security Policies. After approval by the Department's Executive Information Technology Investment Review Board, the Deputy Secretary recommends approval of the Major IT Investment Portfolio to the Secretary.

—Ensuring decisions on all USDA IT acquisitions, above a \$25,000 threshold, are approved by the Department CIO. OCIO reviews each acquisition to ensure

cyber security is addressed, staffed, budgeted, and assessed for compliance with USDA Cyber Security Policies.
 —Establishing security responsibilities and authorities for Program Officials, CIO's, security officers, IT technical specialists and IT users through departmental guidance and policy.

ENSURING EFFECTIVENESS OF SECURITY MANAGEMENT

Question. How will the Department ensure that security management positions have the authority and cooperation of agency management to effectively implement and manage security programs?

Answer. The Department has established controls and performance measures to ensure the cooperation of agency management.

In addition, USDA's Office of the Chief Information Officer makes great effort to ensure security managers are engaged in IT investment decisions throughout the system life cycle. The Department's Capital Planning and Investment Control process is designed to ensure security issues are considered at every phase of investment. OCIO reviews each acquisition to ensure cyber security is addressed, staffed, budgeted, and assessed for compliance with USDA Cyber Security Policies.

OCIO reaches beyond USDA's security community to the Department's most senior managers to keep them abreast of topical and important security issues. Our current effort to certify and accredit (C&A) all USDA IT systems is a good example of this process. Discussions regarding C&A are held regularly with the Department's most senior management. Executive training and materials for the C&A process have been developed and presented to agency heads and program administrators.

Weekly status reports that score progress toward attaining accreditation are prepared and shared with senior management to ensure objectives are attained. In addition, OCIO's senior management counsels individual agency managers on specific C&A strategy, procedures and progress.

FILLING ACIO FOR CYBERSECURITY

Question. What actions are planned to fill the role of Associate CIO for Cyber Security, given that the person that held this position is recently retired?

Answer. The advertisement to recruit a new USDA Associate CIO for Cyber Security will close in early May 2004. The Department will carefully review all applications in its search to fill this critical position.

BUDGET IMPACT OF INFORMATION SECURITY REQUIREMENTS

Question. Is there a budget impact to ensure that information security requirements are met?

Answer. The Department's Capital Planning and Investment Control process is designed to ensure security issues are considered at every phase of investment. OCIO reviews each acquisition to ensure cyber security is addressed, staffed, budgeted, and assessed for compliance with USDA Cyber Security Policies.

USDA is currently operating under a moratorium that requires a waiver for all IT acquisitions above \$25,000. OCIO reviews each acquisition waiver request to ensure cyber security is addressed, staffed, budgeted, and assessed for compliance with USDA Cyber Security Policies. Failure to adequately address security throughout the system life cycle will result in delay or denial of funding approval.

Additionally, OCIO has advised agency management that funding for any new system development efforts will not be approved until agency management identifies the resources and milestones to certify and accredit their systems.

COMPLETING RISK ASSESSMENTS

Question. Addressing risk is necessary to implementing appropriate security controls. According to the USDA OIG, 8 of 10 agencies that it reviewed during fiscal year 2003 had not completed risk assessments for mission essential information technology resources. What actions is the Department taking to ensure that risk assessments are completed?

Answer. USDA is addressing the issue of risk management on a number of separate fronts. First, with agency and contractor assistance, USDA has developed a comprehensive Risk Assessment Methodology to assist USDA agencies in determining information sensitivity, identifying threats and vulnerabilities, designing mitigation strategies, and developing business cases for necessary security costs. Additionally, risk assessment training and counseling has been provided to agency security managers by both Cyber Security Program Staff and contracted risk management specialists.

Second, to meet the requirements of the Federal Information Security Management Act, agencies are charged with performing self-assessments of their respective IT systems and security programs. To address these requirements, USDA uses the National Institute of Standards and Technology (NIST) Self-Assessment Guide. Weaknesses discovered during these assessments form the basis for mitigation plans that guide agency security activities throughout the year.

Third, an initiative that addresses risk management is OCIO's aggressive strategy to certify and accredit all of its IT systems in fiscal year 2004. A fundamental component of system certification is a thorough risk assessment. Agencies will be using USDA and Federal risk assessment guidance to ensure security controls are adequate prior to submitting systems for accreditation.

Fourth, OCIO has established vehicles through which USDA agencies and offices can obtain contract expertise to perform risk assessments. Over the past 2 years, dozens of USDA IT systems have been independently assessed for risks and vulnerabilities by highly qualified and experienced security contractors, a reflection of the high priority USDA management places on thorough security analysis.

PLANS TO FINALIZE SECURITY POLICIES AND PROCEDURES

Question. Although the department's Office of Cyber Security has developed numerous policies and procedures that address information security over the last couple of years, many remain in draft, or interim guidance, some for over a year. What plans does the department have for finalizing these policies and procedures?

Answer. Individual information security policies, particularly those that prescribe technical controls must be vetted thoroughly to resolve issues of incompatibility and unnecessary expense. Often this vetting process requires additional analysis and compromise to achieve maximum effectiveness and economy. Nevertheless, OCIO has been successful in issuing a wide array of security guidance. New guidance issued during fiscal year 2003 and 2004 include policies addressing: (1) Privacy Impact Assessments, (2) Encryption of Sensitive But Unclassified (SBU) Information, (3) Capital Planning and Investment Control Requirements, (4) Security Awareness and Training, (5) Contingency Planning, (6) Telework and Remote Access Security, (7) Trusted Facilities Manual Requirements, (8) Security Features Users Guide Requirements, (9) Portable Electronic Devices (PED) and Wireless Technology Security, and (10) Life Cycle Approach to Security Controls.

It should be noted that even guidance issued as "Interim" provides the standard by which USDA agencies must operate. Interim guidance is used as criteria for IT investment reviews, risk assessments, FISMA self-assessments, and other compliance exercises.

EMPLOYEE SECURITY AWARENESS TRAINING

Question. How does the Department plan to ensure that all employees receive security awareness training?

Answer. During the past year, OCIO has developed a more rigorous security awareness program that includes partnership with the Government-wide eLearning initiative. During fiscal year 2004, OCIO purchased an on-line security awareness course through which all Department end-users could meet their awareness training requirements. By using this course, USDA was able to report over 60,000 USDA employees had been trained. While this was only 53 percent of all employees, we anticipate the percentage will increase for this year. Performance related to this issue will be a consideration in each executive's annual performance review.

Other objectives of the Department's Security Awareness and Training Program include: defining a security and awareness scope, identifying executive briefing package materials, surveying and assessing security and awareness products, and identifying security and awareness assessment methodologies—all designed to assist agencies in their attempt to meet Federal security awareness requirements. For the technical security community, on-going training is provided in the areas of security controls, forensics, intrusion detection, risk management, vulnerability assessments, contingency planning and other security-related issues.

SYSTEMS TESTING AND EVALUATION

Question. The department has reported that just over a third of its systems have undergone test and evaluation within the past year, and only 16 percent of its systems had been certified and accredited. What action has the department taken to ensure that testing and evaluating controls becomes an ongoing element of agencies' overall information security management programs?

Answer. The testing and evaluation of the security controls is a critical component of the Department's current certification and accreditation (C&A) initiative. The

C&A process requires testing and evaluation of all system controls to ensure they function as planned. To ensure the independence of system testing, agencies must enlist the services of a third party to undertake the testing who was not involved in the design or development of the security controls.

In addition, in order to reduce or eliminate these risks, OCIO has established guidance for conducting Security Vulnerability Scans (SVS) of all USDA networks, systems and servers. These SVS scans are a vital component of the overall security protection plan being deployed within the department. OCIO guidance requires USDA organizations to accomplish these SVSs on a monthly basis. In addition, to the vulnerability scans, each agency/staff office is required to conduct and maintain information technology (IT) inventories of networks, systems, servers, software and Internet Protocol Addresses for all areas within their responsibility.

To assist agencies with their scanning responsibilities, OCIO provides scanning tools, training, and on-going support. OCIO also conducts oversight reviews of agencies and staff offices to review vulnerability reports and corrective actions taken to ensure that networks, systems, and servers are protected in accordance with this policy.

ENSURING SYSTEMS ARE CERTIFIED AND ACCREDITED

Question. What action has the department taken to ensure that systems are certified and accredited?

Answer. OCIO has initiated an aggressive program to certify and accredit (C&A) all of USDA's IT systems and position the Department to comply with Federal system certification requirements. To prepare agencies for C&A, OCIO developed a USDA Certification and Accreditation Guide, document templates, and procedures for managing the broad set of activities involved. Training sessions have been conducted to educate all levels of managers and technicians involved in the C&A process.

In fiscal year 2004, USDA compiled a Departmental inventory of over 500 systems that we are now using to track the certification and accreditation of these systems. In fiscal year 2004, USDA will spend in excess of \$25 million on systems certification and accreditation.

A fundamental step in accreditation is a thorough risk assessment, conducted through self-assessments for low impact systems and through independent assessments for all others. To achieve this independent review, OCIO has developed contract vehicles by which agencies can engage external expertise to assist them. USDA management and agency technical staffs have become fully involved in the Certification and Accreditation Program, scheduling activities and executing contracts that will lead to accreditation of the systems for which they are responsible.

OCIO's fiscal year 2005 budget request of \$687,000 relative to certification and accreditation does not reflect the cost of individual agency C&A activities. Funding for these activities is expected to be borne by agencies from funds provided for IT investments, and from unobligated balances allocated for this purpose. OCIO's funding request is directed toward corporate-level activities such as common toolsets, oversight and counsel, and Independent Verifications and Validation exercises.

OCIO recognizes this aggressive schedule places an enormous burden on the Department's technical staffs, both from a personnel and budget perspective. Nevertheless, OCIO is committed to moving the Department to a more secure baseline from which new technologies and methodologies can be employed safely and effectively, while at the same time meeting Federal security mandates.

HOW USDA BUDGET CORRECTS SECURITY WEAKNESSES

Question. Given the pervasive extent of the Department's information security weaknesses, how will the Department's request for budgetary resources address the issues involved in correcting the problems?

Answer. OCIO is working with the agencies to ensure funding for security requirements are included in all budget requests for system development and operation. In addition, OCIO's budget request for fiscal year 2005 includes increases for the following security initiatives:

—*An increase of \$687,000 is needed to manage the USDA Information System Certification and Accreditation Program.*—OCIO's highest priority is to certify and accredit all USDA systems to ensure they are properly secured from theft and destruction, in compliance with Federal security laws and guidelines. Funding provided to-date from the Department's fiscal year 2003 unobligated balances, as well as from the OCIO base is being used to pay for the certification and accreditation (C&A) of specific high-priority systems that are owned and operated by USDA agencies and staff offices. These additional requested funds will

enable OCIO to manage this program in fiscal year 2005 at the needed level of detail and help ensure that USDA IT systems are properly secured and in compliance with Federal security guidelines.

The result of the OCIO C&A Program will be a large collection of security documentation and artifacts (security plans, risk assessments, contingency plans, etc), most of which will be essential to future C&A activities. In addition to compliance activities, training, evaluation, and Independent Verification and Validation, OCIO will investigate the value of acquiring enterprise C&A management tools that will allow USDA to re-use C&A artifacts, thereby reducing future C&A costs. Because Federal guidance requires certification of systems at least every 3 years, savings obtained through re-use could be substantial.

—*An increase of \$2,373,000 is needed to maintain an Information Survivability program to minimize disruptions caused by attempted intrusions and catastrophic interruptions.*—OCIO's Information Survivability Program addresses both prevention of attack on USDA IT systems and recovery in the event of disruption.

OCIO currently manages USDA's corporate Intrusion Detection System (IDS). This system monitors traffic over the Department's backbone network to detect incidents of possible unauthorized access and policy/legal violations. The system is instrumental in detecting viruses, worms, and other mechanisms intended to disrupt IT systems. OCIO's IDS operates 24 hours per day, 365 days per year.

OCIO's request for increased funding for Information Survivability includes \$1,000,000 for the expansion of the IDS to lower level networks operating within the Department that support mission-critical applications and communications. In addition, the increased funding will allow USDA to improve and expand its detection tools to expand the range of monitoring and reduce detection time.

Recognizing that no prevention measures are perfect, OCIO's Information Survivability Program also addressed the disciplines of disaster recovery and business resumption. Procedures and policies have been established to ensure that USDA's business processes will continue to function and serve its customers, regardless of the degree of damage sustained from an attack. Features of the Information Survivability program include: tools, policies and procedures designed to understand the extent and source of an intrusion; protection, and if needed, restoration, of sensitive data contained on systems; protection of the systems, the networks, and their ability to continue operating as intended; recover systems; information collection to better understand what happened; and, if necessary, legal investigations support.

OCIO has entered into a Department-wide contract that provides software tools and training for agencies as they begin developing contingency plans. However, the funding for this effort was provided through the Department's Homeland Security budget, which provides for no long-term support. As agencies begin development of their recovery plans, counseling, support, testing and training will become an on-going effort. In addition, contractor support to perform Independent Verification and Validation of contingency plans will be needed.

OCIO currently devotes one FTE to manage its contingency planning effort. Over the past year, two contract FTE's have also provided support with funding provided through the Department's Homeland Security budget. However, since Homeland Security funds are no longer available for this contract support, OCIO is requesting \$1.373 Million to continue this critically important effort.

—*An increase of \$937,000 is needed to obtain, implement, and manage an automated Risk Management toolset.*—Risk determination and risk management are the foundation for all successful security programs. The Department currently relies heavily on manual tools and forms to conduct risk assessments that identify security deficiencies in our system controls. This increase is requested to fund the acquisition of automated software tools, training, oversight, maintenance and support that provide continuous updates to existing threats and provide users with methods to determine information value, vulnerability predictions, and mitigation strategies. USDA agency employees will be the predominant users of the tools.

—*An increase of \$1,561,000 is needed to establish a Security Operational Center.*—While USDA's Intrusion Detection System captures and handles an ever-growing stream of information on cyber security related events, no single USDA organization is trained and equipped to fully utilize the information captured to determine the true nature and extent of risk to critical USDA information systems. By providing the requested funding in fiscal year 2005, Congress will en-

able OCIO to reduce the time delay in detecting and responding to security events, improving the efficiency and effectiveness of USDA's security controls.

ENSURING ADEQUATE FUNDING FOR FISMA REMEDIATION

Question. In preparing remediation plans as required by the Federal Information Security Management Act—FISMA, what is your process to ensure that adequate funds are identified to correct the Department's information security weaknesses?

Answer. By ensuring responsible agency officials identify the funds to certify and accredit USDA's systems, we are focusing agency management on addressing a majority of the remediation actions identified in their FISMA plan of actions and milestones or POA&Ms. In a review of USDA Agency POA&Ms, approximately seventy percent of the identified security vulnerabilities are being addressed by agency system certification and accreditation efforts, which is being funded through a combination of agency IT funding, the Department's fiscal year 2003 unobligated balances, and from the OCIO base.

Additionally, OCIO is working with USDA agencies on all non C&A related activities, such as providing security awareness training to all employees and improving intrusion detection and response, on a project-by-project basis. In the case of security awareness training, OCIO has acquired an online training course, which will be available to all agencies to use in security awareness training requirements.

BOVINE SPONGIFORM ENCEPHALOPATHY (BSE)

Question. On March 15, 2004, the Department of Agriculture announced details for an expanded surveillance effort for BSE. The release also stated that \$70 million is being transferred from the Commodity Credit Corporation (CCC) to test cattle in the high risk population.

Can you take a moment to provide Committee Members with a detailed explanation of how the Department intends to conduct this increased surveillance program?

Answer. For more than a decade, USDA has taken aggressive measures to prevent the introduction and potential spread of BSE. On March 15, USDA announced a plan to significantly augment those efforts by strengthening BSE surveillance in the high-risk cattle population and establishing a small proportion of random surveillance in the aged cattle population. We are taking these proactive steps to further assure consumers, trading partners, and industry that the risk of BSE in the United States is low. By expanding surveillance, we will have even greater confidence in the health of the U.S. cattle population.

USDA's primary focus and the goal for this new program is to obtain samples from as many of the targeted high-risk adult cattle population as possible, plus obtain a small random sample of apparently normal, aged animals. Under this surveillance plan, USDA will test as many of the targeted high-risk cattle as possible for a 12- to 18-month period. This effort will help better define whether BSE is present in the United States and, if so, at what level. After that time period, USDA will evaluate the results of the program and determine what future actions may be appropriate.

We have already begun ramping up our surveillance system and expect to be at full capacity by June 1. Whereas all BSE testing in the United States has historically been performed at USDA's National Veterinary Services Laboratories (NVSL), the new program incorporates a network of State and university laboratories into the testing program. Their geographic distribution will help ensure adequate turn-around time for sample testing and reporting of results.

USDA will continue to build on previous cooperative efforts with renderers and others to obtain samples from the targeted high-risk populations. Samples will be collected by authorized State or Federal animal or public health personnel, accredited veterinarians, or trained State or USDA contractors. The random sampling of apparently normal, aged animals will come from the 40 U.S. slaughter plants that currently handle more than 86 percent of the aged cattle processed for human consumption each year in the United States. The carcasses of these animals will be held and not allowed to enter the human food chain until negative results are received.

USDA anticipates using rapid test technology during the enhanced surveillance program. However, any rapid test that identifies a non-negative result will be subject to additional confirmatory testing by NVSL. A BSE implementation team has been established and is working to ensure the program meets its goals. The team is currently drafting more specific guidelines that will be used during the course of the enhanced surveillance program. These guidelines will address questions regarding cost recovery and participation in the program.

USDA anticipates pursuing a variety of approaches with regard to cost recovery, including contracts, cooperative agreements, direct payments, and fee-basis agreements.

A more detailed version of the plan is available through the APHIS Web site at http://www.aphis.usda.gov/lpa/issues/bse/BSE_Surveil-Plan03-15-04.pdf.

TESTING OF ANIMALS PRIOR TO EXPORT

Question. The livestock industry and Department of Agriculture are working toward reopening export markets in Japan, Mexico, and other exporting countries. Establishing animal testing guidelines for export markets continues to be a point of controversy that is preventing any agreement to open markets. The controversy arises over testing each animal and whether or not animals under the age of 30 months should be tested.

Do you believe each animal, including those under 30 months of age should be tested prior to export? Also, if an agreement requires testing each animal, what is the expected cost of such a program?

Answer. We do not believe each animal, including those under 30 months of age, should be tested prior to export. Science does not support the testing of every animal, regardless of age, for BSE. Further testing apparently healthy animals is the most inefficient method of finding disease if it were present.

The cost for each rapid test kit is about \$25 per test. If we were to test every animal that goes to slaughter each year (in excess of 35 million), the approximate cost for the test kits alone would be \$875 million. However, there are other costs involved in testing the animals. These costs include sample collection, shipping, handling, processing, lab support, equipment, disposal, etc. Because of these other costs, we have estimated that the total cost of testing would be \$175-\$200 for each animal. Thus our total cost of testing every animal would be between \$6 billion and \$7 billion.

LOW PATHOGENIC AVIAN INFLUENZA

Question. The Administration's fiscal year 2005 Budget request includes an increase in funding of nearly \$12 million to address Low Pathogenic Avian Influenza (LPAI).

Can you update the Committee in regard to ongoing action related to avian influenza and explain how the Department would utilize the additional funding?

Answer. APHIS has been working to establish a national LPAI program by incorporating this program into the National Poultry Improvement Plan (NPIP); scheduled to be discussed and adopted at the NPIP meeting in July 2004. The Uniform Methods and Rules (UM&R) for the live bird marketing portion of the program has been drafted and is currently being reviewed by a subcommittee of the U.S. Animal Health Association in order to obtain their recommendations for program improvement.

APHIS would utilize the additional funding for cooperative agreements with states that will support the LPAI prevention and control program; indemnities; for additional field personnel, equipment, and other resources necessary to assist states with long-term prevention and control; educational materials and training for recognition of avian influenza and for biosecurity practices to protect against the disease; development and administration of vaccine to support industry when infected with LPAI; and provide reagents and other laboratory support to incorporate the commercial program through the National Poultry Improvement Program (NPIP). This program is currently testing poultry breeder flocks and will continue to expand its activities until all segments of the commercial industry are monitored and certified as avian influenza clean.

AVIAN INFLUENZA

Question. With the discovery of avian influenza (AI), a number of countries have banned poultry imports from the United States.

Can you provide the Committee with an update on poultry export markets and exactly what actions USDA is taking to reopen these markets?

Answer. USDA responded quickly and effectively to control the spread of AI in the AI-affected states. Throughout this process, USDA officials were in constant contact with their foreign counterparts to provide timely information about the outbreaks and quarantine control measures. As a result of these efforts, USDA was able to free pipeline shipments in Japan and Hong Kong valued at over \$40 million, and head off the actions of many trading partners to impose nationwide bans on U.S. poultry meat. The good news is that countries representing 47 percent, or \$941 million of our export markets, have banned products only from affected areas and

another 18 percent, or \$337 million, did not impose any ban. Therefore, taken together 65 percent of U.S. poultry exports to the world have been unaffected by the AI situation.

On April 2, the USDA Chief Veterinary Officer (CVO) announced the completion of the required surveillance and testing protocols per the World Animal Health Organization (OIE) guidelines. An official request from the CVO has been sent to major U.S. poultry export markets requesting the removal of all import bans on U.S. poultry and poultry product imports. The Department at all levels is diligently pursuing with its trading partners the lifting of all AI trade restrictions on products from the United States. By the summer of 2004 or earlier, the remaining countries imposing nationwide bans on U.S. poultry meat are expected to at least regionalize their import bans to those states affected by Low Pathogenic Avian Influenza (LPAI) now that the United States is free of High Pathogenic Avian Influenza (HPAI).

BEEF EXPORT MARKETS

Question. Livestock producers continue to be concerned with the loss of export markets following the outbreak of BSE.

Will you take a moment to update the Committee in regard to the efforts being made by the Department of Agriculture to open export markets?

Answer. USDA continues to work closely with its foreign trading partners to re-establish U.S. ruminant and ruminant product exports as quickly as possible. We work with foreign officials at all levels to reassure them of the safety of U.S. beef and beef products. USDA officials encourage foreign governments to follow World Animal Health Organization guidelines regarding BSE. The Animal and Plant Health Inspection Service (APHIS) has been in constant contact with its counterparts providing them with updates on the BSE investigation, as well as new USDA regulatory policies imposed on BSE testing and specified risk material (SRM) removal.

As a result of USDA's efforts, a number of countries have opened their markets to selected U.S. beef, beef products, and ruminant by-products exports. Mexico and Canada have agreed to accept U.S. boneless beef from cattle less than 30 months of age. Although export certification issues continue to impede U.S. beef exports to Canada, USDA and Canadian officials are expected to resolve the problem very soon. We expect Mexico to lift its ban on selected U.S. beef variety meats and veal. Mexico had already lifted its ban on U.S. boneless beef imports earlier and exempted low-risk ruminant product imports based on OIE guidelines. Mexico and Canada are the second and fourth largest U.S. beef export markets, respectively, valued at over \$1.2 billion in 2003.

Japan and South Korea, the first and third largest U.S. beef export markets, continue to ban U.S. beef imports. Senior USDA officials communicate with their respective government officials and have traveled there to discuss their concerns with USDA BSE controls and testing procedures. USDA has extended an invitation to Korean officials to visit Washington for further discussions. USDA is also planning another high-level visit to Japan in late April to continue discussions and resolve issues regarding BSE testing and SRM removal.

In addition, USDA continues to work with governments in secondary markets to lift their bans to U.S. bovine products as a result of the finding of a BSE case in Washington State. USDA has sent a letter to selected secondary countries requesting they open their markets to no risk and low-risk products. These export markets, while smaller in total export value, provide significant opportunities to resume U.S. exports in rendered products, animal genetics, dairy products and other ruminant by-products.

Question. According to the livestock industry, economic losses to export markets following the discovery of BSE are estimated to be over \$10 billion.

Has the Department conducted a thorough investigation of the economic impact of the lost export markets?

Answer. The Office of the Chief Economist and the Foreign Agricultural Service independently evaluated the situation and concluded that there will be minimal effects on U.S. meat production and domestic consumption. U.S. consumers continue strong demand for beef and beef products, and coupled with tight U.S. beef supplies, beef and cattle prices remain relatively high. The trade impact will be significant. In 2003, the United States exported approximately \$7.5 billion worth of ruminant and ruminant by-products. U.S. export value of these products for January-February 2004 alone was down 53 percent, or over \$582 million compared to the 3-year average January-February period for 2001-2003. The severity of the overall trade impact will depend upon the number of countries that continue to impose import bans, their importance to U.S. trade, and the length of time the bans remain in place.

BOVINE SPONGIFORM ENCEPHALOPATHY (BSE)

Question. The Administration's Budget request for the Department of Agriculture includes a total of \$60 million for BSE related activities.

Can you provide the Committee with the most up to date information in regard to ongoing activities related to BSE and then take a moment to explain the increase that has been requested for fiscal year 2005?

Answer. On December 25, 2003, USDA received verification from the Veterinary Laboratories Agency in Weybridge, England, of the finding of BSE in an adult Holstein cow slaughtered in the State of Washington. The epidemiological investigation and DNA test results confirm that the infected cow was not indigenous to the United States, but rather born and became infected in Alberta, Canada. Above and beyond OIE standards, animals with known or potential risk for having been infected with the BSE agent in Canada have been depopulated, as have all progeny from the index cow in the United States. All carcasses were properly disposed of in accordance with Federal, State, and local regulations. Between January 1, 2004 and March 31, 2004, USDA tested approximately 5,500 cattle for BSE, and all results were negative.

The United States concluded active investigation and culling activities on February 9, 2004, and has redirected resources toward planning, implementing, and enforcing national policy measures to promote BSE surveillance and protect human and animal health.

An international panel of scientific experts appointed by the Secretary was complimentary of the scope, thoroughness, and appropriateness of the epidemiological investigation and concluded that the investigation conformed to international standards. The review team members concurred that the investigation should be terminated and made several key policy recommendations. USDA and the Department of Health and Human Services have already taken significant actions to address these recommendations, many of which build on mitigation measures that were previously in place.

The response actions have focused on (1) preventing inclusion of specified risk materials in human food and ruminant feed, (2) enhancing targeted and passive BSE surveillance systems, (3) improving traceability through a comprehensive national animal identification system, and (4) reinforcing educational and outreach efforts.

On March 26, 2004, USDA's Animal and Plant Health Inspection Service provided the results of its BSE investigation to foreign chief veterinary officers. The information included in the letter demonstrates that any remaining trade restrictions against U.S. beef and beef products can be lifted without compromising safety.

On March 15, 2004, USDA announced an enhanced surveillance plan with a goal of testing as many cattle in the targeted, high-risk population as possible during a 12- to 18-month period. We plan to evaluate future actions based on the result of this effort. USDA will continue to focus on the cattle populations considered to be at highest risk for the disease—adult cattle that exhibit some type of clinical sign that could be considered consistent with BSE. This includes non-ambulatory cattle, those exhibiting signs of central nervous system disorders, and those that die on farms. We also plan on testing at least 20,000 BSE slaughter samples from apparently healthy aged animals.

More intensive surveillance will allow USDA to refine estimates of the level of disease present in the U.S. cattle population and provide consumers, trading partners, and industry better assurances about our BSE status.

As an example, if a total of at least 268,444 samples is collected from the targeted population, we believe this level of sampling would allow USDA to detect BSE at a rate of 1 positive in 10 million adult cattle (or 5 positives in the entire country) with a 99 percent confidence level.

Historically, all BSE testing in the United States has been performed exclusively at USDA's National Veterinary Services Laboratories (NVSL) in Ames, Iowa. The new program incorporates a network of State and Federal veterinary diagnostic laboratories into the testing program. Their geographic distribution will help ensure adequate turn-around time for sample testing and reporting of results.

Appropriate rapid screening tests will be used to test time-critical samples. USDA recognizes the possibility of false positives; any non-negative results on the rapid screening tests will be forwarded to NVSL for additional confirmatory testing.

A BSE implementation team has been established and is working to ensure the program meets its goals. The team is currently drafting more specific guidelines that will be used during the course of the enhanced surveillance program. These guidelines will address questions regarding cost recovery and participation in the program.

The President's fiscal year 2005 Budget request includes \$60 million for BSE related activities, an increase of \$47 million over fiscal year 2004. The increase will allow USDA to further its research efforts, improve animal traceability, enhance surveillance, ensure compliance with food safety regulations, and answer BSE-related complaints at markets regarding contracts or prompt payment. The total requested includes:

- \$33 million to further accelerate the development of a national animal identification system;
- \$17 million for the Animal and Plant Health Inspection Service (APHIS) to enhance BSE surveillance at rendering plants and on farms;
- \$5 million for the Agricultural Research Service (ARS) to conduct advanced research and development of BSE testing technologies;
- \$4 million for the Food Safety and Inspection Service (FSIS) to conduct monitoring and surveillance of compliance with the regulations for specified risk materials and advance meat recovery; and
- \$1 million for the Grain Inspection, Packers and Stockyards Administration (GIPSA) to dispatch rapid response teams to markets experiencing BSE related complaints regarding contracts or lack of prompt payment.

Question. What actions have you taken to better coordinate the Department of Agriculture's response to BSE?

Also, if this \$60 million is provided, will one person coordinate the various components?

Answer. USDA's response to the BSE detection has been overarching and has included contributions from all affected agencies, particularly the Animal and Plant Health Inspection Service (APHIS), the Food Safety and Inspection Service (FSIS), and the Foreign Agricultural Service (FAS). APHIS, FAS, and FSIS communicate regularly, and an FSIS liaison has been assigned to APHIS. USDA also communicates and coordinates with the Food and Drug Administration (FDA), and we requested FDA's input when developing the enhanced BSE surveillance plan.

APHIS' Transmissible Spongiform Encephalopathy (TSE) Working Group monitors and assesses all ongoing events and research findings regarding TSEs, including BSE. Members are in regular contact with the Agricultural Research Service, the research arm of USDA, to ensure regulatory actions are in line with the most current science.

To ensure a consistent trade message between the United States and our North American trading partners, USDA has been working with Mexico and Canada to enhance ongoing efforts to increase harmonization and equivalence of BSE regulations. In January 2004, each government agreed to establish a sub-cabinet group to coordinate ongoing interagency efforts toward resumption of exports based on a harmonized framework. Currently, Dr. J.B. Penn, Under Secretary for Farm and Foreign Agricultural Services, is leading USDA's efforts in this area. He is in regular contact with other members of USDA's leadership council, including the Under Secretary for Food Safety, the Under Secretary for Marketing and Regulatory Programs, and the Under Secretary for Research, Education, and Economics.

The sub-cabinet group is serving as a coordinating body for the three countries, giving guidance to existing work groups, many of which are already working on harmonization and other activities. A meeting among the sub-cabinet members was held in mid-February, and a meeting among the chief veterinary officers from all three countries took place in mid-March 2004. The three parties are committed to working towards the normalization of trade and the harmonization of regulations on a North American basis. We plan to use the harmonized regulations to present a unified front to the international community.

STANDARD REINSURANCE AGREEMENT

Question. The Risk Management Agency (RMA) is currently working to renegotiate the Standard Reinsurance Agreement (SRA). This agreement establishes the terms and conditions under which the Federal government will provide subsidies and reinsurance on eligible crop insurance contracts.

Can you provide the Committee with an update on the negotiation process and have you set a deadline for completion?

Answer. The Department announced on December 31, 2003 that the current standard reinsurance agreement would be renegotiated effective for the 2005 crop year. The first proposed reinsurance agreement was made publicly available at that time. Based on the advice of the Department of Justice, RMA established a process by which we meet with each company individually and renegotiate the agreement in detailed negotiating sessions. Interested parties had until February 11, 2004 to provide written comments about the proposed agreement. RMA reviewed comments

from insurance companies and interested parties to revise the first draft. On Tuesday, March 30, RMA announced the release of the second SRA proposal. RMA believes that the second draft demonstrates responsiveness to concerns raised by companies and interested parties. The proposed SRA will enhance the Federal crop insurance program by: encouraging greater availability and access to crop insurance for our nation's farmers; providing a safe and reliable delivery system; and reducing fraud, waste, and abuse, while achieving a better balance of risk sharing and cost efficiencies for taxpayers.

As part of the process, RMA will meet with the insurance providers in individual negotiating sessions the last 2 weeks of April and will receive public comments until April 29. At that point RMA will evaluate the comments and negotiating session materials and develop another draft for discussion with the companies. There are several remaining issues of substance to resolve before a final draft may be completed. While it is the agency's desire to resolve them and complete the process before July 2004, given that this is a negotiation, RMA is not able to determine how long it will take to resolve issues to all parties' satisfaction. Prior SRA negotiations have taken well past July to conclude, but have not affected the continuing delivery of the program.

FRAUD AND ABUSE

Question. The Administration's Budget request for the Risk Management Agency includes an increase of over \$20 million to improve information technology. Within the increase, the Budget requests funding to monitor companies and improve current procedures to detect fraud and abuse.

Can you explain how the department will monitor companies and improve detection of fraud and abuse?

Answer. The current systems are based on technology that is more than 20 years old. The information that is collected from the Insurance Companies is distributed to a collection of 100+ databases. Any subsequent updates or changes to this information received from the Insurance Companies overlays the original information. This architecture does not allow RMA to track changes in the submissions from the external entities.

As the data requirements of the current data structures change from year to year, new databases are created for each crop year. The prior years' databases are problematic due to the intense effort needed to convert the historical information to formats that are consistent with the more recent years. This creates problems in data analyses when trying to use data from multiple crop years.

The requested increase in funds is directed at the establishment of a consistent enterprise architecture and enterprise data model. This would replace the 100+ databases with a single enterprise data model that would be consistent across the organization. This enterprise data model would allow data mining operations to be conducted without first converting the data to a consistent useable format.

By moving the data to a modern relational database system, RMA will be able to track detailed changes that are made to the data that is received from the Insurance Companies. This will allow RMA to monitor the timing of the changes as they occur and identify those changes that could potentially be related to fraud and abuse.

ASSISTANCE ON PUBLIC LANDS

Question. Currently, the Natural Resources Conservation Service is prohibited from performing conservation work on public lands. This limits participation to farms and ranches with private lands and puts Utah, other public land states, and ranchers who graze on the public lands at a disadvantage.

As a matter of policy, does the Department believe that the Natural Resources Conservation Service should be able to provide technical and financial assistance to ranchers to make improvements to their BLM and Forest Service grazing allotments?

Answer. The Department believes that legislative intent limits the conservation programs that the Natural Resources Conservation Service (NRCS) administers to primarily providing financial and technical assistance on private lands. However, NRCS does work with other agencies, individuals, and groups using the Coordinated Resource Management (CRM) approach to provide technical assistance on Bureau of Land Management (BLM) and Forest Service lands. CRM is a voluntary, locally-led planning process to address the natural resource issues which involves all the stakeholders. The Federal and State agencies work through a Memorandum of Understanding to support the use of the CRM approach.

Financial assistance, for applicable NRCS programs, is available for use on BLM and Forest Service grazing allotments when the land is under private control for the contract period, included in the participant's operating unit, and when the conservation practices will benefit nearby or adjacent agricultural land owned by the participant.

Question. Public lands dominate many of Utah's counties and many states in the West. In addition to their impact on agriculture, public lands severely reduce the tax base in many communities, restrict and in some cases discourage development, and affect the way-of-life in rural public land counties.

Do you think farm programs, rural development programs, and conservation programs offered by USDA, take into account regional differences generally, and the impact of public lands specifically?

Answer. The Natural Resources Conservation Service (NRCS) administers conservation programs. The agency allocates conservation program funds to states based on National program priorities and the scope of natural resource needs in the individual states. The process used to allocate conservation program funds to states includes factors that account for the fact that natural resource conditions are often similar within the same physiographic region, but may have natural resource differences with other regions. The Department believes that legislative intent limits the conservation programs that NRCS administers to primarily providing financial and technical assistance on private lands. Resource concerns on Federal acreage would not typically contribute to the scope of resource factors used to allocate funds to states for a particular conservation program.

FSA Conservation Programs are adapted to local and regional conditions. Seeding and planting requirements are tailored to the local climatic and ecosystem for that region. FSA utilizes State Technical Committees and County Committees in the development and implementation of conservation policies.

Conservation programs, such as the Conservation Reserve Program (CRP), help address the most critical resources on private land. Sound resource planning on private land assists producers to better manage their other resources including range resources on public land. In addition, programs such CRP can have a significant positive impact on hydrology and water resources in the West. Water yields off of CRP can be of greater quantity and longer duration than water yields on cropland.

USDA Rural Development allocation formulas generally take into account: (1) rural population in comparison to national rural population; and (2) rural population in poverty in comparison to national rural population in poverty. While that does not make an adjustment for a regional area that is impacted by a large amount of public lands, it also does not punish an area. The lack of population concentration could give a state like Utah and other western states an advantage because of the rural nature of the areas. Grant programs like the Distance Learning and Telemedicine, Community Connect and the Water and Waste Disposal loan and grant program give those areas additional points in the scoring process.

NATIONAL FINANCE CENTER/TSP COMPETITIVE BIDDING

Question. Madam Secretary, the National Finance Center did an admirable job in late 1986 to get ready to assume responsibility for the record keeping functions associated with the new Thrift Savings Plan which started receiving participants investment selections in April 1987. Many people didn't think it could be done but the NFC did it.

It has recently been brought to my attention that the Federal Retirement Thrift Investment Board has begun to explore the competitive outsourcing of the services related to the TSP. Earlier this year, the Board decided to solicit a Request for Proposals for both software maintenance and mainframe installation and housing. I am told that these actions were taken because the NFC was "slow to assume control for software maintenance and to install the TSP's new mainframe computer." The Board has also stated that while they intend to leave the remaining TSP record keeping functions at the NFC, they will periodically conduct a cost/benefit analysis to make sure that TSP participants get the best value for their money.

What percentage of the NFC operations has been associated with management and operations of the Thrift Savings Plan?

Answer. Approximately 425 employees, 35 percent of the National Finance Center's (NFC) total staff, supported the Thrift Savings Plan (TSP) in fiscal year 2003.

Question. What is the impact of the decisions to outsource software maintenance and the location of the mainframe?

Answer. Outsourcing software maintenance resulted in a reduction of 31 programmers and analysts. Moving the mainframe will reduce the data center mainframe support staff by 7.

Other cutbacks in service recently directed by the Federal Retirement Thrift Investment Board (FRTIB) will eliminate 20 additional positions in NFC's Thrift Savings Plan Division in fiscal year 2004 and 120 additional call center employees by 2006. The administrative and other general support staff for these employees will also be reduced. NFC anticipates 65 administrative and general support staff positions to also be reduced by 2006. Another 15 contract positions will also be lost. In total, between 2004 and 2006, decisions by FRTIB to outsource work historically performed at NFC will result in a loss of 243 Federal and 15 contract positions in New Orleans.

Question. Will the NFC compete to retain these functions?

Answer. NFC was not given an opportunity to compete for the software maintenance and mainframe operations work.

Question. What steps is the NFC taking now to make sure that they are the best facility to continue the remaining vital record keeping functions for this program?

Answer. NFC is attempting to redefine the FRTIB/NFC relationship and develop principles of operation for TSP that help clarify roles, responsibilities, and service level expectations for the future.

NFC has multiple initiatives underway to ensure that its facilities are secure and that they meet or exceed customer expectations. The United States Department of Agriculture (USDA) performed an extensive security assessment in 2002 on the current facility. As a result of that assessment, NFC has undertaken 31 multi-year facility improvement initiatives, most of which are now completed. The facility improvements include such things as increasing the number of guards; adding x-ray machines, fencing, and bollards; and building guard stations.

NFC also received an appropriation to develop data mirroring capability at NFC, which will address known network vulnerabilities, high availability and immediate recovery time objectives, and the enterprise-wide vulnerabilities to weather and other threats that jeopardize NFC's service to its customers.

USDA'S CENTER FOR VETERINARY BIOLOGICS

Question. Madam Secretary, on February 10 of this year, UPI published a story which stated that many Federal meat inspectors had lost confidence in the testing conducted by the National Veterinary Services Laboratories in Ames, Iowa. There were allegations of secrecy and collusion with the beef industry, as well as inaccurate test results. We are aware that the USDA Inspector General has been looking into these allegations as part of their larger investigation into issues surrounding the December discovery of a BSE-contaminated cow in Washington State.

The fiscal year 2005 budget requests \$178 million to expand this facility. Obviously, with resources as tight as they are, it would be imprudent for us to provide this level of funding to upgrade and expand a facility if it provides unreliable testing.

What is the USDA reaction to this article?

Answer. USDA's Center for Veterinary Biologics, National Animal Disease Center, and National Veterinary Services Laboratories (NVSL) are all located in Ames, Iowa. The laboratories included in the Ames complex, now identified as the National Centers for Animal Health, are recognized nationally and internationally for their scientific expertise and professional ability. They continue to receive recognition from various science-based organizations, including the United States Animal Health Association (USAHA) and the American Association of Veterinary Laboratory Diagnosticians (AAVLD).

The President's fiscal year 2005 Budget request includes \$178 million to modernize the Ames complex, a request that has received the full support of organizations such as USAHA and AAVLD, as well as the Animal Agriculture Coalition and the American Farm Bureau Federation.

With regard to the February 10, 2004, UPI article, USDA believes the allegations made are inaccurate and that the article itself does not represent a balanced profile of the work carried out by scientists at NVSL. USDA is confident in the quality and competence of all laboratory staffs in Ames, and we regret that the reporter did not include the viewpoints of any staff members currently employed at NVSL, which has been responsible for BSE testing at the national level.

NVSL has quality assurance standards in place, as well as standard operating procedures to track samples that are sent in for testing. The facility is recognized as the United States' national and international reference diagnostic laboratory for animal diseases, as designated by the World Organization for Animal Health (OIE) and the Food and Agriculture Organization of the United Nations. NVSL staff members have participated with full transparency in a review by the USDA Office of the

Inspector General, just as they operate with full transparency in carrying out program operations.

USDA continues to stand behind the work of its laboratory staffs in Ames, and we plan to move forward with an enhanced BSE surveillance program that incorporates a network of approved State and Federal veterinary diagnostic laboratories throughout the United States. NVSL will provide leadership, confirmation testing, proficiency testing, quality assurance inspections, and training throughout this program.

Question. When do you expect the IG to complete the investigation?

Answer. The Office of Inspector General's (OIG) investigators and auditors are working collaboratively to determine the facts involving BSE-related allegations that have been circulating in the public domain, including those in the article you mention. OIG's investigative work involves the condition of the BSE-infected cow before slaughter. OIG auditors are separately conducting a broader review involving USDA BSE Surveillance Programs. The audit is looking at the surveillance program in use when the BSE-infected cow in the State of Washington was identified. It is also looking into changes made to the surveillance plan (New Surveillance Plan) after the BSE-infected cow was discovered. This also includes looking at the role and responsibilities of the National Veterinary Services Laboratory in Ames, Iowa. Within the next few weeks, OIG will be in a better position to estimate a completion date for reporting its findings from those reviews.

QUESTIONS SUBMITTED BY SENATOR CHRISTOPHER S. BOND

RISK FACTORS

Question. Dr. Collins, in our questions regarding forecasting, you mentioned that, "There are just too many risk factors going on for us to go much beyond a decade."

Can you please identify some of the risk factors or uncertainties?

Answer. Long-term forecasting models are generally based on long-term relationships among explanatory variables, such as income and population, and variables to be projected or forecast, such as corn demand and trade. These relationships are also based on a number of other factors, ranging from infrastructure to government policy, which are not usually explicit in models. Therefore, long-run projections can go wrong when projections of explanatory variables are wrong or there are changes in the underlying structures that invalidate the relationships between explanatory variables and variables to be projected. As examples, the longer the projection period, the larger the error is likely to be in projecting income, population, exchange rates, yield per acre and other such explanatory variables. These are all risk factors. Similarly, changes in governments, government policies, infrastructure such as available transportation routes and modes, weather and climate, war and peace, availability and prices of substitute or competing products, and availability and prices of production inputs are all risk factors as well. The longer the forecast period, the more likely these underlying factors will change and reduce the accuracy of the projections. Statistical projection models estimate the range (confidence interval) within which the projection is expected to be. The further the projection is into the future, the larger is the confidence interval.

Question. Dr. Collins, given all the risk factors that you identify and changes that have transpired in the world in recent years, is it necessarily so that to embrace a forecasting model looking ahead, that same model would need to accurately predict recent experience when applied to the same time period looking backward?

Answer. A long-term projection model is normally validated against historical data. If the model cannot explain past trends, then there is little reason to embrace it. However, a model may be useful for projecting trends, or central tendencies, and still miss some year-to-year variation due to transitory factors. If the model errors are for the most recent years, the challenge is to know whether these misses are due to transitory factors that will correct over time or whether the underlying assumptions on which the model is based have changed.

QUESTIONS SUBMITTED BY SENATOR TED STEVENS

BUDGET CUTS

Question. Thank you Secretary Veneman for appearing before this committee today. I understand that your department is operating under challenging funding constraints, and you had to make some difficult decisions in preparing your budget.

However, I am extremely concerned with the level of funding you chose to allocate to certain programs, and how those choices will affect constituents in my state.

The Rural Utilities Program was established to provide rural communities with assistance to support basic needs of its residents. This includes many of the things that we take for granted such as running water, electricity, and waste disposal. These basic amenities are vital to the health of these rural communities and yet the USDA has slashed the funding of this program.

In Alaska alone, funding was reduced for water and waste disposal systems from \$28 million in fiscal year 2004 to \$11.8 million in fiscal year 2005, a reduction of \$16.2 million.

Funding was also eliminated to develop a regional system for centralized billing, operation and management of water and sewer utilities, which will streamline operations, reduce overhead, and ensure efficient management.

And funding was eliminated for high cost energy grants—a reduction of \$28 million. Alaska's rural communities experience some of the highest energy costs in the nation—paying up to 9 times higher than the national average. Rural areas rely on expensive diesel fuel which must either be barged or flown in.

These cuts will have devastating consequences on rural communities, particularly in my state. Why are these cuts proposed?

Answer. The Department is aware that high energy costs in Alaska and other states can be a barrier to the economies and quality of life in rural communities. It also recognizes that there are a host of other barriers that can have similar consequences. In a tight budget situation, it is very difficult to make the necessary choices that will provide effective results for the most people. Grants for rural development purposes are particularly difficult to budget because they have a dollar for dollar impact on the limited amount of budget authority that we have available. Loans, on the other hand, require budget authority for only the amount of subsidy costs. In most cases, these costs are relatively low. A small amount of budget authority used for loans can leverage a substantial amount of financing for the types of projects that will be the most help for rural communities. This was a significant factor in the decisions that were made in developing the 2005 budget.

DISTANCE LEARNING, TELEMEDICINE AND BROADBAND

Question. Additionally, USDA reduced funding for the Distance Learning, Telemedicine and Broadband program by \$14 million.

With respect to the telemedicine program, most of Alaska's rural communities are not on a road system and so do not have access to healthcare facilities. These communities rely on the telemedicine program, which provides them access to doctors and healthcare professionals.

The distance learning program is also important to Alaska's rural communities because it provides residents with tools necessary for education. These residents don't have access to the more populated urban centers and rely on distance learning programs to meet their educational needs.

Similarly, the broadband program connects schools, libraries, homes, and health clinics to the information highway. Without funding for this program, the residents have limited access to the outside world. Why was funding cut for these programs?

Answer. The \$14 million reduction was not a cut. Congress, in fiscal year 2004 appropriations, added \$14 million in funding under the DLT program specifically for the purpose of providing grants to Public Broadcast Stations serving rural areas with funding to meet the Federal Communications Commission mandate to convert their analog broadcast signals to digital. None of that funding was for DLT or broadband grants. The \$25 million request for DLT grant funding is within historical funding level requests. With regard to broadband grants, the deployment of broadband facilities in rural areas is very capital intensive. Typically, limited grant authority provides a very small number of communities nation-wide with the ability to deploy broadband service on a limited scale within the community. There isn't enough grant funding available to make a significant dent in achieving universal broadband service deployment in rural areas. The best model is one built on a company that has a strong business plan and that seeks to take advantage of economies of scale in its business model. The Broadband Loan program is designed to specifically meet this challenge. With reasonably low subsidy rates and low loan interest rates, the loan program will be the vehicle by which broadband infrastructure is deployed on a wide scale basis in all of rural America.

TRANSHIPMENT OF BEEF FROM THE LOWER 48 TO ALASKA

Question. I am pleased that USDA has increased funding for APHIS for animal diseases. I understand that you are currently negotiating with the Canadian govern-

ment regarding the reopening of our borders. This is particularly important to my state, which relies on the Alaska-Canada highway, or ALCAN to transport live cattle and beef products to Alaska.

In the February BSE hearing which Senator Specter held, I raised the issue of transshipment. The inability of transporting cattle and beef products from the Lower 48 to Alaska is having a devastating impact on ranchers, dairy farmers and truckers in Alaska.

At that time, I requested that the USDA take steps to address this issue and to negotiate an agreement to permit the safe passage of cattle and beef products through Canada.

Has the USDA taken any steps to address this situation? If so, what is the status of your negotiations and how soon can we expect a resolution on this issue?

Answer. We appreciate the position of Alaskan ranchers, dairy farmers, and others who wish to transport U.S. cattle, beef, and beef products through Canada to Alaska. USDA continues to work with Canadian colleagues to reach an agreement on a regulatory protocol that would allow the safe transiting of U.S. cattle and beef products through Canada to and from Alaska. United States and Canadian officials have had a series of discussions regarding this issue—the latest in early March 2004—and we hope to resolve the matter in a timely fashion.

In a broader context, USDA continues to push for a more reasoned international dialogue on the need for countries to devise more flexible, commercially viable solutions to allow safe trade in low risk products. We are working with the World Animal Health Organization to both clarify the international guidelines for trade and ensure a consistent application of these guidelines. In addition, USDA continues to work with both of our tripartite partners, Canada and Mexico, to harmonize North America's approach to handling trade in certain commodities that present minimal BSE risk.

QUESTIONS SUBMITTED BY SENATOR HERB KOHL

HEALTH CARE COOPERATIVE PILOT

Question. Recent studies by the University of Wisconsin-Madison and others demonstrate that farmers pay an average of three times as much for their health care coverage as salaried employees and pay twice as much as other self-employed individuals. These plans carry high premiums and high deductibles and do not contain preventive health care. Furthermore, 41 percent of our farm families cannot afford to insure every member of their family and nearly half of those families have no insurance at all.

One or more family members must often work off of the farm to obtain less expensive group health insurance. This acts as a significant labor barrier when the farm operation is determining whether or not to modernize. The net result is a loss of farm operations. We know this because farmers say that the lack of affordable quality health care is a primary reason why they will no longer farm.

Because of the lack of affordable health insurance, farm supply cooperatives and other small businesses in rural areas are working to help their farmer-members stay on the farm by creating a cooperative healthcare purchasing alliance. This purchasing alliance is designed to provide a group coverage alternative to individual coverage. The healthcare co-op could serve as a model for other rural and urban cooperatives to provide access to group coverage for individuals that otherwise would not be able to access affordable health care.

Secretary Veneman, are you supportive of the creation of a pilot health care cooperative purchasing alliance for farmers and small businesses in rural communities?

Answer. We would certainly support every appropriate and realistic effort to fill the serious gaps in health insurance coverage available to farmers and other rural residents. Purchasing alliances, cooperatives, and mutuals have a demonstrated track record of lowering costs and responding to the special needs of their members. A properly structured pilot healthcare cooperative purchasing alliance could be a very useful tool for shaping effective and efficient solutions.

Question. A "stop-loss" fund will be needed to attract potential insurers and healthcare providers and "buy down" the risk for farmers and other individuals who are currently considered to be "high risk" because they have not been insured during the last 12 months or longer or have only carried a catastrophe healthcare plan. Cooperative councils in Wisconsin and Minnesota are working to create these healthcare cooperatives. They report to me that insurers and reinsurance carriers do not want to offer healthcare insurance to the cooperative if they include "high risk" members without the assurance of a stop-loss fund.

Overall, this demonstration project would potentially help thousands of agricultural producers. This demonstration project would provide affordable, quality group healthcare coverage as an alternative to individual coverage for farmer members of rural, agriculturally-based cooperatives. By doing so, this removes a primary barrier for growing agriculture across the nation.

Will you support appropriations to help create a stop-loss fund to move these healthcare cooperatives forward?

Answer. Our support would depend upon certain conditions. First, our support would be limited to funding that is used in the start-up process. We do not believe this should become a perpetual support program that takes on the nature of an entitlement. Second, extensive input and oversight in the use of the funds would be appropriate. This is a new and untested effort whose success or failure may well be determined by the quality of the decisions made by its management. If we provide funding, we have an obligation to do what we can to make sure the overall effort is well conceived, well organized, and well managed. Third, we need the authority and resources to properly analyze the effectiveness of the program. We need to make sure, for example, that Government funding does not distort the real economic costs of the system or give false impressions about the likely success of future, self supporting systems. Any such appropriation should include funding for adequate USDA staffing to assist and monitor this initiative.

COOPERATIVE SERVICES TECHNICAL ASSISTANCE

Question. The Committee is concerned that over the last several years State Directors have not been held accountable to meet the Department's Cooperative Services technical assistance goals as outlined in the Rural Development Strategic Plan. This plan states that in order to achieve rural development's goals, the Department emphasizes the use of cooperatives to develop the institutional framework to leverage rural America's assets.

Madam Secretary, will you hold your State Directors accountable to meet the Department's goals as stated in the strategic plan to provide technical assistance for cooperatives?

Answer. We will make ourselves accountable for the directions we are laying out for ourselves in our strategic planning process. Building accountability into the Rural Development system, at all levels, is critical if our planning process is to be of any value. We have developed and distributed an administrative notice directing our State Rural Development Directors to provide regular and prescribed reports on the cooperative development assistance activities being undertaken by their staffs. This regular reporting system will provide the basis for holding our State Directors accountable for cooperative development work.

Question. Will you commit to requiring State Directors to dedicate at least one full time employee per State for cooperative services technical assistance?

Answer. We are taking steps to determine the appropriate resources and staffing mix in providing Cooperative Services technical assistance within each State. We are engaged in a set of reviews and analyses of our Cooperative Services program that will enable us to develop sound guidance and directions on how we can best deploy cooperative technical assistance assets, particularly in light of our strategic goals and objectives. A high level external program review team is initiating a formal review of the Cooperative Services technical assistance programs, resource mix and requirements, priority area of focus, and fit within the Rural Development program portfolio. We have also established a cooperative advisory committee composed of Rural Development field and National Office staff to provide an internal review and suggestions for strengthening the effectiveness of Rural Development's field level delivery systems for Cooperative Services programs and activities. We will use the products of these review activities in conjunction with the Rural Development strategic plan to better position ourselves to make specific commitments to alternative resource deployment for providing Cooperative Services technical assistance.

Question. Beyond ensuring a minimum of one FTE per state, staffing resources should be reflective of the number of cooperatives in the state and the number of small farm producers.

Are you supportive of working to ensure that state offices are held accountable to have staffing that reflects the level of need for cooperative services technical assistance in each State, based on the number of coops in each state?

Answer. There are several factors we believe are necessary to consider in deciding how to deploy resources to cooperative services technical assistance programs. While the existing number of cooperatives in a given State or region is certainly one criterion, we would also want to take a broader needs and opportunities based approach to designing program delivery. We want to make sure small and underserved

farmers have appropriate access to technical assistance; and we want to make sure that new markets and industries growing out of value added and energy products receive due attention.

QUESTIONS SUBMITTED BY SENATOR TOM HARKIN

CONSERVATION PROGRAMS

Question. Madame Secretary, I noticed that you state in your testimony that the Administration is increasing funding for conservation for fiscal 2005. However, if you compare the President's budget proposal to what Congressional Budget Office estimates should be spent on 2002 farm bill conservation programs, the President's budget represents a cut of over \$400 million for fiscal 2005. This includes the \$92 million for technical assistance for the Conservation Reserve Program and the Wetlands Reserve Program because the President's budget does not propose new funding to fix the technical assistance problem created by this Administration.

Would the President support providing new funding for conservation technical assistance without an offset so the other conservation programs, like the Environmental Quality Incentives Program, will no longer need to lose funding to support other programs?

Answer. The President's fiscal year 2005 Budget proposes a brand new Farm Bill Technical Assistance account to provide separate and distinct technical assistance funding to support the Conservation Reserve Program and the Wetlands Reserve Program. The President's fiscal year 2005 Budget reflects the change in law that was initiated by the Subcommittee to ensure programs that historically could fund their own technical assistance, could continue to do so. We feel that the Administration's approach is the best way to ensure that adequate funding resources are available to implement all conservation programs.

Question. What are the underlying assumptions for the \$249 million estimate for the Conservation Security Program (CSP)? Does this \$249 million estimate reflect the law as it is in effect following the enactment of the 2004 Consolidated Appropriations Act?

Answer. We have been able to design the Conservation Security Program (CSP) in a way that provides funding obligations similar to the way that the Conservation Reserve Program obligations are structured. We estimate that there is a potential applicant pool of 700,000 producers nationwide to sign-up for CSP. Given the \$41 million available for this fiscal year and undetermined amounts for fiscal year 2005 and beyond, USDA has had to design a program that is flexible enough to be able to function at any funding level. To accomplish this we have proposed making the program available in selected watersheds and emphasizing enrollment categories.

The NRCS approach also deals with the constraint placed in statute on technical assistance at 15 percent of expended CSP funding. If USDA was to conduct a nationwide sign-up for CSP, technical assistance costs would far exceed the \$41 million made available in fiscal year 2004 for the program just for the sign-up. The Administration's budget assumes that all watersheds would be offered a CSP sign-up within an 8 year rotation; about one-eighth of the total watersheds would be offered sign-ups annually.

The 10 year spending cap is no longer in effect.

BOVINE SPONGIFORM ENCEPHALOPATHY (BSE)

Question. You suggested that the revised BSE surveillance plan will require \$70 million (that will be obtained from CCC) to test at least 201,000 cattle. The President's fiscal year 2005 budget proposed to test 40,000 cattle at a cost of \$17 million. APHIS now plans to increase the number of animals tested by more than five-fold and that the new surveillance plan will include incentives paid to farmers and veterinarians to collect and submit samples to APHIS.

Is a four-fold increase in funding adequate to cover the costs of this increased surveillance, testing and incentives?

Answer. In fiscal year 2003, APHIS tested approximately 20,000 samples for BSE, the majority of which were collected from animals at slaughter facilities. When the fiscal year 2005 budget request was submitted, the Secretary had announced that certain new regulations were going into effect—such as the banning of non-ambulatory cattle from slaughter facilities—but USDA had not yet received the international review panel's recommendations with regard to an enhanced surveillance program.

The fiscal year 2005 President's Budget request, therefore, included enough funding for APHIS to double the number of samples collected from 20,000 to 40,000 sam-

ples and to provide for certain cost-recovery options. However, since the fiscal year 2005 budget was submitted, USDA has revised its BSE surveillance program for fiscal year 2004 and fiscal year 2005 to allow for more than 200,000 samples to be collected and tested over a 12 to 18 month period. We will now be utilizing a network of approved laboratories and will achieve certain economies of scale with regard to other costs, such as shipping and test kit costs. We anticipate that funding will be adequate to cover the costs of the enhanced surveillance and testing program.

Question. The downed cattle population represents a large portion of USDA's BSE proposed test population.

Since downed cattle have been removed from the human food supply, and it will be more difficult to obtain access to these cattle for testing, will the \$70 million be adequate to pay for the additional expected costs of incentives for downed animals that do not come to slaughter plants?

Answer. A BSE implementation team has been established and is working to ensure the enhanced surveillance program meets its goals. The team is currently drafting more specific guidelines that will be used during the course of the program. These guidelines will address questions regarding cost recovery and participation in the program.

USDA anticipates pursuing a variety of approaches with regard to cost recovery, including contracts, cooperative agreements, direct payments, and fee-basis agreements. For example, costs for transporting an animal or carcass to the collection site from a farm or slaughter establishment may be reimbursed, or disposal expenses for "suspect" cattle that test non-negative or that cannot be rendered may also be covered. Other expenses may also be addressed in the program.

We anticipate that the \$70 million provided to APHIS through an emergency transfer will be adequate to cover the cost of the enhanced surveillance program during the course of the 12-18 month effort.

MEAT AND POULTRY SAFETY

Question. As you know, USDA still does not have a nationally representative, statistically robust, baseline surveillance program for pathogens on meat and poultry products. We still do not know the prevalence of common foodborne pathogens, such as E. coli O157:H7 and others that kill thousands of people in the United States each year. While it is critical to implement a national surveillance program for BSE, it is equally critical to know the prevalence of pathogens on meat and poultry products.

Can you provide me with your plans for developing a national baseline surveillance program for pathogens on meat and poultry products?

Answer. FSIS is committed to developing baseline studies that will help the agency and the industry to better understand what interventions are working or how they could be improved. Currently, FSIS is developing protocols to enable us to conduct continuous baseline studies to determine the nationwide prevalence and levels of various pathogenic microorganisms in raw meat and poultry.

To achieve the agency's goal of applying science to all policy decisions, the fiscal year 2004 appropriations bill provided \$1.65 million for an initiative to establish a continuous baseline program. After the fiscal year 2004 appropriations bill was enacted, the agency quickly developed a Request for Proposals. On February 12, 2004, the agency posted the pre-solicitation notice, and then on February 29, and March 2, 2004, the solicitation and accompanying materials were posted on the web site, FedBizOpps.gov, which is the point-of-entry for Federal government procurement over \$25,000. The official solicitation issue date was March 1, 2004, and all offers were due on April 1, 2004. FSIS is currently evaluating offers and expects to award a contract in June 2004.

Baseline studies will provide information on national trends and are a tool to assess performance of initiatives designed to reduce the prevalence of pathogens in meat and poultry products. These baseline studies will also yield important information for conducting risk assessments that can outline steps we can take to reduce foodborne illness. These surveys will also be important in establishing the link between foodborne disease and ecological niches, as well as levels and incidence of pathogens in meat and poultry. The net result will be more targeted interventions and the effective elimination of sources of foodborne microorganisms.

Question. What would be the estimate of the cost of such a program?

Answer. FSIS estimates that each year, it can complete one baseline and begin a second one using the \$1.65 million appropriated in fiscal year 2004. Since there are at least 15 different products for which baselines could be considered (e.g. beef trimmings, beef carcasses, ground beef, chicken carcasses, and ground chicken),

FSIS could complete a full cycle of baselines in about 10 years at a cost of approximately \$16.5 million. If baselines were repeated every 3 to 5 years, the yearly costs would be higher.

NATIONAL ANIMAL IDENTIFICATION SYSTEM

Question. The USDA budget proposes \$33 million for the development of a National Animal Identification system, even though most estimates for implementation of the system are well above \$100 million. I have repeatedly stressed the need for this system to ensure animal health, consumer confidence, export markets and public health. The proposed budget amount falls far short of the full implementation costs and will impede USDA's ability to implement a system that will meet these goals.

Given the limited funding, which parts of the system do you plan to fund, and which parts of the system will you leave to states and the private sector?

Answer. The President's Budget for fiscal year 2005 requests \$33 million for animal identification. This funding would support the national repositories for identification of premises, animals and non-producer participants; cooperative agreements with states, tribes, and third parties; communication and outreach efforts, and some staff to support the effort. The cooperative agreements would be one-time allocations for initial implementation and integration with the national repositories. USDA would look to state or state consortiums for additional contributions, depending on the integration needs. It is also expected that producers and other market participants would share in the system's cost.

There is an important role for private industry in the National Animal Identification System. One of the key elements of the National Animal ID program is to be technology neutral in the requirements of a national system. This objective was to provide flexibility to producers and to prevent the stagnation of innovation in technology. Private industry will be critical in providing technology and service to producers and markets. Grass-roots interface with producers, states and other parties will be needed to support the successful implementation of a national animal identification system.

Question. How did you arrive at this decision?

Answer. The recommendations reflect the complex structure of the livestock industry and previous efforts to design and implement a NAIS. The decision process was chaired by the Chief Information Officer with assistance from USDA's BSE response coordinator, the Deputy Under Secretary for Farm and Foreign Agricultural Services; USDA General Counsel; and USDA Chief Economist. The group relied heavily on the excellent information developed as part of the U.S. Animal Identification Plan (USAIP) and on the expertise of the USAIP Steering Committee; the Under Secretary for Marketing and Regulatory Programs; and the Administrator and the staff of the Animal and Plant Health Inspection Service. The group also met with a broad spectrum of organizations and companies representing the meat supply system, from production through retailing.

MCGOVERN-DOLE INTERNATIONAL FOOD FOR EDUCATION PROGRAM

Question. I want to ask you about the McGovern-Dole International Food for Education Program that we permanently established in the 2002 Farm Bill. We provided \$100 million for fiscal 2003 for the program in mandatory funds, but we were only able to provide \$49.7 million for fiscal 2004.

Please describe to me how the program has to be scaled back to fit within the lower funding level for fiscal 2004, and how many fewer children will be served compared to fiscal 2003?

Answer. The fiscal year 2003 program, which totaled \$100 million, supported a total of 130,000 tons of commodity donations for 21 programs with the total beneficiaries estimated at 2.2 million. It is estimated that the fiscal year 2004 funding level of \$49.7 million will provide approximately 60,000 tons of commodities for 10-15 programs with approximately 1.1 million beneficiaries.

Question. Also, please describe to what extent USDA has been able to recruit participation in the program by other donor countries.

Answer. Under the pilot Global Food for Education Initiative and the McGovern-Dole International Food for Education and Child Nutrition program over \$1 billion has been donated to school feeding programs from other donors. These contributions have been primarily via the World Food Program but also in coordination with private voluntary organizations. In addition, the in-kind contributions in recipient countries have been significant.

Question. In the last few months, we have seen significant increases in key commodity prices in the United States. On a season-average basis, 2003/04 prices for

corn, wheat, rice, and soybeans have increased between 2 and 10 percent just since December 2003, with cash soybean prices now spiking near \$10/bushel. While that is certainly a beneficial development for American farmers who still have crops from last fall in their storage bins, it will also increase the cost of acquiring commodities for USDA and USAID food aid programs.

Given that the President's budget does not include an increase to compensate for these higher prices, will it be necessary to curtail the scope of these food aid programs? And, if so, to what extent?

Answer. Yes, it will be necessary to curtail the scope of these food aid programs. USDA calculated the potential impact of price increases of both commodities and freight on USDA food aid programs for fiscal year 2004. I will provide a table which shows the expected decrease in tonnages and people fed under the programs, based on four different price scenarios.

[The information follows:]

POTENTIAL IMPACT OF PRICE INCREASES ON USDA FOOD AID PROGRAMS FOR FISCAL YEAR 2004

Program	Commodity Value (\$ Million)	Freight Cap (\$ Million)	Tonnage with prices from President's Budget Estimates (000 MT)	Tonnage with Dec/ Feb prices ¹ (000 MT)	Tonnage Assuming a 10 percent price increase from 12/2003/02/2004 prices (000 MT)	Tonnage Assuming a 20 percent price increase from 12/2003/02/2004 prices (000 MT)
Title I ²	\$117.70	.....	740.0	616.4	560.6	512.8
Food for Education ³	21.47	.....	66.1	60.6	55.1	50.5
Food for Progress ⁴ .....	.....	\$40.00	257.6	225.1	204.6	187.5
Total	139.17	40.00	1,063.7	902.1	820.3	750.8
Millions of People Fed .....	.....	.....	5.9	5.0	4.6	4.2

¹ Title I uses price estimates based on Feb. 2004 crop report. Food for Education uses average of actual purchase prices for Dec. 2003—Feb. 2004.

² Includes Title I funded Food for Progress. Tonnages and values do not include the \$21.9 million reserve.

³ McGovern-Dole Food for Education and Child Nutrition Program.

⁴ CCC funded Food for Progress.

DESIGNATE BIOBASED PRODUCTS

Question. What are your plans to designate biobased products for Federal agencies to purchase?

Answer. Under the Federal Biobased Products Preferred Procurement Program, we currently are gathering test data on individual biobased products in a number of separate items (generic groupings of products). This data will be used to support the designation of one or more items for preferred procurement in a draft rule we expect to begin preparing soon. We will first publish a draft rule with a thirty day public comment period, to be followed by a final rule. Once a final rule is published designating this first group of items, we will begin a draft designation rule for a second grouping of items. The process of designating items by rule for preferred procurement will then continue as quickly as manufacturers can be identified and test data developed. We expect that the bulk of the items thus far identified by the CTC study will be designated by rule over the next 3 or 4 years. We also recognize that new items or generic groupings of biobased products will emerge in the market place from time to time, as the industry grows. As that occurs, we will gather the necessary information to designate those new items as well.

Question. Can you provide me with a schedule of what products you are planning to designate and when?

Answer. We expect to include one or more items-generic groupings of products-in the first regulation to designate items. Among the items on which we are currently gathering product and test data for individual products are:

- hydraulic fluids for stationery equipment
- hydraulic fluids for mobile equipment
- formulated industrial cleaners
- all other formulated cleaners
- formulated solvents

We expect to be able to include one or more of these items in our first draft rule to designate items for preferred procurement. We expect to publish a draft rule, with a 30 day public comment period this summer. We hope to have a final rule in place this fall.

Question. Also, can you update me briefly on the labeling program? My understanding is that you have created a draft label. What else are you doing to move this component of Section 9002 of the farm bill forward?

Answer. We do have a draft label in review in USDA's Office of the General Counsel. We currently are working through Federal contracting procedures to obtain a contractor to provide support in writing draft and final rules for the labeling program. We hope to have that draft rule cleared for publishing in the Federal Register by the end of the current calendar year. We expect to have a 30 or 60 day public comment period on the draft rule, and will follow as quickly as possible with a final rule before the middle of 2005.

RENEWABLE ENERGY SYSTEMS

Question. What does the Department plan to do to vigorously promote and implement Section 9006 of the farm bill this spring and summer? The Department used a Notice of Funds Availability to implement section 9006 of the farm bill in fiscal year 2003 and fiscal year 2004. I understand that the Department intends to issue a rule for the fiscal year 2005 program. Can the Department commit to issuing the final rule by January 2005, in order to give potential applicants sufficient time to review and apply for the program?

Answer. The Under Secretary for Rural Development designated Rural Energy Coordinators from each USDA Rural Development State Office to coordinate outreach, implementation and delivery of the program. An Interagency Agreement between DOE's Office of Energy Efficiency and National Renewable Energy Laboratory (NREL) and USDA Rural Development has been executed. This agreement provides a vehicle for funding NREL activities to assist USDA in writing the technical requirements of the program, to develop tools to assist applicants and Rural Development State offices in addressing the technical requirements, and to assist in public outreach activities. Through this interagency agreement, a strong partnership has been established with the National Renewable Energy Laboratory (NREL) to establish a technical team of internationally recognized experts in the fields of solar, wind, biomass, geothermal, hydrogen, and energy efficiency technologies to provide training, technical review of applications and comments on the program. These experts are from the following Department of Energy (DOE) Laboratories: National Renewable Energy Laboratory, Sandia National Laboratory, and Oak Ridge National Laboratories. We have also developed a close partnership with EPA's AgStar Program.

With the help of NREL, the State and Local Initiative Staff, we have developed the following resources: Outreach materials for Rural Development State Offices and technology interest groups to conduct outreach workshops, informational meetings and agricultural conferences were developed and a comprehensive one-stop web-site addressing the opportunities for renewable energy development provided by Section 9006. The website consists of a series of web pages designed to increase program awareness and aid prospective applicants in determining basic eligibility requirements. This website will be continually updated as new information and opportunities and case studies come available. The website also provides useful guidance to farmers and ranchers on how to go about developing these projects by technology and scale.

Most recently, a national training web-cast for our USDA Rural Development Rural Energy Coordinators for the fiscal year 2004 Program delivery was held. The training conference was broadcasts from the NREL headquarters in Golden, Colorado, on April 7, 2004. Training included presentations from DOE, EPA, NREL, the Sandia National Laboratories, Rural Utilities Service, and Rural Business-Cooperative Service.

USDA Rural Development has drafted a proposed rule that is in clearance within the Department. We anticipate publishing the proposed rule in the Federal Register within the next few months. A 60-day public comment period is included in the proposed rule.

We hope to publish this final rule early in calendar year 2005.

RENEWABLE ENERGY

Question. Will the Department lower the minimum grant or loan size to allow more farmers and rural small businesses to participate in the section 9006 program, especially for energy efficiency projects? This is something that I, and others, would support. What else is the Department considering to encourage more applications for energy efficiency projects?

Answer. In the fiscal year 2004 notice of funding availability, we have lowered the minimum grant request threshold from \$10,000 to \$2,500. We will consider similar changes to the minimum threshold in the rule.

We are considering ways to streamline and reduce application requirements for energy efficiency improvements for smaller project requests. We are developing guidance to assist smaller project applicants in preparation of applications.

Question. Will the Department streamline the application requirements, especially for small farmers? Section 9006 funds should go only to deserving applicants, but I strongly encourage you to open up the program to a broader audience. One way of doing this would be to ensure that the detail necessary for the feasibility study commensurate with the size of the project. In other words, a smaller project ought not to have to provide the same level of information and analysis as a larger one.

Answer. The Department is proposing ways to streamline application requirements in the proposed rule.

Question. Will the Department allow in-kind contributions to count towards the funds leveraging requirement? If not, why not? This seems like a potential change that could help spur additional participation in the program and put it within the reach of many smaller producers, who are clearly among the intended beneficiaries of the program.

Answer. The Department will address this issue in the proposed rule.

Question. What is the Department planning to do to coordinate the section 9006 program with state energy offices and the U.S. Department of Energy?

Answer. USDA has entered into an Interagency Agreement with DOE and the National Renewable Energy Laboratory (NREL). This agreement provides a vehicle for funding NREL activities to assist USDA in writing the technical requirements of the program, to develop tools to assist applicants and Rural Development State offices in addressing the technical requirements, and to assist in public outreach activities. Through this interagency agreement, a strong partnership has been established with the National Renewable Energy Laboratory (NREL) to establish a technical team of internationally recognized experts in the fields of solar, wind, biomass, geothermal, hydrogen, and energy efficiency technologies to provide training, technical review of applications and comments on the program. These experts are from the following Department of Energy (DOE) Laboratories: National Renewable Energy Laboratory, Sandia National Laboratory, and Oak Ridge National Laboratories. We have also developed a close partnership with EPA's AgStar Program.

With the help of NREL, the State and Local Initiative Staff, we have developed the following resources: Outreach materials for Rural Development State Offices and technology interest groups to conduct outreach workshops, informational meet-

ings and agricultural conferences were developed and a comprehensive one-stop web-site addressing the opportunities for renewable energy development provided by Section 9006. The website consists of a series of web pages designed to increase program awareness and aid prospective applicants in determining basic eligibility requirements. This website will be continually updated as new information and opportunities and case studies come available. The website also provides useful guidance to farmers and ranchers on how to go about developing these projects by technology and scale.

Most recently, a national training web-cast was held for our USDA Rural Development Rural Energy Coordinators for the fiscal year 2004 Program delivery. The training conference was broadcast from the NREL headquarters in Golden, Colorado, on April 7, 2004. Training included presentations from DOE, EPA, NREL, the Sandia National Laboratories, Rural Utilities Service, and Rural Business-Cooperative Service.

Our Rural Development State Offices are working with the State Energy Offices and others in conducting outreach activities, workshops, using materials we have discussed previously. The DOE, through NREL, has assisted in developing the regulation and conducting technical reviews of applications and in preparing outreach materials. Also, these materials have been used by DOE to conduct workshops such as those conducted by the wind working groups.

NATIONAL CENTER FOR ANIMAL HEALTH

Question. I am concerned about possible shrinkage in the capabilities of the National Center for Animal Health that might be necessary to avoid exceeding OMB's present budget limit of \$459 million on which the \$178 million in the Administration request is premised. What reductions in the capabilities of the facility have either been decided on or are likely, and what are the costs of restoring those capabilities over the past year and the past 2 years?

Answer. There is no shrinkage in the capabilities of the Centers for Animal Health. The primary difference between the initial plan and the current plan is how animal and laboratory support space will be acquired—either by renovating existing space or constructing new space. By consolidating ARS and APHIS functions into a single complex the USDA will achieve efficiencies in both staffing and space needs over the existing campus. New animal and laboratory space is configured to accommodate both agencies and be shared by a number of programs to improve usage efficiencies. The \$461 million program provides for the needs of the 280 NADC program staff and the 286 APHIS program staff located in Ames.

The Department will meet the animal health program needs within the \$461 million estimated for this project. Because construction costs for the Ag large animal facility and the initial laboratory segment were higher than originally estimated in 1999 during the preliminary program efforts, the size of the new low containment large animal facility has been reduced; however, these programs will be accommodated within existing low containment facilities. A number of the existing field barns and miscellaneous support structures (feed storage, hay storage, vehicle maintenance) will also remain in operation.

SOUND SCIENTIFIC INFORMATION FOR REGULATORY DECISIONMAKING

Question. There has recently been much discussion about “sound science.” I am concerned that proposed changes to the review process of scientific information used by agencies, including the USDA, would create the perception that the acceptance of scientific findings are subject to review by political and special interests. I am also concerned that the proposed review process would also unnecessarily slow down the implementation of regulations to protect human health.

Of particular concern are changes that would (1) move the coordination of scientific review out of the agencies and into the Office of Management and Budget, where the administration would have greater political influence, and (2) specifically restrict the participation of scientists receiving funding from agencies such as the USDA in the review of scientific findings, but not similarly restrict participation of scientists receiving funding from regulated industries.

Can you please explain what steps you have taken to make certain politics and special interests will not affect the quality of scientific information used to make important regulatory decisions?

Answer. Following recommendations from a Report by the National Research Council entitled “Improving Research Through Peer Review,” and language in The Agricultural Research Extension, and Education Reform Act of 1998, USDA/ARS overhauled its prospective peer review process. The Office of Scientific Quality Review (OSQR), which was established in 1999, coordinates independent external peer

panel reviews of each of the research projects that make up the Agency's 22 National Programs at the beginning of their 5-year cycle. This prospective review of the proposed project plans has contributed to a strengthening of the ARS research program.

We are currently developing new procedures for a retrospective evaluation of each of ARS' 22 National Programs at the end their 5-year program cycle. While we are piloting several different approaches to achieve this objective, all of our pilots involve an independent external peer panel made up of scientists, customers, stakeholders, and partners who will determine if the research is relevant, of high quality, and that it produced research products that benefited American agriculture. Additionally, results of ARS' research are peer reviewed when they are submitted to scientific journals for publication.

The information provided to regulatory agencies to serve as the basis for regulation is also submitted to scientific journals in the form of scientific manuscripts. The editorial boards of the journals subject these manuscripts to peer review, which usually occurs anonymously. Researchers do not get their papers published unless the papers pass the scientific scrutiny of the peer review process.

The Cooperative State Research, Education, and Extension Service (CSREES) funds research relevant to the mission of USDA at universities, Federal laboratories, private research institutions, and other organizations. All research projects, including those funded by base programs, undergo scientific peer review prior to initiation, as required by law. Proposals are reviewed by peer panels that are composed of expert scientists from universities, industry, government and stakeholders as appropriate. Conflict of interest criteria are applied to ensure that proposals from an institution are not reviewed by a panel member from that institution and that there are no real or perceived financial conflicts. The review criteria include scientific merit and relevance to U.S. agriculture. Research results are peer reviewed again when published in the scientific literature, as described above. This peer review process ensures that the highest quality scientific information is continually supplied to those who would make regulatory decisions. However, CSREES does not control or limit in any way publications or other communication of research results from projects it funds. Finally, the relevance, quality, and performance of research portfolios will be subjected to rigorous assessment by experts on a 5-year basis.

Every regulation published by USDA must comply with applicable Executive Orders, the Administrative Procedures Act, and other applicable statutes. The procedures in place establish an open and transparent process that requires regulatory agencies to clearly and concisely outline the basis for regulatory decisions, including the scientific information used to make those decisions. USDA follows procedures common to all Federal regulatory agencies to ensure all interested parties as well as the general public have an opportunity to participate in the rulemaking process and comment on regulatory decisions made by the agency.

QUESTIONS SUBMITTED BY SENATOR BYRON L. DORGAN

EMPOWERMENT ZONES

Question. For the third year in a row, the Administration proposes no funding to follow through on the commitment that USDA made to rural empowerment zones even though this Subcommittee has thankfully rejected this recommendation for 2 years in a row. I have one of those zones in my state, the Griggs-Steele Empowerment Zone, focused on out migration—a very serious problem in North Dakota.

Why has the Administration continued to oppose this funding even after Congress restored it in the fiscal year 2003 and fiscal year 2004 bills?

Answer. The Administration has provided substantial earmarks and technical assistance in support of the EZ/EC communities in the past. A larger amount of resources can be made available by utilizing the Budget Authority for loans rather than funding specialized grants.

Question. Can you please give me a substantive reason why this funding has been eliminated again this year?

Answer. The President's fiscal year 2005 budget proposes \$103.8 million of earmarked loan and grant funds for the EZ/EC communities. Considering the tight nature of the fiscal year 2005 overall budget, this amount of funding, plus technical assistance, is a substantial investment on the part of the Federal Government in rural communities.

OBESITY PREVENTION INITIATIVE GRAND FORKS ARS

Question. I see that this year, you have announced Food-Based Obesity Prevention as a top departmental priority. It is my understanding that you also included an additional \$5 million in ARS to implement this priority.

Can you tell me where that ARS research will be conducted?

Answer. The new funds will be used to support research on obesity prevention at the following proposed locations: Baton Rouge, LA; Beltsville, MD; Boston, MA; Davis, CA; and Houston, TX.

Question. I would have expected that some of that research would happen at the Grand Forks Human Nutrition Center, which is one of our nation's most outstanding human nutrition research facilities. But when I look at the budget for the Grand Forks ARS, I only see a reduction of \$515,317 which is the funding I've been able to add for the last several years through this Subcommittee for the Center's Healthy Food Initiative.

Why isn't ARS better utilizing this facility, particularly given your emphasis on human nutrition and obesity?

Answer. The Grand Forks Human Nutrition Research Center has developed a much deserved reputation as an outstanding Center for the study of trace elements, which is the mission of the Center. That work will continue to be supported. ARS is developing its strategic plan to attack the problem of obesity using a focus on foods. The Grand Forks Human Nutrition Research Center has been part of that process, and ARS will develop a role for its research capacity to address obesity issues.

Question. I am concerned about reports that the Grand Forks ARS has lost 40 percent of its staff since 1985 and flat budgets will probably force 8–10 layoffs a year.

Why hasn't ARS been supporting this top notch facility?

Answer. Funding at the Grand Forks Human Nutrition Research Center has increased since 1985. The impact on the center is similar to the impacts on all of the other human nutrition research centers, as well as on all ARS units. The funding for the center, or any unit in ARS, can be used as best determined by the Center Director, who can use discretion in deciding to expand a program, purchase new equipment, develop new facilities, or change the number of personnel. At each of the human nutrition research centers, there has been significant leveraging of resources with funding from industry and other Federal agencies, and this has resulted in much stronger research programs.

In recent years there have been a number of outstanding scientists hired at the center and, with the existing budget, ARS has been able to maintain the high visibility and impact of the research that is conducted at the center. There has not been a reduction in force in ARS since 1985, and any reductions in the number of personnel that have occurred throughout the agency are based on decisions to not fill positions in favor of using the money for new programs, new equipment, etc.

BSE SURVEILLANCE PROGRAM

Question. Madam Secretary, I noted in your testimony that USDA is requesting \$60 million, an increase of \$47 million, which will permit it to further accelerate the implementation of a verifiable National Animal ID system, increase BSE surveillance, conduct technology of BSE testing technologies and strengthen the monitoring and surveillance of advanced meat recovery. I wanted to bring to your attention some technology that has been developed at North Dakota State University that I understand APHIS may be interested in pursuing.

NDSU and its private sector partners have the unique capability to participate in this, and I'm curious what to know about the technology that USDA plans on using?

Answer. USDA is interested in technologies that may meet the needs of the BSE surveillance program and the implementation of a national animal identification system.

On January 9, 2004, USDA announced that the Center for Veterinary Biologics would begin accepting license applications for BSE tests. The decision to formally accept license applications for BSE test kits and rapid tests has better positioned USDA to quickly implement modifications to our current BSE surveillance program.

Several test kits have been issued licenses or permits by APHIS, and more may be approved in the future. Distribution and use of BSE test kits in the United States shall be under the supervision or control of the USDA's Animal and Plant Health Inspection Service. Distribution in each state shall be limited to authorized recipients designated by proper state officials, under such additional conditions as the APHIS administrator may require. Regarding the national animal identification

system, USDA's goal is to create an effective, uniform, consistent, and efficient system by:

- Allowing producers, to the extent possible, the flexibility to use current systems or adopt new ones, but not burden them with multiple identification numbers, systems, or requirements;
- Building on the data standards developed in the United States Animal Identification Plan; and
- Remaining technology neutral in order to utilize all existing forms of effective technologies and new forms of technology that may be developed.

The specific technologies used to link a unique animal number to an animal, record the movement in commerce, and report the movement to a national database will be determined by industry. We welcome North Dakota State University's participation in this developing program.

BROADBAND FUNDING

Question. It has been almost 2 years since the new broadband title to the Rural Electrification Act (REA) was enacted. More than \$2 billion in loan authority has been provided under this new program and the Senate reinforced its bipartisan support for this initiative in a series of amendments to the Agriculture Appropriations bill. Unfortunately, less than \$200 million in loans have been allocated so far while more than a \$1 billion in demand has been made known to the agency.

Specifically, I would like to know: how many broadband loan applications are pending; how many loans have been approved; how many loan applications have been rejected; what states have projects pending, rejected or approved; how long loan processing takes; how many staff are allocated to the broadband program and how many staff are allocated to the Telecommunications and Distance Learning and Telemedicine programs; and how many rural broadband connections you expect to make under the new program?

Answer. There are 40 loan applications pending totaling \$438.8 million; 14 loans have been approved totaling \$201.8 million; 20 loan applications totaling \$300.3 million have been returned as ineligible and 17 loan applications totaling \$195.3 million have been returned as incomplete. It takes RUS approximately 60 days to process a loan application provided the application is reasonably complete when it is submitted. Initially, a team of 14 headquarters individuals have been assigned to the broadband program. Under a recently approved reorganization plan, approximately 25 individuals will be assigned to it, pending filling vacancies which currently exist. The number of headquarters employees assigned to the Telecommunications and DLT program is approximately 40. Over 1 million potential connections to broadband service have been made possible with the approval of the first 14 loans. Future connections will vary depending on loan size, service territory, and project costs. Our goal is the full utilization of the funding available to hook up as many rural customers as possible.

RURAL TELECOMMUNICATIONS

Question. I am also profoundly concerned about reports that suggest that the agency avoid rather than manage risk. The risk I hope you avoid is the risk of leaving rural Americans behind in the digital economy. In creating and funding a new broadband title to the REA, Congress sought to re-ignite the "can-do" spirit of the early days of rural electrification and the rural telephone program. Historically, the agency worked with applicants in a cooperative, not adversarial way to find solutions.

Can I get assurances from you that you see our mission as using the tools of this new loan program to spur rapid and meaningful deployment of broadband services?

Answer. Yes. In concert with the President's recently announced goal of universal broadband by 2007, USDA's Rural Development is ready to meet this goal in rural America. The "meaningful deployment of broadband services" can only be met by making quality loans. As stated before, universal broadband deployment has been recognized as a national policy goal. In light of this, we still face challenging domestic spending decisions. In order to balance fiduciary responsibility with mission delivery, USDA is focusing on "quality loans" that produce exponential benefits through reduced subsidy rates and greater lending levels and that strengthen not only rural economies, but our national economy and its role in the global economic system. A failed business plan translates not only into loss of taxpayer investment, but deprives millions of citizens living in rural communities of the technology needed to attract new businesses, create jobs, and deliver quality education and health care services. I can assure you that every effort is being made to expedite the deployment of broadband service to rural America in a "meaningful" way.

NORTHERN GREAT PLAINS REGIONAL AUTHORITY

Question. Can you tell me how the Department is proceeding with the establishment of the Northern Great Plains Regional Authority and which agency within USDA will be charged with administering the Authority? Also, when can we expect the fiscal year 2004 funding to be released? The legislation also calls for the appointment of a Federal and a tribal co-chair. Can you tell me what the process will be to make these appointments and what the status of this process is?

Answer. Rural Development has been tasked with providing the report requested in the fiscal year 2004 Appropriations Act and working with the Governors of the five states to establish the Northern Great Plains Regional Authority. A taskforce of State Directors has been established to develop the report and coordinate the numerous activities required to establish the Authority.

Funds will be available once the Authority is fully established. The Authority cannot be established until the Federal and Tribal co-chairs have been named and confirmed.

The statute requires those appointments to be made by the President and confirmed by the Senate. It is our understanding that the White House will follow the normal procedure for filling such positions.

STANDARD REINSURANCE AGREEMENT

Question. When can we expect a new SRA?

Answer. RMA anticipates establishing an agreement for the 2005 reinsurance year by the July 1, 2004 deadline.

Question. Why did RMA eliminate the developmental fund within the crop insurance program?

Answer. The first draft of the SRA was designed to raise many ideas and concepts to address long-standing program delivery issues. RMA has listened carefully to all the responses from insurance providers, interested parties via submitted written comments, and discussions with trade associations. RMA believes the second draft addresses most of the concerns raised in the first round of negotiations. There were strong concerns about the suggested elimination of the developmental fund. Therefore, in the second draft RMA restored the developmental fund and reverted back to seven reinsurance funds.

UNDERWRITING GAINS TAX

Question. Why did RMA propose a 25 percent tax of underwriting gains for the reinsurance companies involved in crop insurance?

Answer. The proposed SRA encourages companies to provide broader service to farmers by RMA assuming a larger share of the non-profitable business in high-risk areas. It also allows greater flexibility for companies to share risk with FCIC in the pilot phase of new products, encouraging companies to make new products available to producers.

The 25 percent global quota share arrangement permitted RMA to take a greater share of the losses as well as gains to stabilize the program and secure a better balance of risk sharing between the government and the companies. This provision was intended to add capital support and stability to the program to supplement private sector reinsurance that often is less available for drought stricken, and therefore less profitable areas of the country. The second draft retains this provision but at a much reduced, 5 percent level.

MULTI-PERIL CROP INSURANCE

Question. RMA is proposing to penalize companies who deliver Multi-Peril Crop Insurance above the cost of Federal reimbursement of Administration and Operations. This proposal would have a disproportionate affect on smaller companies and may force them out of the program. Why would RMA want fewer companies in the crop insurance program? What evidence do you have that the current rate of A&O reimbursement is adequate?

Answer. RMA does not want to have fewer companies in the program, but is also concerned about companies over spending and harming the livelihood of the customers, agents and loss adjusters. In the second draft, we have removed the penalty for companies that exceed their A&O reimbursement allowance, but will continue to exert careful and active oversight over company financial condition and operational effectiveness. RMA will take appropriate regulatory action to safeguard farmers and the delivery system against another company failure due to financial excesses. The failure of American Growers cost taxpayers approximately \$40 million to date above and beyond indemnities paid for farmer losses. The proposed SRA es-

establishes additional reporting to RMA of critical business information needed to anticipate company financial weaknesses such as those that caused the failure of American Growers.

Expense reimbursement payments have grown over time in total and on a per policy basis. For example, the number of policies serviced by companies in 1998 and 2003 remained at 1.2 million, but RMA paid the companies a total of \$444 million in expense reimbursement in 1998 and \$734 million in 2003. On a per policy basis, expense reimbursements increased from \$358 per policy in 1998 to \$592 per policy in 2003. This is a 65 percent increase over 5 years—an average compound increase of over 10 percent per year. For 2004, it is estimated that premium income will be substantially higher reflecting generally higher commodity prices and that the related total and per policy expense reimbursement will rise dramatically without a significant increase in the cost of selling or servicing the policies.

STANDARD REINSURANCE AGREEMENT

Question. Does RMA intend on providing the industry with a complete proposal, including all necessary supporting manuals to review when the second draft is released?

Answer. On Tuesday, March 30, RMA announced the release of the second SRA proposal along with subsequent appendices (Appendix I: Program Integrity Statement, Appendix II: Plan of Operations, and Appendix IV: Quality Standards and Control). This additional information will allow the companies to evaluate the agreement in a more comprehensive way. A document detailing the required data processing formats and instruction, Appendix 3 (formerly Manual 13), will be published at the end of the process to reflect the new agreement.

Question. Will the SRA contain terms to make it financially viable for companies to operate in every state?

Answer. RMA has proposed changes allowing for future growth of the delivery system, such as permitting greater flexibility for companies to shift more risks to RMA on policies that are in high-risk areas as well as the risk of new products in their pilot phase. Traditionally, the Federal Government takes on the bulk of non-profitable business in all areas and allows insurance companies to retain more of the profitable business. In addition, the SRA proposes raising state session limits in many states allowing for the viability of more service in those areas.

Question. What happens if RMA doesn't have the SRA wrapped up by May 1?

Answer. RMA fully anticipates having a signed agreement by the July 1, 2004 deadline. As with prior negotiations, if the new agreement is not signed by that time, RMA will continue to provide the necessary reinsurance support until the new agreement is signed. Once the new agreement is signed, all policies issued for the 2005 reinsurance year will be covered by the new agreement.

Question. Do you believe RMA will pursue the establishment of a guarantee fund in the second draft of the SRA?

Answer. Yes, in the second draft, the purpose of the guarantee fund was clarified and the fund was also renamed the Contingency Fund. During the company discussions and with others, it became clear that many misunderstood the purpose of the fund and even questioned the authority to have such a fund.

The purpose of the fund is simply to use existing penalty and fee provisions, due to company performance issues, to help pay for any future company failures, such as the American Grower situation. The estimated funds that would be put in this fund on an annual basis is between \$1–2 million. The Office of General Counsel firmly believes RMA has the authority to make what is essentially a bookkeeping change for this purpose. It should also be noted that this fund cannot be used by the RMA as a resource to fund agency expenses.

Question. It is my understanding there were numerous provisions in the first SRA proposal in which RMA was exerting more regulatory authority. I believe RMA currently has very extensive regulatory authority and I would urge the agency to use such authority in a responsible manner. Additionally, I am concerned the crop insurance program is currently a very complex highly regulated program. Has the agency done any analysis regarding the costs these regulations place on the delivery system and the savings, which could be generated by removing some of these burdensome procedures?

Answer. Although RMA has not performed a formal analysis regarding regulatory costs, RMA is striving to put into place regulatory provisions that do not put an undue burden on the agency or the companies. In addition, RMA has revised its Appendix IV (Quality Control and Standards) to incorporate more efficient processes for oversight activities, and to better utilize the existing resources of the companies in such efforts. However, it is imperative that RMA apply its learning gained from

the demise of American Growers. RMA will continue to work closely with the companies to responsibly fulfill its vital role as a steward of the program.

In the proposed SRA, RMA is fairly and equitably exercising its given authority and responsibility to oversee the financial and operational safety, soundness and effectiveness of the Federal crop insurance program to ensure program integrity and a reliable, effective delivery system. This is good for farmers, companies, agents and all others concerned and will not impose "massive" new burdens or costs.

The proposed SRA establishes additional reporting to RMA of critical business information needed to anticipate company financial weaknesses such as those that caused the failure of American Growers. The companies are already preparing much of the requested information for other purposes. This information includes financial statements, statement of earnings and cash flow, commission and other expense details, reinsurance agreements and management evaluations of major financial and operating risks facing a company. Any well-run, fiscally responsible company will already be developing and using this kind of information and should be willing to provide it to its regulator.

In farmer listening sessions throughout the country, RMA has received an overwhelming number of requests to ensure that agents and loss adjusters are knowledgeable and well trained. The proposed SRA requires insurance companies to verify that agents and loss adjusters are trained in accordance with RMA standards and are delivering the best and most complete and accurate information possible to farmers. The proposed SRA also strengthens the companies' focus on training agents and loss adjusters to better serve limited resource, minority and women farmers.

Any concern over the cost associated with agent and loss adjuster oversight and training fails to recognize the benefits and efficiencies of well-trained agents and loss adjusters. Farmers benefit from making informed sound risk management decisions, while agents, loss adjusters and insurance companies benefit from increased customer satisfaction and customer retention, and reduced exposure to fraud, waste and abuse, and litigation risks and costs.

The proposed SRA provides for disclosure of information to allow RMA to assess the financial strength and performance of insurers and their service providers. RMA is asking that companies disclose more leading indicators of their insurer and service provider operational and financial soundness and risks. Many of these disclosures were requested informally last year in the wake of the failure of American Growers. Current insurance companies serving farmers should have this information and be willing to share it with their regulators. Companies conducting good business practices and assessing their risks should incur no additional cost. Companies that are not already using this information should begin to develop it to ensure their soundness and safety.

AGRICULTURAL TRADE

Question. The United States Trade Representative (USTR) has recently completed free trade agreements with Central America (CAFTA) and Australia, with the benefits to American agriculture being miniscule.

Can you identify any specific benefits to American agriculture that these and future free trade agreements provide?

Answer. On March 22, 39 leading agriculture-related associations, federations, councils, and institutes representing a broad spectrum of American agriculture, sent a letter to President Bush expressing their support for the CAFTA and Dominican Republic agreements. The signators of the letter expressed the view that the agreements would lead to "significant" increases in exports of a wide range of agricultural products.

American agriculture will benefit from the Australia FTA because Australia will immediately eliminate all agricultural tariffs. In particular this will benefit U.S. exports of: processed foods; oilseeds and oilseed products; fresh and processed fruits and fruit juices; vegetables and nuts; and distilled spirits. Also the FTA establishes an SPS Committee that will enhance our efforts to resolve SPS barriers to agricultural trade, in particular for pork, citrus, apples and stone fruit.

Under the Caribbean Basin Initiative and the Andean Trade Preferences Act, agricultural imports from nearly all of our FTA partners already receive duty free treatment from the United States. By negotiating Free Trade Agreements with these countries we will level the playing field, affording our exporters similar duty free access to those markets for their products.

Question. The USTR has recently announced intentions to negotiate free trade agreements with Colombia and Thailand.

Will sugar be included in the negotiations and do you support the inclusion of sugar in regional and bilateral free trade agreements?

Answer. To maximize the benefits for U.S. agriculture from these negotiations, we seek increased market access for all of our export commodities, including those that our negotiating partners want to protect. We can only pursue this strategy effectively if we are willing to negotiate increased foreign access to our own sensitive markets. We will continue to take steps to ensure that the interests of U.S. sugar producers are taken into account. For example, in the CAFTA, we insisted that the out-of-quota duty for sugar not be eliminated or even reduced. This provision for sugar was unique, but it was deemed necessary to defend our domestic sugar program.

ASIAN SOYBEAN RUST

Question. I am very concerned about the risk of importing Asian soybean rust into the United States. The movement into the United States could devastate our soybean crop and impose a heavy economic burden on American farmers and consumers. We cannot afford to take unreasonable risks given the adverse impact soybean rust would have on soybean production and growers in the United States. If a temporary ban on the importation of beans from infected nations is the only answer that government can come up with in the short term, I believe that it is better than jeopardizing our entire soybean industry.

Will you halt soy imports until the Department can find a way to ensure that this devastating fungus doesn't infiltrate our domestic soybean crops as a result of lax import standards?

Answer. We do not plan to halt soy imports. APHIS officials are looking closely at our country's importation of soybean seed, meal, and grain. Our analysis to date has shown that clean soybean seed and soybean meal—which is a heat-treated, processed product—pose a minimal, if any, risk of introducing this disease. Historically, there has never been a documented instance of soybean rust spread through trade. Rather, it is spread naturally through airborne spore dispersal. We are currently conducting a risk assessment to study the viability of the pathogen and verify that it does not survive in commercial grade soybean products. The preliminary results of the assessment indicate a very low risk, if any, of introducing this disease through imports.

INTEREST ASSISTANCE LOANS

Question. Money for interest assistance loans to farmers has been used up for 2004. Many producers depend on interest assistance to obtain the financing necessary to plant their crops. It is my understanding that interest assistance was cut by 35 percent from 2003 to 2004.

What steps are being taken by USDA to meet the demands of the program? Will USDA provide alternative funding for the program in 2004?

Answer. The fiscal year 2004 allocation of guaranteed operating with interest assistance loan funds was \$271.2 million. As of March 31, 2004 guaranteed operating with interest assistance loan obligations totaled \$244 million. In accordance with statutory requirements, remaining funds are targeted for exclusive use by socially disadvantaged farmers.

The direct operating loan program is one alternative that could provide aid to family farmers unable to obtain guaranteed OL with interest assistance loan funds. This program, with its availability of a lower interest rate for terms of up to 7 years, provides family farmers a means of financing their business operations at rates and terms comparable to the guaranteed OL with interest assistance loan program. As one would expect, demand for this program is also high. However, with historically low interest rates available through commercial lenders, many family farmers are able to utilize the guaranteed operating unsubsidized loan program. Use of funds in this program has increased by eleven percent compared to a year ago at this time, but there are still sufficient funds available to meet additional demand.

Because the subsidy rate for the interest assistance program is significantly higher than for other farm loan programs, it is not cost beneficial to transfer funds for interest assistance loans.

COUNTRY OF ORIGIN LABELING

Question. Madam Secretary, when the Omnibus Appropriation bill became law, it delayed the implementation date of Country of Origin Labeling from September of this year until September of 2006, except for certain fish. The Omnibus bill did not, however, change the date at which the actual regulations governing COOL need to be concluded, which is also September of 2004. The Department has nearly 2 years to work on the COOL regulation, so I am hopeful that USDA will, in fact, have those regulations completed. As you know there are many of us in Congress, in fact

a bipartisan majority in the Senate, who want the COOL regulations completed and the date changed back. In fact, the date may be changed back to September of 2004, and I want to ensure that the Department is ready in that event, as the law currently requires. I read with interest some comments that the President made in Ohio recently. The President said, and I quote: "I want the world to 'buy America.' The best products on any shelf anywhere in the world say, 'Made in the USA.'" His comments were followed by applause. I think the President is right.

If he says that, why does the Bush Administration oppose the COOL law that would ensure that consumers have the opportunity to buy American?

Answer. In general, the Administration believes that providing more information for consumers on which to base their purchasing decisions is better than less information. However, if the costs of providing the additional information exceed the benefits, then there is no economic rationale for providing it. We are reviewing the comments received on the proposed regulations and will finalize the regulations to implement COOL as mandated by the 2002 Farm Bill and the Omnibus Bill.

BOVINE SPONGIFORM ENCEPHALOPATHY (BSE)

Question. Do you still intend to open the U.S. border to live Canadian cattle, especially in light of the discovery that two Canadian feed mills were the cause of the outbreak of mad cow disease?

Answer. Today, the Animal and Plant Health Inspection Service (APHIS) closed the comment period on a proposed rule that would amend the regulations regarding the importation of animals and animal products to recognize, and add Canada to, a category of regions that present a minimal risk of introducing BSE into the United States via live ruminants and ruminant by-products. USDA will take into account the comments received on the proposed rule as we review this matter.

RESIGNATION OF ADMINISTRATOR BOBBY ACORD

Question. On March 23, Bobby Acord, head of USDA's Animal and Plant Health Inspection Service (APHIS), resigned effectively immediately.

Was his resignation the result of a disagreement over policy?

Answer. Bobby Acord resigned after almost 38 years of Federal service due to a number of factors, including illness in his family and his desire to spend more time in the places and with the people that he cares about most. In a letter to all APHIS employees dated March 24, 2004, Mr. Acord stated, "Those of you who know me well know that if nothing else, I am a decisive person. And this weekend, I decided it is simply time for me to pass the torch."

During Mr. Acord's tenure as APHIS Administrator, he led the Agency through the aftermath of the September 11, 2001, terrorist attacks, an outbreak of exotic Newcastle disease and its eradication, and the country's first detection of bovine spongiform encephalopathy. While Mr. Acord was administrator, the employees of APHIS were also named "2003 People of the Year" by Progressive Farmer magazine.

Mr. Acord is succeeded by Dr. Ron DeHaven, who joined APHIS in 1979 and most recently served as the deputy administrator of APHIS for Veterinary Services.

BSE POLICY

Question. We understand that there are a wide range of policy proposals to address various BSE issues.

What are you doing to ensure that our decisions are science based and don't rest upon short-term political or public relations benefits?

Answer. In addition to employing scientific and technical experts with working knowledge of transmissible spongiform encephalopathies, USDA has consulted with international experts through the Secretary's Foreign Animal and Poultry Disease Advisory Committee and with scientists at the Harvard Center for Risk Analysis to review the BSE surveillance plan and response. USDA bases its policy decisions on sound science and the advice we receive from such experts.

Question. Japanese officials say that despite USDA officials' statements to the contrary, "Ag Department officials from the United States have not been in recent contact with their Japanese counterparts. We're confused as to why some USDA officials have been saying otherwise."

Is the Japanese claim true and what is the status of the negotiations regarding the reopening of the Japanese market to U.S. beef imports?

Answer. The Department has been and remains in close contact with Japanese government officials. Immediately following USDA's announcement of the BSE case, senior USDA officials and Japanese officials held talks in Tokyo, Japan, on December 29 and January 23. A Japanese technical team visited USDA in Washington, D.C., and the BSE-incident command center in Yakima, Washington, during Janu-

ary 9–15. On March 23, the Agricultural Affairs Office, American Embassy in Tokyo, reported meetings with the Japanese Ministry of Health and Welfare (MHLW), Ministry of Agriculture, Fish and Food (MAFF), and the Food Safety Commission (FSC).

There is still a significant difference in our official positions regarding BSE testing and specified risk material removal. On March 29, I sent a letter to Japanese Agriculture Minister Kamei proposing to have a technical panel made up of experts from the World Animal Health organization meet before April 26 to discuss a definition of BSE and related testing methodologies as well as a common definition of specified risk materials. On April 2, Japan rejected the proposal reasoning that the United States first needed to reach a bilateral scientific understanding on BSE. USDA is planning another high-level visit to Japan to continue talks in late April. The United States exported over \$1.3 billion in beef to Japan in 2003, representing over 50 percent of Japan's total beef imports. The import ban has severely impacted Japan's market supplies and beef prices. Given Japan's need for beef imports and the importance of beef exports to Japan for the U.S. beef and cattle industry, we are hopeful that a solution can be found.

DURUM AND SPRING WHEAT YIELDS

Question. Recently, the Risk Management Agency mandated that durum yields be split out from spring wheat yields. The method which RMA is proposing to do this is causing durum growers to have disproportionate yield reductions in their actual production histories. It is also causing farmers to take an inordinate amount of time to retrace these yields. One solution to this problem is to allow producers to replicate yields.

What are USDA's plans to resolve this problem and will USDA allow farmers to replicate yields?

Answer. The U.S. Durum Wheat Growers Association (USDGA) requested Risk Management Agency (RMA) recognize spring and durum wheat as separate crop types due to quality and price differences, thus allowing each to be insured as a separate unit beginning with the 2004 crop year. This was done via publication in the Federal Register at 7CFR § 457.101 June 9, 2003.

Insured areas most affected are all North Dakota counties, 18 counties in Northern South Dakota, and 18 counties in Northeastern Montana. Some insured's will have increased spring wheat yields and some insured's will have increased durum wheat yields. The impact will vary depending upon individual yield history.

On average 25–30 percent of all wheat in North Dakota is durum wheat. RMA's experience for 1999–2003 shows durum loss ratios in North Dakota under the APH yield based coverage are higher than that of spring wheat, 2.69 verses 1.09 for spring wheat.

RMA explored viable options to alleviate some producers concerns while still maintaining program integrity.

While producers have requested to be allowed to use replicated yields in their history database, this will generally overstate guarantees for durum wheat and will most likely generate significant complaints from insured's negatively impacted by replication, and from agents and insurance providers who have undergone considerable work to implement the procedures for splitting out the yields by type, and increase the risk of loss to companies and re-insurers providing protection in these areas.

RMA is implementing a 10 percent yield limitation to provide relief to those that may experience declining yields. Implementing yield limitations is consistent with existing procedures for other situations that protect insured's from declining yields, and provides immediate protection while avoiding replicated yields that are too high that will adversely affect actuarial soundness for several years to come.

WOOL FOR BERETS IN IRAQ

Question. Madam Secretary, it has come to my attention that the Coalition Provisional Authority (CPA) in Iraq has let a contract for berets for Iraqi security forces. While the CPA has indicated that the contract is open to all bidders, the contract's parameters have put American wool producers at a distinct disadvantage by specifying that the berets be made of 100 percent Australian wool! Such preferential treatment is not only unfair but is a serious concern that deserves immediate attention. There are 64,170 U.S. wool producers, including over a thousand in North Dakota, that produce some of the finest wool in the world. Given a fair field on which to compete, I am certain they will win such a contract.

Given the time-sensitive nature of this issue, I want to know if you will work with others in the Administration to ensure that the CPA is directed to re-let that contract to ensure that no country receives preferential treatment?

Answer. Thank you for this question which has brought this issue to our attention. We have been in contact with USDA personnel in Iraq and were able to learn a great deal about this contract and procurement. Unfortunately, the contract has been awarded and the tender specifications did, in fact, specify Australian wool. This tendering was not done by the CPA directly and did not involve U.S. government funds.

As part of our reconstruction efforts in Iraq, we are trying to bring greater transparency and predictability to the public tendering process. This is of vital importance if we are to regain market share for American agricultural products in this potentially significant export market. Bringing about a market based, open and transparent public tendering process is an uphill battle and this is a perfect example. We will be working closely with CPA and Iraqi authorities to ensure that oversights like this do not happen again.

QUESTIONS SUBMITTED BY SENATOR DIANNE FEINSTEIN

SPECIALTY CROPS

Question. The crop insurance program has expanded significantly over the past 10 years providing farmers and ranchers with increased financial security. Even in California it is now commonplace for bankers to require crop insurance prior to approval of operating loans. However, there are still many specialty crops that have no crop insurance program available. Many of these crops are grown on relatively few acres nationwide compared to the more traditional commodity crops.

How does the USDA plan to expand the insurance programs to the remaining specialty crops not currently covered?

Answer. Through the use of feasibility studies and pilot programs, RMA plans to expand the insurance programs to cover additional specialty crops. Risk Management Agency has made significant progress in providing new crop insurance programs available to specialty crop growers. For example, during 1998–2002: The number of insurable specialty crops increased 29 percent The number of active policies increased 28 percent The amount of coverage (liability) increased 98 percent

Since 2001, RMA has entered into over 90 contracts and partnerships with the majority focusing on providing crop insurance or other non-insurance risk management tools for producers of specialty crops. Feasibility studies to determine whether crop insurance programs can be developed have been completed for direct marketing of perishable crops, fresh vegetables, Hawaii tropical fruits and trees, lawn seed, and quarantine insurance. The fresh vegetables project is in the development stage with crop year 2007 as the target year for implementing a pilot program. Insurance programs for Hawaii tropical fruits and trees and quarantine insurance are in the development stage with crop year 2006 as the target year for implementing pilot programs. The feasibility study for lawn seed is projected for completion in the fourth quarter of fiscal year 2004. The feasibility study for direct marketing of perishable crops is projected for completion in the first quarter of fiscal year 2005.

Most specialty crops of significant size or value have either a program already developed or are a future project on RMA's Prioritized Research and Development Plan. The ten highest valued specialty crops not insured are listed below with the current plan for addressing each:

(In dollar amount)

Crop	Crop Insurance Status	Value
Bedding/Garden Plants	Target 2007 crop year	\$2,392,495
Lettuce	Target 2007 crop year	2,261,185
Mushrooms	Industry not interested	911,509
Sod	Industry not interested	800,694
Cut Flowers & Cut Greens	No action based on Feasibility Study	717,612
Carrots	No action based on Feasibility Study	551,433
Broccoli	Target 2007 crop year	536,226
Cut Christmas Trees	Target 2005 crop year	441,604
Cantaloupes	Target 2007 crop year	404,685
Melons	Target 2007 crop year	328,550

Note: Pilot program is scheduled for implementation in the target year.

In addition, RMA recently issued a statement of objectives request for proposals for innovative and cost effective approaches to providing crop insurance for crops with small value. The purpose is to develop a program that responds to small value crop producers, provides a minimal requirement transaction between a producer and insurance provider, and identifies the vulnerabilities for waste, fraud and abuse. A contract was awarded in March 2004 to begin research for possible development of a new approach that provides crop insurance coverage for crops with small value. One possible approach that may be proposed is some form of whole farm program, perhaps similar to the existing Adjusted Gross Revenue program, which is being piloted in a limited number of counties in California.

REVENUE BASED PROGRAMS

Question. The crop insurance program has been piloting a number of new programs which address not only production losses, but revenue losses as well. However, most of these programs have been made available to only the major commodities: corn, wheat, cotton, rice etc. I understand that in certain states in the mid-west a corn grower has up to 6 different options in insuring their crop.

When will these new revenue based programs be made available to specialty crop growers?

Answer. RMA conducted a feasibility study for developing a revenue model of insurance for certain specialty crops, which is currently in the process of development for revenue based programs tailored to those specialty crops. The new revenue based programs should be made available to specialty crop producers for the following crops in the proposed pilot program states for the crop year 2007, pending approval by the FCIC Board of Directors. The list of crops and states include: Apples, NY, PA, OR, VT, and WA; avocados, grapefruit, and oranges, FL; dry beans (Baby Lima, Blackeye Peas, and Large Lima), CA; dry peas and lentils, ID; maple syrup, ME, NH, NY, and VT; and revenue product modification (corn), IA, IL, and IN.

ADJUSTED GROSS REVENUE PROGRAM

Question. There is currently a pilot crop insurance program available in a very limited number of counties Nation wide called the "Adjusted Gross Revenue" (AGR) program. The program is available in 8 counties in California. However, I understand the Agency has put a hold on further expansion of the program pending an evaluation.

When is the evaluation expected to take place and when is the earliest that expansion of this program can be expected?

Answer. The Adjusted Gross Revenue (AGR) pilot program began in 1999 in five States (36 counties). In 2000, six more States and 52 new counties were added. In 2001, RMA made a number of significant changes to the program in order to increase the number of eligible producers, coverage available, and producer acceptance. At the same time, AGR was expanded into six additional States and 126 new counties to provide a broader base upon which to test the pilot program.

The Agricultural Risk Protection Act (ARPA) required the expansion of AGR into at least eight counties in California and into at least eight additional counties in Pennsylvania. RMA worked with the respective State Departments of Agriculture to select the expansion counties, gathered the data necessary for expansion and the FCIC Board of Directors approved expansion into eight counties in both states for 2003. Effective for 2003, AGR was available in 17 states and 214 counties.

RMA is currently in the process of contracting for an evaluation to be conducted of the AGR pilot program. The evaluation will commence during 2004 using 2001–2003 AGR experience data reflecting the program changes and broad expansion made in 2001. Once the evaluation is completed, the results will be made available to the Board of Directors, who will determine any future direction and expansion of this pilot program.

TECHNICAL ASSISTANCE FOR SPECIALTY CROPS PROGRAM

Question. The Technical Assistance for Specialty Crops (TASC) program, authorized in the 2002 Farm Bill, was developed exclusively to provide the specialty crop industry with financial assistance to help overcome trade barriers such as sanitary, phytosanitary, and technical barriers that prohibit or threaten exports. Funds are applied for by industry and distributed upon approval by USDA. The need for the program is great as noted by the overwhelming requests by industry for assistance. During the past 2 years, since the program's inception, USDA has received 111 proposals totaling \$20 million in funding requests—compared to actual funding of only \$4 million. The \$2 million annually, while beneficial, is clearly insufficient.

What is USDA doing to expand this program and encourage growth of specialty crop exports?

Answer. The Technical Assistance for Specialty Crops (TASC) program was established in the Farm Security and Rural Investment Act of 2002. As program managers, the Foreign Agricultural Service (FAS) is responsible for ensuring all funds are used in the most effective way to maximize benefits to U.S. specialty crops. To accomplish that objective, FAS has taken several steps to maximize the use and effectiveness of this program that include:

- outreach to the U.S. specialty product industries to maximize awareness of the program;
- established regulations to ensure fair and equitable allocation of the funds to worthy projects;
- program flexibility to address unexpected trade barriers, enabling the availability of funds throughout the year; and
- selected projects that had the highest expected return in value to expanding exports.

In addition, FAS continues to support the specialty crops through ongoing activities such as market intelligence, trade policy, and export market development. The Market Access Program (MAP) includes over 30 nonprofit associations that represent specialty crops and received \$40 million of MAP funds in fiscal year 2003.

FRUIT AND VEGETABLE PILOT PROGRAM

Question. The 2002 Farm Bill authorized a \$6 million Fruit and Vegetable Pilot program in fiscal year 2003 to provide free fruit and vegetable snacks to students in 25 schools each in Michigan, Ohio, Indiana, Iowa, and seven schools in the Zuni Nation in New Mexico. Results of the program have been positive. According to a report by the USDA Economic Research Service, the pilot has shown consumption increases in school children by at least one serving a day.

Various nutrition groups, the United Fresh Fruit and Vegetable Association, and other anti-obesity advocates have been pushing for expansion of this successful fresh fruit and vegetable pilot program under the Child Nutrition Reauthorization Bill.

However, due to funding technicalities, the expansion of the pilot has been removed from the House bill. The Child Nutrition Reauthorization Bill is being written so it contains very little opportunity for participants to access fresh fruit and vegetables, at a time when childhood obesity is becoming an enormous issue.

What is the USDA doing to increase the consumption of fresh fruits and vegetables in the school lunch, school breakfast, WIC and related programs?

Answer. The Department shares your interest in the fruit and vegetable initiative, and would support its expansion provided Congress is able to fund it through savings or offsets that do not compromise access to school meal benefits. USDA, as part of the Department's Strategic Goal 4: "Improve the Nation's Nutrition and Health," established a specific performance measure to improve the diets of children and low-income people by at least five points as measured by their Healthy Eating Index (HEI) scores; and to increase the score for the broader U.S. population by at least two points. USDA is working harder than ever with stakeholders to devise program initiatives to achieve these changes. Since fruit consumption and vegetable consumption are two of the ten elements of the HEI on which the most progress can and should be made, I am particularly keen to see innovations addressing these areas.

The Department believes that the Federal nutrition assistance programs are an effective way to support and promote the consumption of fruits and vegetables. For example, I know that children who participate in the National School Lunch Program eat nearly twice as many servings of vegetables at lunch as non-participants and School Breakfast Program participants eat twice as many servings of fruit at breakfast as non-participants. USDA nutrition assistance programs provide over \$8 billion in support for fruit and vegetable consumption annually by supporting consumer purchases in the marketplace through the Food Stamp Program; purchasing and distributing these foods directly to schools, food banks, and other institutions; and through nutrition education and promotion. I will provide some additional information for the record.

[The information follows:]

To maximize the results of this investment in increasing consumption for children and others, the Department is taking action to motivate all consumers to eat more of these healthful foods. We are expanding the Department of Defense fresh produce program to distribute fresh fruits and vegetables to schools, enhancing the variety and availability of fruits and vegetables in the school meals, as well as expanding the Food Distribution Program on Indian Reservations fresh produce initiative.

The Department has recently published *Fruit and Vegetables Galore*, a guide developed as part of Team Nutrition that helps schools offer and encourage consumption of a variety of fruits and vegetables. In addition, the Department is expanding dissemination of the EAT SMART. PLAY HARD.[™] (ESPH) materials that promote vegetable and fruit consumption. One theme of ESPH—Grab Quick and Easy Snacks—promotes fruits and vegetables as snacks.

More broadly, we continue to pursue our partnership with the National Cancer Institute (NCI) and the Centers for Disease Control and Prevention (CDC) in the expanded national 5-A-Day for Better Health program. The 5-A-Day campaign's goal is to increase consumption of fruits and vegetables to 5 to 9 servings every day, and inform consumers of the health benefits gained from eating fruits and vegetables.

Regarding the WIC Program, the WIC food package currently plays a key role in contributing to fruit and vegetable consumption by providing 100 percent fruit and vegetable juices to program participants. In addition, WIC nutrition education emphasizes the relationship between nutrition and health, and fruits and vegetables are promoted as part of a complete diet. Both the Dietary Guidelines and the Food Guide Pyramid are foundation nutrition education materials used by WIC to emphasize the importance of fruit and vegetable consumption. Also, many WIC State agencies have adopted the National Cancer Institute Campaign, Five A Day, to promote the intake of fruits and vegetables. WIC's nutrition education approach is designed to teach participants and caregivers about the important role nutrition plays in health promotion and disease prevention as well as overcoming specific risk conditions.

Finally, a contract was awarded in September 2003, to the Institute of Medicine (IOM), through the Food and Nutrition Board to review the WIC food packages in a 22-month study. This study will use current scientific information to review the nutritional requirements and assess the supplemental nutrition needs of the population served by WIC. IOM is currently scheduled to provide the Department with a final report in February 2005. Assuming the report is received on schedule, USDA expects to publish a Notice of Proposed Rulemaking for public comment in December 2005, and a final rule in December 2006.

The WIC Farmers' Market Nutrition Program (FMNP) provides WIC participants with coupons that can be exchanged at authorized farmers' markets for fresh fruits and vegetables. The FMNP is currently in operation at 44 sites—36 States, the District of Columbia, Guam, Puerto Rico and 5 Indian Tribal Organizations. During fiscal year 2002, just over 2.1 million participants were served. The FMNP educates WIC participants on selecting, storing, and preparing fresh fruits and vegetables and how to make fruits and vegetables part of healthy meals.

TRAINING OF DHS EMPLOYEES

Question. As the Department of Homeland Security (DHS) was being organized, a significant part of USDA's funding for import inspections was placed within DHS. There remains significant concern that DHS will not place a high enough priority on invasive pest and disease detection at the border and that inspectors that are cross trained in other types of import inspections will not be sufficiently vigilant to prevent importation of pest on imported produce.

The agriculture industry, and in particular fresh fruit and vegetable growers, have been very vocal that it is not acceptable for Customs agents to be cross-trained to detect pests and diseases in imported products. That capability is a specialized skill. Given the enormous increases in fresh fruit and vegetable imports over the last 5 years, it is very unwise to reduce the Federal Government's capability to detect invasive species.

Costs of eradication and elimination are higher than taking preventive measures, if pests enter the United States the Federal Government will need to pay for increased pest and disease eradication, due to failures to interdict these threats at the border.

What is the U.S.D.A. doing to ensure that inspectors will have sufficient training and experience to detect and prevent entry of new pests on imported produce?

Answer. To facilitate the transfer of the agricultural inspection force, USDA and the Department of Homeland Security (DHS) signed a Memorandum of Agreement that specifies the functions and funding transferred to DHS and establishes mechanisms between the two agencies regarding the training of employees, use of employees, and other areas described in the Homeland Security Act of 2002. The Agreement is meant to emphasize the importance of continuing and enhancing the agricultural import and entry inspection functions.

As specified in the Agreement, USDA continues to train DHS inspectors who conduct agricultural inspections. DHS is maintaining an inspection force of agricultural

specialists, who must meet certain educational requirements and go through a 2-month training course in our import requirements and pest and disease identification, among other things, at APHIS' Professional Development Center in Frederick, Maryland. APHIS and DHS' Bureau of Customs and Border Protection (CBP) are also implementing a joint quality assurance program to ensure that the inspection process continues to function effectively. As part of this effort, APHIS will provide on-the-job training for both agricultural specialists and primary inspectors. APHIS also provides basic training in the agricultural inspection process for general CBP inspectors at CBP's training center in Atlanta.

SUDDEN OAK DEATH

Question. Sudden Oak Death (SOD) is a serious, often fatal disease of California native oaks, and has been found in two nurseries (Monrovia, Azusa and Specialty Plants, San Marcos) in Southern California. The discovery of this disease in the nursery trade, in warm, dry Southern California and many miles from the epicenter of the disease in the Bay Area has caused five states to quarantine California nursery products. Monrovia nursery is one of the largest nursery producers in the United States and ships plants throughout the United States and Canada as well as other foreign destinations. Current economic losses to Monrovia at this juncture are estimated at \$4.3 million. A general embargo on California nursery stock will cause the state incalculable economic damage.

What is the USDA doing to assess the extent of the disease both within California and within the United States and take action to contain the spread and prevent new areas from being affected by the disease?

Answer. To assess the extent of SOD, we are conducting "tracebacks" to determine the nursery or nurseries from which infected plant material originated, and "trace forwards" to determine where a particular nursery has sent infected plant material. Also, we are conducting a national survey of nurseries and forests. These activities will help us determine the extent of SOD migration within California and to other States. In addition, we plan to impose a Federal quarantine on the interstate movement of known and "associated" SOD hosts from all California nurseries. This quarantine will be based on sound science and a measured risk response. Associated hosts are plants which are not technically hosts, but are nevertheless susceptible to SOD. This action would preclude States from imposing their own quarantines, and would provide for the resumption of safe trade in California nursery plants—albeit under strict conditions. As a result, we would be able to prevent further SOD spread via shipments from California nurseries, while still allowing the interstate movement of healthy plants.

GLASSY-WINGED SHARPSHOOTER

Question. Other pests like the Vine Mealy bug and Glassy winged sharpshooter are impacting crops in California and elsewhere. What is U.S.D.A. doing to contain the spread of and eliminate these pests?

Answer. Since fiscal year 2000, we have led an extremely successful cooperative Glassy winged sharpshooter (GWSS) research and control program in California. This program includes nursery stock inspections, a Statewide survey, and site-specific urban treatments. These activities help us quickly detect, control, and mitigate the GWSS. Also, we develop strategies to reduce the pest problem in agricultural production areas. This approach supports Statewide activities to promote trade, and remove the pest from State commerce routes. In areas where 100 or more GWSS had been found in traps each week, the program now finds approximately five. This success demonstrates the benefits not only of rapid response to a pest introduction, but also of cooperating with stakeholders, universities, extension services, agricultural researchers, and growers.

In addition, we are continuing a successful pilot program throughout Kern County and conducting a similar program in infested areas of Riverside, Tulare, and Ventura Counties. In addition, we have expanded area-wide control activities into crucial production areas in Tulare County, Ventura County, and Coachella Valley in Riverside County. Our prompt implementation of these area-wide strategies has significantly reduced the incidence of GWSS in the new areas. This year, we continue to (1) develop management strategies and conduct area-wide treatments; (2) monitor the impact of GWSS control strategies on the environment; (3) mitigate Pierce's Disease spread in vineyards; (4) transfer control strategies to County Agriculture Departments; and (5) conduct regulatory activities through increased nursery stock inspections.

At this time, APHIS does not have a program to control the Vine Mealybug. Since this non-native pest has no natural predators, eradication is not likely. Currently, producers are working to contain its spread using sanitation and chemical control.

However, APHIS and the CDFA are continuing the highly successful California Mediterranean Fruit Fly (Medfly) Preventative Release Program. Since fiscal year 1996, only four Medflies have been detected in California. The most recent of these was a single adult found in late fiscal year 2002. This detection demonstrated the program's continued reduction of captured wild Medflies, while mitigating pesticide concerns. In fiscal year 2003, the program detected Mexican Fruit Flies (MFF) in San Diego County. This detection necessitated an emergency funds transfer, but we eradicated this infestation last September—less than a year after the pest was first detected in the area.

ENVIRONMENTAL IMPACT OF ON-FARM BURIAL OF DOWNER/DEAD CATTLE

Question. The new regulations issued by USDA to address BSE will help improve the safety of human food and animal feed and will help to keep export markets open. Two of the recently announced changes in regulations though may result in environmental issues for states with large dairy and cow-calf industries.

Cattle carcasses buried on farm land can have adverse impact on watersheds and pose other issues to the environment and ecosystems should wildlife or other animals access the buried cattle.

Because of the potential for creation of an environmental hazard, in Europe many countries have instituted regulations prohibiting the on-farm burial of dead and downer cattle. The collection and disposal of these animals is often subsidized by the government.

This issue has potential to have substantial environmental impact for states with large dairy and cow-calf industries. There is potential for substantial economic impact on farmers and others needing to dispose of these animals.

Has there been an evaluation of these impacts? If so what are the solutions and at what level of government do these solutions need to be addressed? Is there a research need to identify effective disposal options?

Answer. USDA has had an aggressive BSE surveillance plan in place since the 1990's, and scientific experts—including those at Harvard who conducted the risk assessment for BSE—agree that, even given the find in Washington State, the disease would be circulating at extremely low levels in the U.S. cattle population if at all. With such a low prevalence rate, we do not anticipate large numbers of affected animal carcasses needing disposal during the next 12 to 18 months. Our recently announced enhanced surveillance plan should instead allow us to further assure consumers, trading partners, and industry that the risk of BSE in the United States is very low.

With regard to concerns about cattle carcass disposal options, burying animals on the farm is not the only option for producers whose animals are non-ambulatory disabled. Other alternatives for disposal continue to be available to producers. These include rendering facilities, salvage slaughter facilities (i.e., not slaughtered for human consumption), and other animal disposal industries.

USDA welcomes additional research into carcass disposal options and will continue to make decisions based on the most current science available.

Question. Finally, is there a need to subsidize the collection and proper disposal of dead and downer animals, first to ensure inclusion in surveillance programs for disease, second to offset increases in costs associated with disposal of these animals and finally to ensure they do not create a hazard for other transmissible diseases? What is U.S.D.A. doing to assess and control this situation from becoming a potential hazard?

Answer. Scientific experts from Harvard conducted risk assessment for BSE and concluded that, even given the find in Washington State, the disease would be circulating at extremely low levels in the U.S. cattle population if at all. With such a low prevalence rate, we do not anticipate large numbers of affected animal carcasses needing disposal during the next 12 to 18 months. Our recently announced enhanced surveillance plan allows us to further assure consumers, trading partners, and industry that the risk of BSE in the United States is very low.

There are a number of options available to producers to dispose of animals that are non-ambulatory disabled. Options for disposal include burying animals on the farm, use of rendering facilities, salvage slaughter facilities (i.e., not slaughtered for human consumption), and other animal disposal industries.

USDA has included cost recovery options in the budget for its enhanced BSE surveillance program. Payment for certain services will help cover additional expenses incurred by producers and the industries participating in the surveillance program

and encourage participation. For example, costs for transporting an animal or carcass to the collection site from a farm or slaughter establishment may be reimbursed, or disposal expenses for “suspect” cattle that test non-negative or that cannot be rendered may also be covered. Other expenses may also be addressed in the program.

Question. The collection of these animals is important for tracking and surveillance for Mad Cow. Collection and inclusion of these animals in tracking and surveillance sampling is important.

Has consideration been given as to how to achieve inclusion of dead on the farm and downer cattle in the monitoring program?

Answer. Throughout the history of our surveillance program, USDA has worked to obtain samples from the targeted animal population, wherever these samples may be located. In order to obtain the samples, USDA-APHIS has worked with facilities other than federally inspected slaughter establishments as part of BSE surveillance efforts. These facilities included renderers, salvage slaughter facilities (i.e., not slaughtered for human consumption), and other animal disposal industries.

Under our new surveillance program, we will build on these efforts to ensure that we maintain access to our targeted surveillance population. We will also be reinforcing our educational and outreach efforts to producers, so they will know who to contact about testing dead or downer animals on the farm.

USDA-APHIS-Veterinary Services’ officials across the country will work closely with their State counterparts to build on existing relationships at these locations so that we can obtain the necessary samples.

Payment for services will help cover additional costs incurred by producers and the industries participating in our surveillance program. For example, costs for transporting an animal or carcass to the collection site from a farm or slaughter establishment may be reimbursed, or disposal expenses for “suspect” cattle that test non-negative or that cannot be rendered may also be covered.

NATIONAL ANIMAL IDENTIFICATION DATABASE

Question. The USDA announced the immediate implementation of a National Animal Identification program. The pilot for this system has been underway with USDA for more than a year and a half to ensure uniformity, consistency and efficiency across this national system.

Will this be a mandatory or voluntary system? If it is not mandatory could it satisfy requirements for international trade in beef and cattle?

Answer. At the present time, participation with a national animal identification program would be on a voluntary basis while the USDA moves forward with the beginning stages of implementation. As the USDA learns more during the implementation of the system, USDA would likely move into rule-making.

Implementing a national identification system that records animal movements will enable APHIS officials to complete the tracing of animals potentially exposed to a disease as timely as possible. Demonstrating our ability to contain and control the disease will provide the scientific data to document appropriate trade status issues. The animal tracking system will play a critical role in maintaining and/or restoring our export markets for U.S. livestock and animal products during and after an animal disease outbreak.

Question. What considerations for maintaining the privacy of this information in a national animal identification database are being made?

Answer. The USDA recognizes that producers are concerned about the confidentiality of the national system. USDA is not seeking marketing or production information, but only information that would help us track animals for disease purposes. We are examining all applicable laws and regulations, as well as the potential need for additional legislative authority, in our efforts to address this issue.

Question. In 2002 many states, including California, suffered outbreaks of low-pathogenic avian influenza. USDA indemnified poultry producers in each of the affected states, except for California. In Virginia, West Virginia and North Carolina, USDA provided over \$50 million for indemnification. Despite inclusion of Report language directing USDA to indemnify California, Nicolas Turkey Breeders in Sonoma, California remains the only poultry operator omitted from this program.

I would like to know what steps are you taking to rectify this situation?

Answer. In 2002, when positive cases of Low Pathogen Avian Influenza had been found in New York, New Jersey, Texas, Maine, Michigan, and California; State authorities had taken the responsibility of controlling and eliminating the disease with no assistance provided from Federal authorities. In the case of Virginia, West Virginia, and North Carolina, LPAI was spreading at a rate that State officials could not control. At the request of the State of Virginia the USDA stepped in to provide

assistance with depopulation, indemnities, cleaning and disinfection of premises; disposal of carcasses; epidemiology support; data management; and information dissemination. The California outbreak was relatively isolated and the State officials were able to control further spread. As a result, USDA does not intend to indemnify Nicolas Turkey Breeders for their turkey breeder flock.

QUESTIONS SUBMITTED BY SENATOR RICHARD J. DURBIN

SINGLE FOOD SAFETY AGENCY

Question. Currently, Federal oversight for food safety is fragmented with at least 12 different Federal agencies and 35 different laws governing food safety. There are also dozens of House and Senate subcommittees with food safety oversight. With overlapping jurisdictions and scattered responsibilities, Federal agencies often lack accountability on food safety-related issues and resources are not properly allocated to ensure the public health is protected. Our Federal food safety statutes also need to be modernized to more effectively ensure that food safety hazards are minimized.

President Bush and Secretary Ridge have both publicly discussed the concept of combining Federal food safety responsibilities into a single agency. In the past, USDA has stated its opposition for such a move.

Assuming USDA's position has not changed, what do you see as the disadvantages of combining the Federal food safety agencies into a single agency? Are there any advantages?

Answer. Over the years, there has been much discussion about consolidating all food safety, inspection, and labeling functions into one agency in an effort to increase the effectiveness of the food safety system. In 2002, the White House established a Policy Coordinating Committee (PCC), led by the Domestic Policy Council and the National Economic Council, to look into the single food agency issue. The PCC concluded that the goals of the Administration are better advanced through enhanced interagency coordination rather than through an effort to create a single food agency.

USDA routinely communicates and coordinates with other government entities to ensure a safe and secure food supply. With authority over meat, poultry, and egg products, USDA's FSIS plays an integral role in ensuring the safety of America's food supply. As a partner in the U.S. food safety effort, FSIS strives to maintain a strong working relationship with its sister public health agencies. Cooperation, communication, and coordination are absolutely essential to effectively address public health issues.

The present statutory framework recognizes distinctions associated with the relative risks and hazards of foods and the food safety and food security issues that bear on public health. USDA's mission is to provide leadership on food, agriculture, and natural resources based on sound public policy, the best available science, and efficient management. Within USDA, the nearly 10,000 employees of the FSIS dedicate their careers and lives to protecting public health. USDA inspectors are in plants every day enforcing our nation's food safety laws. The statutes that are administered are clear and demand unwavering attention to ensuring that consumers continue to enjoy the safest and most abundant food supply in the world. It is this focused attention to food safety, food security, and public health that is best supported by the current organizational placement of the USDA food safety mission.

FSIS bases its policy decision on science, so the single food agency discussion boils down to one

Question. will there be a measurable benefit to public health? In other words, would such an effort save lives and reduce foodborne illness rates? As with any new food safety and security effort, we must make sure that we maintain and continue improving on any progress that has been made to improve public health. It is important to make sure that any disruption to the current food safety system effectively improves food safety and public health. USDA looks forward to working with Congress to examine these issues and to continue to keep the nation's food supply safe and secure and strengthen public health.

Question. We have recently witnessed the consolidation and creation of the Department of Homeland Security. Do you believe the creation of DHS could serve as a model for the creation of a single food safety agency?

Answer. The outcome of the policy discussion concerning a single food safety agency may be addressed in answering one key

Question. Will there be a measurable benefit to public health? We must assure that any disruption to the current food safety system effectively improves food safety and public health. Additionally, the costs associated with any major overhaul to

the U.S. food safety system must be considered. It is important to determine what the financial and human costs associated with a single food safety agency might be and to determine if this cost will best leverage funding for food safety.

Question. Secretary Veneman, I believe you have been noted as saying that the statutes governing meat inspection “pre-date the Model T” and have implied that these statutes need to be modernized. I agree with you. Please identify what efforts you have made in the past year to accomplish this goal.

Answer. During the past year, we have taken a hard look at our statutory authorities, and have held meetings with consumer and industry groups to ensure that we received the input of a variety of sources. Our efforts culminated in the development of “Enhancing Public Health: Strategies for the Future,” the Food Safety and Inspection Service’s (FSIS) 2003 Vision Paper, which was published in July 2003. In outlining the Department’s food safety vision, steps have been identified that must be taken before consideration of changes to our statutory authorities.

SOYBEAN RUST

Question. I am very concerned about the risk of importing Asian soybean rust into the continental United States. This could be a potentially devastating situation to our soybean crop and impose heavy economic burden on American farmers and consumers. I noticed this particular disease was not mentioned in your statement regarding APHIS’ plan to deal with intentional and unintentional disease.

I understand various pathways of entry for rust spores have been suggested which range from natural wind current to human or maritime transport. I am particularly concerned about the movement of soybeans and soybean meal through import channels. Soybean and soybean material produced in soybean rust-infected areas have the potential to carry viable spores when they are transported. I understand the potential viability of soybean rust spores can be eliminated if the soybean material is processed, heat-treated and handled properly.

I, along with a number of my colleagues, wrote your office (a month ago) stating our concern on allowing imports from diseased areas until APHIS completes its risk assessment and has a plan in place to ensure we do not inadvertently import this devastating fungus. I would appreciate a response to these concerns. In addition, I would like to hear what the agency is doing to prevent the importation of soybean rust.

Answer. Our response to your concerns about this disease was sent on March 25, 2004. As we indicated in the letter, APHIS officials are looking closely at our country’s importation of soybean seed, meal, and grain. Our analysis to date has shown that clean soybean seed and soybean meal—which is a heat-treated, processed product—pose only minimal, if any, risk of introducing this disease.

APHIS officials conducted site visits to soybean grain elevators in New Orleans on January 7, 2004, and to grain elevators and processing facilities in Brazil from February 10–12, 2004, to examine how the storage, loading, and shipping of export-quality soybeans are handled in the two countries. APHIS officials have determined that soybean leaf debris associated with the “foreign material” found in soybean grain shipments could present a potential pathway for the introduction of soybean rust. However, foreign material in soybean grain shipments typically amounts to less than 2 percent of the shipment. Moreover, as it is normal commercial practice to harvest soybeans after the plants have been defoliated, leaf debris should compose only a very minute part, if any, of the foreign material. Therefore, the foreign material found in soybean grain is an unlikely pathway for the introduction of soybean rust.

APHIS has developed a strategic plan to minimize the impact of the introduction and establishment of soybean rust in the United States. The strategic plan describes our four-pronged approach to the disease, focusing on protection, detection, response, and recovery. We developed the plan in cooperation with our State cooperators, other USDA agencies, and industry representatives.

Our protection efforts focus on preventing the human-assisted entry of soybean rust through the collection of off-shore pest information, a pathway pest risk assessment currently underway, and commodity entry standards. In this regard, Customs and Border Protection officials are inspecting imported shipments of soybeans to make sure that they meet our entry standards and notifying APHIS of these incoming shipments.

We are currently conducting the risk assessment to evaluate the levels of risk involved with soybean imports and to develop mitigation measures to reduce any such risks. We have completed the first step in this process, a review of available scientific evidence on the risk of soybean rust’s entry, and posted the document on APHIS’ Web site. The collection of off-shore information from trading partners and

APHIS personnel overseas is helping us to understand possible reservoirs and routes for infection and will enhance our detection, response, and recovery efforts.

Our goal for the detection, response, and recovery aspects of the strategic plan is to ensure that a wide variety of stakeholders, including growers, crop consultants, State officials, extension agents, and many others can recognize the disease and know how to report possible introductions. We are monitoring sentinel soybean fields in eastern seaboard and southeastern States, the areas where we believe the disease would most likely enter the country, for the presence of soybean rust and have also begun training stakeholders in detection, identification, and disease management. We are also supporting the development of forecasting methods that would help predict where the disease would spread once it arrived in the United States.

APHIS has established a Soybean Rust Detection Assessment Team, a rapid response team composed of scientific experts and State and regulatory officials. Team members met in January 2004 to plan specific emergency actions that would be immediately activated in response to a detection of soybean rust. Most recently, USDA officials participated in a soybean rust conference that was cooperatively organized by USDA, five pesticide companies, and the American Soybean Association. The primary goal of the conference was to disseminate to soybean farmers the knowledge, information, and techniques they will need to manage this pathogen when it reaches in the continental United States.

CHILDHOOD OBESITY

Question. To address this issue, many schools have explored creative approaches to promote healthy eating, and some of those approaches have been successful.

These include efforts to: integrate nutrition education into the school curriculum; experiment with food packaging; and expose students to different fruits and vegetables.

Efforts in some states are promising, and a number of schools have reported increased vegetable consumption and student acceptance of other healthier food choices.

Unfortunately, such efforts remain limited and are often compromised by budget pressures. Recognizing this, on February 5, 2004, I sent a letter to your office, expressing my desire to work with you and your department to establish demonstration projects in several Illinois school districts to identify effective strategies to increase student acceptance of healthy foods.

My staff has been in contact with your office in efforts to obtain a response to this letter. I would like to know if it is going to be possible to establish these demonstration projects. What new programs does the USDA plan to initiate to combat this growing threat of childhood obesity?

Answer. I asked Undersecretary Bost to respond to your letter, which I understand he did on March 15. USDA's Team Nutrition administers a competitive grant program that assist States on initiatives that promote the nutritional health of the Nation's children. Team Nutrition has worked with the State of Illinois in the administration of the seven grants awarded to the State over the past 9 years totaling \$1.2 million. The Department is preparing to review new proposals for the fiscal year 2004 Team Nutrition grant program. These proposals could include mini-grants for funding school districts interested in developing innovative programs to promote healthy eating choices.

In addition, the Food and Nutrition Service has joined the working group you have launched to deal with childhood obesity; I understand they will begin to meet in the very near future to discuss the group's goals and potential opportunities to address this important issue.

USDA did receive funds in fiscal year 2004 to pursue a number of initiatives, and has proposed additional ones for fiscal year 2005 to address obesity and promote healthy weight. With this additional funding, the Department is developing new interventions in WIC to promote healthy eating for infants and children—efforts that will help our youngest participants develop healthy habits for the long term. USDA received \$14.9 million in its fiscal year 2004 appropriation to enhance WIC breastfeeding promotion through peer counseling. The use of peer counselors has proven effective in increasing initiation and duration of breastfeeding—the feeding practice best suited to giving most babies a healthy start. USDA also received \$4 million in fiscal year 2004 to initiate WIC Childhood Obesity Prevention Projects, which build on the success of the Fit WIC to work in partnership with States on innovative strategies to use WIC to prevent and reduce childhood obesity. Ongoing funding for these initiatives is critical to ensuring continuous improvement; and a \$5 million increase has been requested for each initiative in fiscal year 2005. In fis-

cal year 2004, \$2 million in WIC Special Project grant funding is being used to promote consumption of fruits and vegetables.

In addition, \$2.5 million was requested in fiscal year 2005 to expand the Eat Smart. Play Hard.? campaign and establish a cross-program nutrition framework to help ensure a comprehensive, integrated approach to nutrition education in all nutrition assistance programs.

The Department has efforts underway in other programs as well. USDA, as part of the Department's Strategic Goal 4: "Improve the Nation's Nutrition and Health," established a specific performance measure to reduce overweight and obesity among Americans. As a partner with the U.S. Department of Health and Human Services and other public and private sector stakeholders, USDA will take actions to encourage a reduction in overweight and obesity such that adult obesity will be not greater than 20 percent by 2010 (it is currently 30 percent), and child and adolescent overweight will be no greater than 8 percent (when last measured 15 percent of the Nation's children ages 6 to 19 years of age were overweight). The efforts underway in all the Federal nutrition assistance programs promote proper nutrition and healthy weight. However, to help ensure progress on this performance measure, the Department is reshaping nutrition education in the Food Stamp Program to target activities that promote healthy weight; exploring new ways to support healthy weight through the WIC Program; and promoting increased fruit and vegetable intake through partnership with other Federal agencies and the National 5-A-Day Program.

BOVINE SPONGIFORM ENCEPHALOPATHY (BSE)

Question. We still don't have a firm grasp of the prevalence of BSE in the nation's cattle herd. The USDA announcement on March 15th proposed an expansion of BSE testing to include over 200,000 cattle from the "high risk" group and 20,000 from clinically normal older cattle.

Sampling approximately half of the high-risk group of cattle provides meaningful statistics on the prevalence of BSE in the sub-population of cattle. However, 20,000 samples from an estimated population of 1 million older, clinically normal cows is not enough to validate disease prevalence for a population of that size.

There are millions of cattle, mostly aged dairy cows, that are older than the FDA ruminant feed restrictions of August 1997. Many of these cows received potentially contaminated meat and bone meal, much of it imported from the EU, well into 1998. It is this sub-population of cattle that must be tested for BSE as they are processed into the human food supply.

However, questions remain as to how the USDA can gain access to enough samples to meet the proposed number of cattle tested for BSE.

I have sent you two letters which have yet to be addressed. I would appreciate a response to these letters and specifically these questions:

You stated you did not know the ambulatory status of the Washington state Holstein cow that tested positive for BSE. I understand an investigation by the OIG has been opened. If it turns out the only animal that has tested positive for BSE in the United States was clinically normal and was found only through chance, then we must question the USDA's BSE surveillance program that focuses only on suspects, non-ambulatory and dead cattle.

Answer. Prior to the passage of FDA ruminant feed restrictions in 1997; USDA prohibited the import of ruminant-origin meat and bone meal from countries known to be affected by BSE beginning in 1989, and in 1997 we prohibited the importation of ruminant-origin meat and bone meal from all of Europe. This was done to minimize the likelihood of aged dairy cattle in the United States being exposed to potentially contaminated meat and bone meal. Even more importantly, the United States has traditionally been a net exporter of rendered protein products. Our records simply do not show that there were significant imports of meat and bone meal from Europe for incorporation into livestock feed even when our regulations permitted such products to be imported.

In addition, USDA has maintained an aggressive surveillance program since 1990. This surveillance has been targeted at the population where we are most likely to find the disease if it is present—adult animals that have some type of clinical signs that could be consistent with BSE. The index cow in Washington State fit in our targeted population, as she was not clinically normal. According to Agency records, when the index cow arrived at the plant, a Food Safety Inspection Service veterinarian conducted a clinical assessment and classified her as non-ambulatory disabled. The Department stands behind that assessment.

USDA continues to target its BSE surveillance efforts on cattle populations at the highest risk of having BSE. Specifically, surveillance has been targeted at cattle ex-

hibiting signs of neurologic disease; condemned at slaughter for neurologic reasons; testing negative for rabies and submitted to public health laboratories and teaching hospitals; and appearing non-ambulatory (including those exhibiting general weakness severe enough to make it difficult but not impossible to stand), also known as “downer cattle.” We also target cattle that die on the farm for unexplained reasons.

USDA’s testing regime for BSE will follow our prescribed plan regardless of whether the afflicted animal in Washington State was a downer cow. There is a very important distinction to be made between “ambulatory” cattle and “apparently healthy” cattle. An animal may be ambulatory but have other signs of disease that make it an appropriate animal to test. In addition, non-ambulatory cattle may be completely and entirely unable to walk, or intermittently so. It is not uncommon for a downer cow to be “down” then “up” several times over the course of the journey from farm to slaughter. Weak animals—either with a specific weakness, such as in their hind legs, or a general weakness—may be considered non-ambulatory for surveillance purposes because they cannot stand or walk completely normally. All evidence to date indicates that the animal in Washington State was selected appropriately for our targeted surveillance.

As we recently announced, we plan to test as many cattle in the targeted high-risk population as possible in a 12-month to 18-month period and then evaluate future actions based on the results of this effort. The plan also incorporates a small random sampling of apparently normal aged animals at slaughter.

The international standard setting organization—the World Organization for Animal Health—recognizes that focusing all BSE surveillance efforts on testing apparently healthy animals is the most inefficient and ineffective method of actually finding disease.

In addition, no matter what the prevalence of the disease in the United States, there is a series of firewalls in place that dramatically reduce any possible risk to consumers. These safeguards include the ban on all parts of animals from high-risk populations from the food supply, along with potentially infective tissues—specified risk materials—from all cattle over 30 months of age.

Question. If states are not allowed to do their own testing, then how does the USDA plan a “robust” expansion of its BSE testing from 20,000 in 2003 to over 200,000 during the next 12–18 months?

Answer. Throughout the history of our surveillance program, USDA has worked to obtain samples from the targeted animal population, wherever these samples may be located. In order to obtain the samples, USDA–APHIS has worked with facilities other than federally inspected slaughter establishments as part of BSE surveillance efforts. These facilities included renderers, salvage slaughter facilities (i.e., not slaughtered for human consumption), and other animal disposal industries.

Under our new surveillance program, we will build on these efforts to ensure that we maintain access to our targeted surveillance population. We will also be reinforcing our educational and outreach efforts to producers, so they will know who to contact about testing dead or downer animals on the farm.

USDA–APHIS–Veterinary Services’ officials across the country will work closely with their State counterparts to build on existing relationships at these locations so that we can obtain the necessary samples. Payment for services will help cover additional costs incurred by producers and the industries participating in our surveillance program. Historically, all BSE testing in the United States has been performed exclusively at the National Veterinary Services Laboratories (NVSL) in Ames, Iowa. Under the new surveillance program, USDA plans to use a network of State and Federal veterinary diagnostic laboratories to conduct BSE surveillance tests. Confirmatory BSE testing will still be conducted at NVSL.

Question. If state veterinary diagnostic laboratories or private companies meet or exceed the USDA standards for BSE test quality control and sample chain of custody, then why should states and private companies not be allowed to test animals for BSE within their states?

Answer. USDA’s targeted surveillance program is designed to identify the presence of BSE in the U.S. cattle population if it exists. Under our current surveillance plan, using APHIS’ National Veterinary Services Laboratories and participating Animal Health Network laboratories, we can assure trading partners of the program’s scientific legitimacy. We may not be able to make the same case to the international community if industry dictates the parameters of the testing program. Further, the use of a rapid test would imply a consumer safety aspect that is not scientifically warranted. Also, because USDA will be restricting BSE testing to public laboratories, we can ensure that our testing remains transparent but does not cause undue public concern if a rapid test produces a false positive reaction.

Question. Given the limited access to suspect and non-ambulatory cattle, how many cows have been tested for BSE since January 1st of 2004?

Answer. Between January 1, 2004 and March 31, 2004, approximately 5,500 cattle were tested for BSE. USDA anticipates the number of cattle tested per month to increase substantially once the enhanced surveillance plan is fully implemented on June 1, 2004.

Question. Since there are no incentives for producers to submit non-ambulatory or sick animals for BSE testing, how can the USDA expect to test over 200,000 of these “high risk” animals during the next 12 to 18 months?

Answer. Throughout the history of our surveillance program, USDA has worked to obtain samples from the targeted animal population, wherever these samples may be located. In order to obtain the samples, USDA-APHIS has worked with facilities other than federally inspected slaughter establishments as part of BSE surveillance efforts. These facilities included renderers, salvage slaughter facilities (i.e., not slaughtered for human consumption), and other animal disposal industries.

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Payment for services will help cover additional costs incurred by producers and the industries participating in our surveillance program. For example, costs for transporting an animal or carcass to the collection site from a farm or slaughter establishment may be reimbursed, or disposal expenses for “suspect” cattle that test non-negative or that cannot be rendered may also be covered. Other expenses may also be addressed in the program.

Question. How will the \$70 million earmarked for expanded BSE surveillance be distributed among costs for tests, laboratory expansion, certification and manpower needs, sample collection and shipping, education, communications and incentives for collection of samples?

Answer. We estimate that the full cost of the enhanced surveillance program will be approximately \$76.4 million. However, USDA was able to offset some of these costs by directing funds from previous Commodity Credit Corporation transfers towards this 12- to 18-month effort.

Of the total need identified, USDA anticipates spending the funds as follows:

(In thousands of dollars)

Program Component	Cost
Personnel and Benefits (Includes investigators, laboratory inspectors and manager, pathologists, program analysts, sample collectors in the field, staff veterinarians, etc.)	9,078
Travel (includes trips for meetings, training sessions, outreach)	1,445
Transportation (Includes shipment of samples for testing and the transportation of animals, animal parts, carcasses, etc. for sampling and/or disposal)	19,013
Rent, Communication, Utilities (Includes offsite collection/storage facilities)	400
Other Services (Includes agreements with contract labs, laboratory training set-up, costs associated with carcass/offal storage until test results confirmed, disposal of non-negative and certain other carcasses, database costs, printing, and indirect costs, etc.)	36,994
Supplies and Materials (Includes shipping supplies—cooler box, centrifuge tubes, etc.; test kits)	4,400
Equipment (Includes robotics and other equipment for cooperating labs, additional equipment for NVSL and Center for Vet Biologics)	5,059
Total	76,389

QUESTIONS SUBMITTED BY SENATOR TIM JOHNSON

COUNTRY OF ORIGIN LABELING

Question. I have the February 10th response from Bill Hawks, Under Secretary for Marketing and Regulatory Programs, to my December 2003 letter. I ask you, Secretary Veneman, for a more substantial response to my initial question. How are you interpreting the 2-year delay on COOL, and will the delay apply to the rule-making process?

Answer. The Omnibus Bill delayed the implementation of mandatory COOL for all covered commodities except wild and farm-raised fish and shellfish until September 30, 2006. Accordingly, USDA is precluded by law from immediately implementing a mandatory COOL program for all commodities. Currently, we are review-

ing the comments received on the proposed regulations and will continue to implement COOL as mandated by the 2002 Farm Bill and the Omnibus Bill.

Question. Secretary Veneman, with respect to the feasibility of country of origin labeling, have you and your department reviewed the GAO report that Senator Daschle and I requested?

Answer. Yes, my staff and I have reviewed the report.

Question. Has the United States Department of Agriculture reviewed the multiple assertions on the part of GAO that deem country of origin labeling to be entirely feasible and much more cost effective than your department originally contended?

Answer. Yes, we have reviewed the GAO assertions. The GAO report recognizes that the existing Federal, State, and foreign country programs that were suggested for use as models in implementing mandatory COOL will not be particularly useful for meat, fish, and shellfish due to the law's unique definitions of a U.S. product. The preliminary recordkeeping burden estimate that AMS published in conjunction with the voluntary country of origin program, which served as the basis for GAO's report, was \$1.9 billion. While the report questions the assumptions used by AMS in formulating this estimate, it also recognizes that this estimate did not include the costs of segregating and storing foods and for labeling products.

DEVELOPING THE ANIMAL IDENTIFICATION PROGRAM

Question. How do you intend to develop the animal identification program, and what parties will you include in the process? Will producers and scientists be adequately represented and consulted?

Answer. Implementation of a national animal identification system will begin through cooperative agreements to assist state and other entities to develop the capacity to interface with the national repositories. Federal funds would not be earmarked for hardware such as identification tags or electronic readers. Cooperators would decide to develop the interface and solicit producer and non-producer participation into the system. USDA expects that the funding level would start at the highest levels in Phases I and II as cooperators and species are added but then decline into a steady state maintenance level over time. USDA does not envision the Federal funding being used for hardware purchases in the long term, except for maintenance and additional development of the national allocators and repositories. USDA also expects that competition among vendors for adoption of their technologies by producers would result in private technology vendors also making investments in the system infrastructure to position their technologies.

A major factor contributing to the success of this program will be state participation and communication with and educating producers and other stakeholders as to the operation of the program and their responsibilities. Some states have started activities that mirror, to various degrees, the identification of premises and animals. Many of these activities are supported by USDA funds. Cooperative agreements would support the interface of these systems with the National Animal Identification System. Some agreements with early cooperators would be established early in Phase I. USDA recommends that additional agreements with a broad range of cooperators be established later in Phase I and into Phase II.

The decision process for these recommendations included a group effort of USDA's BSE response coordinator, the Deputy Under Secretary for Farm and Foreign Agricultural Services; USDA General Counsel; and USDA Chief Economist assisting the Chief Information Officer in developing a plan and strategy to implement a National Animal Identification System. The group relied heavily on the excellent information developed as part of the U.S. Animal Identification Plan (USAIP), and on the expertise of the USAIP Steering Committee; the Under Secretary for Marketing and Regulatory Programs; and the Administrator and staff of the Animal and Plant Health Inspection Service. The group also met with a broad spectrum of organizations and companies representing the meat supply system, from production through retailing. The recommendations of the group reflect the complex structure of the livestock industry and previous efforts to design and implement NAIS.

BSE TESTING

Question. Secretary Veneman, a rapid, live test will be instrumental in reestablishing our trading opportunities in key markets. How much money would the department need to develop this test, and have you in fact initiated the process?

Answer. The Agricultural Research Service is conducting research to develop live animal tests for transmissible spongiform encephalopathies. ARS has successfully developed such a test for scrapie in sheep and has contributed to such a test for CWD in farmed deer using non-brain tissues accessible in live animals. Unlike the sheep third eyelid and the deer tonsil tests, cow material does not contain prions

at concentrations that can be detected with current technologies. Using current funding, ARS is enhancing the sensitivity of current tests to look for prions in blood where they may be present at very low levels. ARS is also developing novel proteomic approaches to prion detection. This research will be enhanced by an additional \$1 million included in the President's fiscal year 2005 budget which will support the studies to determine the genetic susceptibility of cattle to BSE. Such information will be helpful in identifying what peripheral tissues might be used to detect prions and/or what alternative genetic markers might be indicative of a cow being infected with BSE-causing prions.

ENERGY BALANCE OF ETHANOL

Question. Dr. Collins, the United States Department of Agriculture has conducted extensive analysis on estimating the net energy balance of corn ethanol. Technological advances in ethanol conversion and increased efficiency in farm production have produced demonstrated improvements and a positive net energy balance.

At a time of increasing prices for some inputs and the continued expansion of ethanol plants and capacity throughout the country, could you please summarize the USDA's latest conclusions as to the positive net energy balance of ethanol?

Answer. Although it takes energy to produce ethanol, repeated USDA research shows a positive net energy balance of corn ethanol. The energy in ethanol exceeds the amount of energy used to produce it, and this energy balance has improved over time.

Technological innovations in corn production and ethanol conversion are important factors in this improvement. Corn yields have improved, and ethanol plants are rapidly adopting innovations which substantially reduce the energy required to convert corn into ethanol. Our most recent estimate of the energy ratio is 1.67, up from 1.22 in 1995. This indicates that the energy content of ethanol is 67 percent greater than the energy used to grow, harvest, and transport corn, and to produce and distribute the ethanol. USDA will be presenting our most recent study at the Corn Utilization Conference, June 7-9, 2004 in Indianapolis, Indiana.

Question. Dr. Collins, the Reformulated Gasoline Program (RFG) is a key contributor toward mitigating ozone problems in some of America's largest metropolitan areas. The principal oxygenate used in the RFG Program, MTBE, is linked to underground water contamination and several states have taken action to phase-out and then ban the use of MTBE as an oxygenate.

Dr. Collins, as the Congress works to pass a renewable fuel standard, can you please summarize for the Committee the latest benefits of using ethanol as an oxygenate under the existing RFG Program?

Answer. Ethanol contains 35 percent oxygen, and adding oxygen to fuel results in more complete fuel combustion, thus reducing harmful tailpipe emissions. Ethanol also displaces the use of toxic gasoline components such as benzene, a carcinogen. Ethanol is non-toxic, water soluble, and quickly biodegradable.

According to the National Research Council, blending ethanol in gasoline reduces carbon monoxide tailpipe emissions. Additionally, RFG, including ethanol-blended fuels, reduce tailpipe emissions of volatile organic compounds, which readily form ozone in the atmosphere. Thus, the use of ethanol can play an important role in smog reduction.

Importantly, where smog is of most concern, gasoline blended with ethanol must meet the same evaporative emission standard as gasoline without ethanol. This ensures that these ethanol blends provide further emissions reductions that limit ozone formation.

Ethanol is produced from grains and other biomass in much the same way as beverage alcohol. MTBE, on the other hand, is a toxic additive produced from natural gas and methanol. Exposure to ethanol vapors coming from ethanol-blended gasoline is very unlikely to have any adverse health consequences. Because ethanol is naturally present in blood and the body rapidly eliminates ethanol, exposure to ethanol vapors is unlikely to be a health hazard.

STANDARD REINSURANCE AGREEMENT

Question. With respect to the Standard Reinsurance Agreement, my office has heard substantial complaints regarding the Risk Management Agency's proposed draft.

Where are you in the process of reviewing these complaints, and how do you propose to change the SRA to ensure it is friendlier to producers and agents alike?

Answer. RMA reviewed comments from insurance companies and interested parties to revise the first draft. On Tuesday, March 30, RMA announced the release of the second SRA proposal. RMA believes that the second draft demonstrates re-

sponsiveness to concerns raised by companies and interested parties in the first round of negotiations.

QUESTIONS SUBMITTED BY SENATOR MARY L. LANDRIEU

NATIONAL FINANCE CENTER—E-PAYROLL INITIATIVE

Question. What, if any, action do you plan to take with respect to this proposal?

Answer. USDA has worked with the Office of Personnel Management (OPM) to review and respond to the State of Louisiana's "e-Government/e-Payroll Project Initiative." OPM's e-Government Initiatives Office took the lead in working with the Payroll Advisory Council, the Office of Management and Budget (OMB), the various Federal councils, and others involved in the e-Payroll initiative to respond to the proposal. On April 19, 2004, OPM wrote the Honorable Don J. Hutchinson, Secretary of Louisiana's Department of Economic Development, to share with him the results of this review. A copy of this memorandum is attached.

[The information follows:]

OFFICE OF PERSONNEL MANAGEMENT,
Washington, DC, April 19, 2004.

Hon. DON I. HUTCHINSON,
Secretary, Department of Economic Development, Baton Rouge, LA.

DEAR SECRETARY HUTCHINSON: Thank you again for the opportunity to review your "e-Government/e-Payroll Project Initiative" proposal. As a part of the evaluation process, you permitted our Payroll Advisory Council (PAC) the opportunity to review the proposal and provide comments. In February 2004, members of the PAC (that includes representatives from the Office Personnel Management, the Office of Management and Budget, 6-Payroll Providers, and Federal Councils) reviewed the proposal, and I would like to share the results with you.

In general, the PAC determined that the proposal was very well thought out and contains valuable ideas. However, it does not appear to meet the needs of the Federal Government at this time and is not in alignment with the strategic goals of the e-Payroll initiative. For example, while it discusses including the Department of Agriculture's National Finance Center (NFC) in some loosely defined development activities, it merely mentions NFC's partnership with the Department of Interior, National Business Center (NBC). Additionally, the proposal is unclear in regard to considerations for the employees at the NBC and NFC who will be affected by the proposal. The proposal also indicates that the State of Louisiana and private concerns will provide \$200 million for the advancement of the facility. Not stated in the proposal is what, if any, obligations the Federal Government would have to reimburse that amount. It is also not evident how the proposed corporation will interact with OPM, other authority agencies; or customers. An established process for collaboration with Federal authority agencies and customers is extremely critical since competing needs could place significant demands on the provider. The PAC was also extremely concerned with how the proposed corporation would address key national security concerns, especially those of the Intelligence community. Additionally, the PAC was also unclear as to how the proposal complied with the principles of fair and open competition, considering that thee-Payroll Providers operate out of several different States.

The proposal indicates that software development is one of the first priorities of the corporation. The PAC construed this to mean that the State does not have a viable product readily available to the Federal Government. Today, the e-Payroll Providers have independent systems; replacement of these four systems is targeted for fiscal year 2007. To achieve replacement in fiscal year 2007, e-Payroll and the Providers are exploring options today by conducting a feasibility study to assess commercial off-the-shelf (COTS) and Government off-the-shelf (GOTS) products. Upon completion of this study, it is planned to test these applications under a structured demonstration lab. Should the State of Louisiana have a product available in the next several months, it could be considered for inclusion in the demonstration lab.

Again, thank you for the opportunity to review the proposal. I would welcome any information that you might provide regarding the availability of software the State of Louisiana might have for inclusion in the upcoming demonstration lab.

Sincerely,

NORMAN ENGER,
Director, e-Government Initiatives Office.

Question. Since the activities of the NFC are outside the normal scope of business of the U.S. Department of Agriculture, in the event the Department cannot support this cost-effective approach to meeting the PMA, are you considering the possibility of the transition of the NFC to a structure or “ownership” that will facilitate this proposal?

Answer. As part of the e-Payroll initiative, USDA/NFC in conjunction with the Department of the Interior’s National Business Center (NBC), its e-Payroll business partner, submitted to OPM in August 2004, a proposal to combine the Government-wide, cross-servicing business lines of NFC and NBC into an organization characterized as:

- Commercial-like, Federal corporate entity
- Providing a wide range of services targeted at supporting the President’s e-Government Agenda
- Operational flexibilities defined; i.e., human resource and finance

This proposal is under review by OPM and OMB.

Question. What specific actions can you take from here to make sure the Louisiana proposal receives the full attention of the Department of Agriculture?

Answer. OPM’s e-Government Initiatives Office has taken the lead in working with the Payroll Advisory Council, the Office of Management and Budget (OMB), the various Federal councils, and others involved in the e-Payroll initiative to respond to the proposal.

Question. If Congress were to direct you, or suggest that you, your Department and the Department of Interior have authority to move out on a proposal like Louisiana’s, would you support such legislative authority?

Answer. We would work with OPM and OMB in support of any direction provided and work with them to implement this direction in line with the goals and objectives of the President’s Management Agenda to further delivery of cost-effective services to Federal employees and agencies.

Question. Is specific legislation necessary before you, your Department and the Department of the Interior proceed with some type of public/private partnership initiative like that proposed by the State of Louisiana?

Answer. We believe that specific legislation would be necessary to charter and authorize the new entity as well as provide the necessary structure, human resource, and financial flexibilities necessary for the organization to be successful. OPM has identified the need for legislation as a primary critical path item if the merged proposal proceeds.

NATIONAL FINANCE CENTER—THRIFT SAVINGS PLAN

Question. Ms. Secretary, as you are aware, the Federal Retirement Thrift Investment Board (FRTIB) Chairman, Andrew Saul, in his February 20, 2004 letter to you, said the Board is “giving notice of termination of software maintenance services and mainframe operations by NFC” for the Thrift Savings Plan. It is estimated that this action could result in the loss of as many as 35 to 40, if not more, of the highest paying jobs at NFC, and may lead to a subsequent decision by the “Thrift” Board to terminate the NFC’s “case management” of the TSP which involves another 400 jobs at the NFC. It is my understanding that according to some preliminary information received thus far from the “Thrift” Board and the NFC, the actions by the “Thrift” Board may not be warranted or justified at this point.

Has your office considered what, if anything, can be done to reverse this action by the Federal Retirement Thrift Investment Board?

Answer. The decision to purchase service from NFC is under FRTIB’s control. USDA believes strongly that continued use of NFC is still a cost-effective, sound business decision. We have taken steps to improve communication between USDA/NFC and FRTIB in an effort to rebuild the strategic partnership and retain the business. However, we do not know all of the factors influencing the Board’s decision, and therefore do not know if our actions will influence the outcome.

Question. What have your offices, specifically in DC, done in reply to the February 20th letter?

Answer. Tom Dorr, Senior Advisor to the Secretary, was appointed to represent USDA and to meet personally with senior FRTIB officials and to help clarify and resolve the issues. Mr. Dorr, as well as other executives of OCFO, has been in continuing contact with FRTIB and NFC since his assignment.

Question. I am concerned that changing the operations of critical elements of the Thrift Savings Plan operations and functions from the National Finance Center to “possible entities” in Washington, D.C. may cause even more customer problems and be less cost effective.

Please provide for the record any and all cost comparison studies or analyses the Department of Agriculture, the Thrift Board, or any other entities have done regarding “outsourcing,” moving,” or “changing” any and all TSP activities versus maintaining them at the National Finance Center.

Answer. FRTIB has had several studies conducted over the years.

Hewitt Associates prepared an analysis, Defined Contribution Outsourcing Feasibility Study, for FRTIB in November 1992. Continued service from NFC was the top ranked alternative under consideration. The Hewitt Associates experts concluded that keeping the TSP recordkeeping function at NFC with the existing software and management structure best met FRTIB’s and TSP participant needs at that time.

Logicon 4GT prepared a system review and recommendation report for FRTIB in 1995. NFC’s services were again rated favorably. According to the consultants in 1995, the benefits that TSP participants received relative to the costs paid at NFC were excellent. TSP participants were paying less than one-half of the private sector cost. The industry standard for comparing mutual/retirement fund administrative expense ratios between competitors is percent of assets—typically referred to as basis points. (One percent equals 100 basis points.) At the time of the Logicon review, NFC’s basis points were 7.7 of the 12 total TSP basis points.

NFC’s TSP costs are still low when compared to comparable efforts in industry. In his opening statement at the March 1, 2004, Senate Committee on Governmental Affairs, Senator Fitzgerald referenced the recent expense ratio of TSP and comparable private sector funds. In 2003, the expense ratio of the average TSP fund was 11 basis points. Per Lipper Services, comparable index funds in the private sector have an average expense ratio of 63 basis points. Between 1994 and 2003 when TSP’s basis points dropped from 12 to 11, NFC’s share of the basis points decreased from 7.7 to only 4.4, a decrease of 43 percent. Without the increased cost efficiencies of NFC, total TSP administrative costs would have been significantly higher than 11 points in 2003.

On March 4, 2004, FRTIB issued a multi-year contract to a private vendor for a parallel call center. This will result in the eventual movement of 50 percent of the call center workload from NFC in New Orleans to the vendor located in the Washington, D.C., metropolitan area. NFC paired with its e-Payroll partner, Department of the Interior’s National Business Center in Denver, to compete but lost the bid.

Question. Also, please provide for the record, or to the Subcommittee staff and our offices all relevant correspondences, notices, and memos between the Federal Retirement Thrift Investment Board and any offices in USDA (in Washington or at the National Finance Center) from January 1999 to today, relating to TSP management and operations with respect to this issue.

Answer. The information has been provided to the Subcommittee staff.

NATIONAL FINANCE CENTER—DATA MIRRORING

Question. The fiscal year 2005 USDA budget request provides \$12,850,000 in additional funding for the “acquisition of disaster recovery and continuity of operations technology of the National Finance Center’s data.” This additional funding may be necessary to complete the effort begun in fiscal year 2003 to fund a back-up, or data mirroring, center for the NFC. In fiscal year 2003, \$12 million was appropriated for this center, subject to reporting requirements by Congress.

As it appears that the Budget justification for fiscal year 2005 submitted to the Subcommittee by the Department only provides a four-sentence explanation with no budget table breakout, please provide for the record details and a specific breakout of what the \$12.85 million request in fiscal year 2005 includes.

Please provide for the record what has been obligated and or spent to date from the funds appropriated in fiscal year 2003 and for what purposes. In addition, please provide any relevant details.

Answer. NFC delivers critical service to the entire Federal community. Its highest impact business lines are Thrift Savings Plan recordkeeping for 3.1 million participants and payroll/personnel support to 122 Federal agencies. Disruption in either of these services due to a disaster would have wide, significant repercussions across the nation. NFC has undertaken a multi-year initiative with appropriated funds to address short-term vulnerabilities and as well as to begin longer-term actions required to implement a more secure remote alternate data center at another location.

The initial \$12 million was to be used on immediate improvements to NFC’s security and recovery infrastructure and to begin the actions required to establish the remote computing facilities. The immediate improvements were estimated at \$3.6 million—\$0.8 million for implementation of enhancements to network security and technical solutions to known network vulnerabilities and \$2.8 million for interim implementation of high availability mirroring through expansion of the current com-

mercial recovery center contract. The remaining \$8.4 million was to begin implementation of the alternate computing facility. Details on the projects follow.

- Implementation of enhancements to network security and technical solutions to known network vulnerabilities: Estimated \$800,000
 - Access control—no expenditure of appropriation required; will be achieved through the upgrade of the operating system on May 29, 2004
 - Logging and monitoring—\$26,977 expended for Blue Lance logging and monitoring software; installed and fully operational; \$52,000 anticipated for intrusion detection enhancements and installation/configuration of Tripwire (in the procurement process)
 - Vulnerability management—\$284,000 anticipated for vulnerability scanning and management software (in the procurement process)
 - Remote access—\$157,689 expended, \$157,787 obligated for Citrix hardware and software
 - Encryption—\$26,468 expended for Cisco encryption equipment; installation in progress
 - Authentication—\$95,000 anticipated; smart cards, technical support, and server to support two-factor authentication (estimated \$75,000; in the procurement process); Sygate Security Portal for remote connection policy enforcement (estimated \$20,000; in the procurement process)
- Implementation of mirroring to provide high availability and recovery of payroll/personnel data in NFC's reporting center within 24 hours of a declared disaster: Estimated \$2.8 million
 - Mirroring solution for payroll/personnel data in NFC's reporting center—NFC has received the proposals from vendors and is now in the process of evaluating them.
 - Network equipment upgrade at the recovery backup site to support mirroring solution—\$60,000 anticipated; in the procurement process

NFC initially estimated a one-time investment of approximately \$34.1 million to establish a Federally controlled alternate site within 350 miles of New Orleans that included collocation of business resumption capability. Final plans depended upon on the availability of facilities for lease or sublease in the targeted area that have already been outfitted for data center operations and the availability of funding. If NFC were able to secure space on an existing Federal facility that already meets Department of Homeland Security physical security standards, it could reduce costs below those shown in the original estimates. NFC is currently pursuing site location and business continuity options that would enable establishment of an alternate computing facilities environment that manages the risks associated with discontinued service. Final cost estimates are pending receipt of the responses from the Federal community. However, the remaining \$8.4 million of the fiscal year 2003 appropriation and the \$12.85 million proposed for fiscal year 2005 are expected to fund much of this critical investment.

- This one-time capital investment will address the following critical objectives:
- Undertake actions to reduce enterprise risk and support data mirroring capability. NFC is currently awaiting responses from prospective Federal sources to its statement of requirements seeking excess computing facility space.
 - Buy and install hardware and software needed to support the effort, set up a new tape library system, and design and implement point-in-time remote backup capability.
 - Evaluate emerging backup and recovery options and their associated costs.

The details of the initial \$34.1 million capital investment estimates are below. These were included in our September 2003 report to Congress. We will update this budget once we receive feedback from the prospective Federal site sources.

ONE-TIME CAPITAL INVESTMENT REQUIREMENT/SERVICEBASE COST

Requirement/Service	Base Cost
Alternate Data Center:	
Mainframe hardware/software	\$2,650,000
Distributed servers hardware/software	2,775,000
Storage	10,550,000
Tape	3,450,000
Firewalls/Virtual Private Network	675,000
Telecommunications/LAN equipment	2,000,000
Build-out cost/furniture for 16,000 sq. ft. data center space (including 11 employee workstations)	6,444,000
Design/engineering/project management contractual services	2,854,000

ONE-TIME CAPITAL INVESTMENT REQUIREMENT/SERVICEBASE COST—Continued

Requirement/Service	Base Cost
Subtotal	31,398,000
<i>Collocation of Business Resumption Capability:</i>	
Build-out cost for 52,000 sq. ft. office space	1,352,000
Furniture/workstations for 300 employees	1,200,000
Design/engineering/project management contractual services	135,000
Subtotal	2,687,000
Total	34,085,000

Question. As of today, what specific sites are under consideration for this data mirroring center?

Answer. We are preparing for solicitation from Federal sources. No specific sites are under consideration at this time.

Question. The fiscal year 2003 Continuing Appropriations Conference Report section of the Agriculture Appropriations Bill, 108–10, Pages 551–552, included report language directing the Secretary of Agriculture “to submit a feasibility study to the Committee on Appropriations on the need for remote mirroring backup technology of the National Finance Center’s data. This study should include a breakdown of the costs and time frame associated with acquiring such technology, and should designate an appropriate physical location for the site. . . .”

This “feasibility study” did not make any specific recommendations but it did provide a timeline for specific site determination that included a “competitive site selection for a secondary backup data center” starting in fiscal year 2004. Has this process begun?

Answer. Site specifications are complete. The next step is solicitation from Federal agencies, which will occur shortly.

Question. What is the current timeline and plan for this site selection process?

Answer. We anticipate sending the solicitation package to three Federal agencies and getting responses by the end of June 2004.

Question. The “feasibility” report essentially claims as the key reason for site selection and criteria for that selection the elimination of the “NFC’s extreme vulnerability to the hurricanes common to the Gulf Coast.” In fact, the report continually sites this reason as a critical factor.

Please provide for the record the number of times the NFC has been completely shut down because of hurricane events over the last 20 years. Also, provide for the record the number of times, over the same time period that the Department of the Interior’s National Business Center, General Service Administrations comparable data center and the Department of Defense pay and personnel functions have been shut down for weather related reasons as well as any other factors. This should also include the Office of Personnel Management operations in Washington, D.C.

Answer. Over the past 20 years, NFC was shut down on two occasions due to weather for a total down time of approximately 15 hours. On a third occasion, operations were limited due to weather conditions associated with a hurricane. Each of these occurrences took place since 1998. Regarding other agencies and Departments of interest to the Committee, we learned that the Department of the Interior’s National Business Center reports no complete building shutdowns. We have been unable to obtain up-to-date information from the other agencies identified.

QUESTIONS SUBMITTED BY SENATOR ROBERT C. BYRD

HUMANE SLAUGHTER OPERATIONS

Question. In fiscal year 2003, \$5 million was provided to the Food Safety and Inspection Service to increase, by 50 full time equivalents, resources dedicated to enforcement of the Humane Methods of Slaughter Act (HMSA). The President’s request for fiscal year 2005 includes \$5 million to continue this purpose.

Please describe how the \$5 million appropriated in fiscal year 2003 was allocated, and how the \$5 million proposed for fiscal year 2005 will be allocated.

Answer. The fiscal year 2003 Appropriations conference agreement provided \$5 million over 2 years for at least 50 FTE’s to enforce the HMSA. In 2003, FSIS directed the District Veterinary Medical Specialists (DVMSs) to evaluate the time

spent conducting humane handling verifications. The DVMSs determined that FSIS inspectors and veterinarians would spend an estimated 130,000 hours conducting ante-mortem and humane handling inspections, which translates to more than 50 FTEs. Based on the survey data, USDA believes that the requirements are being met as evidenced by the increased hours of humane slaughter activities. At the time the funding was provided, FSIS was developing Humane Activities Tracking (HAT) system to allow the agency to more accurately capture the time spent on humane handling and slaughter enforcement activities by FSIS inspection personnel.

In fiscal year 2005, the Administration has requested \$5 million for FSIS to continue the work funded only for fiscal years 2003 and 2004. This includes staffing and benefit costs directly associated with humane handling and slaughter enforcement activities.

Question. Please explain why you believe the manner you have taken to meet the additional 50 full time equivalent requirement will provide more effective HMSA enforcement than by using the appropriation to hire 50 individual inspectors dedicated solely to HMSA enforcement.

Answer. USDA considers humane handling and slaughter a top priority, and FSIS veterinarians and inspectors are required to enforce humane handling and slaughter regulations at all of the more than 900 federally inspected establishments. FSIS continues to improve training and education efforts to ensure that all field personnel understand their authority, obligation and accountability to rigorously enforce the Humane Methods of Slaughter Act (HMSA). The fiscal year 2003 Appropriations conference agreement provided \$5 million over 2 years for at least 50 full time equivalents (FTEs) to enforce the HMSA. FSIS secured at least 50 FTEs dedicated to HMSA enforcement during Calendar Year 2003. Based on the DVMS survey data, USDA believes that the HMSA requirements are being met as evidenced by the increased hours of humane slaughter activities across all federally inspected establishments. Because of the importance of this top priority to the entire field workforce, in fiscal year 2005, the Administration has requested \$5 million for FSIS to continue the work funded in fiscal year 2003 and 2004.

Question. Critics of current HMSA enforcement suggest that unless FSIS personnel are always present at animal handling and slaughter sites, there is no way to know if HMSA violations occur. Further, it has been suggested that plant employees use communication methods to warn handling and slaughter employees when FSIS personnel are approaching their work stations and, only then, is stricter compliance with HMSA requirements pursued by plant employees.

Would you please respond to these criticisms?

Answer. Humane handling activities and food safety systems are both under ongoing regulatory activities as part of FSIS inspection personnel's everyday responsibilities. FSIS employees use a variety of methods to determine compliance with the HMSA and do not rely upon a single mode of evaluation. Some of these methods include standing in establishments where they cannot be observed, listening to unusual livestock vocalizations, viewing any changes in carcasses (e.g., bruising), communicating with plant employees to ask how they handle certain situations, and conducting off hours inspections (e.g., observing humane handling during off-loading at a plant that receives animals during the evening hours. The Veterinary Medical Officer (VMO) is authorized administrative overtime to come back for unscheduled observation during the evening).

The DVMSs routinely work with the VMOs on the importance of utilizing different approaches to verifying humane handling requirements. DVMSs work with FSIS inspection personnel to emphasize the importance of, and methods of, observing humane handling in locations where inspection personnel are not readily identified. If there is not a location to verify animal handling without being observed, the VMO is instructed to stand in a location to listen for vocalization by the livestock, or excessive yelling by plant employees. Both are indicators that plant employees may be using excessive force to move the animals.

Question. How many plants under the jurisdiction of HMSA have the capability to allow FSIS personnel to observe undetected plant animal handling slaughter operations?

Answer. Most of the approximately 300 largest livestock operations have safe areas with minimal visibility where FSIS personnel can and do observe plant animal handling and slaughter operations without being observed by plant employees. In addition, DVMSs and VMOs are authorized to conduct off hours inspections to observe humane handling during off-loading at a plant that receives animals during the evening hours. However, continuous visibility is the most effective method to observe HMSA compliance in small and very small operations. VMOs are trained to listen for changes in an animal's behavior and to look for indicators while observing carcasses. The need to be able to make this type of an assessment is part of the

information provided by the DVMSs and is included in the new employee training for newly hired veterinarians.

Question. What is USDA doing to increase this capability?

Answer. FSIS inspection personnel have a continuous, on-going, daily presence in all livestock slaughter operations. The fact that FSIS personnel are constantly present and observing animal handling and slaughter procedures for compliance with the HMSA keeps the industry aware of the regulatory presence. DVMSs work with FSIS inspection personnel to emphasize the importance of, and methods of, observing humane handling in locations where inspection personnel are not readily identified. It is also addressed in the new training developed for newly hired veterinarians, and is addressed by the mentors provided to assist newly hired FSIS veterinarians. In addition, DVMSs and VMOs are authorized to conduct off hours inspections to observe humane handling during off-loading at a plant that receives animals during the evening hours.

Question. Would USDA support a requirement to require such a capability?

Answer. USDA has a continuous regulatory presence through its FSIS inspection personnel in all livestock slaughter operations under official inspection. FSIS conducts humane handling and slaughter verification using a complete array of inspection procedures and professional judgment to verify compliance with the HMSA. Requiring FSIS personnel to observe undetected plant animal handling slaughter operations would likely be a burden on small and very small plants.

Question. Would USDA support a requirement for, as an option, the installation of a closed-circuit television monitor to allow FSIS personnel to make these observations from a remote location? If not, why?

Answer. As the law requires, FSIS inspection personnel, including veterinarians, are in all federally inspected slaughter plants every day and every minute that they are in operation. An establishment may not slaughter without the presence of inspection personnel. Inspection personnel conduct humane slaughter verification procedures at these establishments on a daily basis. These procedures include observation of the establishment's stunning methods.

Cost must also be considered as the installation of a closed-circuit television monitor could place a burden on small and very small plants. If USDA were to bear the cost for such a system, substantial funding would be needed. In addition, maintenance costs would likely be problematic due to the potential difficulty in maintaining such a system in a high humidity environment.

USDA does not believe that the addition of cameras would improve the observation capability of trained inspectors. FSIS veterinarians are technically trained to observe subtle signs indicative of humane handling and slaughter methods, which may not be identifiable under video surveillance. For example, ensuring animals are either dead or at the level of surgical anesthesia is critical when evaluating stunning effectiveness. This requires hands-on evaluation of the animal. If these very subtle signs are missed, animals can return to consciousness within a few seconds. The presence of FSIS inspectors in a plant is much more integral to enforcing the HMSA. All in-plant FSIS personnel are expected to enforce this Act and are held accountable for taking corrective and/or enforcement actions if it is violated.

Question. Please provide information regarding the fiscal year 2005 cost of integrating the Humane Animal Tracking System within the FAIM architecture.

Answer. FSIS upgraded its electronic Animal Disposition Reporting System (eADRS) with the incorporation of HAT in February 2004. HAT will allow the agency to more accurately capture the time spent on humane handling and slaughter enforcement activities by FSIS inspection personnel. Fiscal year 2005 costs will be covered within base funding.

Question. Please provide information regarding the number of FSIS personnel, in fiscal year 2003, who may have received agency reprimands, or similar actions, for taking any HMSA regulatory action against a plant operation which was later found to be inappropriate or unnecessary.

Answer. All in-plant FSIS personnel are expected to enforce the HMSA and are held accountable for taking corrective and/or enforcement actions if it is violated. In fiscal year 2003, FSIS employees did not take any HMSA regulatory actions that were later found to be inappropriate or unnecessary. In fact, certificates of recognition have been provided to FSIS personnel for acting responsibly in certain HMSA enforcement situations.

Question. Conversely, please provide information regarding recommendations by FSIS personnel to take an HMSA regulatory action against a plant operation which was subsequently rejected by an FSIS supervisor.

Answer. USDA is not aware of any recommendations by FSIS personnel to take an HMSA regulatory action against a plant operation which was subsequently rejected by an FSIS supervisor. Because FSIS trains all in-plant Veterinary Medical

Officers (VMOs) and slaughter line inspectors about humane handling responsibilities, the agency is confident in their ability to properly enforce the HMSA.

Question. On pages 29 and 30 of GAO report 04-247, dated January 30, 2004, on the subject of the Humane Methods of Slaughter Act, six specific recommendations are listed for you to further strengthen HMSA regulatory actions.

Please describe steps you have taken to carry out each of these recommendations.

Answer. USDA places a very high priority on ensuring that animals produced for food are treated in a humane manner and has taken swift action in instances where establishments have been found in violation of the Humane Methods of Slaughter Act (HMSA). FSIS has already incorporated many of the recommendations made by GAO that will improve the quality and consistency of our enforcement efforts. Below is FSIS' action plan in regards to the recommendations.

GAO Recommendation

To provide more quantifiable and informative data on violations of the HMSA, GAO recommends that the Secretary of Agriculture direct FSIS to supplement the narrative found in noncompliance reports with more specific codes that classify the types and causes of humane handling and slaughter violations.

USDA Response

Noncompliance reports are stored electronically in the Performance Based Inspection System (PBIS). FSIS will determine whether it is feasible and appropriate to modify the PBIS to incorporate additional humane handling violation codes. The current database format contains detailed narratives from FSIS Noncompliance Records (NRs). These narratives contain a wealth of information beyond what is provided in a simple classification code and provide the basis for a thorough analysis.

In addition, DVMSs are now using procedures and tracking tools to continually monitor regional trends and anomalies in establishment compliance. These procedures and tracking tools are currently separate from PBIS. All noncompliance reports are now being sent to the District Office where they are reviewed and analyzed by the DVMS.

GAO Recommendation

To ensure that district officials use uniform and consistent criteria when taking enforcement actions, GAO recommends that the Secretary of Agriculture direct FSIS to establish additional clear, specific, and consistent criteria for District Offices to use when considering whether to take enforcement actions because of repetitive violations.

USDA Response

FSIS is developing guidance for inspection personnel which will (1) provide clear, specific, and consistent criteria for the District Offices when taking enforcement actions because of repetitive violations, (2) require the clear documentation of the basis for the decision regarding enforcement actions of repetitive HMSA violations and (3) provide criteria for determining when inspection personnel would issue an NR and when immediate suspension is warranted. FSIS expects to issue a Notice to inspection personnel this summer.

In addition, FSIS Directive 5000.1, "Enforcement of Regulatory Requirements in Establishments Subject to HACCP Systems Regulations" issued on May 21, 2003, and the Food Safety Regulatory Essentials courses provide guidance and direction to inspection personnel to ensure consistent use of enforcement actions. These materials emphasize a thought process rather than fixed criteria for initiating enforcement action. They pose a series of questions for inspection personnel to consider when determining whether a second violation is an isolated incident or a trend of noncompliance is developing.

GAO Recommendation

To ensure that district officials use uniform and consistent criteria when taking enforcement actions, GAO recommends that the Secretary of Agriculture direct FSIS to require that District Offices and inspectors clearly document the basis for their decisions regarding enforcement actions that are based on repetitive violations.

USDA Response

FSIS is developing guidance for inspection personnel which will (1) provide clear, specific, and consistent criteria for the District Offices when taking enforcement actions because of repetitive HMSA violations, (2) require the clear documentation of the basis for the decision regarding enforcement actions of repetitive violations and (3) criteria for determining when inspection personnel would issue an NR and when

immediate suspension is warranted. FSIS expects to issue a Notice to inspection personnel this summer.

FSIS is using the Administrative Enforcement Report (AER) process to ensure that the proper case support files and documents are in place when an enforcement action is taken. A key component of this case file is documentation generated by the FSIS in-plant employees. Properly documented NRs and memos of pertinent plant meetings, conversations, and other documentation are vital, and are important parts of the AER reporting process.

GAO Recommendation

To ensure that FSIS can make well-informed estimates about the resources it needs to enforce the HMSA, GAO recommends that the Secretary of Agriculture direct FSIS to develop a mechanism for identifying the level of effort that inspectors currently devote to monitoring humane handling and slaughter activities.

USDA Response

FSIS has developed a new computer database, Humane Activities Tracking, to provide detailed and current data related to time spent on specific humane handling and slaughter verification activities by inspectors. HAT is one component of the Agency's updated electronic Animal Disposition Reporting System (eADRS) and e-gov initiative. eADRS will replace the current use of FSIS paper forms to report information about animals presented for slaughter. FSIS will utilize information and data from the new tool to determine the adequacy of its resources for enforcing humane handling and slaughter requirements at the individual plants.

GAO Recommendation

To ensure that FSIS can make well-informed estimates about the resources it needs to enforce the HMSA, GAO recommends that the Secretary of Agriculture direct FSIS to develop criteria for determining the level of inspection resources that are appropriate on the basis of plant size, configuration, or history of compliance.

USDA Response

FSIS will use HAT and eADRS to document the number of animals slaughtered each day and the amount of time spent monitoring various aspects of humane handling and slaughter requirements. Information maintained in the eADRS will be regularly examined by FSIS managers to assist in inspection resource planning.

GAO Recommendation

To ensure that FSIS can make well-informed estimates about the resources it needs to enforce the HMSA, GAO recommends that the Secretary of Agriculture direct FSIS to periodically assess whether that level is sufficient to effectively enforce the Act.

USDA Response

FSIS will use eADRS and HAT to document the number of animals slaughtered each day and the amount of time spent monitoring various aspects of humane handling and slaughter requirements. Information maintained in the eADRS and HAT will be regularly examined by FSIS managers to assist in inspection resource planning, and to determine if staffing levels are adequate. Additionally, FSIS will periodically assess whether the staffing level is sufficient to effectively enforce the Act.

Question. With funds provided by this Committee in fiscal year 2001, USDA established 17 District Veterinary Medical Specialist (DVMS) positions dedicated solely to HMSA activities.

Please describe the activities of these DVMS personnel in fiscal year 2003, how they intend to carry out their responsibilities in fiscal year 2004, and how they will carry out their responsibilities in fiscal year 2005, and in particular, describe, if any, activities that are not related to HMSA enforcement including the percentage of time spent on non-HMSA enforcement. Specifically, what percentage of their time is spent in plants subject to HMSA jurisdiction?

Answer. USDA considers humane handling and slaughter a high priority and is committed to ensuring compliance with the HMSA. In fiscal year 2003, each DVMS attended training and then conducted assessments of each livestock facility within their district. The DVMSs provided leadership for humane handling and slaughter activities by conducting on-site training for field personnel during their visits. They disseminated new information to field personnel and coordinated humane handling and slaughter non-compliance actions for their District.

The DVMSs also participated in monthly conference calls and in working groups to assist the agency in humane handling strategies. The DVMSs have developed the Humane Interactive Knowledge Exchange (HIKE) tool, which provides humane han-

dling and slaughter scenarios to help improve the uniform understanding of humane enforcement throughout the field. The DVMSs participated in the development of the Humane Activities Tracking system and have developed tools to analyze humane handling data within their District to ensure that Frontline Supervisors are informed of any data trends. The DVMSs developed and utilized established protocols for following up on humane handling violations. The efforts and recommendations made by the DVMSs have improved the consistency of humane handling enforcement among all Districts.

In fiscal year 2004, DVMSs continue strengthening the humane handling and slaughter enforcement and education of FSIS inspection personnel. Thus far, in fiscal year 2004, each DVMS continues to conduct on-site training with field personnel and coordinate humane handling and slaughter non-compliance actions for their District. The DVMSs are utilizing HAT to document and capture the time spent by veterinarians and other FSIS inspection personnel conducting humane handling and slaughter activities. The DVMSs have provided expert advice for the development of new Directives and Notices used to inform inspection personnel of the requirements, verification activities, and enforcement actions for ensuring that the handling and slaughter of livestock is humane. The DVMSs have also surveyed field employees on their knowledge of and training needs for humane handling and slaughter verification, so that the agency can determine what additional needs it may have in these areas. The DVMSs continue developing the HIKE scenarios to help improve the uniform understanding of humane enforcement throughout the field. The DVMSs also distributed up-to-date information to industry and FSIS personnel about new FSIS policies and provided FSIS field employees with information on industry's Humane Good Management Practices and auditing systems so that they may encourage industry to not only follow FSIS regulations, but to also adopt a systems approach to continually improve livestock handling practices. In fiscal year 2004, the DVMSs also began a strategic planning process to continually improve their service to the field.

The DVMSs will continue to build on the activities carried out in 2004, expand their ability to analyze trends, improve the tracking of the time spent by FSIS personnel on humane handling and slaughter activities, and continually improve the effectiveness of FSIS' humane handling and slaughter verification activities. All DVMSs focus on humane handling and slaughter verification and will continue to do so.

During 2004, DVMSs spent approximately 75 percent of their time conducting in-plant assessments at plants subject to HMSA jurisdiction.

Question. To what extent do DVMS personnel visit locations in Districts other than their own?

Answer. DVMS personnel visit other Districts on an as needed basis. Each FSIS District Manager evaluates the needs of the District in order to effectively utilize DVMSs and ensure that needs are fully met. DVMSs have also crossed District lines when the Agency must follow-up on specific concerns that have been brought to the Agency's attention.

Question. Will USDA support assigning additional FSIS personnel to assist DVMS's in order to increase the frequency of plant visits?

Answer. Currently, the DVMSs enable the Agency to fully ensure enforcement of the HMSA. However, as the need arises, FSIS will adjust accordingly. For example, to ensure adequate humane handling verification in Puerto Rico, FSIS trained a veterinarian in the DVMS methodology to assist in this remote location.

PASTURE-RAISED BEEF PROJECT

Question. The February 2004, edition of Agriculture Research Solving—Problems for the Growing World, published by the Agricultural Research Service, contained a story entitled Grass Fed Cattle Follow the Appalachian Trail. It is a story about a project that I have been proud to secure funds for over the course of the past few years. It is doing important research regarding pasture-raised beef.

Now that Mad Cow Disease has reared its ugly head here in the United States, the markets for pasture-raised beef, naturally grown without hormones or antibiotics, will continue to grow. That is causing hope for Appalachia's family farmers who are participating in this program. The goal of the project is to reduce foreign imports of beef by increasing the supply of healthy, grass-raised beef from Appalachia. This sounds like a wise use of the taxpayers dollars that will directly benefit the family farmers of West Virginia.

With the Department highlighting the benefits of this project, can you then explain to me why this Administration, and the President, sent up a budget in Feb-

ruary, the very month of the publication of this magazine, that would cut this program by 81 percent, from \$1,625,024 to \$301,312?

Answer. We fully recognize the accomplishments of this project and its potential benefits to the family farmers of West Virginia. This project is part of the \$169.4 million in unrequested projects appropriated to ARS between fiscal years 2001 through 2004. These unrequested projects were proposed for termination in the fiscal year 2005 President's budget to redirect these resources towards the need to implement higher National priority initiatives, such as obesity research, food safety, emerging animal and plant diseases, controlling invasive species in plants and animals, and other research initiatives critical to advancing this Nation's food and agriculture economy. Setting priorities requires that these kinds of choices be made.

FUNDING FOR FOOD SAFETY/ANIMAL HEALTH INSPECTIONS AND RESEARCH

Question. In the fiscal year 2002 Supplemental Appropriations Bill, the Congress provided the President with resources to increase surveillance, inspections, and research to reduce the likelihood that diseases, such as Mad Cow Disease, would threaten American consumers. That bill included \$5 million for animal health research, \$13 million for food safety inspections (notably for imported products), and \$39 million for enhanced animal health inspection and surveillance programs. In several instances, these funds were specifically directed for Mad Cow Disease-related activities.

However, when given the opportunity to make those funds available, the President refused to designate those needs as an emergency. As a result, you were deprived of significant resources to fight problems like Mad Cow Disease. I don't mean to imply that the use of those funds in fiscal year 2002 would have prevented the recent incident in Washington State, but it would have contributed toward greater surveillance and a better understanding of how to identify and control problems like Mad Cow disease.

On January 6, 2004, I wrote President Bush a letter of admonishment pointing out that he let slip through his fingers resources which could have assisted him, and you, and the American people, be better prepared to meet the challenges that the introduction of a disease, such as Mad Cow Disease, would pose to this country.

However, I note that the President's fiscal year 2005 budget request includes increases for what he is calling a Food and Agriculture Defense Initiative to carry out some of these same activities that he rejected 3 years earlier. It appears that the President is more properly trying to play catch up in areas that Congress tried to initiate before the public's attention was more brought to focus on these problems and the President began to feel the political heat. Even if the full Food and Agriculture Defense Initiative is funded in the fiscal year 2005 appropriations bill, those resources still will not be available until next fiscal year. Instead of immediate action, the President is proposing additional delay.

Secretary Veneman, when the President was faced with the choice of using or rejecting those supplemental funds in 2002, did you make the case to President Bush that those resources should be utilized? If you didn't think those funds were needed in 2002, why do you think they are needed in 2005?

Answer. Each year, the Department submits a budget request based on program area needs at the time, and the Administration developed a funding request that it thought was appropriate in view of fiscal realities. The additional funds Congress added above the request were deemed not necessary given the timeframe related to the supplemental.

FSIS, in conjunction with other Federal agencies, has conducted vulnerability assessments along the farm-to-table continuum for domestic and imported products in order to protect against intentional or unintentional contamination of the food supply. Based, in part, on the vulnerability assessments, USDA, the Department of Health and Human Services and the Department of Homeland Security are working together to create a comprehensive food and agricultural policy, known as the food and agriculture defense initiative. The Department's fiscal year 2005 budget request includes funding to support FSIS' components of the food and agriculture defense initiative—biosurveillance, the Food Emergency Response Network, data systems to support the Food Emergency Response Network, enhancing FSIS laboratory capabilities, and follow-up biosecurity training for front-line staff.

QUESTIONS SUBMITTED BY SENATOR DANIEL K. INOUE

BROWN TREE SNAKE

Question. We understand that USDA–APHIS participated in a cross-cut budget process for invasive species funding with other departments and agencies and that brown tree snake was selected to be one of the ten issues to be focused on for enhanced effort.

What level of new funding has been provided in the fiscal year 2005 budget request to address the urgent needs of Wildlife Services Operations and Wildlife Services Methods Development efforts dealing with the brown tree snake on Guam and in the U.S.-affiliated Pacific?

Answer. In the fiscal year 2005 budget request, APHIS had to address areas that posed the highest levels of risk and potential losses to American agriculture, such as enhancing efforts to prevent the introduction of foreign animal diseases and foreign plant pests from entering the United States; we could not address all identified needs and as such the fiscal year 2005 budget request does not include additional funding to address brown tree snakes on Guam.

PRECLEARANCE INSPECTIONS IN HAWAII

Question. While fiscal year 2005 budget request seems to include funding for direct and interline preclearance inspections in Hawaii, the specifics are not clear.

Please provide details on the funds requested for fiscal year 2005 for direct and interline preclearance inspections in Hawaii, and provide a comparison for funds appropriated for fiscal year 2004.

Answer. APHIS conducts pre-departure, agricultural inspections of passengers and cargo traveling from Hawaii and Puerto Rico to the mainland United States. To assist Hawaii, we also conduct inspections of passengers traveling from outlying Hawaiian Islands to the mainland. Prior to fiscal year 2003, Hawaii funded this service through a reimbursable agreement for \$3 million. In fiscal year 2003, Congress provided \$2 million for the interline inspection program, and Hawaii paid the remaining \$1 million. Congress provided additional funding for the interline program in fiscal year 2004, bringing the total available for the program to \$2.771 million. APHIS is not requesting funds for Hawaii interline inspections in fiscal year 2005 and will rely on a reimbursable agreement with Hawaii to conduct the program.

COQUI FROG

Question. The coqui frog is an alien invasive pest with no natural enemies in Hawaii and is now established in many areas throughout the State of Hawaii. Their presence and population levels are disruptive to the export of potted flowers and foliage and to the peace and quite of many communities in the State.

Has APHIS made any estimates of the funds needed to control the coqui frog in Hawaii? Has APHIS included any funds in its fiscal year 2005 budget request to control coqui frog populations in Hawaii?

Answer. APHIS Wildlife Services (WS) estimates it would take \$1.85 million annually to enhance management and methods development efforts for the control of Caribbean tree frogs in Hawaii. In the fiscal year 2005 budget request, APHIS had to address areas that posed the highest levels of risk and potential losses to American agriculture, such as enhancing efforts to prevent the introduction of foreign animal diseases and foreign plant pests from entering the United States; we could not address all identified needs and as such the fiscal year 2005 budget request does not include additional funding to control coqui frogs in Hawaii.

SUBCOMMITTEE RECESS

Senator BENNETT. On that happy note, the subcommittee is recessed.

[Whereupon, at 3:01 p.m., Thursday, March 25, the subcommittee was recessed, to reconvene to subject to the call of the Chair.]

**AGRICULTURE, RURAL DEVELOPMENT, AND
RELATED AGENCIES APPROPRIATIONS FOR
FISCAL YEAR 2005**

THURSDAY, APRIL 1, 2004

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

The subcommittee met at 1:08 p.m., in room SD-192, Dirksen Senate Office Building, Hon. Robert F. Bennett (chairman) presiding.

Present: Senators Bennett, Burns, and Kohl.

DEPARTMENT OF AGRICULTURE

STATEMENTS OF:

**ERIC M. BOST, UNDER SECRETARY, FOR FOOD NUTRITION AND
CONSUMER SERVICES**

**WILLIAM T. HAWKS, UNDER SECRETARY FOR MARKETING AND
REGULATORY PROGRAMS**

ELSA A. MURANO, UNDER SECRETARY FOR FOOD SAFETY

OPENING STATEMENT OF SENATOR ROBERT F. BENNETT

Senator BENNETT. The subcommittee will come to order.

And may I begin by thanking everyone for your willingness to rearrange your schedule and come at this slightly early hour and apologize for being a little late. Senator Byrd cast his 17,000th vote today on the floor and we lingered to pay tribute to him and give him our congratulations.

This is the second hearing to review the fiscal year 2005 budget request. We had Secretary Veneman here last week and we appreciate how responsive she was on the various topics we covered. This week we have several of the Under Secretaries at USDA, as well as the Acting Commissioner of the Food and Drug Administration.

So we look forward to hearing your testimonies. I am going to try to keep this fairly quick because I do have an unavoidable conflict at 2 o'clock and I would like to be through before then if we can. If we cannot, we can go over that time but I will be unable to participate in that.

So I have no other further opening statement, other than to say welcome to all of you. Thank you for your service to the United States of America, your willingness to interrupt other careers to render public service.

This is the last time in this administration we will have the opportunity to offer our thanks for what you do. And it goes unappreciated and unnoticed too much. So I would like to be sure on this occasion to do that.

Senator Kohl.

Senator KOHL. I thank you, Mr. Chairman, and we welcome Mr. Bost, Dr. Murano, Mr. Hawks and Dr. Crawford.

For the sake of time, Mr. Chairman, I will forego my opening statement but look forward to testimony and to ask questions.

Thank you, Mr. Chairman.

PREPARED STATEMENT

Senator BENNETT. The subcommittee has received a statement from Senator Durbin which we will insert into the record.

[The statement follows:]

PREPARED STATEMENT OF SENATOR RICHARD J. DURBIN

Chairman Bennett, thank you for holding this important hearing today. I look forward to working with you and my Subcommittee colleagues on the fiscal year 2005 (fiscal year 2005) Agriculture budget. Mr. Chairman, I would like to welcome our witnesses Eric Boast, Under Secretary for Food, Nutrition, Consumer Services, Elsa Murano, Under Secretary for Food Safety, William Hawks, Under Secretary for Marketing and Regulatory Programs and Lester Crawford, Acting Commissioner for Food and Drug Administration.

I'd like to take a few minutes this morning to talk about some very important issues under USDA's jurisdiction.

An issue of great importance to me is dietary supplements. Obviously, I was pleased about the ban on ephedra and Dr. McClellan's commitment to look at citrus autantium, aristolochic acid and usnic acid: all supplement ingredients I believe are dangerous. I was also pleased to see FDA take action against anabolic steroids.

I want to see progress toward protecting the public from dangerous supplements continue. However, I believe several critical changes need to be made to the Dietary Supplement Safety and Education Act to make your job easier. First, I believe we need to require that supplement manufacturers report to the FDA when serious adverse events occur. I'm not talking about someone getting a little dizzy from taking a supplement. I'm talking about death, incapacity and hospitalization.

It is absolutely necessary that we know when a product is harming people. The Office of the Inspector General at HHS estimates that the FDA receives reports of less than 1 percent of all adverse event associated with dietary supplements. How can the FDA effectively protect the public if it doesn't know when a product is causing harm?

The Institute of Medicine's report that came out today supports a mandatory system of adverse event reporting. It says, "while spontaneous adverse event reports have recognized limitations, they have considerable strength as potential warning signals of problems requiring attention, making monitoring by the FDA worthwhile".

The second change I would like to see made to DSHEA is a requirement to pre-market safety review of supplements containing stimulants. I don't believe that every natural substance needs to be subject to pre-market safety testing, but at the very least, DSHEA should be changed so stimulants are tested before marketed. When a supplement raises people's blood pressure, increases their metabolism and constricts their blood vessels, it is only prudent that we test the product before it is marketed.

Another issue of importance deals with childhood obesity. Under Secretary Bost, I know that you've been working with my staff to develop a school-based demonstration project in Illinois to help students make better food choices while they are at school.

I've been in school cafeterias. I've watched students pass by the fresh vegetables and go straight for the fries. I've also seen them put fruit on the tray and then dump the tray after lunch, fruit untouched. We have to do a better job of helping our young people understand nutrition and why it matters.

I want to commend you and your staff for your efforts to work with us to develop some innovative demonstration projects in Illinois schools to help students make better food choices.

Chairman Bennett and Senator Kohl, thank you again for the opportunity to talk about these issues and the fiscal year 2005 Budget.

Senator BENNETT. Thank you very much. Let us go in the following order: Mr. Bost, who is the Under Secretary for Food, Nutrition, and Consumer Services of the USDA; William Hawks who is the Under Secretary for Marketing and Regulatory Programs; Elsa Murano, who is the Under Secretary for Food Safety. And then, with the USDA having been heard from, we will turn to the Acting Commissioner of the FDA, Dr. Lester Crawford.

Mr. Bost.

STATEMENT OF ERIC M. BOST

Mr. BOST. Good afternoon and thank you very much, Mr. Chairman. Good afternoon, Senator Kohl.

Thank you for this opportunity to present the Administration's budget request for fiscal year 2005 for the Food, Nutrition, and Consumer Services.

You have my written testimony so I will try to be brief.

Since I have been Under Secretary, I have focused my attention and energy on these priority challenges facing the nutrition assistance programs: expanding access to programs so that all eligible persons may participate; addressing the epidemic of obesity that threatens the health of individual Americans, our economy and health care system; and improving the integrity with which our programs are administered at all levels.

Let me just briefly review some of our accomplishments over the course of the last 3 years. We have reached substantially more participants in each of our major programs, 5.8 million more people in Food Stamps; 1.6 million more children receiving a free or reduced priced lunch; over 1.4 million more children receiving a school breakfast; and over 400,000 more women, infants and children participate in the WIC program each month since January of 2001.

We have successfully implemented the provisions of the 2002 Farm Bill that met the Administration's goals, including the important steps of restoring Food Stamp benefits to legal immigrants and increasing flexibility for the States.

We have also expanded the Electronic Benefits Transfer, EBT, to all 50 States, the District of Columbia, Puerto Rico and the Virgin Islands. EBT now delivers over 95 percent of all food stamp benefits. At some point in time we are going to have to change the name because there will no longer be any food stamps.

We reduced food stamp payment errors for the 4th year in a row, the lowest that it has ever been in the history of the Food Stamp Program, at 8.26. We also reduced food stamp trafficking to less than 2.5 cents for each benefit dollar issued, down by a third since 1996-1998.

We also promoted healthy lifestyles as a top priority through the President's HealthierUS initiative, working with public and private partners to promote healthy eating and physical activity and to foster a healthy school nutrition environment.

We promoted a healthy way for children and adults across the program to increase emphasis on nutrition education. We are currently working in concert with the Department of Health and Human Services to update the Dietary Guidelines and a revision of the Food Guide Pyramid.

We achieved a clean financial statement for FNS for the fifth consecutive year in support of the President's initiative to improve financial management across the Government.

I am very proud of these accomplishments, however much more work remains to be done.

In terms of supporting the goals of the President's budget, the President's budget for fiscal year 2005 requests \$50.1 billion in new budget authority.

FOOD STAMP PROGRAM

Food Stamps, at \$33.6 billion would serve an average of 24.9 million people each month. The Administration's budget continues the \$3 billion reserve appropriated in fiscal year 2004.

CHILD NUTRITION PROGRAM

In terms of the Child Nutrition Programs, the request of \$11.4 billion supports an increase in school lunch participation from 28 million children to over 29 million children. It also supports an increase in school breakfast participation of over 1 million children from 8 million to 9 million children.

WIC PROGRAM

In our WIC Program, the President's budget proposes \$4.8 billion for WIC Program to provide food nutrition, education and a linkage to health care to a record level monthly average of 7.86 million needy women and young children. I think this speaks clearly to the President's commitment to this program. Additionally, the \$125 million contingency reserve fund is available if there is a need for an increase if participation or food cost exceeds our projection.

One of the things that I believe is very important that we are spending a great deal of time on, not only in my area but across the country, is addressing the overweight and obesity. Poor dietary choices and sedentary lifestyles are having a serious impact on the health and well being of this entire country.

The most recent figures indicate that 62 percent of all adults in this country are overweight. Estimated health care costs at \$123 billion, and also 400,000 deaths are directly related to us being overweight.

Senator BENNETT. Excuse me. Is that an annual cost of \$123 billion?

Mr. BOST. \$123 billion, that is correct.

Senator BENNETT. Annually?

Mr. BOST. Annually.

Senator BENNETT. That would pay for a lot of health care.

Mr. BOST. Yes, but we are eating ourselves to death.

\$20 million for breast feeding peer counseling, \$2.5 million to expand the successful Eat Smart Play Hard campaign so we can integrate the nutrition assistance programs to promote healthy eating

and physical activity. \$1.65 million is requested to fund the updated 2005 Dietary Guidelines and the Food Guide Pyramid. We believe this is very important, given the fact that Americans are spending on average \$33 billion a year on weight loss products, books and et cetera, to help them lose weight. We are spending that money even though we are getting heavier.

NUTRITION PROGRAMS ADMINISTRATION

In addition, the President's request includes an increase of \$7 million in our administrative budget which will be targeted at improving integrity in the Food Stamp Program, improving the accuracy of certifications for free and reduced price school meals and invigorating our oversight, training and technical assistance activities with our State and local partners.

As a part of our Nutrition Programs Administration, we are requesting \$152 million, an increase of \$14.7 million.

Our total request for Federal administrative resources, including those activities funded directly from the program accounts, represents only 0.39 percent of the program resources for which we are responsible.

PREPARED STATEMENTS

In conclusion, the President's direction has been very clear. The Administration request sets priorities to ensure access, maintain and improve integrity and supports our efforts to address the public health threat of overweight and obesity among all Americans in this country.

Thank you, Mr. Chairman.
[The statements follow:]

PREPARED STATEMENT OF ERIC M. BOST

Thank you Mr. Chairman and members of the subcommittee for this opportunity to present the Administration's budget request for fiscal year 2005 for the Food, Nutrition and Consumer Services (FNCS).

During the past 3 years as Under Secretary for the Food, Nutrition and Consumer Services, I have focused my attention and my energy on three central challenges facing the Federal nutrition assistance programs: expanding access to the programs so that all eligible persons can make informed decisions about whether to participate; addressing the epidemic of obesity that threatens the health of individual Americans, and our economy and health care system collectively; and improving the integrity with which our programs are administered, at all levels, so that we are the best possible stewards of the public resources with which we are entrusted.

Let me first review briefly some key accomplishments achieved over the last 3 years:

- We are reaching substantially more participants in each of our major programs: 5.8 million more people in food stamps, 1.6 million more children receiving a free or reduced price school lunch, over 1.4 million more in school breakfast, and over 400,000 more women, infants and children each month in WIC since January 2001.
- We successfully implemented the provisions of the 2002 Farm Bill that met the Administration's goals of simplifying policies, improving access, and ensuring program integrity, including the important steps of restoring benefits to legal immigrants and increasing flexibility for the States.
- We expanded electronic benefits transfer (EBT) to all 50 States, the District of Columbia, Puerto Rico, and the Virgin Islands; EBT now delivers over 95 percent of all food stamp benefits.
- We have seen food stamp payment errors fall for the 4th year in a row, reaching the lowest level ever—8.26 percent—in 2002.

- We have reduced food stamp trafficking to less than 2.5 cents of each benefit dollar issued, down by one-third since 1996–1998.
- We have made healthy lifestyles a top priority through the President's HealthierUS initiative. We are working with public and private partners, such as the National 5 to 9 a Day Partnership, to increase fruit and vegetable consumption and have developed a soon to be released kit for schools entitled "Fruits and Vegetables Galore: Helping Kids Eat More." We are also expanding school-based efforts to promote healthy eating, and to foster a healthy school nutrition environment through technical assistance, training and nutrition education materials that help schools assess and improve the school nutrition environment, including improvements in school meals and overall food policies.
- We have focused on promoting healthy weight for children and adults across programs through the Eat Smart. Play Hard.™ campaign, and within programs through Team Nutrition, the Fit WIC obesity prevention projects, and efforts to improve Food Stamp Program nutrition education.
- We are working in concert with the Department of Health and Human Services to update the Dietary Guidelines for Americans, and we are revising the Food Guide Pyramid to ensure that each reflects the most comprehensive, up-to-date science available in order to provide clear and useful nutrition information to American consumers.
- We achieved a clean financial statement for FNS for the 5th consecutive year, in support of the President's management agenda initiative to improve financial management across government.

I am proud of these accomplishments, and the hard work that they represent from USDA staff, from the Congress, and from our State and local program partners. But much important work remains to be done. I'd like now to review the budget request and the improvements in performance and results that it is designed to support.

The President's budget for fiscal year 2005 requests \$50.1 billion in budget authority to continue this critical work. This record request reflects the Administration's long-standing commitment to protect our children and low-income households from hunger and the health risks associated with poor nutrition and physical inactivity through the Nation's nutrition safety net. The purposes to which we will put this substantial public commitment are clear: first, we seek to improve the public's awareness of our programs and ease of access for all eligible persons, and second, through both the Federal nutrition assistance programs and the Center for Nutrition Policy and Promotion (CNPP), we will continue to do our part to address the growing public health threat that overweight and obesity poses to all Americans. Finally, we will strive to enhance the efficiency and accuracy with which these programs are delivered.

ENSURING PROGRAM ACCESS

This Administration has demonstrated a long-term commitment to the Federal nutrition assistance programs and to the Americans whom they assist. The most fundamental expression of this commitment is making certain that sufficient resources are provided for these programs so that all who are eligible and in need have ready access to these critical benefits. We have delivered to you a budget that funds anticipated levels of program participation, while acknowledging the inherent difficulties in making such projections.

For the Food Stamp Program, the budget continues the \$3 billion contingency reserve appropriated in fiscal year 2004 but also offers, as an alternative, a proposal for indefinite budget authority for program benefits. This authority would be an efficient way to ensure that benefits are funded even as economic circumstances change, a goal we all share. In WIC, the \$125 million contingency reserve appropriated in fiscal year 2003 continues to be available to the program should participation or food costs exceed the levels anticipated in the budget. Should this not be sufficient, we are committed to working with you to ensure that WIC is properly funded.

Adequate program funding, however, is not enough to ensure access to program services for those who need them. Program structure and delivery methods must be designed so as not to create the types of barriers to program participation that can result in their underutilization. As we move forward with the reauthorization of the Child Nutrition and WIC Programs, improving program delivery and ensuring the access of eligible people who wish to participate will remain fundamental principles.

ADDRESSING OVERWEIGHT AND OBESITY

Poor dietary choices and sedentary lifestyles are having a serious impact on the health and well being of all Americans. Obesity and overweight are widely recog-

nized as a public health crisis. The costs of these conditions are enormous—reduced productivity and increased health care costs estimated at over \$123 billion, and, most sadly, unnecessarily premature deaths for over 300,000 Americans annually. The Federal nutrition assistance programs can play a critical role in combating this epidemic by promoting better diets through nutrition education and promotion. These program services, along with the work of the Center for Nutrition Policy and Promotion, are an integral part of the President's HealthierUS initiative, and the budget reflects our continuing commitment to this effort. It includes \$5 million for ongoing demonstration projects to explore new ways for the WIC program to reduce and prevent unhealthy weight among our children. We are also seeking \$2.5 million to expand our very successful Eat Smart. Play Hard.TM campaign, and to develop an integrated, family-oriented approach to nutrition education that cuts across all of the Federal nutrition programs and complements efforts in schools and other program settings to encourage healthy eating and physical activity.

Our request also supports FNCS' CNPP, which works with the Department of Health and Human Services and other agencies to promote good nutrition across all segments of the population. The budget includes resources that are critical to the development and promotion for the updated 2005 Dietary Guidelines for Americans and the concurrently revised food guide system, providing essential tools to communicate the Guidelines in ways that motivate Americans to improve their eating and physical activity behaviors. The requested funding for CNPP will enable us to capitalize on the investments we have already made with a new opportunity to build upon public awareness of basic nutrition messages with an enhanced food guide system that will target individual needs.

ENHANCING PROGRAM INTEGRITY AND DELIVERY

With this budget request, we are asking the Nation to entrust us with over \$50 billion of public resources. We are keenly aware of the immense responsibility this represents. To maintain the public trust, we must demonstrate our ongoing commitment to be good stewards of the resources we manage, as an essential part of our mission to help the vulnerable people these programs are intended to serve.

This is not a new commitment. As I noted earlier, in fiscal year 2002, the most recent year for which data is available, the Food Stamp Program achieved a record high payment accuracy rate of 91.74 percent. We have also been working to develop strategies to improve the accuracy of eligibility determinations in our school meals programs—an issue of mutual concern to all those that care about these programs. The budget features dollar and staff year resources which will allow us to continue to work closely with our State and local partners on both of these essential integrity initiatives—continuing both our successes in the Food Stamp Program and our intensified efforts in school meals.

In the WIC program, we are requesting \$20 million to continue our initiative to assist States with the modernization of their information technology infrastructure. These systems are essential underpinnings for the improvements in program management, program integrity, and, most importantly, program delivery that need to be achieved. The Administration has worked closely with the Office of Management and Budget (OMB) and the WIC community to fashion a procurement strategy that will ultimately produce a series of core model WIC systems. States updating their WIC systems will be able to select from among these model core systems as starting points for their own implementation, thus reducing their costs.

In the remainder of my remarks, I'd like to touch on several key issues:

FOOD STAMP PROGRAM

The President's budget anticipates serving a monthly average of 24.9 million persons in fiscal year 2005, an increase of 1.2 million over our projections of the current fiscal year. Our \$33.6 billion request supports this level of service. In addition, the budget continues the \$3 billion contingency reserve appropriated in fiscal year 2004. While the President's budget anticipates continuing improvement in the Nation's economy, Food Stamp Program participation traditionally continues to rise for some time after the aggregate employment begins to improve. Moreover, we have made a concerted effort over the last 3 years to raise awareness of the benefits of program participation and encourage those who are eligible, especially working families, senior citizens, and legal immigrants, to apply. The rate of participation among those eligible to participate increased 2 years in a row, after 5 years of declines, reaching 62 percent in September 2001. However, many eligibles remain who could be participating but are not. We have been aggressive in promoting the message that the Food Stamp Program Makes America Stronger in the sense that the program puts healthy food on the tables of low-income families and has a positive impact on local

economies. We have just recently embarked on a media campaign to carry this message and to reach those who are eligible but not participating. We have also paid particular attention to those legal immigrants who have had their eligibility restored by the Farm Bill by carrying messages on Hispanic radio stations across the country.

These factors make this a particularly challenging period to forecast program participation and costs. To ensure the adequacy of resources available to the program, and as an alternative to the traditional contingency reserve, we have proposed indefinite authority for program benefits and payments to States and other non-Federal entities.

CHILD NUTRITION PROGRAMS

The President's budget requests \$11.4 billion to support the service of appealing, nutritious meals to children in public and private schools and child care facilities through the Child Nutrition Programs in fiscal year 2005. In the National School Lunch Program, we anticipate serving over 29 million children per day in fiscal year 2005. Similarly, the School Breakfast Program will serve approximately 9 million children each school day. The request for budget authority is a slight decrease from levels appropriated in fiscal year 2004. This is because the rate of program growth in fiscal year 2004, to date, has been slightly less than anticipated. As a result, the anticipated carry-over resources, in conjunction with the budget request, will fully fund the projected level of program activity.

Several components of the Child Nutrition Programs expire at the end of March. We urge the Congress to move quickly to extend these provisions before they expire to ensure that all aspects of the Child Nutrition Programs continue to operate without interruption. We also want to work with the Congress to reauthorize and improve the entire range of Child Nutrition Programs, consistent with the principles outlined last year. These principles include ensuring that all eligible children have access to program benefits as well as streamlining the administration of programs to minimize burdens, supporting healthy school environments and strengthening program integrity.

Reauthorization provides an opportunity to address our continuing concern that the certifications of children to receive free and reduced price meals are not performed as accurately as they reasonably could be. Correct certifications are a priority to ensure that school meal funds go to those most in need, and the many other Federal, State, and local resources that use this same data are properly targeted as well.

In sum, we are committed to working with Congress to reauthorize the Child Nutrition Programs and to reinvesting any savings achieved in the process back into these important programs for program improvements.

WIC

In fiscal year 2005, the President's budget request of \$4.79 billion anticipates providing essential support to a monthly average of 7.86 million women, infants and children through the Special Supplemental Nutrition Program for Women, Infants and Children (WIC). This is an increase of 60,000 participants per month from anticipated fiscal year 2004 participation levels. Additionally, the \$125 million contingency reserve, appropriated in fiscal year 2003, remains available to the program should participation or food costs exceed our projections. The Administration remains steadfast in its support of WIC and is committed to working with Congress to ensure its proper funding. Finally, the request includes \$20 million to continue our peer counseling initiative that is designed to enhance both rates of initiation and duration of breastfeeding among WIC participants.

THE EMERGENCY FOOD ASSISTANCE PROGRAM (TEFAP)

Through TEFAP, USDA plays a critical supporting role for the Nation's food banks. This support takes the form of both commodities for distribution and administrative funding for States' commodity storage and distribution costs. Much of this funding flows from the States to the faith-based organizations that are a cornerstone of the food bank community. The President's budget requests the fully authorized level of \$140 million to support the purchase of commodities for TEFAP. Additional food resources become available through the donation of surplus commodities from USDA's market support activities. In recent years, these donations have increased the total Federal commodity support provided to the Nation's food banks by almost 300 percent. State administrative costs, a critical form of support to the food bank community, are funded at \$50 million in the President's request.

NUTRITION PROGRAMS ADMINISTRATION

We are requesting \$152 million in our Nutrition Programs Administration account, which reflects an increase of \$14.7 million in our administrative funding. This increase supports the Child Nutrition and Food Stamp Programs integrity activities mentioned earlier, as well as a number of nutrition guidance initiatives under the Center for Nutrition Policy and Promotion. These resources are absolutely critical to our ability to successfully execute the mission of the Food, Nutrition and Consumers Services. Our total request for Federal administrative resources, including those activities funded directly from the program accounts, represents only about 0.39 percent of the program resources for which we have stewardship. I believe that we need this modest increase in funding in order to maintain accountability for our \$50 billion portfolio and to assist our State and local partners in effectively managing the programs.

Mr. Chairman, I appreciate the opportunity to share my thoughts with you, and would be happy to answer any questions you may have.

PREPARED STATEMENT OF ROBERTO SALAZAR, ADMINISTRATOR, FOOD AND NUTRITION SERVICES

Thank you, Mr. Chairman, and members of the Subcommittee for allowing me this opportunity to present testimony in support of the fiscal year 2005 budget request for the Food and Nutrition Service.

The Food and Nutrition Service is the agency charged with managing the Nation's nutrition safety net and providing Federal leadership in America's ongoing struggle against hunger and poor nutrition. Our stated mission is to increase food security and reduce hunger in partnership with cooperating organizations by providing children and low-income people access to nutritious food and nutrition education in a manner that inspires public confidence and supports American agriculture.

In fiscal year 2005, the President's budget requests a total of \$50.1 billion in new budget authority to fulfill this mission through the Federal nutrition assistance programs. With this record request we will touch the lives of more than 1 in 5 Americans over the course of a year. This includes providing nutritious school lunches to an average of 29 million children each school day (NSLP), assisting with the nutrition and health care needs of 7.86 million at risk pregnant and postpartum women (WIC) and children each month, and ensuring access to a nutritious diet each month for 24.9 million people through the Food Stamp Program (FSP). These are just 3 of our 15 Federal nutrition assistance programs, which also include such important programs as the School Breakfast Program (SBP), The Emergency Food Assistance Program (TEFAP), the Summer Food Service Program (SFSP), the Child and Adult Care Food Program (CACFP), the Food Distribution Program on Indian Reservations (FDPIR), and the Commodity Supplemental Food Program (CSFP). Through the range of design and delivery methods these programs represent, FNS seeks to serve the children and low-income households of this Nation and address the diverse ways and circumstances in which hunger and nutrition-related problems present themselves.

The resources we are here to discuss must be viewed as an investment—an investment in the health, self-sufficiency, and productivity of Americans who, from time to time, find themselves at the margins of our prosperous society. Under Secretary Bost, in his testimony, has outlined the three critical challenges which the Food, Nutrition and Consumer Services team has focused on under his leadership: expanding access to the Federal nutrition assistance programs, promoting healthy weight to address the problems of overweight and obesity; and, improving the integrity with which our programs are administered. In addition to these fundamental priorities specific to our mission, President Bush has laid out an aggressive agenda for management improvement across the Federal Government as a whole—the President's Management Agenda. This agenda seeks to protect the taxpayers' investment in all Federal activities by enhancing the accuracy and efficiency of program delivery and reducing improper payments, by improving decision-making through the integration of performance information into the budget process, by building partnerships with faith and community based organizations, and by planning carefully and systematically for the human capital challenges looming near for all of the Federal service.

THE CHALLENGE OF IMPROPER PAYMENTS

Benefits of the Federal nutrition assistance programs must be carefully targeted and delivered to those who are eligible, in need, and wish to participate. Benefit

payments made in error increase the cost of these programs to the taxpayers and can divert needed assistance from eligible participants seeking services. Today I am pleased to report to you, for the second year in a row, record high payment accuracy rates for the Food Stamp Program. In fiscal year 2002, the most recent year for which data is available, the Food Stamp Program achieved an accuracy rate of 91.74 percent, 0.4 percent higher than fiscal year 2001's record achievement. Despite this success, much remains to be done to improve the accuracy and efficiency of benefit delivery in all the Federal nutrition assistance programs, not just the Food Stamp Program. The President's budget requests additional funding to strengthen integrity and program management both at the Federal and State levels. Our request includes an increase of \$7 million in our administrative budget which will be targeted at maintaining our continuing success in the Food Stamp Program, improving the accuracy of certifications for free and reduced price school meals, and improving delivery of program benefits and reinvigorating our oversight, training and technical assistance activities for our State and local partners.

BUDGET AND PERFORMANCE INTEGRATION

The President's Management Agenda recognizes that good decision-making depends on both the availability of relevant, high quality data and using that information in an analytical, business-like approach to problem solving. The Food and Nutrition Service has long been a leader in the Federal arena. Our entitlement programs are performance funded. This requires us to balance, through analysis and insight, an uncertain dynamic program demand with the constraints of a fixed appropriation. In this year's budget explanatory notes, you will find expanded performance information and analysis with clear connections linking USDA's strategic plan, our budget request, and program performance.

Vital to the success of the President's vision of improved Federal decision-making and seamless budget and performance integration is an adequately funded, properly positioned agenda of performance measurement and program assessment. Funding proposed in the request would support a range of important program assessment activities: focused studies of program operations, development of comprehensive measures of program performance to inform and foster outcome-based planning and management; and technical assistance to States and communities for practical demonstrations of potential policy and program improvements. These activities provide a crucial foundation for strategic planning and program innovation. This request will allow the programs to respond to emerging performance management issues identified by the Performance Assessment Rating Tool of the National School Lunch Program and Food Stamp Program as well as support effective stewardship of the taxpayer investment in nutrition assistance.

REACHING OUT TO THOSE IN NEED THROUGH FAITH-BASED AND OTHER COMMUNITY ORGANIZATIONS

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 Federal 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 our outreach efforts in fiscal year 2005. The partnership of faith-based organizations and FNS programs, including TEFAP, WIC, NSLP, and the CSFP, is long-established. Indeed, the majority of organizations such as food pantries and soup kitchens that actually deliver TEFAP benefits are faith-based. Across the country, faith-based organizations have found over the years that they can participate in these programs without compromising their mission or values. They are valued partners in an effort to combat hunger in America.

HUMAN CAPITAL MANAGEMENT

The General Accounting Office (GAO), have demonstrated that recruiting, developing and retaining a highly-skilled workforce is critical to sustaining our public service. This is especially true for the Food and Nutrition Service. We currently estimate that up to 80 percent of our senior leaders are eligible to retire within five years, as is nearly 30 percent of our total workforce. FNS must address this serious challenge by improving the management of the agency's human capital, strengthening services provided to employees, and implementing programs designed to improve the efficiency, diversity, and competency of the work force. With just nominal increases for basic program administration in most years, the Food and Nutrition

Service has reduced its Federal staffing levels significantly over time. We have compensated for these changes by working smarter—re-examining our processes, building strong partnerships with the State and local entities which administer our programs, and taking advantage of technological innovations. We are extremely proud of what we have accomplished, but seek additional funding in a few targeted areas to address specific vulnerabilities. Full funding of the nutrition programs administration requested in the President's budget, approximately 0.39 percent of our program portfolio, is vital to our continued success.

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

The President's budget requests \$33.6 billion for the Food Stamp account including the Food Stamp Program and its associated nutrition assistance programs. These resources will serve an estimated 24.9 million people each month participating in the Food Stamp Program alone. Included in this amount, we propose to continue the \$3 billion contingency reserve provided for the program in fiscal year 2004. The importance of this reserve is especially critical in fiscal year 2005. While we anticipate that the improvement we are now seeing in the general economy will at some point begin to impact the program, predicting the turning point of participation is challenging. Our request also presents, as an alternative to the traditional contingency reserve, a proposal of indefinite authority for program benefits and payments to States and other non-Federal entities.

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 childcare settings every day. This level of funding will support an increase in daily School Lunch Program participation from the current 28.7 million children to over 29.2 million children. This funding request also supports an increase in daily School Breakfast Program participation from the current 8.8 million to 9.0 million children. Requested increases in these programs also reflect rising school enrollment, increases in payment rates to cover inflation, and proportionately higher levels of meal service among children in the free and reduced price categories. We are proposing to extend provisions that would expire on March 31, 2004.

WIC

The President's budget includes \$4.8 billion for the Special Supplemental Nutrition Program for Women, Infants and Children, the WIC program. The request will allow local communities to provide food, nutrition education, and a link to health care to a monthly average of 7.86 million needy women, infants and children during fiscal year 2005. We also propose to continue our vital initiatives, begun in fiscal year 2004, to enhance breastfeeding initiation and duration, improve State information technology infrastructure, and to maximize WIC's potential to combat childhood obesity. The \$125 million contingency fund provided for in the fiscal year 2003 appropriation continues to be available to the program. These resources are available if costs exceed current estimates.

COMMODITY SUPPLEMENTAL FOOD PROGRAM (CSFP)

The Commodity Supplemental Food Program (CSFP) serves elderly persons and at risk low-income pregnant and post-partum and breastfeeding women, infants and children up to age six. The budget requests \$98.3 million for this program, the same level appropriated in fiscal year 2004. This request may not support the same level of program services as in fiscal year 2004 due to the availability of one-time carry-over funds from 2003. However, we will take all available administrative actions to minimize any program impact. We face a difficult challenge with regard to discretionary budget resources. CSFP operates in selected areas in 32 States, the District of Columbia, and two Indian Tribal Organizations. The populations served by CSFP are eligible to receive similar benefits through other Federal nutrition assistance programs. We believe our limited resources are best focused on those program available in all communities nationwide.

THE EMERGENCY FOOD ASSISTANCE PROGRAM (TEFAP)

As provided for in the Farm Bill, the budget requests \$140 million for commodities in this important program. Our request for States' storage and distribution costs, critical support for the Nation's food banks, is \$50 million. The Food and Nu-

trition Service is committed to ensuring the continuing flow of resources to the food bank community including directly purchased commodities, administrative funding, and surplus commodities from the USDA market support activities. Surplus commodity 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 \$152.2 million in this account, which includes an increase of \$7 million for the program integrity initiative described earlier. Included are also a number of initiatives, under the Food and Nutrition Service and 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 0.39 percent of the program resources for which we have responsibility and sustains the program management and support activities of our roughly 1,545 employees nationwide. I believe we need these modest increases in funding in order to maintain accountability for our \$50 billion portfolio and to assist States to effectively manage the programs and provide access to all eligible people.

Thank you for the opportunity to present this written testimony.

Senator BENNETT. Thank you very much. Mr. Hawks.

STATEMENT OF WILLIAM T. HAWKS

Mr. HAWKS. Thank you, Mr. Chairman, Senator Kohl.

It is indeed a pleasure to be with you today to discuss the activities of the Marketing and Regulatory Programs.

Senator BENNETT. Would you pull the microphone a little closer to you?

Mr. HAWKS. Turning it on will help, as well.

Senator BENNETT. That also helps.

Mr. HAWKS. As I said, it is certainly a pleasure to be with you today to discuss the activities of the Marketing and Regulatory Programs and the 2005 budget for those agencies within Marketing and Regulatory Programs. Those are the Animal and Plant Health Inspection Service, Agricultural Marketing Service and the Grain Inspection, Packers and Stockyards Administration.

My motto has been working together works. I am holding my agencies accountable to make sure that they work.

I have five goals that I hold them accountable for. The first one is to build broader bridges. The second one is to move more product. The third goal is to invest in infrastructure. The fourth goal is to grow our people. The fifth goal is to sell agriculture as a profession.

The Marketing and Regulatory Program activities are funded both by beneficiaries of the program services and by the taxpayers. They carry out programs costing nearly \$1.8 billion with \$418 million funded by fees paid by the beneficiaries of the services and \$449 million collected from Customs receipts.

On the appropriations side, the APHIS is requesting \$893 million, GIPSA is requesting \$44 million, and AMS is requesting \$87 million.

APHIS' primary mission is to safeguard animal and plant health, address conflicts with wildlife, facilitate safe Agricultural trade, promote environmental stewardship, and improve animal well being. APHIS has been working to enhance an already vigilant animal and plant health monitoring system. APHIS trade issues resolution management efforts enabled us to negotiate fair trade in the international market. APHIS also regulates the movement and field release of biotechnology derived plants. Recent developments in bio-

technology hold great promise as long as we are able to ensure the protection of the environment and the safety of the foods.

GIPSA facilitates the marketing of livestock, meat, poultry, cereals, oil seeds and related agricultural products and promotes fair and competitive trade. GIPSA is requesting increased funding for strengthening efforts to resolve international grain trade issues and to provide improved technology for the evaluating the value of livestock carcasses.

AMS activities assist U.S. agricultural industry in marketing their products and in finding ways to improve their profitability. AMS budget request seeks an increase of \$10 million of appropriated funds to begin investing in a new multi-agency web-based supply chain management system to manage purchases of \$2.5 billion of commodities used in all food assistance programs every year. When fully implemented, this system will decrease the time for purchases from 24 days down to 5 days.

PREPARED STATEMENTS

In light of time, this is going to conclude my statement. You have my full written statement and I look forward to responding to questions.

Senator BENNETT. Thank you very much.

For the record, without objection, the written statement of all of you will be included in the record. Dr. Murano.

[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 2005 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. Peter Fernandez, Associate 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 to increase marketing opportunities and to protect American agriculture from damages caused by pests and diseases.

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 which demonstrates that working together works.

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, laboratory capacity 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 caliber 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 the MRP agencies carry out programs costing \$1.8 billion; with \$418 million funded by fees charged to the direct beneficiaries of MRP services and \$449 million from Customs receipts.

On the appropriation side, under current law, the Animal and Plant Health Inspection Service is requesting \$828 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 \$44 million, and the Agricultural Marketing Service is requesting \$87 million.

The budget again proposes user fees that, if enacted, would recover about \$40 million. Legislation was submitted in 2003 which would authorize new license fees to recover the cost of administering the Packers and Stockyards (P&S) Act and authorize additional grain inspection fees for developing grain standards. Legislation will be submitted soon to enable additional license fees for facilities regulated under the Animal Welfare Act. I will use the remainder of my time to highlight the major activities and our 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. We believe that safeguarding the health of animals, plants, and ecosystems makes possible safe agricultural trade and reduces losses to agricultural and natural resources.

APHIS builds bridges by working in concert with its stakeholders—States, Tribes, 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 moving more U.S. product.

I would like to highlight some key aspects of the APHIS programs:

Safeguarding the Agricultural Sector and Resource Base.—While APHIS continues to work closely with the Department of Homeland Security (DHS) to exclude agricultural health threats, it retains responsibility for promulgating regulations related to entry of passengers and commodities into the United States. APHIS' efforts have helped keep agricultural health threats away from U.S. borders through increased offshore threat-assessment and risk-reduction activities. APHIS has also increased an already vigilant animal and plant health monitoring and surveillance system to promptly detect outbreaks of foreign and endemic plant and animal pests and diseases.

Management Programs.—Because efforts to exclude foreign pests and diseases are not 100 percent successful, APHIS also assists stakeholders in managing new and endemic agricultural health threats, ranging from threats to aquaculture to cotton and other crops, tree resources, livestock and poultry. In addition, APHIS assists stakeholders on issues related to conflicts with wildlife and animal welfare.

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 \$2.5 billion in export markets in fiscal year 2003 by helping resolve individual trade issues abroad.

Biotechnology.—Recent developments in biotechnology underscore the need for effective regulation to ensure protection of the environment and food supply, reduce market uncertainties, and encourage development of a technology that holds great

promise. APHIS' Biotechnology Regulatory Services unit coordinates our services and activities in this area and focuses on both plant-based biotechnology and transgenic arthropods. We also are examining issues related to transgenic animals.

APHIS' 2005 BUDGET REQUEST

In a year of many pressing high-priority items for taxpayer dollars, the budget request proposes about \$828 million for salaries and expenses. There are substantial increases to support the Administration's Food and Agriculture Defense Initiative and to protect the agriculture sector from bovine spongiform encephalopathy (BSE). A brief description of key initiatives follows.

A total of about \$173 million for Foreign Pest and Disease Exclusion.—Efforts will be focused on enhancing our ability to exclude Mediterranean fruit fly and foreign animal diseases. We also request funds to regulate the possession and transfer of Select Agents, toxins and pathogens necessary for research and other beneficial purposes which could be deadly in the hands of terrorists.

A total of about \$224 million for Plant and Animal Health Monitoring.—APHIS plays a critical role in protecting the Nation from deliberate or unintentional introduction of an agricultural health threat, and the budget requests \$94 million, a \$49 million increase, as part of the Food and Agriculture Defense Initiative. This includes initiatives that enhance plant and animal health threat monitoring and surveillance; bolster a National Animal Identification Program; ensure greater cooperative surveillance efforts with States; improve connectivity with the integration and analysis functions at DHS for plant and animal health threats; and boost animal vaccine availability; and other efforts. In addition, \$50 million is requested for bovine spongiform encephalopathy (BSE) activities to accelerate the development of a National animal ID effort and to increase testing to detect the presence of BSE in the U.S. livestock herd.

A total of \$320 million for pest and disease management programs.—Once pests and disease are detected, prompt eradication reduces longterm 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 proposes \$57 million of increased funding for efforts against low-pathogenic avian influenza, emerging plant pests (such as Citrus Canker and Emerald Ash Borer), tuberculosis, scrapie, and chronic wasting disease.

Other programs offer offsets to those increases. Successes in boll weevil eradication efforts allow a reduction in that program. Decreased funding is requested for Asian Long-horned Beetle based on the ongoing levels of State contributions. Funding is reduced for Johnne's Disease since it is rather endemic and funds need to be rationed for other program needs. The budget also assumes that State cooperators will fund a greater share of wildlife management programs.

A total of \$17 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 2004, to collect \$10.9 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. Since these facilities are the direct beneficiaries of taxpayer assistance, it is appropriate that a portion of the costs be funded by these beneficiaries.

A total of about \$82 million for Scientific and Technical Services.—Within USDA, APHIS has chief regulatory oversight of genetically modified organisms. To help meet the needs of this rapidly evolving sector, the budget includes a request to, in part, enhance the regulatory oversight of field trials of crops derived with biotechnology. Also, 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 being marketed.

A total of \$12 million for management initiatives.—This includes building upon efforts started with Homeland Security Supplemental funds for improving physical and operational security. It also includes providing the State Department funds to help cover higher security costs for APHIS personnel abroad. A portion of the increase would also be used for enhanced computer security and eGov initiatives.

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 P&SP is to promote a fair, open and competitive marketing environment for the livestock, meat, and poultry industries. Currently, with 166 employees, P&SP monitors the livestock, meatpacking, and poultry industries, estimated by the Department of Commerce to have an annual wholesale value of over \$118 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 1,700 investigations in fiscal year 2003 to enforce the Packers and Stockyards Act for livestock producers and poultry growers, of which about 95 percent were closed in a year. Financial recoveries were \$27.2 million.

The Swine Contract Library began operation on December 3, 2003. Producers can see contract terms, including, but not limited to, the base price determination formula and the schedules of premiums or discounts, and packers' expected annual contract purchases by region. Since December 3, GIPSA has experienced approximately 27 "hits" each day to view the Contract Summary reports and approximately 6 "hits" per day to view the Monthly reports.

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 and the Agricultural Marketing Act of 1946. 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 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. It also provides technical assistance to exporters, importers and end users of U.S. grains and oilseeds, as well as other USDA agencies, USDA Cooperator organizations, and other governments. These efforts help facilitate the sale of U.S. products in international markets.

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 average \$0.30 per metric ton, or approximately 0.23 percent of the \$14 billion value of U.S. grain exports. In fiscal year 2003 alone, more than 1.8 million inspections were performed on more than 222 million tons of grains 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 2003, FGIS received only 13 quality complaints and no quantity complaints from importers on grains inspected under the U.S. Grain Standards Act. These involved 229,587 metric tons, or about 0.2 percent by weight, of the total amount of grain exported during the year.

GIPSA'S 2005 BUDGET REQUEST

For 2005, the budget proposes a program level for salaries and expenses of \$44 million. Of this amount, \$20 million is devoted to grain inspection activities for standardization, compliance, and methods development and \$24 million is for Packers and Stockyards Programs.

The 2005 budget includes the following program increases:

- \$1 million for rapid response teams to closely examine livestock marketing to ensure that producers are not unfairly disadvantaged by the BSE situation. USDA will use the funds to conduct market surveillance and ensure that marketing and procurement contracts are honored in the aftermath of the BSE finding.
- About \$5 million to significantly upgrade the agency's IT functions, including the ability to securely accept, analyze, and disseminate information relevant to the livestock and grain trades. About \$4 million is a one-time increase for investment. Currently, GIPSA receives more than 2.5 million submissions from stakeholders, all of which are done on paper. The request also includes \$150,000 to maintain the Swine Contract Library.
- \$1.2 million to monitor the various technologies that livestock and meatpacking industries use to evaluate carcasses to ensure fair and consistent use of those

technologies. Producer compensation is increasingly dependent not simply on the weight of the animals they bring to slaughter, but the characteristics of the carcasses as well (e.g., fat content).

—\$0.5 million to enable GIPSA to better address and resolve international grain trade issues, thus precluding disruption of U.S. exports. GIPSA has experienced a growing demand for cooperative participation with other agencies with international trade responsibilities to help expand markets for U.S. agricultural products and removing barriers to trade.

New User fees.—New user fees, similar to those proposed for fiscal year 2004, 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 \$6 million to cover these costs. Also, the Packers and Stockyards program would be funded by new license fees of about \$23 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 the AMS is focused on facilitating the marketing of agricultural products in the domestic and international marketplace, ensuring fair trading practices, and promoting a competitive and efficient marketplace to the benefit of producers, traders, and consumers of U.S. food and fiber products. The Agency accomplishes this mission through a wide variety of publicly and user funded activities that help their customers improve the marketing of their food and fiber products and ensure that food and fiber products remain available and affordable to consumers. The following are just some of the ways that AMS is doing its job better in serving its customers.

Customer Service and Technology.—AMS continues to improve its service delivery by taking advantage of new technology to improve public electronic access to information and services and to increase operational efficiency. For example, the Livestock Mandatory price reporting system processes huge amounts of raw data received from slaughter facilities that report their transactions involving purchases of livestock and sales of boxed beef and lamb, lamb carcasses, and imported boxed lamb cuts. These data, including prices, contracts for purchase, and other related information, are publicly disseminated in over 100 daily, weekly, and monthly reports on fed cattle, swine, lamb, beef and lamb meat. AMS continues to make enhancements to existing reports and to introduce new reports in consultation with industry stakeholders.

In 2003, AMS began offering automatic e-mail delivery of comprehensive Market News information to subscribers. This free email subscription service, provided in partnership with the Mann Library at Cornell University, provides access to nearly 1,500 daily, weekly and monthly market reports covering the six major AMS commodity groups. AMS also is developing a Market News web portal that will allow users to establish their own unique web pages through which they can immediately access preferred market news reports, have the capability to build specialized reports, and add customized features including nationwide weather reports and metric data conversions. Users will be able to access 5 years of data and download it in usable formats, including charts, spreadsheets, and graphs. The portal will be available to public users later this year for fruit and vegetable reports, and they hope to expand it to market reports for other commodities soon thereafter.

Partnerships.—AMS depends on strong partnerships with cooperating State agencies and other Federal agencies to carry out many of our programs. State agency partners collect data, provide inspection, monitoring, and laboratory services for AMS, and otherwise maximize the value of both State and Federal resources through sharing and coordination. For instance, AMS' Market News program maintains cooperative agreements with 40 States to coordinate local market coverage with the regional and national coverage needed for AMS market reporting. State employees who inspect shipments of seed within a State provide information on potential violations in interstate shipments to AMS' Federal Seed program. Thirty-three States and territories participate with AMS in Pesticide Recordkeeping education and record inspection activities and are reimbursed for their services. Furthermore, the Pesticide Data program depends on its 10–12 State and three Federal partners to collect and test the product samples on which the program results are based. In fact, the Pesticide Data program directs 80 percent of its funding to its State partners in reimbursement for services provided. Another source of support for State agriculture programs is AMS' Federal-State Marketing Improvement Program (FSMIP), otherwise known as the Payments to States Program. In 2003, AMS

allocated FSMIP grant funds to 20 States for 28 projects of local and regional importance, such as marketing studies or developing innovative approaches to the marketing of agricultural products.

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

Market Analysis.—In 2003, AMS supported wholesale or farmers market facility projects in Mississippi, Georgia, Florida, Oregon, Arizona, New York, Texas, American Samoa, Hawaii, and Kentucky. AMS also supports marketing and market technology research projects which were presented at numerous marketing conferences and workshops. AMS supports farmers markets by conducting research on emerging trends in market operations and practices and providing research reports, reference material and fact sheets to farm vendors, farm market managers, and the general public through the AMS website and a telephone hotline.

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

AMS transportation specialists are often called upon to provide information and advice when agricultural transportation is disrupted. After September 11, 2001, AMS has increasingly been asked to provide more analyses on transportation security for agricultural products. In 2003, AMS developed a Transportation Security Briefing Book using the information currently available. The book provides an overview of the agricultural transportation system, existing safety measures, and discusses the adverse effects of past disruptions in the system. While this is a good start, we have found that much more study is needed in this area for all modes of transport, but particularly for trucking, which moves 90 percent of agricultural freight for at least one segment of its transportation to destination.

Commodity Purchases.—AMS works in close cooperation with both the Food and Nutrition Service (FNS) and the Farm Services Agency (FSA) to administer USDA commodity purchases that stabilize markets and support nutrition programs, such as the National School Lunch Program, the Emergency Food Assistance Program, the Commodity Supplemental Food Program, and the Food Distribution Program on Indian Reservations. To maximize the efficiency of food purchase and distribution operations, AMS, FNS, and FSA each provide a component of program administration according to their organizational structure and expertise, but the system is complex and requires close coordination. To better coordinate the operations between the three agencies and control the vast array of details inherent to the procurement process, the Processed Commodities Inventory Management System (PCIMS) was developed more than 10 years ago to track bids, orders, purchases, payments, inventories, and deliveries of approximately \$2.5 billion of commodities used in all food assistance programs every year and another \$1 billion in price support commodity products maintained in inventory. PCIMS is still being used by the three agencies with modifications having been made over the years, when feasible, to add capabilities such as financial tracking or to meet changes in program delivery.

AMS' 2005 BUDGET REQUEST

For AMS, the budget proposes a program level of \$732 million, of which over 88 percent will be funded by user fees and Section 32 funds. The budget requests an appropriation of \$87 million for Marketing Services and Payments to States. The 2005 budget includes an increase of \$10 million in appropriated funds to improve the information technology systems used to manage and control commodity orders, purchases, and delivery. Under this proposal, PCIMS would be replaced by the Web-based Supply Chain Management System (WBSCM). Implementation of WBSCM

will improve the efficiency of Federal procurement of commodities by reducing ordering and delivery times from 24 days to 5 days. The 2005 budget also includes an increase of \$0.3 million to conduct studies aimed at improving the security of the U.S. transportation system for agricultural commodities and supplies. The budget includes a decrease of \$2 million for FSMIP to reflect a reduction for a one-time increase in 2004 for creation of specialty markets in Wisconsin.

CONCLUSION

This concludes my statement. I am looking forward to working with the Committee on the 2005 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, both unintentional and those caused by terrorist action, 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 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 in presenting our fiscal year 2005 budget proposal. To provide some context for our budget proposal, I would like to begin by reviewing our agency's mission and describing some of the customer service improvements we have made in delivery of our programs.

MISSION

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

We accomplish this mission through a wide variety of publicly funded activities that help our customers better market their food and fiber products and ensure that food and fiber products remain available and affordable to consumers. More specifically, AMS helps to make the nation's agricultural markets work efficiently by providing wide and equal access to market information for all producers and traders; by developing agricultural product descriptions that provide a common language for commercial trade; by providing data on pesticide residues and microbiological pathogens that support science-based risk assessment; by providing "how to" technical expertise to growers, transporters, and others in the marketing chain; and by helping to develop alternative or improved market outlets.

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

CUSTOMER SERVICE AND TECHNOLOGY

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

In 2003, AMS began offering automatic email delivery of comprehensive Market News information to subscribers. Market News reports cover prices, volume, quality, condition, and other market data on farm products in production areas and at spe-

cific domestic and international markets. This free email subscription service, provided in partnership with the Mann Library at Cornell University, provides access to nearly 1,500 daily, weekly and monthly market reports covering the six major AMS commodity groups—cotton, dairy, fruit and vegetable, livestock and seed, poultry, and tobacco. Users can search by keyword or browse by commodity, then subscribe to and receive selected reports via email whenever an update is published. This initiative is part of the Federal e-government effort to streamline government-to-citizen communications.

AMS also is developing a Market News web portal that will allow users to establish their own unique web pages through which they can immediately access preferred market news reports, have the capability to build specialized reports, and add customized features including nationwide weather reports and metric data conversions. Users will be able to access 5 years of data and download it in usable formats, including charts, spreadsheets, and graphs. The portal will be available to public users later this year for fruit and vegetable reports, and we hope to expand it to market reports for other commodities soon thereafter.

PARTNERSHIPS

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

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

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

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

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

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

Our Transportation Services Program works with Federal, State, and local policymakers to maintain an efficient national transportation system that supports the needs of farmers, agricultural shippers, and rural America. The program helps to support farm income, expand exports, and maintain the flow of food to consumers. AMS conducts and sponsors economic studies of domestic and international transportation issues and provides technical assistance and information on agricultural transportation, rural infrastructure and access, and food distribution to producers, shippers, carriers, government agencies, and universities. Program experts have generated studies and reports on U.S. waterways, rail lines and rail car availability; rail and shipping rate analyses; and geographically disadvantaged farmers and ranchers, and many others. The program also produces periodic publications that provide information for agricultural producers and shippers on various modes of transportation, such as the weekly Grain Transportation Report, the Refrigerated Transport Quarterly, quarterly issues of the Ocean Rate Bulletin and Agricultural Container Indicators, and the semiannual Agricultural Ocean Transportation Trends.

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

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

AMS retains only about 13 percent of the funds appropriated under Section 32. In 2005, AMS expects to retain \$800 million, half of which—\$400 million—will be spent on purchases for the Child Nutrition Programs. Most of the rest is available to AMS' commodity purchases program for emergency surplus removal. Eighty-six percent of the \$6.2 billion total appropriation will be transferred to FNS to administer the Child Nutrition Programs and 1 percent to the Department of Commerce to develop fishery products.

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

AMS purchases the non-price supported commodities—meat, fish, poultry, egg, fruit and vegetable products—and FSA supplies the price-supported commodities—flours, grains, peanut products, cheese and other dairy products, oils and

shortenings—that supply the National School Lunch Program and other nutrition assistance programs administered by FNS.

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

To better coordinate the operations between the three agencies and control the vast array of details inherent to the procurement process, the Processed Commodities Inventory Management System, or PCIMS, was developed more than 10 years ago to track bids, orders, purchases, payments, inventories, and deliveries of approximately \$2.5 billion of commodities used in all domestic and foreign food assistance programs every year and another \$1 billion in price support commodity products maintained in inventory. PCIMS is still being used by the three agencies with modifications having been made over the years, when feasible, to add capabilities such as financial tracking or to meet changes in program delivery.

FISCAL YEAR 2005 BUDGET REQUEST

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

WEB-BASED SUPPLY CHAIN MANAGEMENT SYSTEM

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

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

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

being performed by PCIMS. Until then, we must continue to maintain the PCIMS system.

AGRICULTURAL TRANSPORTATION SECURITY

Our second proposal this year is to strengthen our agricultural transportation security expertise within the Transportation Services program. We are requesting \$300,000 to produce more in-depth analyses of agricultural transportation security. Transportation is a critical link in the food supply chain. Closer analysis of the sector will provide the information needed for critical assessments of the strengths and vulnerabilities of the various transportation modes used to move farm inputs, food, and other agricultural products from farm to market. These funds will strengthen USDA's Homeland Security efforts by helping to safeguard the U.S. food supply and supporting the Department of Homeland Security. We will be better able to provide the information requested by policy officials in planning strategies to prevent potential disruptions, and to provide comprehensive information more quickly when any emergencies occur. Our current expertise and established contacts with transportation providers give us a distinct advantage in addressing agricultural transportation security issues. The transportation industry also has a serious interest in protecting shipments. For example, the Agricultural and Food Transporters Conference (AFTC) recently requested help from AMS in developing voluntary security guidelines. AMS is supporting a cooperative effort between USDA and the AFTC to prepare a guidebook. With expanded information and analysis, we will also be better able to advise agricultural producers and shippers on improving their own security.

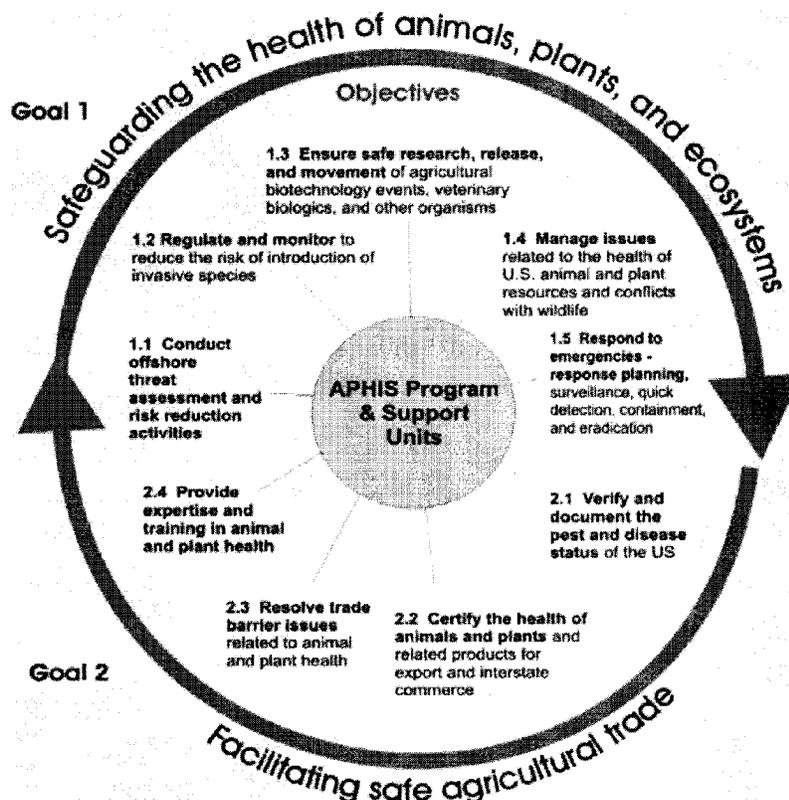
BUDGET REQUEST SUMMARY

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

PREPARED STATEMENT OF DR. PETER FERNANDEZ, ACTING 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. APHIS is an action-oriented agency that works with other Federal agencies, Congress, States, agricultural interests, and the general public to carry out its mission to protect the health and value of American agriculture and natural resources. APHIS strives to assure its customers and stakeholders that it is on guard against the introduction or reemergence of animal and plant pests and diseases that could limit production and damage export markets. At the same time, APHIS monitors for and responds to potential acts of agricultural bioterrorism, invasive species, diseases of wildlife and livestock, and conflicts between humans and wildlife. APHIS also addresses sanitary and phytosanitary trade barriers and certain issues relating to the humane treatment of animals. Finally, APHIS ensures that biotechnology-derived agricultural products are safe for release in the environment. We have developed a strategic plan to help us accomplish these objectives, and I would like to report on our fiscal year 2003 protection efforts and our fiscal year 2005 budget request in that context.

APHIS' Protection System



APHIS' protection system is based on a strategic premise that safeguarding the health of animals, plants, and ecosystems makes possible safe agricultural trade and reduces losses to agricultural and natural resources. All nine objectives in the protection system are key components of this strategic premise. Failing to succeed in any one objective will eventually lead to overall failure, and American farmers will not reach their potential export markets. Additionally, the protection system is a key component of USDA's Homeland Security role. The United States has a vital stake in the health of American agriculture, both economically and in terms of feeding our people and many throughout the world. Terrorists could well recognize that vital stake and seek to attack it.

Five Objectives for Safeguarding Health of Animals, Plants, and Ecosystems

Objective 1.1—Conduct offshore threat assessment and risk reduction activities.— In this era of increasing globalization and advancing technologies, APHIS must constantly assess the exotic health threats approaching our borders, and engage in off-shore pest or disease eradication activities when the threat is imminent and the potential impact severe.

To prevent the introduction of costly foreign animal diseases into the United States, our Foreign Animal Diseases (FAD) and Foot-and-Mouth Disease (FMD) program works to detect and control outbreaks of animal diseases in foreign countries far from our shores. This is our first line of defense against foreign animal diseases and has become more significant as international trade and travel have increased. APHIS conducts operations overseas through bilateral agreements and works with multilateral organizations, such as the World Organization for Animal Health (OIE).

Last year, for example, through an agreement with Panama and Mexico, we collected 1,260 samples of suspected vesicular disease throughout Central America from field investigations and tested the samples in Panama. Fortunately, all tested negative for FMD, while 639 were diagnosed as vesicular stomatitis.

Through our Fruit Fly Exclusion and Detection program, we cooperate with the Governments of Mexico, Guatemala, and Belize on the Moscamed program to eradicate and control the Mediterranean Fruity Fly (Medfly), which could cause \$2 billion in losses if it became established in the United States. Moscamed's current top priorities are to eradicate the Medfly from Chiapas, Mexico, and move the barrier south into Guatemala in an effort to achieve APHIS' and its cooperators' goal of eradicating Medfly from Central America and thereby providing more secure prevention against the threat Medfly poses to the United States. A major component of the program is the production and release of sterile flies to disrupt normal reproduction. In fiscal year 2003, the Central America Medfly program produced 2.2 billion sterile fruit flies a week, exceeding its goal of producing 2 billion per week. This production increase allowed more flies to go to the preventive release program in the United States.

Through our Tropical Bont Tick program, APHIS employees are preventing the introduction of heartwater and other diseases transmitted by tropical bont ticks into the livestock industry and wildlife populations of the United States from affected Caribbean islands. The cooperative program has eradicated ticks from six of the nine islands involved so far, bringing us closer to our goal of eradicating this pest from the Western Hemisphere.

Objective 1.2—Regulate and monitor to reduce the risk of introduction of invasive species.—APHIS regulates the import of agricultural products, including commercial shipments and items carried into the United States by travelers, to prevent the entry of foreign pests and diseases. We work closely with the Department of Homeland Security (DHS) to monitor and intercept items that arrive at ports of entry.

In fiscal year 2003, APHIS and DHS agricultural employees inspected the baggage of nearly 74 million arriving passengers. Passenger baggage is inspected manually, with x-ray technology, or through the use of detector dogs. Agricultural inspectors also cleared 54,033 ships and 3,128,660 cargo shipments. In cooperation with DHS, we increased the number of cargo inspections by 43 percent over fiscal year 2002 because of the high entry risk of exotic wood boring and bark beetles, like Asian long-horned beetle and emerald ash borer. In total, agricultural inspectors intercepted 82,631 reportable pests at land borders, maritime ports, airports, and post offices. At plant inspection stations, our inspectors cleared 176,761 shipments containing over 1.2 billion plants units (cuttings, whole plants, or other propagative materials) and intercepted 4,260 pests.

Part of APHIS' safeguarding strategy is to prevent the intentional introduction of illegal products through market surveys, investigations, and enforcement action. In fiscal year 2003, our Safeguarding, Intervention, and Trade Compliance (SITC) staff and field personnel seized 15,706 illegal plant products and 488 illegal meat, poultry, and dairy products and found 112 reportable pests. When SITC detects a prohibited item, we identify the item's origin and the responsible shippers, importers, and broker. By maintaining the relevant information in databases, the program can target specific commodities and importers. This year, SITC investigations led to the detection of 82 violations at markets and distributors' warehouses.

APHIS' Animal and Plant Health Regulatory Enforcement program conducts regulatory enforcement activities to prevent the spread of animal and plant pests and diseases in interstate trade. These activities include inspection, surveillance, animal identification, and prosecution. This year, APHIS continued the development of a multi-year project to improve a headquarters-based, on-line computer system to track investigations and automate the enforcement process. The database will help our enforcement efforts by allowing APHIS programs and other agencies such as the Departments of Homeland Security and Treasury to share critical information and identify individuals, companies, cargoes, carriers, or pathways posing risk.

In fiscal year 2003, APHIS conducted 1,782 investigations involving plant quarantine violations resulting in 142 warnings, 682 civil penalty stipulations, seven Administrative Law Judge decisions, and approximately \$1 million in fines. Regarding animal health programs, we conducted 1,425 investigations, resulting in 210 warnings, 39 civil penalty stipulations, five Administrative Law Judge decisions, and approximately \$44,900 in fines. Also during fiscal year 2003, the program conducted 76 investigations of alleged Swine Health Protection Act violations in Puerto Rico. This was slightly less than the target of 80 investigations, mostly due to providing support for the exotic Newcastle disease outbreak in California.

Objective 1.3—Ensure safe research, release, and movement of agricultural biotechnology events, veterinary biologics, and other organisms.—The growth of agricul-

tural biotechnology hinges on the public's acceptance of this technology as safe, and APHIS' regulatory role is key to ensuring global acceptance. In addition to agricultural biotechnology, the Agency monitors and regulates to ensure safe agricultural research and commercialization activities involving the movement of non-indigenous organisms and veterinary biologics.

APHIS' Biotechnology Regulatory Services (BRS) program, created in August 2002, regulates the introduction (importation, interstate movement, and field release) of genetically engineered organisms such as plants, insects, microorganisms and any other organism that is known to, or could be, a pest. APHIS also has determined that BRS may potentially regulate animals, insects, and other disease agents relevant to livestock health. Through a strong regulatory framework, BRS determines the conditions under which genetically engineered organisms can be introduced into the United States and allows for the importation, interstate movement, and field release of these materials only after rigorous conditions and safeguards are put into place. Under the authority of the Plant Protection Act of 2000, APHIS can pursue penalties for failure to adhere to our regulations, permit conditions, and requirements.

With the creation of our new biotechnology compliance program, we have chosen measures that will accurately and visibly reflect the effectiveness of our inspection efforts for the testing of products that carry a higher degree of perceived risk. We believe that increased frequency of inspections—especially at high risk sites—coupled with efforts to improve the quality of inspections through expanded training, will translate into a high degree of stakeholder and public confidence that these products will be safely confined and not inadvertently enter the food supply. Our performance target for fiscal year 2004 is to inspect 10 percent of low risk sites, 40 percent of medium risk sites at least once during the growing season, and 100 percent of pharmaceutical and industrial sites a total of seven times—five times during the growing season and two times afterwards.

Our Veterinary Biologics program continues to ensure that veterinary biologics products are pure, safe, potent, and effective. Our goal is to ensure the availability of quality veterinary biological products for the diagnosis, prevention, and treatment of animal diseases. The program will continue to respond to emerging diseases with expedited reviews and inspections for new veterinary biologics, and it will follow a risk-based approach to inspect and test other products.

In fiscal year 2003, APHIS performed 78 regulatory actions following routine inspections and 24 investigations of possible regulation violations. APHIS' Center for Veterinary Biologics found the marketing of unlicensed veterinary biologics and false or misleading advertising of licensed veterinary biologics in over half of these investigations. Through education, cooperation, and regulatory actions, APHIS helped industry achieve increased compliance with the Virus-Serum-Toxin Act.

Objective 1.4—Manage issues related to the health of U.S. animal and plant resources and conflicts with wildlife. Agricultural stakeholders also expect APHIS to help solve many types of health-related production issues in the United States. For example, producers need help in dealing with area-wide wildlife damage control problems. Indigenous pest problems affecting multiple States, such as boll weevil and grasshoppers, also require APHIS' attention. We are not alone in these efforts and have good relationships with our State and Tribal partners in conducting these eradication and control programs. That cooperation, in addition to support from academia and industry, is essential for these types of programs to succeed.

We continue to make progress on a number of other animal health programs as well. At the beginning of fiscal year 2003, there was one pseudorabies-quarantined premise in the United States, compared to 12 at the beginning of fiscal year 2002. By the end of fiscal year 2003, there were no swine commercial production premises under quarantine for pseudorabies. As of September 30, 2003, there were 1,776 flocks participating in the Scrapie Flock Certification Program of which 105 are certified, 1,663 are completely monitored, and 8 are selective monitored flocks. This is in comparison to 1,539 flocks enrolled, 78 flocks certified, 1,452 flocks completely monitored, and 9 flocks selectively monitored as of September 30, 2002. To continually improve on the 46 States, Puerto Rico, and the Virgin Islands as accredited Tuberculosis-free, the program depopulated three dairy herds in California, four beef herds in Michigan, and one beef herd in Texas during fiscal year 2003.

Among a number of protection efforts, APHIS' Wildlife Services (WS) Operations program works to protect agricultural crops from wildlife damage, to protect livestock from predation, and to protect human safety by preventing wildlife collisions with aircraft. In fiscal year 2003, the Agency's beaver damage management activities in several States averted \$25 million in impending damage to forest and agricultural resources, waterways and highway infrastructures. As wolf populations continue to increase, so do requests for assistance with wolf predation. As a result,

APHIS responded to 179 requests for assistance with wolf predation on livestock or domestic dogs during fiscal year 2003 in Minnesota alone. In the west, APHIS responded to 41 requests for assistance with gray wolf predation in Idaho and 87 requests in Montana. Airports reported approximately 6,100 wildlife strikes to civil aircraft in 2002, with the U.S. Air Force alone reporting more than 3,800 strikes to military aircraft. Wildlife strikes cost civil aviation in the United States over \$480 million in damages in 2002. The requests for APHIS assistance in managing wildlife hazards at airports and military air bases continue to increase. In fiscal year 2003, APHIS wildlife biologists provided wildlife hazard management assistance to over 500 airports nationwide for the protection of human safety and property, compared to only 42 airports in fiscal year 1990 and 409 airports in fiscal year 2002. At JFK International Airport, APHIS biologists have reduced gull strikes by over 80 percent in 2000–2003 compared to strike levels in the early 1990s.

APHIS' Wildlife Services (WS) Methods Development program, through the National Wildlife Research Center (NWRC), functions as the research arm of APHIS' Wildlife Services program by providing 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. The program provides technical support for the development of 5 drug/vaccine products through Investigational New Animal Drug Authorizations under the Food and Drug Administration. These materials are under development as wildlife immobilizing agents and contraceptive products. APHIS continued to develop and evaluate non-lethal methods for managing blackbird damage to sunflowers and rice by conducting extensive laboratory testing of registered chemicals for bird repellency characteristics. Scientists continued multi-year research studies at various airports in the United States to reduce wildlife strike hazards. These scientists researched turf management, non-lethal repellents, and dispersal techniques to minimize strikes by gulls, waterfowl, turkey vultures, hawks, and other species that threaten aviation safety. In fiscal year 2003, we met our performance target of testing and/or improving 18 wildlife damage management methods and will maintain this target for fiscal year 2004.

APHIS' Animal Welfare program carries out activities designed to ensure the humane care and handling of animals used in research, exhibition, the wholesale pet trade, or transported in commerce. The program places primary emphasis on voluntary compliance through education with secondary emphasis on inspection of facilities, records, investigation of complaints, reinspection of problem facilities, and training of inspectors. However, when necessary, APHIS personnel investigate alleged violations of Federal animal welfare and horse protection laws and regulations and oversee and coordinate subsequent prosecution of violators through appropriate civil or criminal procedures. In fiscal year 2003, we conducted 365 animal welfare investigations resulting in 172 formal cases submitted for civil administrative action. We also issued 90 letters of warning and resolved 44 cases with civil penalty stipulations resulting in \$56,373 in fines. Administrative Law Judge Decisions resolved another 58 cases resulting in \$668,995 in fines.

Objective 1.5—Respond to emergencies—response planning, surveillance, quick detection, containment, and eradication.—Even though we devote many resources to pest and disease prevention and regulatory compliance to safeguard agricultural health, it is impossible to intercept every potential biological threat. APHIS must have the capacity to quickly respond in order to limit the spread of the outbreak and to eradicate it so that production losses are minimized and exports of affected commodities do not suffer long-term disruptions.

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. The EMS program identifies national infrastructure needs for anticipating, preventing, mitigating, responding to, and recovering from such emergencies. By Presidential Homeland Security Directive, APHIS is restructuring its emergency response systems according to the National Incident Management System, or NIMS. APHIS implemented the incident command structure in response to the exotic Newcastle disease (END) outbreak in California, Arizona, Nevada, and Texas during fiscal year 2003. During the END outbreak, APHIS followed the NIMS structure and established five incident command posts in three States.

This same structure was put into place when, on December 23, 2003, laboratory testing at the National Veterinary Services Laboratories indicated that a single cow, slaughtered on December 9, 2003, in Washington State, tested positive for BSE. The world reference laboratory in the United Kingdom confirmed these presumptive

positive results on December 25 for BSE, and we immediately began a swift and comprehensive investigation.

The epidemiological tracing and DNA evidence proved that the BSE positive cow was born on a dairy farm in Alberta, Canada in 1997. She was moved to the United States in September 2001 along with 80 other cattle from that dairy. The epidemiological investigation to find additional animals from the source herd led to a total of 189 trace-out investigations. These investigations resulted in complete herd inventories on 51 premises in three States: Washington, Oregon and Idaho.

On February 9, 2004, APHIS announced that we had completed our field investigation of the BSE case in Washington. During our investigation, a total of 255 "Animals of Interest"—animals that were or could have been from the source herd—were identified on 10 premises in Washington, Oregon and Idaho. All 255 animals were depopulated and sampled for BSE testing. Results were negative on all samples. The carcasses from all of the euthanized animals were properly disposed of in accordance with all Federal, State, and local regulations. Consistent with international guidelines on BSE, we focused on tracing the 25 animals born into the birth herd of the index cow during a 2-year window around her birth. Based on normal culling practices of local dairies, we estimated that we would be able to locate approximately 11 of these animals. In fact, APHIS definitively located 14 of these animals.

We are confident that the remaining animals represent very little risk. Even in countries like the United Kingdom where the prevalence of BSE has been very high, it has been very uncommon to find more than one or maybe two positive animals within a herd.

Thus far in fiscal year 2004, USDA has transferred \$80.4 million from the Commodity Credit Corporation (CCC) to APHIS for BSE-related activities. APHIS is using these funds to respond to the Washington State incident and to enhance BSE surveillance around the country. This CCC funding will supplement the funds already set aside for BSE surveillance in APHIS' base appropriation. This enhanced surveillance plan incorporates recommendations from the international scientific review panel and the Harvard Center for Risk Analysis; both have reviewed and supported the plan.

On December 30, 2003, Secretary Veneman announced that an international panel of experts would be convened to review our BSE investigative efforts and recommend enhancements to our BSE program. The panel delivered their report on February 4, 2004, and commended USDA for conducting such a comprehensive epidemiological investigation. The panel also made recommendations for further enhancements to the BSE program. The Secretary applied all of this information in considering future actions with regard to BSE, and on March 15, she announced a plan to enhance the BSE surveillance program. Previous targeted surveillance efforts were designed to detect BSE in the adult cattle population at the level of at least one infected animal per million adult cattle with a 95 percent confidence level. The goal of the new plan is to test as many cattle in the targeted high-risk population as possible in 12 to 18 months, and then evaluate future actions based on the results of this effort.

The plan also incorporates random sampling of apparently normal, aged animals at slaughter. More than 86 percent of all adult cattle processed annually are slaughtered in 40 plants; random sampling efforts will be focused on these plants.

More intensive surveillance will allow us to refine our estimates of the level of disease present in the U.S. cattle population and provide consumers, trading partners, and industry better assurances about our BSE status. Testing will be conducted at USDA's National Veterinary Services Laboratories and at participating network contract laboratories. As an example, if a total of at least 268,444 samples is collected from the targeted population, we believe this level of sampling would allow USDA to detect BSE at a rate of 1 positive in 10 million adult cattle (or 5 positives in the entire country with a 99 percent confidence level). We also plan on testing at least 20,000 BSE slaughter samples from apparently healthy, aged bulls and cows. During this effort, we will be utilizing approved rapid screening tests, working with industry on disposal issues, and enhancing our BSE education and outreach activities.

USDA remains confident in the safety of the U.S. beef supply. Out of an abundance of caution, USDA recalled all meat products processed in the affected slaughter plant the same day as the positive cow. However, the meat presents an extremely low risk to consumers, because all of the central nervous system related tissues—those most likely to contain the BSE agent—were removed from the affected animal during slaughter and did not enter the human food supply.

Even with the recent detection, the United States continues to have a very low BSE risk. An independent assessment conducted by Harvard University in 2001 and

again in 2003 demonstrated that even with a detection of BSE in this country, United States control efforts would minimize any possible spread of the disease and ultimately eliminate it from the U.S. cattle population. These controls include a long-standing ban on imports of live cattle, other ruminants, and most ruminant products from high risk countries; the Food and Drug Administration's 1997 prohibition on the use of most mammalian protein in cattle feed; and an aggressive surveillance program that has been in place for more than a decade. In each of the past 2 years, the United States tested over 20,000 head of cattle for BSE, which is 47 times the recommended international standard.

We opened the APHIS Emergency Operations Center (AEOC) in March 2003. The AEOC is a state-of-the-art facility that allows a national management response team to communicate with field personnel and USDA leadership during an outbreak situation. Communications capabilities include video teleconferencing, advanced computer interfaces, geographical information system mapping, and a strong multimedia component.

Through the Pest Detection program, APHIS and its State cooperators work to ensure the early detection of harmful or invasive plant pests and weeds through the Cooperative Agricultural Pests Survey (CAPS) program. The CAPS program provides the domestic infrastructure necessary to conduct national surveys for plant pests and weeds and document the results in a national database, the National Agricultural Pest Information System (NAPIS). NAPIS provides a summary of pest survey results and allows APHIS to track the spread of pests within the United States, demonstrate their presence or absence, plan their control, and support the export of agricultural commodities. APHIS is currently engaged in a multi-year effort to enhance its early detection program through an increased level of communication and cooperation with its State partners, increased staffing levels, the use of new technology, and a new focus on international pest risk analysis. These efforts will help us meet our goal of detecting significant pest introductions before a new pest can cause serious damage. Finding newly arrived exotic pests before they spread will reduce the money spent on costly eradication programs and prevent losses to farmers and our natural ecosystems.

APHIS has completed pest risk assessments for ten of the 18 pests on the national CAPS list for fiscal year 2003 and 2004 and is working with State cooperators to develop State CAPS lists. We are also instituting CAPS committees at the State, regional, and national levels to ensure that stakeholders are involved in the process of targeting pests for survey. In fiscal year 2003, APHIS and 21 States conducted the Exotic Wood-Borer and Bark Beetle Survey, one of our new commodity-or resource-based surveys. While the data is still not complete, this year's survey turned up evidence of three new forest pests previously not known to exist in the United States. We believe that these new pests provide strong evidence of the need for the nationally directed and risk-based detection program that we are currently implementing.

APHIS' Animal Health Monitoring and Surveillance program continues to conduct activities such as: monitoring and surveillance of various animal disease programs, foreign animal disease surveillance and detection, emergency disease preparedness and response, animal health monitoring, and epidemiologic support and delivery for both ongoing disease programs and post-disease eradication programs. For example, APHIS completed the Scrapie Ovine Slaughter Surveillance project sample collection by gathering 12,508 samples from 22 slaughter plants and one slaughter market. Losses from affected flocks cost producers approximately \$20 to \$25 million annually.

APHIS has been challenged with numerous emergencies over the last several years. However, we took quick and aggressive action to address the following plant and animal situations: Asian Longhorned Beetle, Chronic Wasting Disease, Citrus Canker, Emerald Ash Borer, Exotic Newcastle Disease, Karnal Bunt, Mediterranean Fruit Fly, Mexican Fruit Fly, Pierce's Disease/Glassy-winged Sharpshooter, Rabies, Spring Viremia of Carp, and Tuberculosis. The Secretary used her authority to transfer over \$378 million to battle these pests and diseases. Without the quick detection and early, rapid response, the cost to control these outbreaks would have undoubtedly been higher.

Four Objectives for Facilitating Safe Agricultural Trade

APHIS' two goals of safeguarding U.S. agriculture and facilitating international agricultural trade reinforce each other. By protecting and documenting the health of our agricultural products, we can retain existing markets and open new markets for our farmers. By facilitating safe trade with other countries (including activities such as monitoring world agricultural health and helping developing countries build

regulatory capacity), we help ensure that imported products will not threaten our domestic production capability and health status.

Objective 2.1—Verify and document the pest and disease status of U.S. agriculture and related ecosystems.—The World Trade Organization’s (WTO) Sanitary and Phytosanitary (SPS) Agreement 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 has resulted in APHIS’ becoming increasingly involved in demonstrating our pest and disease free status to allow agricultural exports to trading partners.

APHIS’ Pest Detection program conducted 150 surveys to document the pest status of our plant resources and support U.S. producers’ ability to export their products. For example, by collecting extensive survey data demonstrating the limited distribution of Karnal bunt in the United States, APHIS provides assurance to our trading partners that the disease is not present in major wheat-producing areas of the United States, thereby ensuring annual agricultural exports of up to \$5 billion and supplying the raw ingredients for domestic and foreign customers of flour, pasta, and other wheat products. Plum pox is another case in which the collection of national data has helped to keep budwood markets open by demonstrating the absence of the pest from various areas around the United States.

APHIS officials collaborate with State and other Federal agencies to conduct animal health surveillance activities through the Animal Health Monitoring and Surveillance (AHMS) program. These activities include pre- and post-entry testing of imported animals, sample collection at slaughter, and routine testing of animals for export and interstate movement. APHIS also conducts surveillance for domestic animal disease eradication programs, like brucellosis, tuberculosis, chronic wasting disease, and others. This surveillance information allows APHIS to make key regulatory decisions. In doing so, APHIS strives to preserve U.S. exports markets, protect livestock or poultry producers in disease-free areas, and provide the best options possible for those producers who are affected by our regulatory decisions.

When foreign animal disease outbreaks occur in the United States, our trading partners routinely ban U.S. animal and animal product exports until APHIS has the opportunity to confirm the extent of the disease’s spread and demonstrate what regulatory actions are being taken to contain it. Last year, the poultry breeding and hatchery industry lost approximately \$1 million per week due to bans by various trading partners on U.S. poultry exports because of exotic Newcastle disease. Our trading partners will lift such bans in unaffected and unregulated areas only if we can convince them that measures are being taken to mitigate the risk of the disease’s spread via host commodity exports. Providing our trading partners accurate and detailed information about a foreign animal disease outbreak and the subsequent Federal/State disease management response is critical. This information gives our trading partners the assurances they need without exposing them to undue risk. Such a regionalized approach helps minimize trade disruption and negative market reactions.

Objective 2.2—Certify the health of animals and plants and related products for export and interstate commerce.—In carrying out this role, APHIS spends well over \$100 million on disease diagnostics and epidemiology and pest detection infrastructure. This infrastructure makes our health certificates credible for trading partners, but it also is instrumental for quickly detecting and limiting the spread of outbreaks of new pests and diseases, part of our emergency response strategy (Objective 1.5).

The Import/Export program promotes simple, science-based export conditions and negotiates requirements based on technical-level mitigation and guidelines established by OIE. The program is working hard to strengthen its evaluation and risk assessment capabilities to meet international and domestic responsibilities and respond to international and domestic requests for regionalization in a timely manner. For example, during fiscal year 2003 the Import/Export program increased its capacity to conduct regionalization analyses for foreign markets (import purposes) and domestic markets (export purposes). During the early stages of the exotic Newcastle disease outbreak in fiscal year 2003, many countries—including all members of the European Union—suspended poultry imports from all regions of the United States. APHIS, however, identified END-free regions of the country and helped these regions regain market access. These actions helped protect the entire U.S. poultry export industry, which has an estimated annual worth of \$2.5 billion.

APHIS’ Agricultural Quarantine Inspection program facilitates the export of agriculture shipments through EXCERT, an electronic database containing plant health import requirements for over 200 countries. APHIS export certifications ensure that U.S. products meet the agricultural requirements of the country of destination. In fiscal year 2003, APHIS issued over 400,000 Federal plant health export certificates

for agriculture shipments, including the issuance of heat treatment certificates for coniferous solid wood packing materials to the People's Republic of China.

Objective 2.3—Resolve trade barrier issues related to animal and plant health.—Because of APHIS' expertise in animal and plant health issues and our regulatory role (Objective 1.2), the Agency serves as a key resource for trade policy agencies, like the Foreign Agricultural Service and the U.S. Trade Representative, in resolving sanitary and phytosanitary issues that often become trade barriers (Objective 2.3). The negotiations that occur to resolve these issues often result in trading partners providing additional information about the pests or diseases in question, and this information in turn leads to more effective preventive regulatory strategies.

Officials with the Trade Issue Resolution and Management program work to minimize trade disruptions caused by animal and plant health issues. In fiscal year 2003, APHIS retained poultry markets in Japan, Korea, and the Philippines worth over \$169 million, expanded market access for apples in Mexico worth \$88 million, and opened new markets for seed potatoes to Uruguay and apricots from the Pacific Northwest to Mexico. Additionally, APHIS expanded market access for U.S. cherries, canola seed, and potatoes in Mexico, and with the concerted efforts of APHIS, Foreign Agricultural Service, and the Office of the United States Trade Representative, we retained markets for wheat in Argentina and Peru.

When individual agricultural shipments are held up at foreign ports, APHIS attachés correct problems and negotiate with host government officials to facilitate the shipment's acceptance. APHIS obtained authorization for apples at four additional ports of entry in Mexico resulting in the release of a \$5 million apple shipment. In addition, APHIS facilitated \$1 million worth of U.S. cotton in Chile, three rice shipments in Costa Rica and Guatemala, the release of \$13 million in citrus shipments held by Japanese officials, and the waiving of phytosanitary certification with Romanian officials for soy beans, allowing a shipment of 14,000 tons of soybeans valued at over \$3 million.

Objective 2.4—Provide expertise and training in animal and plant health.—The WTO's SPS Agreement requires member countries to provide technical assistance to developing countries to enable those countries to participate more fully in the global trade arena. Using cooperative agreements, preclearance trust fund agreements, and other international arrangements, APHIS provides many countries with technical assistance to strengthen their animal and plant health infrastructure, risk assessment capacity, and food production capabilities (Objective 2.4). By doing this, APHIS not only fulfills requirements for the SPS Agreement but also improves off-shore threat assessment and risk reduction capabilities (Objective 1.1).

APHIS attachés continue to identify specific weaknesses in foreign regulatory systems and provide technical assistance where appropriate. Capacity building improves foreign countries' regulatory infrastructure, U.S. relationships with key foreign officials, United States regulatory concepts and approaches, and, ultimately, the agricultural health status of the foreign country.

In fiscal year 2003, the Veterinary Biologics program continued working with the Committee of the Americas for the Harmonization for Registration and Control of Veterinary Medicines (CAMEVET). The objectives of this committee include coordinating technical information for the registration and control of veterinary medicines. The intention of this program is to exchange information and harmonizes technical procedures to improve the quality of veterinary medicines and the trade of products among countries in the Americas.

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 2003, as an OIE reference laboratory, APHIS' National Veterinary Services Laboratories (NVSL) continued to use their diagnostic expertise to provide training, consultation, and assistance to both domestic and international laboratories. NVSL prioritized the evaluation/validation of new technologies such as the exotic Newcastle disease and Avian Influenza polymerase chain reaction and Chronic Wasting Disease kits to offer new tools for control of certain key diseases. NVSL also shipped 117,095 vials of reagents to domestic and foreign customers to meet critical testing needs. And, NVSL acquired a new chemistry analyzer for blood screening purposes and doubled the number of fraudulent cases detected over those detected in fiscal year 2002. The fraudulent blood testing program at NVSL helps to assure confidence in the health of animals exported from the United States to other countries.

NEW DIRECTION

After evaluating the current challenges and opportunities that exist today, APHIS has developed a new strategic plan of action that will set the Agency's course over the next 5 years. During this time, APHIS is committed to focusing on the following overarching goals: safeguarding the health of animals, plants, and ecosystems in the United States; facilitating safe agricultural trade; and ensuring effective and efficient management of programs to achieve its mission.

As part of its new strategic plan, APHIS intends to strengthen key components of its protection system by focusing on the following objectives:

- Ensuring the safe research, release, and movement of agricultural biotechnology;
- Strengthening the Agency's emergency preparedness and response;
- Resolving trade barriers related to sanitary and phytosanitary requirements;
- Reducing domestic threats through increased offshore threat-assessment and risk-reduction activities;
- Reducing the risk of invasive species introductions by enhancing risk-analysis capabilities; and,
- Managing issues related to the health of U.S. animal and plant resources and conflicts with wildlife.

FISCAL YEAR 2005 BUDGET REQUEST

APHIS has developed its fiscal year 2005 Budget Request in the context of the Strategic Plan, the overriding imperative of Homeland Security, and the need to restrain Federal spending. The fiscal year 2005 Budget Request for Salaries and Expenses under current law totals \$828.4 million or \$112 million more than the fiscal year 2004 Consolidated Appropriations Act. About \$8.5 million is for the cost of the pay raise.

The fiscal year 2005 increase, approximately 15.5 percent above the fiscal year 2004 appropriation, is for initiatives designed to address the increasing threats to the health of American agriculture and Homeland Security and to support the President's Food and Agriculture Defense Initiative. About 40 percent of the increase, approximately \$45.4 million, is an investment to substantially reduce the over \$378 million fiscal year 2003 emergency transfers and to protect and expand the \$53 billion annual agricultural export market by fully funding Federal costs up front in the budget. Other notable increases stem from the highest priority components of APHIS' Strategic Plan and the Food and Agriculture Defense Initiative. APHIS' request for fiscal year 2005 contains \$94.36 million for programs that support the Food and Agriculture Defense Initiative, an increase of nearly \$50 million over fiscal year 2004.

HIGHEST PRIORITY COMPONENTS OF THE STRATEGIC PLAN AND HOMELAND SECURITY

APHIS proposes to increase funding for the Biotechnology Regulatory Services program by \$6.544 million. This will enable us to inspect all high risk fields five times during the growing season and two times in the subsequent season to provide the maximum confidence level that pharmaceutical and industrial developments are managed safely. Such a confidence level is necessary to convince skeptics and trading partners that these, and other biotechnologically derived products, are safe. That confidence is vital to the growth of the industry and American agriculture.

We propose to increase the Import-Export program by \$3 million and the Pest Detection program by \$1.5 million to fulfill APHIS' responsibilities under the Bioterrorism Preparedness and Response Act of 2002. APHIS must regulate possessors and users of "select agents," toxins and pathogens necessary for research and other beneficial purposes which could be deadly in the hands of terrorists.

In light of the first BSE case in the United States, we propose increasing the Animal Health Monitoring and Surveillance program by an additional \$8.641 million to support enhanced BSE surveillance to maintain the confidence of the American people in the safety of the beef supply and allow us to continue our efforts to prevent the introduction and spread of BSE in the U.S. cattle population. In this program, we also request \$33.197 million to accelerate implementation of a National Animal Identification program. Timely tracebacks of animals are integral to a rapid response and recovery to incursions of animal illness and foreign animal disease.

Early detection of new animal and plant pest or disease introductions has the potential to significantly reduce eradication costs and producer losses and, accordingly, is a high priority for APHIS. We propose to increase the funding available to our State cooperators through cooperative agreements for plant pest surveys and animal health monitoring efforts by \$15.2 million (including \$9.1 million for the Pest Detec-

tion program and \$6.1 million for the Animal Health Monitoring and Surveillance program). In addition to requesting increased funding to provide to our cooperators, we are proposing a \$6.202 million increase for the Pest Detection program to enhance our pest detection infrastructure and national coordination efforts. By establishing basic capacity in all 50 States now, we will enhance our ability to find and contain pests and diseases like citrus canker, Asian longhorned beetle, emerald ash borer, Karnal bunt, exotic Newcastle disease, and avian influenza before they become widespread and require expensive emergency eradication programs. Similarly, we request an increase in the Wildlife Services Operations program by \$5 million to expand infrastructure to monitor and gather data on the disease status of free-ranging animals and integrate this data with existing agricultural animal health monitoring systems. APHIS will use this information to detect and respond to disease outbreaks in wildlife populations and mitigate the risk of wildlife diseases transmission to farmed livestock.

The budget requests a \$5 million increase for the Biosurveillance program to enhance several data collection systems already in use, allowing us to improve our surveillance capabilities and establish connectivity with the integration and analysis function at DHS.

The increase of \$3.149 million in the Trade Issue Resolution and Management program will allow APHIS to place more officials overseas to facilitate the entry of U.S. agricultural products and to help establish international standards based on sound science. Having APHIS attaches on site in foreign countries pays dividends weekly. They can intervene when foreign officials raise false barriers to the entry of individual American export shipments. In 2002, APHIS attachés successfully intervened to clear shipments worth \$53 million in such cases.

We propose to increase the Low Pathogenic Avian Influenza (LPAI) program by \$11.783 million to conduct a vigorous surveillance and control program in the live bird markets in the Northeast—the most threatening continuing reservoir of LPAI in the United States. Eliminating LPAI in these markets would help prevent costly eradication programs like the one we conducted in Virginia in 2002. It also would remove a barrier to poultry exports—a \$2.2 billion market—that many countries have or are threatening to invoke. OIE is likely to upgrade LPAI status to “List A,” which could result in more restrictions on our exports if we do not move to eradicate LPAI in the United States.

We also propose to increase the Foot and Mouth Disease/Foreign Animal Disease program by \$4.229 million to further our goal of reducing domestic threats through increased offshore threat assessment and risk-reduction activities by placing more officers overseas to monitor animal disease incidence and assist foreign countries in controlling outbreaks. We propose to increase the Pest Detection program by \$3.875 million to do the same for plant pests and diseases. We request an increase in the Tropical Bont Tick (TBT) program by \$2.495 million to eradicate TBT from Antigua completely and quickly prevent threats to other islands already free, to control and eradicate TBT from St. Croix, and establish surveillance on other U.S. islands and mainland to determine if TBT has spread.

We propose to increase the Emergency Management Systems program by \$10.625 million to enhance animal health emergency preparedness throughout the United States and to establish a vaccine bank to complement the North American Foot and Mouth Disease Vaccine Bank. This additional resource would include vaccines or preventives for other foreign animal disease of significance. These efforts will help protect our Nation’s meat, poultry, and livestock exports, which are valued at \$7.7 billion annually, and the livestock and poultry industries overall, which are valued at \$87 billion.

The budget proposes an increase in the Veterinary Biologics program by \$1.861 million to increase inspections, licensing, and testing of biotechnology-derived veterinary biologics and to enhance tools available to the national animal health laboratory network that would fulfill international standardization requirements. United States sales of agricultural biotechnology products (transgenic seeds [excluding rice and wheat], animal growth hormones, biopesticides, and other products) are projected to increase from \$2.4 billion in 2003 to \$2.8 billion by 2006, an increase of \$144 million annually.

The budget proposes an increase in the Veterinary Diagnostics program by \$4.347 million to enhance the national animal health laboratory network and continue its diagnostic work at the Foreign Animal Diseases Diagnostic Laboratory on Plum Island to provide critical services to the animal industry and help protect the United States herd against potential acts of bioterrorism.

The request increases the Agricultural Quarantine Inspection program by \$3 million to enhance operations at the National Germplasm and Biotechnology Laboratory to develop technology to detect and identify high-risk plant pathogens as well

as protocols for quarantine testing. These efforts support APHIS' emergency response capabilities, eradication programs, pest exclusion activities, biotechnology permitting programs, and the newly mandated Select Agents program. This increase is offset by a decrease of \$2.771 million associated with inter-line inspections in Hawaii and a decrease of \$1.246 million for fiscal year 2004 equipment investments.

The budget increases the Import/Export program by \$1.355 million to fully develop and begin implementing an automated system to track animal and animal product movements. We are developing this tool in response to increasing global trade and travel and demands for increased efficiency in tracking animals and animal products entering and leaving the country.

FUNDING TO CONTINUE EMERGENCY PROGRAMS

APHIS has been battling several pests and diseases that have entered or unexpectedly spread to new areas of the United States over the past few years. Finishing the job is important if we are to achieve the goals we established when these programs began. Chief among these goals is maintaining export markets. Only by aggressively attacking pest and disease introductions can we assure trading partners that the problems are not endemic to the United States and thus not a reason to ban our products from their markets. The budget requests, and the value of the industries and markets at stake, follow.

- Emerald ash borer, \$12.5 million, an increase of \$11.009 million. This pest has emerged as a serious pest in the Northern Midwest States and threatens the ash saw timber industry, with a value of \$25 billion. Much like the Asian Longhorned Beetle, this pest probably arrived via non-agricultural imports and reflects a new threat; not only do the contents of a container pose a risk, so does the container itself. The budget request would provide for Federal cost-sharing of 75 percent for this program.
- Glassy-winged sharpshooter (vector of Pierce's Disease), \$24 million, an increase of \$1.881 million. Without a program to control Pierce's Disease, the U.S. wine industry could face losses of \$33 billion. The budget request would provide for Federal cost-sharing of 57 percent for this program.
- Citrus Longhorned Beetle (CLHB), \$325,000. The CLHB attacks over 40 varieties of hardwood and fruit trees and has no natural enemies. The CLHB could cause \$41 billion in losses to forest resources nationwide. The budget request would provide for Federal cost-sharing of 100 percent for this program.
- Citrus Canker, \$52.5 million, an increase of \$19.071 million. This program protects the Florida citrus industry worth over \$9 billion. The budget request would provide for Federal cost-sharing of 57 percent for this program.
- Infectious Salmon Anemia, \$235,000. This program protects a part of the burgeoning aquaculture industry—salmon exports of over \$100 million annually. The budget request would provide for Federal cost-sharing of 47 percent for this program.
- Spring Viremia of Carp, \$285,000. This program protects the common and silver carp industries, with a value of \$2.8 billion. The budget request would provide for Federal cost-sharing of 77 percent for this program.
- Chronic Wasting Disease, \$20.1 million, an increase of \$1.478 million. In addition to the potential spread to other species, this program directly protects the elk farming and antler industry (with annual gross receipts of \$150 million) and white-tailed deer farms (with capital investments estimated at \$2.5 billion). The budget request would provide for Federal cost-sharing of 77 percent for this program.
- Bovine Tuberculosis, \$20.9 million, an increase of \$5.998 million. This program protects the entire livestock industry, which has annual earnings from exports of \$5.4 billion. The budget request would provide for Federal cost-sharing of 57 percent for this program.
- Scrapie, \$20.9 million, an increase of \$5.106 million. This program minimizes losses to sheep and goat producers, who currently incur annual losses of \$20–25 million because of scrapie. The budget request would provide for Federal cost-sharing of 67 percent for this program.

OTHER INCREASES

We recognize the need for fiscal restraint, but believe that the following additional investments are important if we are to meet the challenges facing us.

- To support the Biotechnology priority, we request an increase of \$441,000 for the Animal and Plant Health Regulatory Enforcement program to help ensure compliance by investigating alleged violations of permit restrictions regarding pharmaceutical and industrial plants.

- To further improve our pest and disease surveillance and detection capability—both to protect and gain export markets and to prevent recurring, costly emergency programs—we request \$6.171 million for the Fruit Fly Eradication and Detection Program to increase detection trapping in Florida and California.
- To provide the funding requested by the State Department in providing adequate security for APHIS personnel overseas and to continue security and mission critical facilities, we request \$7.133 million in our Physical/Operational Security program.
- To establish and maintain liaison positions at key government agencies and to investigate and evaluate disposal techniques for contaminated biological materials, e.g., animal carcasses, we request \$932,000 for our Biosecurity program.
- To continue to modernize our information technology infrastructure to include network capacity planning and management, implementation of eGov initiatives, and cyber security compliance and management, we request \$891,000 in our APHIS Information Technology Infrastructure program.
- To increase nematode resistant potato varieties and regulatory treatments, we request \$184,000 for the Golden Nematode program and to maintain current efficiencies, we request \$451,000 in the Screwworm program.

DECREASES

To allow us to fund these high priority programs, we offer key offsets:

With \$15.585 million in reduced funding for the John's program, APHIS would rely more on the collaborative working relationship between Federal and State animal health workers. For the Boll Weevil program, we are proposing that the Federal Government assume 15 percent of program costs, which in conjunction with the projections of lower nationwide needs, will result in a request of \$17 million, a reduction of \$33.4 million. To offset the \$5 million increase for the wildlife surveillance system, we assume a \$5.556 million increase for State cooperators to fund a larger share of the cost of other wildlife management programs such as predator, bird, and invasive species damage. Funding for the Asian longhorned beetle program is requested to be \$9.3 million, or a reduction of \$20.670 million. The fiscal year 2005 request is based on an overall program level consistent with the \$4 million traditionally provided by cooperating (non-Federal) agencies. This would change the program from an eradication program to a control program. The aim is still to protect \$41 billion of U.S. forest resources while facilitating the \$122 billion trade market with China, the source of the pest.

We also propose a reduction of \$10.857 million associated with animal welfare user fees. This will allow the industry to cover an estimated 66 percent of the cost of enforcing the animal welfare regulations.

CONCLUSION

APHIS' mission of safeguarding U.S. agriculture is becoming ever more critical. Although the processes by which we protect America's healthy and diverse food supply are being increasingly challenged, APHIS is committed to taking the lead in building and maintaining a world-class system of pest exclusion, surveillance, detection, diagnosis, and response. Like the APHIS Strategic Plan, the APHIS Budget consists of interdependent components that only when taken together can truly protect the health and value of American agriculture and natural resources.

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 DONNA REIFSCHEIDER, ADMINISTRATOR, GRAIN
INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION

INTRODUCTION

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 2005 budget proposal.

GIPSA is part of USDA's Marketing and Regulatory Programs, which works to support a 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 both service and regulatory capacities. 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 comprises 737 employees. Grain inspection services are delivered by the national inspection system, a network of Federal, State, and private inspection personnel that is overseen by GIPSA. The system includes 12 GIPSA field offices, 2 Federal/State offices, and 8 State and 58 private agencies that are authorized by GIPSA to provide official services. This network insures the availability of official inspection and weighing services anywhere in the United States. GIPSA also maintains 3 Packers and Stockyards Programs regional offices that specialize in poultry, hogs, and cattle/lamb.

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 166 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 2003, 5,287 market agencies and dealers, and 2,067 packer buyers were registered with GIPSA. In addition, there were 1,429 facilities that provided stockyard services, with an estimated 6,000 slaughtering and processing packers, meat distributors, brokers and dealers, and 128 poultry firms running 202 poultry complexes 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 1,700 investigations. As a result of these investigations, the Packers and Stockyards Programs helped restore over \$27 million to the livestock, meatpacking, and poultry industries. While this is not the largest amount GIPSA has ever reported to Congress, it constitutes more than 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 \$3.2 million being restored to custodial accounts that are established and maintained for the benefit of livestock sellers. Livestock sellers recovered over \$1.5 million under the P&S Act's packer trust provisions. During fiscal year 2003, 55 insolvent dealers, market agencies and packers corrected or reduced their insolvencies by \$6.6 million. In addition, GIPSA's financial investigators analyzed more than 400 bond claims exceeding \$7 million. However, GIPSA 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. 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 testing of every scale used to weigh livestock or live poultry twice a year. In addition, GIPSA initiated or completed 41 investigations of weight and price manipulation of livestock. Some of these investigations are on-going. GIPSA also investigated

the operations of 143 live poultry dealers; most of these investigations examined whether live poultry dealers were in compliance with contracts entered into with poultry growers. With members of the regulated industries, we developed industry standards on new technologies that are entering the marketplace to evaluate and price livestock purchased on a carcass merit basis. We anticipate implementing two more voluntary standards in the next 6 months.

GIPSA continues to develop its Competition Program. During fiscal year 2003, the Competition Branch began or continues evaluations of 31 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, one firm was brought into compliance, and a second firm went out of business. Six of the investigations revealed that the concerns raised were not supported by evidence. 23 complaints were still pending at the end of the fiscal year. GIPSA continues to work closely with the CFTC, attending CFTC Commissioner briefings on the cattle, hog, and meat markets.

GIPSA's Rapid Response Teams remain a powerful tool to address urgent industry issues that place the industries in imminent financial harm. Last year, GIPSA rapid response teams investigated 59 situations across the Nation. During fiscal year 2003, these rapid response investigations contributed to returning \$5.9 million to livestock producers and poultry growers at a cost of \$413,010 in salary and travel expenses.

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 2003, GIPSA, with assistance from the Office of the General Counsel, filed 22 administrative or justice complaints alleging violations of the P&S Act. This number, similar to last year, represents more than a 50 percent increase over the number of complaints filed in fiscal year 2001.

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 88 callers. These calls were in addition to calls received in our regional offices. GIPSA also increased its outreach activities. GIPSA conducted 28 orientation sessions for new auction market owners and managers and 4 feed mill orientations to educate them about their fiduciary and other responsibilities under the P&S Act.

It is important to note some of the activities that GIPSA has been engaged with in recent months. Following the discovery of the bovine spongiform encephalopathy (BSE) positive cow in December, 2003, GIPSA created Financial Protection, Trade Practices and Competition Task Forces to provide protection to livestock producers and members of the cattle industry commensurate with its authority under the Packers and Stockyards Act. These task forces are based in Denver, Colorado, GIPSA's cattle office, and include technical experts from each of GIPSA's regional offices and headquarters. The task forces have developed strategies to identify and respond to potentially unlawful practices unique to current market conditions. Daily Agency-wide meetings are being held to inform and share all BSE related information so that employees, task forces, and headquarters are all current on the latest issues.

GIPSA's Financial Protection Task Force is monitoring livestock markets for financial failures. The Task Force has identified scheduled sales at auction markets that were cancelled in the days and weeks following the BSE announcement. It's monitoring firms likely to be more vulnerable to impacts of the BSE incident, identifying industry changes in payment practices, and standing ready to deploy rapid response teams to investigate financial concerns in the industry. GIPSA is currently conducting several investigations of particularly financially vulnerable firms.

GIPSA's Trade Practices Task Force is reviewing changes in marketing and procurement practices implemented by packers in response to the BSE incident. GIPSA has been in contact with major packers and industry groups to stay current on packer responses. GIPSA is reviewing notices sent by packers to livestock producers informing producers of purchasing and pricing changes implemented as a result of BSE. GIPSA has received complaints from producers who claim that packers have changed the payment terms of their contracts and has deployed rapid response teams to investigate these complaints. GIPSA's Competition Task Force is analyzing, and when warranted, investigating cattle markets when anti-competitive practices may be occurring. Several investigations have been initiated. The Competition Task Force analyzes reported fed-cattle prices in various geographic markets to identify abnormal patterns that may indicate violations of the P&S Act. The task force assesses whether price differences are the result of normal market forces, or

packer behavior that may violate Section 202 of the P&S Act. When normal market forces fail to explain abnormal prices, the Competition Task Force conducts a rapid response investigation to determine whether the P&S Act has been violated.

GIPSA has also communicated with the Commodity Futures Trading Commission (CFTC), the Agricultural Marketing Service, Food Safety and Inspection Service, the Animal and Plant Health Inspection Service, and local and State governmental organizations to discuss issues and coordinate plans. GIPSA attends CFTC's surveillance meetings and is prepared to work with CFTC on any investigation that may involve a potential violation of the P&S Act. GIPSA is actively responding to the BSE incident and is prepared to continue enforcement of the Packers and Stockyards Act and regulations in light of this situation.

In addition, this year GIPSA made significant progress on the Livestock and Meat Marketing Study for which Congress appropriated \$4.5 million in fiscal year 2003. The study will look at issues surrounding a ban on packer ownership. GIPSA, through APHIS, is in the process of contracting out the study. Since packers' use of non-spot arrangements is intertwined with other advance marketing arrangements throughout the supply chain, the study has a broad focus.

The issues addressed by the study are complex. The research is expected to involve several academic disciplines, varied research methods, and large amounts of data that are not already available. Business schools, economics departments, and agricultural economics departments at universities have indicated an interest in bidding, as have consulting firms. GIPSA expects to see collaborations of disciplines in the bids.

Contractors are expected to complete the study in phases over 2 years, with the first reports due 1 year after contract award. Some descriptive findings will be released prior to completion of the analytical parts of the study. Information about the study, including the Federal Register notice, the public comments, and RFP notices, is available on GIPSA's website at: www.usda.gov/gipsa, by following the "marketing study" icon.

Also in fiscal year 2003, GIPSA completed development of the Swine Contract Library as an internet application that meets the requirements of the Livestock Mandatory Reporting Act of 1999's amendments to the Packers and Stockyards Act. Packers are required to file swine purchase contracts with GIPSA, and monthly reports about the number of swine expected to be delivered, under contract, to packers.

The Swine Contract Library includes information from swine packing plants with a slaughter capacity of 100,000 swine or more per year. 31 firms operating 51 plants accounting for approximately 96 percent of industry slaughter are subject to the SCL. GIPSA has received over 530 contracts to date. In the first 2 months of operation, the SCL recorded more than 1,400 hits. Through the SCL, producers have the ability to see contract terms, including, but not limited to, base price determination formula and the schedules of premiums or discounts, and packers' expected annual contract purchases by region.

The Swine Contract Library went live with information on contract provisions available to the public in early fiscal year 2004, and is available on the GIPSA web site at <http://www.usda.gov/gipsa/>.

FEDERAL GRAIN INSPECTION SERVICE

GIPSA's Federal Grain Inspection Service (FGIS) facilitates the marketing of U.S. grain in domestic and international markets by providing the market with services and information that effectively and accurately communicate the quality and quantity of grain being traded. GIPSA administers its inspection and weighing programs under the authority of the U.S. Grain Standards Act, as amended, and the Agricultural Marketing Act of 1946 (AMA) as it relates to the inspection of rice, pulses, lentils, and processed grain products.

Providing reliable, high quality inspection and weighing services at a reasonable price remains a key commitment of GIPSA and the State and private officials comprising the official inspection system. Federal export inspection services average \$0.30 per metric ton, or approximately 0.23 percent of the \$14 billion value of U.S. grain exports. In fiscal year 2003, more than 1.8 million inspections were performed on more than 222 million metric tons of grains and oilseeds. Over 84,000 weighing certificates were issued on 91.5 million metric tons of grain.

There have been many changes in official inspection services over the past several years to respond to changing market demands. GIPSA has programs and services in place to facilitate the loading of shuttle trains; to address greater product differentiation; and to provide customers with inspection results electronically. These

all represent steps in the right direction, but we recognize that the market is changing daily and we must change with it to remain relevant.

GIPSA is focusing on a number of key areas to better facilitate the marketing of U.S. grain. We are enhancing our international outreach capabilities to remove obstacles to U.S. grain reaching world markets. We are bringing standardization to domestic and international markets. We are focusing on providing the market with the information it needs on the end-use functional quality attributes of grain that determine its true value in an increasingly quality-specific market. We are improving service delivery, and the efficiency and cost-effectiveness of the official system.

International outreach is one component of our efforts to facilitate the marketing of U.S. grain. We will continue to expand our outreach efforts to support market development around the world. Our international customers are making great use of the wide array of recently produced multimedia educational materials.

In recent years, we have significantly expanded our outreach efforts to ensure open markets for U.S. grain in Asia and Mexico. Last year, GIPSA initiated two 3-month regional assignments, one in Asia and one in Mexico, to address immediate and long-term grain marketing issues in each region. In Mexico, GIPSA has worked extensively with APPAMEX (an organization of Mexican grain importers), the USDA/Foreign Agricultural Service (FAS), and USDA cooperator organizations to address Mexico's concerns about U.S. grain quality. We have conducted in-depth grain grading seminars to educate Mexican buyers, traders, and end users on the U.S. grain marketing system, GIPSA's impartial grain quality assessment, and U.S. grain standards, sampling procedures, and inspection methods. In fiscal year 2003, GIPSA also helped several of Mexico's private sector grain elevators and processing facilities set up grain inspection laboratories mirrored after GIPSA's. Last fiscal year, we also worked with Mexican and Canadian officials to secure a trilateral agreement on implementation of the Biosafety Protocol.

Our international outreach program also includes technical consultative services for international customers. In fiscal year 2003, GIPSA responded to 17 requests for technical assistance from exporters, importers, and end users of U.S. grains and oilseeds, as well as other USDA agencies, USDA Cooperator organizations, and other governments.

Our international outreach are not the only initiatives we have underway to improve the standardization of, and in turn, facilitate marketing in, domestic and international markets. In the biotech arena, GIPSA is helping bring standardization, consistency, reliability, and accuracy to the biotech testing entities and tools used by the market. GIPSA's test kit evaluation program validates the performance of rapid tests for biotechnology-derived grains and oilseeds. Our Proficiency Program improves the performance and reliability of government and private laboratories in the United States and worldwide that test for biotechnology-derived grains. Under this voluntary program, participants are evaluated based on results of their quantitative and/or qualitative testing of samples of all commercially available corn and soybean biotechnology events. More than 88 organizations participated in the program in fiscal year 2003, a threefold increase from 22 organizations in February 2002.

In fiscal year 2002, GIPSA established formal research collaboration with the National Institute of Science and Technology (NIST) to investigate DNA-based testing for biotechnology-derived grains and oilseeds, and to investigate the development of reference materials and methods for DNA-based testing. Using information obtained through confidentiality agreements with life science organizations, GIPSA and NIST produced event-specific plasmids for evaluation as reference materials and potentially to be in the development of reference methods. In fiscal year 2003, GIPSA and NIST hosted a workshop entitled "A Standard Reference Materials for Biotechnology Crops." Thirty-six representatives from the life science organizations, testing laboratories, test kit manufacturers, food processors, Canada, European Union, and Japan attended.

In fiscal year 2004, GIPSA will continue to collaborate with NIST to investigate challenges associated with Polymerase Chain Reaction (PCR) technology and develop reference materials to improve the reliability and accuracy of DNA-based testing and to harmonize testing on a global basis, and will continue to work with NIST to establish global agreement on the development of reference materials for biotechnology-derived grains and oilseeds.

Our market facilitation efforts also include bringing standardized information to markets. In 1999, wheat importers and exporters asked GIPSA to declare that the United States does not produce transgenic wheat. In September 1999, GIPSA began, in accordance with the authority provided under the U.S. Grain Standards Act (7 U.S.C. 79), issuing the following letterhead statement upon an applicant's request: "There are no transgenic wheat varieties for sale or in commercial production in the

United States.” The potential deregulation of Round-Up Ready wheat added potential uncertainty to world markets. Wheat industry representatives anticipate that continued issuance of the current statement will be essential to ensure the continued marketing of U.S. wheat. To facilitate the marketing of U.S. wheat if deregulation occurs, GIPSA has agreed to continue issuing the non-transgenic wheat statement, upon request, provided that Monsanto meets several requirements verifying that seed has not been sold for commercial production.

GIPSA also continues to ensure that the official United States standards are responsive to the needs of the domestic marketplace. Developments in plant breeding, the use of new marketing strategies such as identity preservation, increasingly complex processing, food manufacturing, and feed formulation, and other factors will continuously challenge GIPSA to promote current, market-relevant grades and standards that reflect required quality characteristics for specific end uses. In fiscal year 2003, GIPSA proposed creating two subclasses in the class Hard White wheat, which would differ based on seed coat color. Seed coat color can be an important quality factor depending on the target flour product and the miller’s flour extraction goal. Also underway are reviews of the soybean standards with a focus on test weight, and the sorghum standards to clarify the various class definitions and to revise the definition of non-grain sorghum.

Working closely with barley producers and the barley malting industry, GIPSA began developing new official criteria called “Injured-by-Sprout” in malting barley. Sprouting occurred in barley in the U.S. Northern Plains region during 2002, which prevented malting barley production contracts from being honored. Barley producers’ insurance claims also were denied because official procedures to assess barley sprout damage differ from those used by the malting industry. GIPSA’s response is facilitating the marketing of malting barley by enabling USDA’s Risk Management Agency to implement the new procedure for the 2004 barley crop year.

Other standards enhancements undertaken to facilitate marketing in fiscal year 2003 include amendments to the U.S. Standards for Rice to establish and add Ahard milled “rice as a new milling degree level and to eliminate the reference Alightly milled.” These changes better align the GIPSA standard with current industry processing and marketing standards.

GIPSA knows that customers also need more information about the specific end-use qualities of the products they are purchasing. We are focusing on providing rapid testing of end-use functionality factors to differentiate the functional qualities that meet specific end-use needs.

GIPSA continues cooperative efforts with groups from Canada, Australia, and several European countries to develop and evaluate global artificial neural network (ANN) near-infrared transmittance (NIRT) calibrations for wheat and barley protein. GIPSA conducted a field study on current partial least squares (PLS) wheat protein calibrations and the global ANN calibration. GIPSA also evaluated the field performance of the ANN barley protein calibration. In fiscal year 2004, GIPSA will finalize individual instrument standardization procedures to support implementation of an ANN calibration for wheat and barley protein.

In April 2003, GIPSA convened a meeting of leading North American wheat researchers to generate new avenues of research that would lead to rapid tests for wheat end-use functional characteristics, applicable at the time of inspection and at other points in the value chain. Participants developed a list of quality factors and possible technical approaches for measuring them, with the overarching goal of having a market applicable test ready for use by May 2006. To help keep researchers focused on the task, GIPSA will establish a virtual discussion room for researchers to further collaboration on and support for this effort, and to help researchers find extramural grant sources.

GIPSA is working with the United Soybean Board on their “Better Bean Initiative,” a program directed at improving the nutritional composition of U.S. soybean meal and oil. USDA/ARS currently is receiving funding to develop measurement technology for meal and oil. GIPSA is taking part in the Soybean Quality Trait initiative that is seeking to standardize soybean protein, oil, moisture, and fatty acid measurements. GIPSA is part of an inter-laboratory collaborative study to evaluate the consistency of soybean protein, oil, and moisture reference methods. GIPSA is also helping to assemble a soybean sample library suitable for use in developing and evaluating near-infrared (NIR) calibrations.

GIPSA is also exploring new approaches to compliment and supplement our traditional array of services. In fiscal year 2003, GIPSA continued developing a process verification service for grains in response to market demand.

Our efforts to develop new programs did not preclude us from making significant improvements to existing ones. During fiscal year 2003, GIPSA revised the regulations on reinspections and appeal inspections under the U.S. Grain Standards Act

to better reflect market needs and to remove an inefficient, costly, and unnecessary regulatory requirement. Previously, reinspections and appeal inspections for grade included a review of all official factors that may determine the grade, are reported on the original certificate, or are required to be shown. The revised regulations allow interested parties to specify which official factor(s) should be redetermined during the reinspection or appeal inspection service. To safeguard against inadvertent misgrading, official personnel may determine other factors, when deemed necessary. In fiscal year 2004, GIPSA plans to propose a similar action for rice and pulses and other commodities that are inspected for quality factors under the authority of the Agricultural Marketing Act of 1946.

Improving service delivery is essential, as is improving the efficiency and cost-effectiveness of the official system. This will include many initiatives, ranging from harnessing technology to improve operational efficiency and service delivery to making needed program policy changes.

In addition, GIPSA has dedicated resources to homeland security efforts. GIPSA continues to work closely with the USDA Office of Crisis Planning and Management (OCPM) to refine the Department's and the Agency's Continuity of Operations Plan (COOP) and to support and staff the Department's Crisis Action Team (CAT). In fiscal year 2003, GIPSA's COOP and CAT representatives participated in numerous USDA and Marketing and Regulatory Program-sponsored disaster-related exercises and training sessions. They also completed the GIPSA Supplement to the USDA Headquarters COOP Plan, which provides guidance for the continuation/reestablishment of GIPSA's COOP essential functions, including identifying GIPSA's emergency relocation facilities where these functions will be performed and GIPSA personnel who will be required to perform them. The provisions of the GIPSA Supplement, which mirrors the USDA Headquarters COOP Plan, applies only to GIPSA headquarters offices in Washington, D.C.

GIPSA provided technical assistance related to homeland security issues to a number of industry and governmental groups, including the National Grain and Feed Association Safety Committee, the Security Analysis System for U.S. Agriculture (SAS-USA) Technical Advisory Committee, the Interagency Food Working Group, and the USDA Homeland Security Working Group. The Agency is currently working with the National Food Laboratory Steering Committee to coordinate and integrate resources to support the key components of the Food Emergency Response Network (FERN).

GIPSA also continued to face challenges in maintaining an appropriate operating cushion in its user fee account. During fiscal year 2003, GIPSA transferred \$2 million from our appropriated account to preclude fiscal over-obligation in violation of the Anti-Deficiency Act. As of May 31, 2003, the cash balance of GIPSA's user fee account had fallen to \$2.9 million, a dangerously low amount considering GIPSA's monthly obligations of about \$3.0 million.

Due to flat or decreasing exports, and marketing trends that are reducing revenue generated by our current fee structure, there has been a persistent gap between costs and revenue. GIPSA has absorbed losses in its reserve user fee funds. GIPSA has executed many cost-cutting measures to reduce obligations. The Agency has cut employment levels, closed field and sub-offices, streamlined support staffs, and introduced new technology to improve program efficiency.

In the longer term, GIPSA is pursuing several options to preclude future funding difficulties, including implementing a new fee schedule. Program efficiencies, such as streamlining the official inspection processes using a web-based technology and re-engineering program delivery, and opening discussions with stakeholders on how and by whom official inspection services should be delivered to American agriculture were undertaken. 2005 Budget Request

To fund important initiatives and address the Agency's responsibilities, GIPSA's budget request for fiscal year 2005 is \$44.1 million under current law for salaries and expenses and \$42.5 million for our Inspection and Weighing Services. There is an increase of \$662,000 for employee compensation. GIPSA already submitted legislation last fall which would collect \$29.0 million in new user fees in fiscal year 2005, \$5.8 million for the grain standardization activities and \$23.2 million for the Packers and Stockyards Programs. A substantial portion of the IT increases will be one-time only requests.

For grain inspection, the President's fiscal year 2005 budget proposes a current law request of \$20.0 million; a total increase of \$1.8 million.

An increase of \$1,300,000 would allow GIPSA to merge data from several Agency computer information systems for efficient oversight and management of the official grain inspection system and to provide on-demand, Web based access to this data by our partners, customers, and GIPSA personnel. Management needs a single source to capture information about each inspection provided to track work accom-

plishment, technical analysis, and compliance verification. With the information reported, GIPSA will be able to automate the generation of billings records that will be used by the NFC FFIS to generate the invoice for each customer. GIPSA will also use the data system to automatically document and generate a statement of fees owed by each customer on a monthly basis.

By implementing this application, GIPSA will be able to retire two Unix applications and the computer equipment that it runs on. Retiring these Unix applications will allow GIPSA to move towards achieving its goal of a common computing environment within and between FGIS and P&SP, free up one half of a staff year required today for support, and eliminate dependency for support of this application to a single developer.

Also requested is \$500,000 to expand GIPSA's technical outreach in key international markets, which is required because GIPSA has experienced a growing demand for cooperative participation with other agencies with international trade responsibilities—for example, State Department, U.S. Trade Representative (USTR), Foreign Agricultural Service (FAS), and the Animal and Plant Health Inspection Service (APHIS)—toward achieving our overall mutual objective of expanding markets for agricultural products and removing barriers to trade.

Modern biotechnology has presented new challenges to U.S. grain markets as many countries develop domestic regulations regarding biotech grains. GIPSA has served the international grain trade community by developing programs to address these emerging needs, and working with related agencies—State, USTR, FAS, and APHIS, among others—to share information regarding these programs and contribute our expertise. For example, China announced broad biosafety regulations 2 years ago that continue to threaten U.S. soybean exports. Partner agencies have sought GIPSA's active participation in negotiations challenging this technical barrier to trade. Such issues are likely to increase in number and frequency in the future.

As another example, a new international environmental treaty, the Biosafety Protocol, which entered into force in September 2003, requires new documentation on biotech grain shipments, and many countries already are developing regulations that are unnecessarily trade-disruptive. During the years ahead, it will be essential for GIPSA to continue in what has been its integral role in an interagency process for implementation of the Protocol by contributing expertise in grain handling, transportation, and marketing, to prevent unnecessary trade disruption.

The funding increase will enable GIPSA to provide personnel on overseas temporary duty to better address and resolve grain trade issues, precluding market disruption due to technical differences in analytical methods and standards; expand U.S. market share due to increased customer satisfaction; and continue to provide critically important technical support as the U.S. government seeks to ensure practical implementation of new regulatory requirements being developed by a growing number of trading partners.

For the Packers and Stockyards Programs, the President's fiscal year 2005 budget proposes a current law request of \$24.2 million; a total increase of \$3.81 million.

An increase of \$1,460,000 for the development of web applications which is required because the current database and application architecture will not support the volume, security, or recovery requirements of GIPSA and USDA as GIPSA moves to support GPEA and OMB and USDA eGov initiatives. Further, the Enterprise Architecture project completed in 2003 identified fifteen (15) business functions that are not supported by any applications within the Packers & Stockyards Programs area, seven of those being key business functions. In addition, the current applications lack integration on the information that is common between the applications, hence requiring duplication (albeit minimal) information entry by program users.

To enable the timely implementation of customer-centric applications within the Packers and Stockyards Program, additional Information Technology developmental resources are required. Currently the Packers and Stockyards Program does not have the web designers or programmers that would allow it to rapidly and accurately deploy Web-based applications. To supplement the current information technology staff and to bring new technology into the program area, GIPSA is requesting contracting funds.

These funds would be used to contract-out the design, development, implementation, and maintenance of important Web initiatives as identified as part of GIPSA's overall Enterprise Architecture and approved by USDA's OCIO. For example, with the requested funding, entities regulated under the Packers and Stockyards Act would be able to register with GIPSA via the internet, electronically file annual reports, and submit bond claims and complaints via the internet. GIPSA would be able to increase its efficiency by electronically verifying bond and trust accounts

with banks, the integration of three stove piped applications, and the real-time tracking of the status and cost of an investigation. (The submission of annual reports alone would save GIPSA over 1,500 hours annually by personnel that are GS14s and 15s.) This would allow the Resident Agents to complete an additional 200 investigations in the future.

An increase of \$150,000 is required to operate and maintain the Swine Contract Library (SCL), which is one of GIPSA's Packers and Stockyards Programs' (P&SP) first e-government initiatives. As such, GIPSA has developed an Internet web site that offers packers the opportunity to submit their contracts and anticipated number of hogs procured under contract to GIPSA via a secured connection and producers the opportunity to view contract information via the Internet.

The funding increase will be used to operate and maintain the SCL system. This position will monitor, review, and analyze the contract information and monthly reports submitted by packers, ensure that packers are in compliance by examining submissions for completeness, consistency, and accuracy, conduct confidentiality analysis on information before release, and make the information available at the P&SP regional office and on the GIPSA web site. The increase will also fund Information Technology services and the annual renewal cost for computer software licenses. This IT position will provide software, hardware, and web site maintenance for the SCL program.

An increase of \$1,200,000 to support fair and transparent product differentiation and valuation which is required because packers significantly reduced the numbers of livestock purchased based on live weight in recent years. In a stated effort to better meet consumer demand and provide greater "value," packers and producers began trading livestock through contract and marketing agreement or formula-priced transactions. In conjunction with this change in marketing methods, packers explored and began using new means of automating the evaluation of live cattle and hogs, and carcasses based on new technologies, including among other methods, ultrasound and photographic imaging.

Technologies and their applications for evaluating the quality of both live animals and carcasses are changing at an accelerating pace. Previously, carcass merit purchases were generally based on a carcass weight and often one or two grades assigned by USDA graders. Today, packers increasingly rely on internally assigned measures of carcass quality using modern and complex technologies.

Live poultry dealers, as well, are exploring new technologies to assist in evaluating the quality of birds obtained from poultry growers. Implementation of new technologies in the poultry industry may supplement or replace the current methods used by live poultry dealers to determine bird quality and payment to growers, including contract growers.

The technologies now being implemented by packers have a direct effect in determining the prices paid to producers for livestock. Technologies being developed by live poultry dealers will likely affect prices paid to poultry growers. These changes introduce new risks for producers and growers, because these new technologies are not standardized and their accuracy is inconsistent.

This lack of standardization and inconsistent accuracy makes it difficult for producers and growers to detect errors and deliberate changes in the way the technology is used, leaving producers and growers vulnerable to unfair and unjustly discriminatory practices by members of the meat packing and poultry industries. A change that affects as little as one half of 1 percent of the value of livestock in a multi-billion dollar industry can have a huge impact on producers and growers over time. Therefore, P&SP needs to dramatically increase its monitoring and regulatory presence.

This increase in funding will provide P&SP ongoing funding to obtain industrial engineering expertise in the operation of these new electronic evaluation technologies and the methods in which packers and live poultry dealers use them; to develop enforcement tools, investigation techniques and regulatory policies necessary to continue to effectively regulate the meat packing and poultry industries, and when appropriate, initiate enforcement action; to educate and inform the meat packing and poultry industries about responsibilities under the P&S Act with regard to these new technologies; and to educate and inform livestock producers and poultry growers about how the electronic evaluation technologies are used in the meat packing and poultry industries, and how the technologies are regulated by P&SP.

An increase of \$1,000,000 is required because immediately following the announcement that a U.S. cow tested positive for BSE, P&SP created task forces to provide protection to livestock producers and members of the cattle industry. These task forces are developing strategies to identify and respond to anti-competitive practices unique to current market conditions; monitor markets for financial failures

and investigate any livestock sale barn or slaughtering facility that closes to ensure that any unpaid cattle sellers are identified and appropriately compensated and investigate complaints related to livestock marketing and procurement contracts.

P&SP regulates 1,429 posted stockyards, 5,287 market agencies and dealers, 2,067 packer-buyers, and 340 bonded packers (those purchasing over \$500,000 worth of livestock per year). An additional group of packers that purchase less than \$500,000 are also subject to P&SP jurisdiction. A large number of these entities may be adversely impacted as the BSE situation develops, creating circumstances that require immediate P&SP action.

P&SP is developing strategies to identify anti-competitive practices that could occur as a result of current market conditions. These strategies will be implemented and appropriate responses will be initiated where anti-competitive conduct is suspected.

P&SP is looking closely at suspect livestock transactions to ensure that market participants are not taking advantage of the unique market conditions created by the BSE situation. P&SP will deploy rapid response teams to investigate BSE-related complaints. Costs for rapid response investigations related to BSE could easily exceed amounts typically expended on all other rapid response investigations. In the past three fiscal years, P&SP spent \$1,372,210 conducting 150 rapid response investigations, or an average of 50 investigations per year at a cost of \$457,403.

An increase of \$1,200,000 will allow the Agency to establish computer industry standard hardware, software, and facilities to implement the development of customer oriented electronic interfaces to the Federal Grain Inspection Program and the Packers and Stockyards Program. This will allow for a common Information Technology environment for the receipt and delivery of electronic data necessary to efficiently conduct the Agency's programs.

These capabilities will by necessity need to be closely integrated with the existing Information Technology Architecture in GIPSA and conform to the USDA Enterprise Architecture. The computer equipment will be composed of multiple, high performance servers which must accommodate the transfer of very large amounts of data securely and transparently between themselves and the existing Agency information systems. These computer servers must be developed to have the capability to implement a wide range of Web based interactive applications.

Finally, an increase of \$1,000,000 is needed because in order to bring the Information Technology Systems security up to an acceptable level within GIPSA, the Agency's network infrastructure must be brought up to the standards as depicted in the USDA Enterprise Architecture. The Agency will need to add network switches, routers and firewalls to bring the network infrastructure up to an acceptable security standard. To insure thorough security planning, the Agency will need funding for additional contractor support in the development of disaster recovery plans, continuity of operations plans, risk analysis, and the certification and accreditation of existing information systems.

CONCLUSION

Mr. Chairman, Members of the Committee, I would like to conclude my testimony on the fiscal year 2005 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.

Thank you.

STATEMENT OF ELSA A. MURANO

Dr. MURANO. Thank you, Mr. Chairman, Senator Kohl.

I am glad to have the opportunity to speak to you this afternoon regarding the status of the Food Safety and Inspection Service pro-

grams and on our fiscal year 2005 budget request for food safety within the U.S. Department of Agriculture.

As we begin the new year at USDA, I am proud to highlight several areas in which we have used science to improve public health during the past year.

BSE

First, though, I want to briefly touch on the Bovine Spongiform Encephalopathy or BSE issue. Since December 23rd of last year, BSE has been front and center with us, as it has with everyone who has concerns about public health and food safety. Upon learning of the BSE find, we immediately took action to protect the public's health. New regulations were published on January 12th, a mere 2 weeks after the BSE case was announced, truly a remarkable example of how quickly the Bush Administration responded to this threat.

The removal of specified risk material from the food supply, which was the hallmark of these new regulations, was indeed the single most significant step we could have taken to protect the public's health.

SIGNIFICANT FOOD SAFETY ADVANCEMENT OF 2003

The American public remains confident in the safety of the U.S. meat supply, and with good reason. The confidence is due in part to the significant advancements that we have made during 2003. For example, we have seen a dramatic decline in pathogen levels and regulatory samples for *Listeria monocytogenes*, *E. coli* O157:H7, and *Salmonella*. In addition, we had a striking decline in the number of meat and poultry product recalls last year. In fact, the number of class one recalls has nearly been cut in half from the total during 2002. These are dramatic indicators that our scientifically-based policies and programs are working to ensure that the American public receives the safest food possible.

CHALLENGES FOR 2004

Despite these advancements, there is always room for improvement and FSIS has identified challenges for 2004. Through reflection and refinement we have outlined specific initiatives to ensure that we continue to improve health outcomes for American families. These include improving training through the Food Safety Regulatory Essentials program, using the recently established New Technologies Office to promote and accelerate the use of innovative food safety technologies, improving risk assessment coordination to ensure the best available information and science is used in policy development, continuing to conduct baseline studies to determine the nationwide prevalence and levels of various pathogenic organisms in raw meat and poultry, and coordinating with other Federal agencies to strengthen existing efforts to prevent, detect and respond to food related emergencies resulting from acts of terrorism.

FISCAL YEAR 2005 BUDGET REQUEST

I will now turn to the fiscal year 2005 budget request for FSIS. FSIS is requesting a program level of \$951.9 million, a net increase of about \$61 million from the levels for fiscal year 2004. Under current law, we are requesting an appropriation of \$838.7 million with an additional \$113 million in existing user fees.

The budget request will fund increased BSE surveillance programs as well as additional training for inspection personnel and numerous programs that will continue to keep us among the leading public health agencies in the world.

The budget request includes a \$15.5 million increase for pay raises in Federal and State programs. The budget request includes a \$17.3 million increase for humane slaughter enforcement and the full cost of in-plant inspection. Included in this request is \$5 million to continue the humane slaughter enforcement work funded in fiscal year 2003.

The remaining \$12.3 million of the \$17.3 million is for staff support costs that are critically important to maintaining front-line inspection.

The fiscal year 2005 request includes a \$33.6 million increase for new initiatives that support our goals at FSIS. First, we include an increase of \$3 million for BSE surveillance. The BSE inspection program will add permanent BSE control measures in 2005.

Second, our budget requests \$23.5 million to increase support for our Food and Agriculture Defense Initiative. Food contamination and animal and plant diseases and infestations can have catastrophic effects on human health and the economy. So, our portion of the Food and Agriculture Defense Initiative has five components: the Food Emergency Response Network or FERN; data systems to support the Food Emergency Response Network; enhancing FSIS laboratory capabilities; biosurveillance; and follow-up biosecurity training.

To improve the infrastructure under FERN, the budget request calls for a \$10 million expansion. Of that funding, \$6.1 million would be spent on contracts with state and local laboratories and \$2.6 million would be used to establish five regional hubs and a national operating center to coordinate FERN's efforts and conduct training.

The budget request also includes initiatives to support FERN. The Electronic Laboratory Exchange Network, eLEXNET, is a national web-based system that allows laboratories to rapidly report and exchange standardized data. So the budget request of \$4 million will be used to make eLEXNET available to additional FERN and other food testing laboratories nationwide.

The budget request includes \$2.5 million to enhance our laboratory capabilities for detecting new bioterror-associated agents and to ensure that our capability and capacity to perform toxin and chemical testing is maintained.

The final new initiative is training, which is a very important issue for us. FSIS has been criticized in the past for having insufficiently trained field employees. So, we are working very, very hard to address these concerns and need additional resources in order to significantly improve our training. We are requesting \$7.1 million,

over a 50 percent increase in the FSIS training budget for fiscal year 2005. Included in the requested training budget is \$3.1 million for our Food Safety Regulatory Essentials training to supplement training for current on and off-line field employees to improve enforcement of HACCP and food safety sampling.

PREPARED STATEMENTS

Thank you again, Mr. Chairman and Senator Kohl, for your attention. And we certainly look forward to responding to your questions.

[The statements follow:]

PREPARED STATEMENT OF DR. ELSA A. MURANO

Mr. Chairman and Members of the Subcommittee, I am glad to have the opportunity to speak with you regarding the status of the Food Safety and Inspection Service (FSIS) programs and on the fiscal year 2005 budget request for food safety within the U.S. Department of Agriculture (USDA).

In Washington, people talk about their inspiring view of the Capitol or the monuments, and the sights that inspire them to work harder and better. The view in my office is quite awesome—at once humbling and challenging. I am referring to a famous portrait on my wall of Louis Pasteur, examining a spinal cord sample. Pasteur disagreed with the popular attitude of the day, “science for science’s sake;” he felt that science as a purely academic exercise did not properly serve the people of the 19th century. Instead, he believed that science should have practical applications that could be used to improve the lives of others. As we begin the new year at USDA, I am proud to highlight several areas in which we have used science to improve public health during the past year. I also will share with you our goals for this year, and will conclude with a discussion of the fiscal year 2005 budget request.

First though, I want to briefly touch on the Bovine Spongiform Encephalopathy (BSE) issue. Since December 23, 2003, BSE has been “front and center” with us, as it has with everyone who has concerns about public health and food safety. Upon learning of the BSE find, we immediately took action to protect the public’s health. New regulations were published on January 12th, a mere 2 weeks after the BSE case was announced—truly a remarkable example of how quickly the Bush Administration responded to this threat. The removal of specified risk material (SRM) (brain, spinal cord, etc.) from the food supply, which was the hallmark of these new regulations, was indeed the single most significant step we could have taken to protect the public’s health. To ensure that these measures are implemented effectively, part of the fiscal year 2005 budget request that I will discuss later consists of \$3 million for the agency to conduct surveillance of SRM and advanced meat recovery (AMR). We are confident that the aggressive BSE measures we have developed will continue to protect the U.S. food supply.

SIGNIFICANT FOOD SAFETY ADVANCEMENTS OF 2003

The American public remains confident in the safety of the U.S. meat supply—and with good reason. The confidence is due, in part, to the significant advancements that we made during 2003. One such advancement has been the dramatic decline in pathogen levels in regulatory samples. Late last year, we released data that showed a 25 percent drop in the percentage of positive *Listeria monocytogenes* samples from the previous year, and a 70 percent decline compared with years prior to the implementation of the Hazard Analysis and Critical Control Point (HACCP) program. In June 2003, to further reduce the incidence of *Listeria monocytogenes*, we issued regulations for establishments producing ready-to-eat products.

Our measures to prevent *E. coli* O157:H7 contamination of ground beef have yielded similar results. In September 2002, based on evidence that *E. coli* O157:H7 is a hazard reasonably likely to occur at all stages of handling raw beef products, FSIS issued a directive requiring all establishments that produce raw beef products to reassess their HACCP plans. Last year, FSIS’ scientifically trained personnel conducted the first-ever comprehensive audits of more than 1,000 beef establishments’ HACCP plans. A majority of those plants made major improvements based on their reassessments, and, as a result, we are seeing a substantial drop in the percentage of ground beef samples that are positive for *E. coli* O157:H7. In 2003, of the ground beef samples collected and analyzed for *E. coli* O157:H7, only 0.30 percent tested positive, compared to 0.78 percent in 2002—a 62 percent reduction. This is a defi-

nite improvement, and the strongest signal that science can drive down the threat from pathogens.

In 2002, we issued new enforcement procedures for the Salmonella performance standard that are paying off. Instead of waiting for three cycles of tests for Salmonella, the failure of the first set now triggers an FSIS review of an establishment's HACCP plan. Due to this process and other science-based initiatives, the percentage of "A" samples (a sample from a randomly scheduled initial set) positive for Salmonella in raw meat and poultry has dropped by 65 percent over the past 6 years. Out of the number of random "A" samples collected and analyzed by FSIS during 2003, only 3.8 percent of the samples were positive for Salmonella, as compared with 10.6 percent in 1998. Again, this is very good news. The data for these three pathogens validate our scientific approach to improving public health through safer food.

We also had a striking decline in the number of meat and poultry product recalls last year. In fact, the number of Class I recalls has nearly been cut in half from the total during 2002. This is a dramatic indicator that our scientifically-based policies and programs are working to ensure that the American public receives the safest food possible.

FSIS has also had great success with its food safety education programs. Through new and innovative methods, FSIS is sharing its food safety message with the general public, including culturally diverse and underserved populations and those at highest risk for foodborne illnesses. From March to November 2003, the USDA Food Safety Mobile traveled over 24,000 miles and participated in 87 events in 64 cities across the country, providing information and publications on food safety to approximately 179,000 people face-to-face and making an estimated 64.4 million media impressions. Another success story is a public service announcement (PSA) featuring former Miss America Heather Whitestone McCallum, which has aired 14,448 times since September 2003. This PSA ranked in the top 3 percent of all PSA's shown during the month of January 2004 along with PSA's by the American Red Cross, the Federal Emergency Management Agency (FEMA), and the Department of Homeland Security (DHS). We are very proud of these far-reaching FSIS food safety education campaigns.

CHALLENGES FOR 2004

Despite the advancements we made last year, there is always room for improvement, and FSIS has identified challenges for 2004. Louis Pasteur said, "In the realm of science, luck is only granted to those who are prepared." Food safety is too important to be left to guess work or luck; we must be prepared to identify and meet challenges head-on.

When I joined USDA over 2 years ago, I established five goals—a roadmap of improvements for our food safety mission:

- To improve the management and effectiveness of our regulatory programs;
- To ensure that policy decisions are based on science;
- To improve coordination of food safety activities with other public health agencies;
- To enhance public education; and
- To protect FSIS regulated products from intentional contamination.

Through reflection and refinement, we have outlined specific initiatives to make sure we fulfill those goals, thereby improving health outcomes for American families. These initiatives were outlined in our food safety vision document, *Enhancing Public Health: Strategies for the Future*. This detailed plan will continue to drive our policies and actions during this calendar year.

Initiative One: Training

In April 2003, FSIS inaugurated new Food Safety Regulatory Essentials (FSRE) training, which is designed to better equip inspection personnel in verifying an establishment's HACCP food safety system. All trainees received training in the fundamentals of inspection, covering the Rules of Practice, Sanitation Performance Standards, and Sanitation Standard Operating Procedures. FSIS also provides food safety training based on the types of products being produced at the establishments where inspectors are assigned. As of the end of last year, more than 1,000 individuals had completed this training regime.

During 2004, FSIS will continue to train all new entry level slaughter establishment inspectors and veterinary medical officers in technical, regulatory and public health methods. We are also looking at expanding the types of training in the future to meet evolving agency needs and challenges.

Initiative Two: Furthering the Use of Innovative Food Safety Technologies

I believe that we must encourage the use of safe and effective interventions. One way we can encourage such intervention is by hosting public meetings. In January, in Omaha, Nebraska, FSIS held a public meeting to discuss the development and use of new food safety technologies to enhance public health. The meeting generated useful ideas regarding how plants can best utilize new technologies in their operations.

FSIS established a New Technology Office in August 2003. This group is tasked with reviewing new technologies and, where appropriate, expediting the use of new technologies at meat and poultry official establishments and egg products plants. Our New Technology staff is an experienced team of 9 veteran FSIS employees who serve as the single portal for all new technology submissions. We designed this group to better manage the new technology process and allow for implementation as quickly as possible. They also ensure that FSIS personnel are aware of new technologies and where they are being used.

To increase the pool of new technology submissions to the agency, we have established an e-mail address, FSISTechnology@fsis.usda.gov, through which parties may submit their information. I am happy to report that we have received over 30 Notifications and Protocols for new food safety technologies since we have streamlined the submission process. Of the 27 Notifications received, 19 have been issued letters indicating that FSIS has no objections, and 4 are still pending. Once the agency issues a no objection letter, the firm that submitted the proposal may use the new technology.

Initiative Three: Risk Assessment Coordination

In order to better focus its resources on food safety risk assessment activities, FSIS established a risk assessment coordination team with USDA-wide membership. As risk assessment becomes increasingly important as a means of providing the science behind policy decisions, the need for such a group within USDA is clear. This group will promote scientifically sound risk assessments and foster research to support risk assessments.

Microbial risk assessment is still in its infancy compared to chemical risk assessments, so the need to share ideas and resources is critical. In November 2003, we started this interactive process by holding a public meeting to discuss how the government uses the three components of the risk analysis framework—risk assessment, risk management, and risk communication—to inform and implement risk management decisions. In particular, we examined several crucial elements for FSIS to consider in its risk assessments, including how:

- FSIS can improve the transparency of the risk analysis process;
- FSIS can balance the need for transparency, stakeholder involvement and peer review with the need for timely scientific guidance; and
- Risk assessments can better inform policy development and decision-making.

Initiative Four: Developing a Research Agenda

In November 2003, FSIS and the Research, Education and Economics mission area, announced a unified research agenda to coordinate USDA food safety research priorities and needs. For FSIS, research is critical to achieving its public health vision. Although FSIS does not conduct research itself, the agency must identify its research needs based on its public health goals so that the research community can meet them. The unified agenda includes research to:

- Investigate the ecology, epidemiology, virulence and genetic characteristics related to pathogenicity for *E. coli* O157:H7, *Salmonella*, *Listeria monocytogenes*, and other foodborne pathogens to identify targeted control measures;
- Develop effective on-farm, feedlot, transportation, handling, and other pre-processing intervention strategies for reducing the incidence and levels of antibiotic resistant microorganisms and key foodborne pathogens in meat, poultry, eggs and fresh produce;
- Develop, validate, and transfer technology of new and improved processing methods to reduce or eliminate key foodborne pathogens in meat, poultry, fresh produce, seafood, and ready-to-eat foods; and
- Develop rapid and sensitive detection methods for abnormal prions to prevent the possible spread of transmissible spongiform encephalopathies.

Initiative Five: To Develop Best Practices for Animal Production

In consultation with producers, researchers, and other stakeholders, FSIS is developing a list of best management practices for animal production in order to provide guidance for reducing pathogen loads before slaughter.

Last September, FSIS arranged a symposium with USDA partners to discuss ways to significantly reduce the levels of *E. coli* O157:H7 in live animals before slaughter. We understand that preventing the spread of *E. coli* and other pathogens on the farm is vital to increasing food safety and protecting public health. The dialogue generated at the meeting helped us develop guidelines outlining the best management practices at the pre-harvest stage, which we expect to publish this year. Once these guidelines are published, FSIS will initiate an aggressive outreach effort to distribute them to producers.

Initiative Six: Baseline Studies

It is imperative that FSIS develops baseline studies. FSIS is developing protocols to conduct continuous baseline studies to determine the nationwide prevalence and levels of various pathogenic microorganisms in raw meat and poultry. The studies will help the agency and the industry to better understand what interventions are working or how they could be improved. To achieve the agency's goal of applying science to all policy decisions, the fiscal year 2004 budget included a new \$1.7 million initiative to establish a continuous baseline program for risk assessments and performance measurement.

In the past, baseline studies have been used to establish pathogen reduction performance standards, which are an important part of verifying the sanitary operation of meat and poultry establishments. The new baseline studies will take into account regional variation, seasonality and other critical factors.

The continuing nature of the baseline studies will provide information on national trends and a tool to assess performance of initiatives designed to reduce the prevalence of pathogens in meat and poultry products. These baseline studies will also yield important information for conducting risk assessments that can outline steps we can take to reduce foodborne illness.

These surveys will also be important in establishing the link between foodborne disease and ecological niches, as well as levels and incidence of pathogens in meat and poultry. The net result will be more targeted interventions and the effective elimination of sources of foodborne microorganisms.

Initiative Seven: Food Biosecurity

While the events of September 11, 2001, brought the issue of the vulnerability of our food supply to the forefront, FSIS' food biosecurity efforts did not start on September 12, 2001. FSIS' 100 plus years worth of experience in dealing with food emergencies have allowed the agency to develop the expertise to protect the U.S. meat, poultry, and egg products supply wherever and whenever emergencies or new threats arise.

It is imperative that FSIS coordinates with other public health agencies to protect the food supply against intentional harm. The agency has improved such coordination, as well as strengthened existing efforts to prevent, detect, and respond to food-related emergencies resulting from acts of terrorism. 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. Later, when I discuss the fiscal year 2005 budget request, I will describe the components of our food and agriculture defense initiative.

ACHIEVING THE NEXT LEVEL OF FOOD SAFETY

The emergence of previously unrecognized pathogens, as well as new trends in food distribution and consumption, highlights our need for new strategies to reduce the health risks associated with pathogenic microorganisms in meat, poultry and egg products. Through analysis and discussions with stakeholders, we have identified three issues that need to be addressed to attain the next level of public health protection.

Issue One: To anticipate/predict risk through enhanced data integration

To better anticipate risks involving meat and poultry products, we must have the best available data to clearly identify the extent and nature of these risks, so that we may determine an effective response. These data consist of regulatory samples, as well as samples collected by food processing establishments. Thus, we must improve data analysis while encouraging data sharing from all reliable sources.

With regard to food biosecurity, FSIS works closely with the White House Homeland Security Council, DHS, the Food and Drug Administration (FDA) and the USDA Homeland Security Staff to develop strategies to protect the food supply from an intentional attack. For example, FSIS, along with FDA and industry partners, is working with DHS to establish new food information sharing and analysis activity for the food sector. This public/private partnership will aid in the protection of the

critical food infrastructure by centralizing the information about threats, incidents, and vulnerabilities.

Issue Two: To improve the application of risk analysis to regulatory and enforcement activities

Food safety problems need to be documented as they occur, so that conditions may be analyzed and, if need be, corrected. A better understanding of the prevalence and causes of food safety failures could allow better assessment of how to best address them. Data regarding the causes of food safety violations, either within a specific establishment, or within a class of establishments, can be utilized in order to better focus prevention and regulatory enforcement strategies.

FSIS is exploring the development of a real-time measure of how well an establishment controls the biological, chemical, and physical hazards inherent in its operations. Such a predictive model would help the agency make resource allocation decisions across the country's more than 6,000 meat and poultry establishments to maximize food safety and public health protection.

Issue Three: To better associate program outcomes with public health surveillance data

We have seen notable advances in preventing foodborne illness, which the Centers for Disease Control and Prevention (CDC) have attributed, in part, to the implementation of HACCP. However, there still is a need to determine how specific policies affect public health. In order to accomplish this, we need to obtain and document data that links foodborne illness outbreaks with specific foods. It may then be linked with prevalence data of specific pathogens in specific foods. However, to complete the linkage with public health outcomes, we need accurate and timely human health surveillance data.

We have already taken steps to secure such surveillance data, and we continue to update our systems. In 1995, FSIS worked with CDC, FDA, and public health laboratories in several States to establish FoodNet, the Foodborne Diseases Active Surveillance Network, as part of CDC's Emerging Infections Program.

FoodNet includes active surveillance of foodborne diseases, case-control studies to identify risk factors for acquiring foodborne illness, and surveys to assess medical and laboratory practices related to foodborne illness diagnosis. FoodNet provides estimates of foodborne illness and sources of specific diseases that are usually found in the United States, and interprets these trends over time. Data are used to help analyze the effectiveness of the Pathogen Reduction/Hazard Analysis and Critical Control Point rule and other regulatory actions, as well as public education aimed at decreasing foodborne disease in the United States. We are also considering establishing a joint task force with CDC to determine ways to improve FoodNet.

In addition to data collected through FoodNet, FSIS is a partner with CDC and State agencies in PulseNet, a national computer network of public health laboratories that helps to rapidly identify outbreaks of foodborne illness. Laboratories perform DNA "fingerprinting" on bacteria that may be foodborne, then the network permits rapid comparison of the "fingerprint" patterns through a CDC database. PulseNet is an early warning system that links seemingly sporadic illnesses, and enables public health officials to more quickly identify and react to the emergence of multi-State illness outbreaks.

FSIS is also working with CDC's National Center for Infectious Diseases to design and support studies that enable definite connections to be made between occurrence of specific pathogens in specific foods and the occurrence of human foodborne illness.

FoodNet, PulseNet and other similar programs are excellent examples of Federal and State agencies working together to accomplish public health goals. These programs will help FSIS and other regulatory agencies to focus inspection and enforcement on those practices where risk is deemed to be highest, resulting in a more efficient use of government resources.

FISCAL YEAR 2005 BUDGET REQUEST

I will now turn to the fiscal year 2005 budget request for FSIS. In fiscal year 2005, FSIS is requesting a program level of \$951.7 million, a net increase of about \$61 million from the enacted level for fiscal year 2004. Under current law, we are requesting an appropriation of \$838.7 million, with an additional \$113 million in existing user fees. The budget request will fund the increased BSE surveillance programs I mentioned earlier, as well as additional training for inspection personnel and numerous programs that will continue to keep FSIS among the leading public health agencies in the world. By continuing the principle of making policy based on sound science, we will modernize our inspection system to handle the challenges of

food safety in this century. Implementation of these budget initiatives is imperative to help us attain the public health vision we have set for FSIS.

Supporting FSIS' Basic Mission

The FSIS budget request for fiscal year 2005 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 budget request includes a \$15.5 million increase for pay raises in Federal and State programs. In addition, the budget supports an agency-wide staff-year ceiling of 9,641, an 84 staff year increase from the 2004 appropriation level. The budget reflects the proposed calendar year 2005 pay raise of 1.5 percent for Federal and State personnel, a 0.2 percent increase for employee rewards, and the annualized cost of the 4.1 percent pay increase for calendar year 2004. The costs also include a total net increase of approximately \$721,000 for state food safety and inspection.

Two critical elements of FSIS' mission are to continue the enforcement of humane slaughter regulations and to provide for the full cost of front-line inspection. FSIS will continue strict enforcement of its regulations for the humane handling and slaughter of livestock. In fiscal year 2003, over 7,600 inspection personnel stationed in over 6,000 federally inspected meat, poultry, and egg products plants verified that the processing of 43.6 billion pounds of red meat, 49.2 billion pounds of poultry, and 3.7 billion pounds of liquid egg products complied with statutory requirements. The fiscal year 2005 budget request includes a \$17.3 million increase for humane slaughter enforcement and the full cost of in-plant inspection. Included in the request is \$5.0 million to continue the work funded in fiscal year 2003 for fiscal year 2003 through fiscal year 2004.

The remaining \$12.3 million of the \$17.3 million is for staff support costs that are critically important to maintaining front line inspection. Over 80 percent of FSIS costs are for salaries, benefits, and travel costs for inspectors to travel between plants. Increases in benefit and travel costs cannot be deferred to another year. The agency's share of employee benefits costs has been rising in recent years by over \$4 million annually. The agency has also experienced large increases in retirement costs, hiring incentives, and employee allowances for the purchase of safety equipment and related items. The increase is needed to avoid employment restrictions in the inspection program, which would result if unavoidable cost increases are not fully funded and must be absorbed.

New Initiatives

The fiscal year 2005 request includes a \$33.6 million increase for new initiatives that support the Department's goals for FSIS.

First, as I discussed in my opening, the fiscal year 2005 budget request includes an increase of \$3 million for BSE surveillance. FSIS' BSE inspection program will add permanent BSE control measures in fiscal year 2005. These control measures will include increased in-plant verification of slaughter plant designs for controlling SRMs, overtime inspection, and travel for Veterinary Medical Officers to test non-ambulatory disabled livestock when they arrive at small slaughter plants that do not have a resident veterinarian. In fiscal year 2005, FSIS will also perform about 60,000 screening tests at processing plants that use AMR equipment, to ensure that SRMs do not enter the food supply.

The fiscal year 2005 budget also requests a \$23.5 million increase to support our food and agriculture defense initiative. Food contamination and animal and plant diseases and infestations can have catastrophic effects on human health and the economy. USDA, the Department of Health and Human Services and DHS are working together to create a comprehensive food and agriculture policy that will improve the government's ability to respond to the dangers of disease, pests and poisons, whether natural or intentionally introduced. FSIS' portion of the food and agriculture defense initiative has five components:

- Biosurveillance;
- The Food Emergency Response Network;
- Data systems to support the Food Emergency Response Network;
- Enhancing FSIS laboratory capabilities; and
- Follow-up biosecurity training.

To finance the biosurveillance component of the food and agriculture defense initiative, the fiscal year 2005 budget requests \$5 million. The Homeland Security Council (HSC) Biodefense End-to-End Assessment, in cooperation with all relevant U.S. Government agencies, identified early attack warning and surveillance as a top priority to prepare against a potential bioterrorist attack. The HSC supports an interagency biosurveillance initiative to improve the Federal Government's ability to rapidly identify and characterize such an attack. This initiative will improve Fed-

eral surveillance capabilities in human health, food, agriculture, and environmental monitoring. It will also allow Federal agencies to establish integration capability at DHS so that DHS may rapidly compile these streams of data and integrate them with threat information.

FSIS has conducted its own vulnerability assessments of regulated domestic and imported products. The assessments identify potentially vulnerable products and processes, likely threat agents, and points along the production/consumption continuum where attack is most likely to occur. The agency will focus its resources on the points of greatest vulnerability.

The second component of the food and agriculture defense initiative is the Food Emergency Response Network (FERN). A nationwide laboratory system with sufficient capacity to meet the needs of anticipated emergencies is integral to any bioterror surveillance and monitoring system. FERN consists of Federal and State governmental laboratories which are responsible for protecting citizens and the food supply from intentional acts of biological, chemical, and radiological terrorism. Currently, over 60 laboratories, including public health and veterinary diagnostic laboratories, representing 27 States and five Federal agencies, have agreed to participate in FERN. The goal is to establish 100 FERN laboratories, creating a network of Federal, State and local laboratories that FSIS could call upon to handle the numerous samples that would be required to be tested in the event of a terrorist attack on the meat, poultry or egg supply.

To improve the infrastructure under FERN, the budget request calls for a \$10 million expansion. Of that funding, \$6.1 million would be spent on contracts with State and local laboratories, and \$2.6 million would be used to establish five Regional Hubs and a National Operating Center to coordinate FERN's efforts and conduct training. In addition, during fiscal year 2005, FSIS would also use \$1.3 million to establish five to seven State laboratories for screening of microbiological agents, with more laboratories in the future, based on the availability of funds. The staff of these laboratories will receive training, perform methods validation, and analyze surveillance and check samples.

The third and fourth components of the food and agriculture defense initiative support FERN. The electronic laboratory exchange network (eLEXNET) is a national, web-based system that allows laboratories to rapidly report and exchange standardized data. The fiscal year 2005 budget request of \$4 million will be used to make eLEXNET available to additional FERN and other food-testing laboratories nationwide. Access to properly validated methods used for screening, confirmation, and forensic analysis is critical to all laboratories, and laboratories need rapid access to new or improved methods that use emerging technologies, have greater sensitivity, or are more efficient. FSIS is working with FDA to develop a web-based repository of analytical methods that is compatible with eLEXNET. The budget request also includes \$2.5 million to enhance FSIS' laboratory capabilities for detecting new bioterror-associated agents, and to ensure FSIS' capability and capacity to perform the toxin and chemical testing that will be standardized across all FERN laboratories.

The final component of the food and agriculture defense initiative is follow-up biosecurity training for the workforce. Follow-up training is essential as part of the ongoing effort to protect the public by educating the workforce regarding the latest threat agents and countermeasures to those agents. The budget request includes \$2 million for follow-up training for fiscal year 2005.

The final new initiative I will discuss is training. FSIS has been criticized over the years by the General Accounting Office and the Office of the Inspector General for having poorly trained field employees. We have been addressing these concerns over the last year, but need additional resources in order to significantly improve our training. We are requesting \$7.1 million—over a 50 percent increase—in the FSIS training budget for fiscal year 2005. Of the requested training budget, \$4.0 million would be used to increase the number of entry level inspectors receiving formal classroom training from 20 percent to 100 percent. Under this proposal, all new inspectors will receive formal training on how to identify and respond to food safety problems. New employees will be required to demonstrate mastery of training in order to be certified to assume inspection duties.

The requested training budget also includes \$3.1 million for Food Safety Regulatory Essentials training, to supplement training for current on- and off-line field employees to improve enforcement of Pathogen Reduction/Hazard Analysis and Critical Control Point regulations and food safety sampling. These frontline employees are responsible for making the critical decisions to ensure that products are safe to eat, so it is essential to have a scientifically and technically trained workforce.

User Fee Proposal

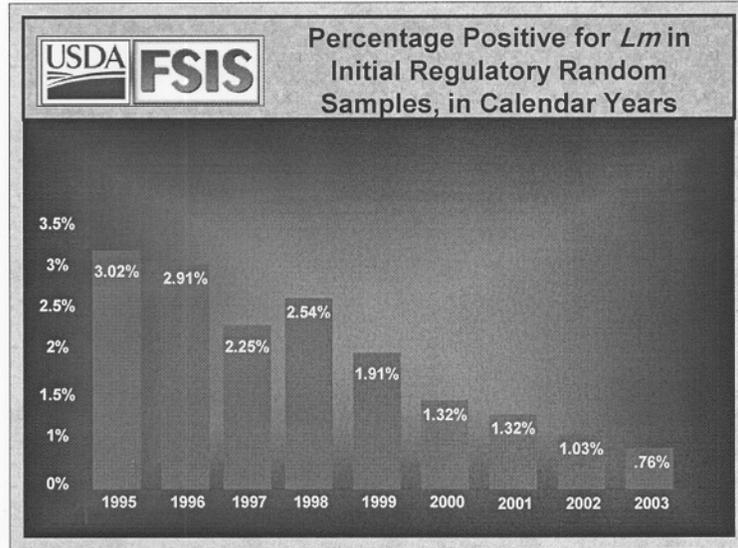
FSIS' fiscal year 2005 budget also includes a legislative proposal to recover the costs of providing inspection services beyond an approved 8-hour primary shift. The proposal was submitted to Congress last August. If the proposal is enacted, the level of appropriated funds needed would be reduced by an estimated \$124 million, making the FSIS budget request \$714.7 million. Under current law in 2005, FSIS estimates it will collect \$113 million in annual user fees to recover the costs of overtime, holiday, and voluntary inspection.

CLOSING

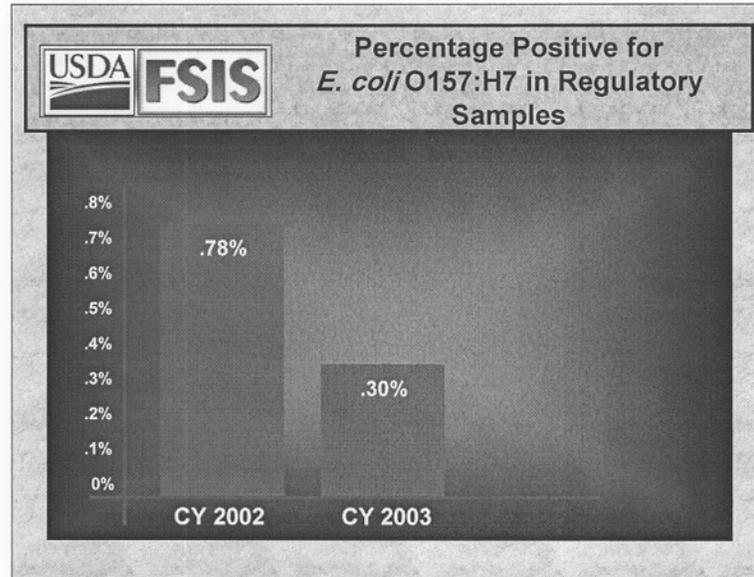
We intend to continue to engage the scientific community, public health experts and all interested parties in an effort to identify science-based solutions to public health issues to ensure positive public health outcomes. It is our intention to pursue such a course of action this year in as transparent and inclusive a manner as is possible. The strategies I discussed today will help FSIS continue to pursue its goals and achieve its mission of reducing foodborne illness.

Mr. Chairman, thank you again for providing me with the opportunity to speak with the Subcommittee and submit testimony regarding the steps that FSIS is taking to remain the world leader in public health. I look forward to working with you to improve our food safety system, ensuring that we continue to have the safest food supply in the world.

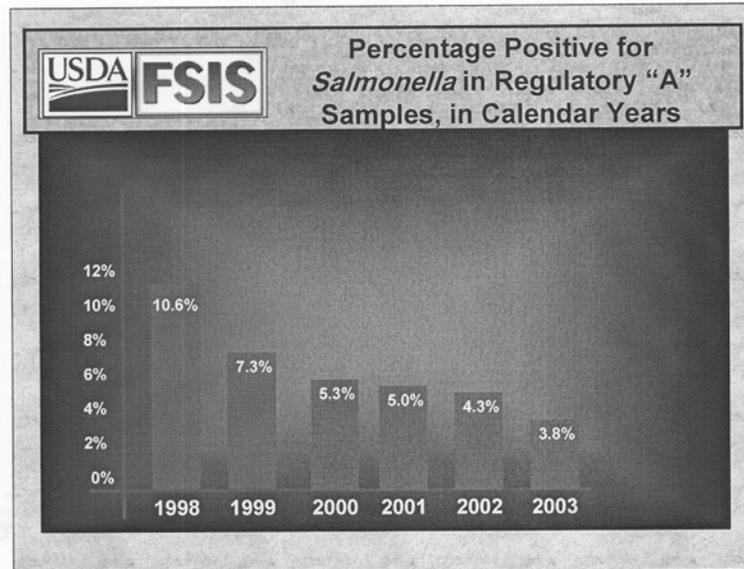
Percentage Positive – *Lm*



Percentage Positive – *E. coli* O157:H7



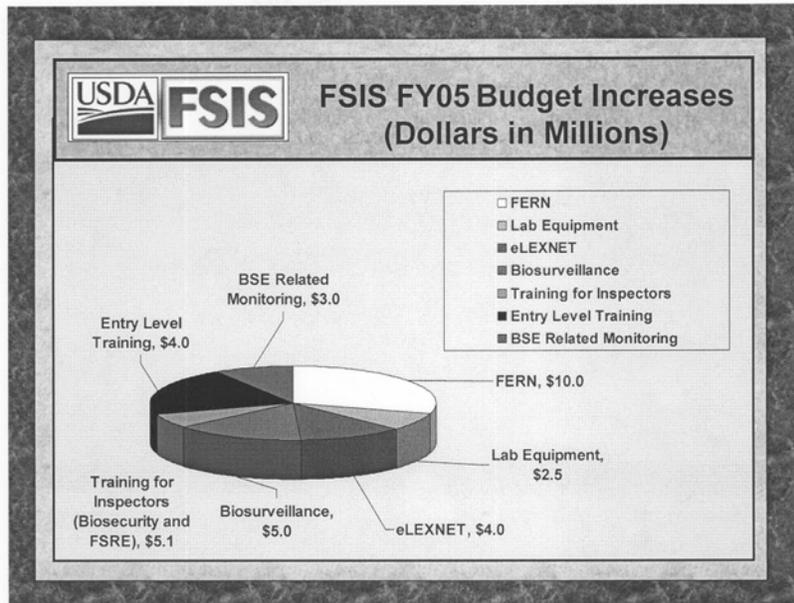
Percentage Positive – *Salmonella*



Total Recalls



FY 2005 Budget Request



PREPARED STATEMENT OF DR. BARBARA J. MASTERS, ACTING ADMINISTRATOR, FOOD SAFETY AND INSPECTION SERVICE

Mr. Chairman and distinguished members of the Subcommittee, I am pleased to be here today as we discuss public health and the U.S. Department of Agriculture's (USDA) fiscal year 2005 budget request for the Food Safety and Inspection Service (FSIS).

Infrastructure

FSIS has a long, proud history of protecting public health. Although the Agency under its current name was established by the Secretary of Agriculture on June 17, 1981, its history dates back to 1906. FSIS' mission is to ensure that meat, poultry, and egg products prepared for use as human food are safe, secure, wholesome, and accurately labeled. FSIS is charged with administering and enforcing the Federal Meat Inspection Act (FMIA), the Poultry Products Inspection Act (PPIA), the Egg Products Inspection Act (EPIA), and the regulations that implement these laws.

Ensuring the safety of meat, poultry, and egg products requires a strong infrastructure. To accomplish this task, FSIS has a large workforce of approximately 10,000 employees, most of who are stationed in the field, dedicated to inspection. In fiscal year 2003, over 7,600 inspection personnel stationed in over 6,000 federally inspected meat, poultry, and egg products plants verified that the processing of 43.6 billion pounds of red meat, 49.2 billion pounds of poultry, and 3.7 billion pounds of liquid egg products complied with statutory requirements. In addition, we re-inspected 3.8 billion pounds of imported meat, poultry and processed egg products from 28 of 33 countries that we determined have inspection systems equivalent to our own. Assuring that these products are safe and wholesome is a serious responsibility.

As you are well aware, these are compelling times in food safety, and it is because of your support that we are making real progress in improving the safety of the U.S. food supply. I would like to thank you for the past support you have given us in our budget requests. Now, I would like to tell you how we are fulfilling our responsibilities through FSIS' food safety vision and about our initiatives for better ensuring the safety of meat, poultry, and egg products.

Fulfilling the Vision

The continued mission of FSIS is to ensure that consumers have the safest possible food supply. To fulfill this vision, we have set out to continuously modernize FSIS' ability to improve the safety of meat, poultry, and egg products. Our efforts are paying off, as seen by the 16 percent decline in foodborne illness over the last 6 years. The Centers for Disease Control and Prevention (CDC) attributes these results in part to the implementation of the Hazard Analysis Critical Control Point (HACCP) system in all meat and poultry plants in the United States. However, in spite of these positive trends towards a safer food supply, FSIS recognizes that intensified efforts are needed to reach the next level of food safety. That is why the agency has diligently worked to carry out Dr. Murano's five core goals:

- To improve the management and effectiveness of our regulatory programs;
- To ensure that policy decisions are based on science;
- To improve coordination of food safety activities with other public health agencies;
- To enhance public education; and
- To protect FSIS regulated products from intentional contamination.

Improving the Management and Effectiveness of Regulatory Programs

In order for policies and programs to be successful, they must be uniformly and correctly applied. Thus, proper training of the workforce is essential. In addition, communication to field personnel needs to be timely and accurate, with proper supervision from the district and from headquarters in order to foster accountability in the system.

Training and Education

The key to improving the management and effectiveness of FSIS' considerable infrastructure is to ensure that the agency is well prepared with the tools necessary to protect the food supply. Training is a top priority of the agency. FSIS can only achieve its public health, food safety, and food security mission with adequate preparation of its workforce through scientific and technical training.

In April 2003, FSIS began the Food Safety Regulatory Essentials (FSRE). The goal of the training is to teach inspection personnel how to do their jobs properly, and emphasizes the regulatory decision-making thought process both through lecture and workshop examples. In fiscal year 2003, FSIS exceeded its goal to train 800 inspectors under FSRE. A comparison between pre-test and post-test scores has shown that the knowledge improvement of our inspectors has increased by an average of 20 percent. Feedback from our inspectors has been extremely positive, and industry representatives have noted the positive difference that these courses are having on how inspection procedures are performed.

FSIS has also initiated a comprehensive 2-year training and education effort designed to ensure that every FSIS employee fully understands their role in preventing or responding to an attack on the food supply. Last year, over 1,600 employees received food security training. By the end of fiscal year 2004, over half of our workforce will have received this training. The Law Enforcement Academic Research Network (LEARN), which is carrying out the training, has stated that this training effort is unparalleled in the Federal sector since it is being provided to such a broad base of our employees.

Another initiative the agency has undertaken to enhance FSIS' training effort is taking training opportunities closer to our employees. In August 2003, the agency announced new regional training centers designed to bring comprehensive workforce training programs to FSIS field employees throughout the country. FSIS has established the regional training centers in five field locations: Atlanta, GA; Dallas, TX; Philadelphia, PA; Des Moines, IA; and Boulder, CO. FSIS has hired three of the regional trainers to head the new centers, and expects to hire the remaining two trainers by April. In addition, FSIS will be providing distance learning that will be easily accessible to our field employees. These approaches will allow FSIS to train more inspectors each year in various skills to enhance their technical and regulatory abilities.

Another step we've taken is to increase our cadre of scientifically trained personnel, known as Consumer Safety Officers (CSOs). CSOs have a scientific and technical background and receive additional FSIS training that enables them to use a disciplined methodology to assess and verify the design of food safety systems. FSIS has trained every entering CSO—150 of them—in a cooperative agreement through the Texas Agricultural Experiment Station. In fiscal year 2004, the agency plans to train 200 additional employees in this program, including employees who have been promoted to CSOs, Veterinary Medical Officers, Program Investigators, and others.

Accountability

FSIS inspection personnel are held accountable for ensuring that public health is protected. To emphasize the importance of accountability, FSIS created the Office of Program Evaluation, Enforcement and Review (PEER) during the agency's recent reorganization. PEER serves as a quality control team by ensuring 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. PEER retains the role of ensuring prompt and appropriate enforcement of the inspection laws. The work of the field Program Investigators in PEER places them on a daily basis in close proximity to performance and compliance problems and concerns at the in-plant level, which affords the agency the ability to deal with necessary adjustments and problems in a much more immediate and direct fashion than in the past. PEER was formed because a strong quality assurance program that uses reviews, evaluations, and audits as its tools can have a significant impact on management effectiveness, efficiency and policy development.

Because accountability is crucial in delivering programs in a consistent and effective manner, FSIS implemented the Humane Activities Tracking (HAT) program in February 2004. This new electronic tracking system will document inspection activities to ensure that livestock are humanely handled and slaughtered in federally inspected facilities. The HAT program will provide FSIS with more accurate and complete data on the time spent by FSIS personnel performing nine specific humane handling related tasks to ensure humane handling and slaughter requirements are met.

In addition, in November of 2003, FSIS issued an updated directive to all inspection personnel and district offices providing specific, detailed information about requirements of the Humane Methods of Slaughter Act to ensure that verification and enforcement requirements are clearly and uniformly understood. In May of 2003, FSIS also issued a directive to provide guidance and direction to inspection personnel to ensure consistent use of enforcement actions.

ENSURE THAT POLICY DECISIONS ARE BASED ON SCIENCE

FSIS continuously reviews its existing authorities and regulations to ensure that emerging food safety challenges are adequately addressed. In addition, FSIS is committed to continuing its emphasis on the use of science, research, and technology in the development of improved food safety policies, focused on prevention whenever possible.

Risk Assessment

Risk assessment is one tool that can provide FSIS with the solid scientific foundation on which to base regulatory and policy decisions. In fact, the Agency has used risk assessment to estimate the likelihood of exposure to various hazards, and to estimate the resulting public health impact. For example, in February 2003, FSIS released a draft of a quantitative risk assessment conducted on *Listeria* in ready-to-eat (RTE) meat and poultry products. On February 26, 2003, FSIS held a public meeting to discuss the design of the risk assessment, the results, and conclusions that could be drawn from it regarding the risk of contamination of RTE products with this pathogen during processing.

The *Listeria* risk assessment, in conjunction with a previously released Food and Drug Administration (FDA)/FSIS risk ranking, peer review, and public comment, provided important data enabling FSIS on June 6 to publish a final *Listeria* rule originally proposed in early 2001. This risk-based regulation will serve as the cornerstone of the FSIS efforts to prevent listeriosis from RTE meat and poultry products. The rule requires all establishments that produce RTE products that are exposed to the environment after cooking to develop written programs to control *Listeria monocytogenes* and to verify the effectiveness of those programs through testing. Establishments must share testing data and plant-generated information relevant to their controls with FSIS. The rule also encourages all establishments to employ additional and more effective *Listeria monocytogenes* control measures.

Innovative Testing Methods

In October 2003, FSIS announced the adoption of the BAX® system to screen for *Salmonella* in raw meat and poultry products. The Microbial Outbreak and Special Projects Laboratory, in collaboration with three FSIS field service laboratories, evaluated the BAX® system to determine whether it would be beneficial to the agency and to determine its validity and reliability. FSIS determined that the BAX® system was as sensitive as the existing method of detecting *Salmonella* in raw meat and poultry products, but also reduced the reporting time for negative samples by one to 2 days. FSIS has been using the BAX® screening system for *Salmonella* in

ready-to-eat meat, poultry and pasteurized egg products since February 2003, and for *Listeria monocytogenes* since April 2002. This new measure increases efficiency in detecting pathogens and saves valuable agency time and resources.

Reducing E. coli O157:H7

FSIS has instituted major changes in its *E. coli* O157:H7 policy to further ensure that beef plants address and reduce the presence of *E. coli* O157:H7. In October 2002, the agency took strong steps to address *E. coli* O157:H7 contamination based on USDA's Agricultural Research Service's data and FSIS' draft risk assessment. Those measures are starting to pay dividends to the American consumer. Our scientifically trained personnel have examined prevention mechanisms at more than 1,000 beef establishments and a majority of those plants have made major improvements based on reassessments of their HACCP plans. As a result, we are seeing a drop in the number of *E. coli* O157:H7 positive samples in ground beef. For instance, in *E. coli* O157:H7 samples collected and analyzed during 2003, 0.30 percent tested positive, compared to 0.78 in 2002—or a 62 percent reduction.

IMPROVE COORDINATION OF FOOD SAFETY ACTIVITIES WITH OTHER PUBLIC HEALTH AGENCIES

With primary authority over meat, poultry, and egg products, FSIS plays an integral role in ensuring the safety of America's food supply. As one partner in the U.S. food safety effort, FSIS strives to maintain a strong working relationship with its sister public health agencies. Cooperation, communication, and coordination are absolutely essential if we are to be effective in addressing public health issues.

BSE Coordination

The December 2003 discovery of a single case of Bovine Spongiform Encephalopathy (BSE) in Washington State provides an excellent example of the strong communication ties and the cooperation between USDA and its Federal and State food safety partners. The Federal Government's swift and substantial reaction to the BSE diagnosis played a vital role in maintaining high consumer confidence. FSIS and its sister agencies moved effectively and forcefully upon the discovery of a BSE case in this country, further strengthening already formidable BSE preventive measures. Being a part of the continuous briefings, planning meetings, international trade discussions, and all the other events surrounding this situation has been both challenging and rewarding. FSIS has worked closely with USDA's Animal and Plant Health Inspection Service (APHIS) and other mission areas in USDA, FDA, state governments, industry and consumers to ensure our BSE prevention and response measures are fully effective in the United States.

MOU with FDA

Since 1999, FSIS and the Food and Drug Administration (FDA) have had a Memorandum of Understanding (MOU) to exchange information on an on-going basis about establishments that fall under both jurisdictions. FSIS will continue engaging in substantive discussions with FDA and other agencies who share public health and food safety responsibilities. The Bioterrorism Act of 2001 (Public Law 107-188) further enhanced this cooperation by authorizing FDA to commission FSIS employees to conduct inspection at dual jurisdiction facilities.

Public Health Service Commissioned Corps Officers

In addition to its partnerships with the White House and Federal agencies, FSIS has entered into a working relationship with the U.S. Public Health Service (PHS) and the Office of the Surgeon General. In April 2003, FSIS signed a Memorandum of Agreement with the Surgeon General and the PHS that allows expanded numbers of PHS Commissioned Corps Officers to be detailed to the agency. FSIS currently has 19 PHS Commissioned Corps Officers detailed to the agency and will incorporate additional PHS Officers nationwide across all program areas under the agreement. Not only will these officers help FSIS respond to foodborne disease outbreaks and assist in preventing foodborne illness, but they will assist in the agency's homeland security efforts as well. Since the Commissioned Corps Officers are available 24 hours a day, 7 days a week, this affords a greater flexibility to respond immediately during heightened security alerts or an actual threat to the food supply.

USDA's Unified Food Safety Research Agenda

Another example of FSIS' commitment to communication, cooperation, and coordination was the November 2003 announcement of a unified food safety research agenda to improve the efficiency and effectiveness of food safety programs. USDA also released a list of additional research needs specific to meat, poultry and egg products that FSIS will encourage non-governmental entities to address. The gov-

ernment research agenda will complement these efforts by industry and academia. USDA's Research, Education, and Economics (REE) mission area worked with USDA's Office of Food Safety, other government food safety agencies, and stakeholders to develop the unified research agenda. The unified agenda prioritizes research needs and maximizes use of available resources.

ENHANCE PUBLIC EDUCATION EFFORTS

Because everyone has a responsibility for food safety, educating the public about this responsibility is a crucial element in FSIS' food safety mission. All food preparers, from consumers to food service employees, must know and understand basic safe food-handling practices. These efforts must be broad enough to ensure that no segment of the public is uninformed about safe food handling practices, yet at the same time, target various segments of the population to positively influence those behaviors that pose the greatest potential risk. Communicating with the public about food safety must be accomplished in a manner that is easily understandable so that it is useful to every segment of the population. Thus, FSIS has considered innovative and collaborative methods for delivering the food safety message.

The Food Safety Mobile

One such innovative way of spreading the food safety message is USDA's Food Safety Mobile, which was introduced in March 2003. This eye-catching "food safety educator-on-wheels" brings food safety information to consumers and builds on our partnerships in communities across the country. Through the Food Safety Mobile, FSIS is sharing its food safety message with the general public as well as culturally diverse and underserved populations and those with the highest risk from foodborne illnesses. From March to November 2003, the Mobile traveled over 24,000 miles and participated in 87 events in 64 cities across the country. These events ranged from county fairs and grocery store demonstrations, to the Taste of Minnesota and the Philadelphia Thanksgiving Day Parade. FSIS used these opportunities to provide information and publications on food safety to approximately 179,000 people face-to-face at Mobile events. FSIS estimates 64.4 million media impressions from the Mobile, and that does not include internet exposure.

Educational Campaign

FSIS has also been conducting an educational campaign through public events and media interviews with national and regional media organizations in order to reach more of the population with important public health messages. Recent events were held in Houston, Philadelphia, Portland, San Francisco, Miami, and the Flathead Reservation in Montana. National television interviews have been conducted with major television networks, including Fox News, Telemundo and Univision. National celebrities, such as former Miss America Heather Whitestone McCallum, pop music legend Olivia Newton-John, and country singer Wynonna Judd, have also been recruited to help FSIS reach even larger audiences with food safety messages through special events and the filming of Public Service Announcements (PSA). The results have been impressive. The Heather Whitestone McCallum PSA has aired 14,448 times since September 2003. This PSA ranked in the top 3 percent of all PSA's shown during the month of January 2004 along with PSA's by the American Red Cross, the Federal Emergency Management Agency (FEMA), and the Department of Homeland Security (DHS).

USDA's Meat and Poultry Hotline

USDA's Meat and Poultry Hotline is an additional tool that FSIS uses to share its food safety message. The Hotline handled over 98,000 calls and 80 media and information multiplier calls during fiscal year 2003. Calls included requests from newspapers, magazines, radio, television, and book authors, and included live interviews with radio and television stations. The Hotline also provides recorded information and live assistance for our Spanish-speaking callers. Additionally, the Hotline was a key resource for keeping the public informed about the BSE situation in Washington and has handled approximately 4,000 calls and 1,000 emails concerning BSE since December 23, 2003.

PROTECT MEAT, POULTRY, AND EGG PRODUCTS AGAINST INTENTIONAL CONTAMINATION

In the aftermath of September 11, 2001, there is recognition that threats to the well being of the Nation's citizens can come in the form of terrorist attacks, including the intentional contamination of food. With a strong food safety infrastructure already in place, FSIS has been focusing on fortifying existing programs and improving internal and external lines of communication. By partnering with other agencies, including CDC, FDA, USDA's Agricultural Research Service (ARS), DHS,

APHIS, the Environmental Protection Agency (EPA), as well as international partners such as the Canadian and Mexican governments' food inspection agencies, and State and local health agencies, FSIS is in a pivotal position to share information and to strengthen critical infrastructure protection activities concerning food from farm to table.

FSIS Office of Food Security and Emergency Preparedness

To date, FSIS has undertaken a number of initiatives to protect meat, poultry, and egg products from the potential of a terrorist attack. Immediately following September 11, 2001, FSIS established the Food Biosecurity Action Team (F-BAT). The charge of F-BAT was to coordinate all activities related to biosecurity, counter-terrorism, and emergency preparedness within FSIS. These activities are coordinated with USDA's Homeland Security Council, other government agencies, and industry. Currently, FSIS' newly created Office of Food Security and Emergency Preparedness (OFSEP) has assumed the responsibilities of F-BAT and serves as the centralized office within FSIS for food security issues.

OFSEP interacts closely with USDA's Homeland Security Council and represents the agency on all food security matters throughout the Federal Government, as well as in State and local activities. The Office's mission is to lead in the development of the agency's infrastructure and capacity to prepare for, prevent, and respond to, deliberate attacks or other threats to the U.S. food supply. As the lead coordinator and primary point of contact on all food security and emergency preparedness activities within FSIS, OFSEP focuses primarily on:

- Emergency preparedness and response;
- Federal/State/Industry Relations;
- Continuity of operations (COOP);
- Scientific expertise in chemical, biological, and radiological terrorism; and,
- Security clearance and safeguarding classified information.

To ensure coordination of these activities involves all program areas of the agency, OFSEP established a new standing advisory group, the Food Security Advisory Team (FSAT), comprised of representatives of the major program areas within FSIS, to provide program-specific technical support.

Expanding Coordination with Federal, State, and Local Agencies

FSIS collaborates and coordinates closely with its State partners to ensure an effective prevention and response program. Some of the many state organizations FSIS works with include the Association of Food and Drug Officials (AFDO); the Association of State and Territorial Health Officials (ASTHO); and the National Association of State Departments of Agriculture (NASDA). Most recently, FSIS teamed with FDA in cosponsoring a joint meeting between ASTHO and NASDA, entitled "Homeland Security: Protecting Agriculture, the Food Supply, and Public Health—The Role of the States." The purpose of this meeting was to enhance collaboration between State public health and agriculture agencies and the Federal Government. Both the Secretary of Agriculture and the Secretary of Health and Human Services (HHS) were on hand for this joint meeting.

FSIS also works closely with the White House Homeland Security Council, DHS, FDA, and the USDA Homeland Security Staff to develop strategies to protect the food supply from an intentional attack. For example, FSIS, along with FDA and industry partners, is working with DHS to establish a new food information sharing and analysis activity for the food sector. This public/private partnership will aid in the protection of the critical food infrastructure by centralizing the information about threats, incidents, and vulnerabilities.

Consumer Homeland Security Education

Because everyone has a stake in a safe and secure food supply, FSIS published *Food Safety and Food Security: What Consumers Need to Know* in November 2003, as part of the agency's continuing effort to protect public health by preventing and responding to contamination of the food supply throughout the farm-to-table continuum. The brochure, developed by FSIS, is available in both English and Spanish. In a concise and easy-to-follow format, *Food Safety and Food Security: What Consumers Need to Know*, lays out comprehensive and practical information about safe food handling practices, foodborne illness, product recalls, keeping foods safe during an emergency and reporting suspected instances of food tampering. This publication is the latest in a series of food security guidelines issued by FSIS that includes FSIS Security Guidelines for Food Processors and FSIS Safety and Security Guidelines for the Transportation and Distribution of Meat, Poultry and Egg Products.

Ensuring the Safety of Imports

To further strengthen our import inspection program, we established a new position called the import surveillance liaison inspector, using funds provided in the fiscal year 2001 Homeland Security Supplemental Appropriations Act. These inspectors augment the current activities of traditional import inspectors at locations across the country. The import surveillance liaison inspectors conduct a broader range of surveillance activities, and they coordinate with other agencies, such as the APHIS, FDA, and the U.S. Customs and Border Protection within the DHS. Currently, 20 of these new inspectors are on board, and we anticipate more will be added.

Laboratories

Laboratories play a key role in our ability to quickly detect contamination of the food supply. FSIS has four ISO accredited laboratories—three regulatory laboratories that conduct testing on samples of meat, poultry and egg products, and a fourth laboratory that focuses on microbial outbreaks. FSIS has increased security at all of our laboratories. This includes instituting procedures to ensure proper chain of custody and other controls on all samples and materials received by the labs. The labs participate in the Electronic Laboratory Exchange Network (eLEXNET), which is a system designed to provide a secure network in which food safety labs at various levels of government can share test data on food samples.

Furthermore, FSIS laboratories have enhanced analytical capability for compounds of concern and developed surge capacity. Our four labs have expanded capability to test for non-traditional microbial, chemical and radiological threat agents. In addition, the Agency has also begun construction of a Bio Security Level 3 facility that will be able to conduct analyses on a larger range of potential bioterrorism agents.

FSIS is also represented on the interagency Laboratory Response Network and has worked to develop the Food Emergency Response Network (FERN) for potential foodborne contamination incidents. FERN was formed in 2002 and currently has about 61 members, including FSIS, FDA, and state labs. Participation is open to Federal, State, and local government labs that are capable of conducting food testing and forensic analysis for a wide variety of chemical, biological and radiological agents. FERN can help respond to national emergencies, including terrorist threats that might affect the food supply. In fiscal year 2005, FSIS plans to significantly expand its participation in FERN.

FISCAL YEAR 2005 BUDGET REQUEST

I appreciate having the opportunity to discuss a number of FSIS' accomplishments with you. Now I would like to present an overview of the fiscal year 2005 budget request for FSIS. Implementation of these budget initiatives is imperative to helping us attain FSIS' public health mission. In fiscal year 2005, FSIS is requesting a program level of \$951.7 million, a net increase of about \$61 million from the enacted level for fiscal year 2004. Under current law, we are requesting an appropriation of \$838.7 million, with an additional \$113 million in existing user fees.

Supporting FSIS' Basic Mission

The FSIS budget request for fiscal year 2005 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 2005 budget includes \$15.5 million in increases for mandatory pay raises in Federal and State programs. This includes annualization of the calendar year 2004 pay raise, as well as the anticipated calendar year 2005 pay raise.

The fiscal year 2005 budget request includes a \$17.3 million increase for the full cost of in-plant inspection and enforcement of humane handling and slaughter. FSIS employee salary, benefits, and inspector travel between plants make up a large portion of the FSIS budget and have a serious affect on our ability to staff plants if not fully funded. Thus, FSIS requires a \$12.3 million increase to avoid detrimental employment restrictions within the agency, which would result if unavoidable cost increases are not fully funded and must be absorbed. An additional \$5 million is requested so that FSIS' inspection workforce can continue its strict enforcement of regulations for humane slaughter and handling of livestock, a top priority at FSIS.

New Initiatives

The fiscal year 2005 request includes a \$33.6 million increase for new initiatives that support the Department's goals for FSIS.

BSE Surveillance

First, the fiscal year 2005 budget request includes an increase of \$3 million for BSE surveillance. FSIS' BSE inspection program will add permanent BSE control measures in fiscal year 2005, which include: increased in-plant verification of slaughter plant designs for controlling specified risk materials (SRMs), overtime inspection, and travel for Veterinary Medical Officers to test non-ambulatory disabled livestock when they arrive at small slaughter plants that do not have a resident veterinarian. FSIS will also perform about 60,000 screening tests in fiscal year 2005 at processing plants that use advanced meat recovery (AMR) equipment, to ensure that SRMs do not enter the food supply.

Food and Agriculture Defense Initiative

The fiscal year 2005 budget also requests a \$23.5 million increase to support a food and agriculture defense initiative in partnership with USDA, HHS, and DHS. Food contamination and animal and plant diseases and infestations can have catastrophic effects on human health and the economy. The three Federal Departments involved are working together to create a comprehensive food and agriculture policy that will improve the government's ability to respond to the dangers of disease, pests and poisons, whether natural or intentionally introduced. Our food and agriculture defense initiative has five components:

- Biosurveillance;
- The Food Emergency Response Network;
- Data systems to support the Food Emergency Response Network;
- Enhancing FSIS laboratory capabilities; and
- Follow-up bio-security training.

First, the food and agriculture defense initiative will allow FSIS to participate in an interagency biosurveillance initiative that would improve the Federal Government's ability to rapidly identify and characterize a potential bioterrorist attack. Funding this initiative will improve Federal surveillance capabilities and enable FSIS to integrate with DHS to compile FSIS surveillance information rapidly with threat information. This funding would also allow FSIS to focus its resources on the vulnerable products and processes identified during the agency's vulnerability assessments of imported and domestic products; increase regulatory sampling for three additional threat agents; add five Import Surveillance Liaison Inspectors, 30 program investigators for transportation, distribution, and retail surveillance, and two Public Health and Epidemiology Liaison Officers to our workforce; and establish a Foodborne Disease Surveillance Communication system to coordinate with DHS systems.

The second component of the food and agriculture defense initiative is the Food Emergency Response Network (FERN), which I discussed earlier. A nationwide laboratory system with sufficient capacity to meet the needs of anticipated emergencies is integral to any bioterrorism surveillance and monitoring system. The goal is to establish 100 FERN laboratories, creating a network of Federal, State and local laboratories that FSIS could call upon to handle the numerous samples that would be required to be tested in the event of a terrorist attack on the meat, poultry or egg products supply. The fiscal year 2005 budget request would expand FERN to contract with State and local laboratories, and to establish five regional hubs and a National Operating Center to coordinate FERN's efforts and conduct training. In addition, FSIS would also fund the establishment of five to seven State laboratories for screening of microbiological agents, with more laboratories in the future, based on the availability of funds.

The third and fourth components of the food and agriculture defense initiative provide further support to FERN. The electronic laboratory exchange network (eLEXNET), which I mentioned previously, is a national, web-based, electronic data reporting system that allows analytical laboratories to rapidly report and exchange standardized data. The fiscal year 2005 budget request would provide funding needed to make eLEXNET available to additional FERN and other food-testing laboratories nationwide. In turn, the budget request would enhance FSIS' laboratory capabilities in order to detect new bioterror-associated agents, and to ensure FSIS' capability and capacity to perform the toxin and chemical testing that will be standardized across all FERN laboratories.

Because the realm of biosecurity is ever changing, FSIS must provide its workforce with the most up-to-date information necessary to ensure that meat, poultry, and egg products are protected from intentional contamination. Therefore, the final component of the food and agriculture defense initiative is follow-up biosecurity training of the workforce. This additional training is essential as part of the ongoing effort to protect the public by educating the workforce regarding the latest threat agents and countermeasures to those agents.

Training and Education

Training is a top priority at FSIS. Our inspection workforce is our greatest asset, and this is why FSIS is dedicated to establishing and maintaining a comprehensive and fully integrated training program. The agency is continuing its extensive training effort by requesting approximately \$7.1 million, or an increase of 50 percent over fiscal year 2004, to train all new inspection personnel and to expand existing training programs in fiscal year 2005.

To ensure that newly hired inspection personnel receive the proper orientation and training to perform their jobs when they report to duty, FSIS is requesting approximately \$4 million in fiscal year 2005. The agency has been criticized in the past for not immediately training all new employees. This initiative will provide the formal training needed to ensure that inspection procedures are performed consistently and appropriately under agency policies. This initiative will also enable FSIS to place 10 district trainers, in addition to five already funded in the agency's baseline, throughout the Nation, to orient and train FSIS employees.

Last year, FSIS began retooling and expanding its existing training programs by incorporating a public health focus and integrating scientific and technical principles with training on technical and regulatory approaches to inspection. Through the \$3.1 million requested by FSIS in fiscal year 2005, the agency would continue to provide Food Safety Regulatory Essentials (FSRE) training to field employees, including food inspectors, CSOs, Inspectors-in-Charge, and Compliance Officers. The agency will offer the training regionally to accommodate inspection staff. Additional computer-based-training will be provided to implement the training, and will be catered to the inspection personnel's specific food safety responsibilities.

User Fee Proposal

Under current law, in 2005 FSIS estimates it will collect \$113 million in annual user fees to recover the costs of overtime, holiday, and voluntary inspection. FSIS' fiscal year 2005 budget includes a legislative proposal to recover the costs of providing inspection services beyond an approved 8-hour primary shift. The proposal was submitted to Congress last August. If enacted, the level of appropriated funds needed would be reduced by an estimated \$124 million, making the FSIS budget request \$714.7 million. This will result in significant savings for the American taxpayer.

CLOSING

The goals and initiatives that FSIS has laid out as its vision represent a monumental task. But let me assure you; this is a task that we are ready and willing to take on. I believe that with the appropriate support, FSIS will be able to achieve its public health vision and strengthen the safety of meat, poultry, and egg products.

Mr. Chairman, this concludes my prepared statement. Thank you for your continued support. Thank you also for the opportunity to submit testimony to the Subcommittee on how FSIS is working with Congress and other partners to achieve its public health vision.

ADDITIONAL COMMITTEE QUESTIONS

Senator BENNETT. Thank you very much for your testimony.

[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

BSE

Question. On March 15, 2004, the Department of Agriculture announced details for an expanded surveillance effort for BSE. The release also stated that \$70 million is being transferred from the Commodity Credit Corporation (CCC) to test cattle in the high risk population. According to the announcement, the \$70 million will allow testing of 268,000 animals. Using the Department estimate, testing all animals destined for export could cost at or near \$1 billion.

In your opinion, do you believe testing 100 percent of the export market is possible? Also, any additional comments or updates in regard to the cost of animal testing would be appreciated.

Answer. Although it is logistically possible to test 100 percent of the cattle slaughtered in the United States every year, USDA does not recommend following this

course of action. Testing predominantly young, healthy animals beyond the bounds of a scientific surveillance plan would create a false sense of security for consumers and could lead to either a tiered system (testing for exports but not for domestic consumption) or, more probably, testing all cattle slaughtered.

USDA's targeted surveillance program is designed to identify the presence of BSE in the U.S. cattle population if it exists. We understand that some in industry have suggested blanket-testing all animals presented at slaughter as a means of providing "BSE-screened products" and easing trade barriers. However, it is our contention that current barriers against U.S. beef are scientifically unwarranted, and we continue working at the highest levels to reopen foreign markets for U.S. producers.

We must clarify that surveillance testing for BSE—especially if it is performed on clinically normal animals at slaughter—is not an efficient risk mitigation measure for protecting public health. USDA is confident that the removal of specified risk materials, along with other measures such as feed practices regulated by the Food and Drug Administration address the potential health risk of BSE.

USDA's BSE surveillance program has always focused testing efforts on those animals that fall into the highest-risk category for the disease. These include cattle exhibiting signs of neurologic disease; condemned at slaughter for neurologic reasons; testing negative for rabies and submitted to public health laboratories and teaching hospitals; and appearing non-ambulatory (including those exhibiting general weakness severe enough to make it difficult but not impossible to stand), also known as "downer cattle." We also sample adult cattle that have died for unexplained reasons.

We estimate that approximately 35 million cattle are slaughtered in the United States annually. If each one of these animals were to be tested, and we included the cost of the test kit, sample collection, shipping and handling, laboratory processing and support, training, equipment, and other associated fees, USDA estimates that the total cost would be between \$175 and \$200 per animal. Thus, the total cost for testing every animal slaughtered could reach as high as \$6 to \$7 billion per year.

Question. The livestock industry and Department of Agriculture are working toward reopening export markets in Japan, Mexico, and other exporting countries. The controversy arises over testing each animal and whether or not animals under the age of 30 months should be tested.

Do you believe each animal, including those under 30 months of age, should be tested prior to export?

Answer. USDA's targeted surveillance program is designed to identify the presence of BSE in the U.S. cattle population if it exists. We do not agree that blanket-testing all animals prior to export, including those under 30 months of age, is a scientifically sound approach to disease surveillance.

USDA's BSE surveillance program has always focused testing efforts on those animals that fall into the highest-risk category for the disease. These include cattle exhibiting signs of neurologic disease; condemned at slaughter for neurologic reasons; testing negative for rabies and submitted to public health laboratories and teaching hospitals; and appearing non-ambulatory (including those exhibiting general weakness severe enough to make it difficult but not impossible to stand), also known as "downer cattle." We also sample adult cattle that have died for unexplained reasons.

AVIAN INFLUENZA

Question. The Administration's fiscal year 2005 Budget request includes an increase in funding of \$11.783 million to address Low Pathogenic Avian Influenza (LPAI) in live bird markets.

Can you update the Committee in regard to ongoing action related to avian influenza and explain how the Department would utilize the additional funding?

Answer. APHIS has been working to establish a national LPAI program and incorporate it into the National Poultry Improvement Plan (NPIP). The national LPAI program will be discussed and hopefully adopted at the NPIP meeting in July 2004. The program has drafted a Uniform Methods and Rules (UM&R) for the live bird marketing portion of the program and the subcommittee of the U.S. Animal Health Association is currently reviewing the draft to obtain their recommendations for program improvement.

APHIS would utilize the additional funding for cooperative agreements with states that will support the LPAI prevention and control program; for indemnities; for additional field personnel, equipment, and other resources necessary to assist states with long-term prevention and control; for educational materials and training for recognition of avian influenza and for biosecurity practices to protect against the disease; for development and administration of vaccine to support industry when infected with LPAI; and for reagents and other laboratory support to incorporate the commercial program through the National Poultry Improvement Program (NPIP).

This program is currently testing poultry breeder flocks and will continue to expand its activities until all segments of the commercial industry are monitored and certified as avian influenza clean.

Question. With the discovery of avian influenza, a number of countries have banned poultry imports from the United States.

Can you provide the Committee with an update on poultry export markets and exactly what actions USDA is taking to reopen these markets?

Answer. The USDA is currently working with countries that have imposed bans on taking the necessary actions to remove the bans on exports and reopen all poultry markets. Our actions include: depopulating positive testing flocks, cleaning and disinfecting those flocks, providing additional surveillance activities to ensure that all positive have been removed, and responding to inquiries and questionnaires to prove that areas are free of avian influenza and trade bans can be removed.

On April 6, the Canadian Food Inspection Agency (CFIA) recognized the United States as free of highly pathogenic avian influenza (HPAI) and lifted all HPAI-related importation bans on U.S.-origin birds, poultry, and poultry products. Other countries including Armenia, Macedonia, and Serbia have removed their bans and have allowed exports to enter their country. Several other countries including: Chile, Czech Republic, Hungary, Israel, Poland, and Taiwan have reduced their restrictions to allow poultry exports from all states except for Texas.

CHILDHOOD OBESITY

Question. Childhood obesity is a growing health concern for many Americans. The Department of Agriculture has and continues to conduct research to further understand the factors that contribute to obesity.

Can you update the Committee in regard to actions that the Department is taking to inform consumers and to combat obesity?

Answer. The Department is making a substantial commitment to promoting healthy weight through nutrition education and promotion. In the Food, Nutrition, and Consumer Services (FNCS) mission area, the Food and Nutrition Service (FNS) nutrition education efforts are targeted primarily to participants or potential participants in the nutrition assistance programs it administers, while the Center for Nutrition Policy and Promotion (CNPP) provides nutrition education and information for the general public. In addition, the Cooperative State Research, Education and Extension Service (CSREES) has a significant commitment to nutrition education, as well as the Agricultural Research Service and the Economic Research Service, who perform basic and applied research supporting this effort.

FNCS undertakes a range of ongoing activities each year to deliver nutrition education and promotion to program recipients; all of these include maintenance of proper weight as one component of a healthy lifestyle, including:

- Integrating nutrition and physical activity promotion within and across the programs.*—The Eat Smart, Play Hard.TM campaign for children and their caregivers stresses the need to balance what you eat with how active you are, and Team Nutrition provides nutrition education for the Nation's schoolchildren. Materials such as brochures, activity sheets and posters, coordinated with nutrition curricula, are used to help children, their parents, and caregivers learn healthy eating and active living behaviors.
- Reshaping nutrition education in the Food Stamp Program.*—To target activities that promote healthy weight. For example, we are developing new nutrition education materials that program staff can use to motivate low-income elderly people and women with children to improve their eating behaviors.
- Developing new ways to support healthy weight through the WIC program.*—The Fit WIC project developed five intervention programs that WIC and other community agencies can implement to prevent overweight in young children. Educational packages such as Fathers Supporting Breastfeeding are used in WIC clinics to support breastfeeding. Breastfed babies are less likely to become overweight as they grow, and mothers who breastfeed may return to pre-pregnancy weight more easily.
- Promoting healthy school nutrition environments.*—Unhealthful beverage and food choices at school can undermine children's ability to learn and practice healthy eating. We developed and are distributing the Changing the Scene action kit to help local schools and communities to support healthier eating and active living behaviors.
- Promoting increased fruit and vegetable intake.*—Through partnerships with other Federal Agencies and the National 5-A-Day Program. For example, we worked together to develop the Fruits and Vegetables Galore—Helping Kids Eat More tool kit, which helps foodservice professionals with planning, preparation,

and promotion strategies to encourage the children they serve to consume more fruit and vegetables. For fiscal year 2005, the President's Budget proposes several initiatives to enhance these efforts to better address obesity and promote healthy weight. These include:

- The budget requests \$20 million, a \$5 million increase, to enhance WIC breastfeeding promotion efforts through peer counseling. The use of breastfeeding peer counselors has proven to be an effective method of increasing initiation and duration of breastfeeding, and breastfed babies are more likely to maintain a healthy weight as they grow.
- The budget requests \$5 million to initiate a new series of WIC Childhood Obesity Prevention Projects, which build on the success of the Fit WIC projects to work in partnership with States on innovative strategies to use WIC to prevent and reduce childhood obesity through enhanced nutrition and education, physical activity promotion, and environmental efforts. Ongoing funding for such projects is critical to ensuring continuous improvement in this area.
- It requests \$2.5 million to expand the Eat Smart. Play Hard.™ Campaign and establish a cross-program nutrition framework to help ensure a comprehensive, integrated approach to nutrition education in all FNS nutrition assistance programs.
- The budget includes \$1 million for the Center for Nutrition Policy and Promotion (CNPP) plans to build on previous work to implement the consumer messages developed and pilot tested with 20- to 40- year-old women, especially low-income women, to help consumers aim for a healthy weight.
- The budget requests an additional \$655,000 to complete the development of the 6th edition of the Dietary Guidelines for Americans, as well as an additional \$1 million to update and promote the new food guidance system which will update the Food Guide Pyramid. CNPP also plans to develop obesity prevention materials based on the Dietary Guidelines and the new food guidance system, as well as promote the consumption of fresh fruit and vegetables. Plans include the development of print materials and interactive tools, such as the Interactive Healthy Eating Index, that direct dietary guidance to the individual to facilitate healthful behavior change.

INDEFINITE FUNDING IN THE FOOD STAMP ACT

Question. The Administration's fiscal year 2005 Budget includes a request for new legislative language to allow for indefinite funding authority for the Food Stamp Act.

Can you provide the Committee with an explanation of why this legislative language has been requested?

Answer. The indefinite authority proposal in this year's Food Stamp Program budget would provide such sums as necessary to fund program benefits and payments to States, in the last 4 months of the fiscal year if program needs exceed the anticipated level. It would ensure that sufficient resources will always be available to provide access to the program for all eligible persons who wish to participate. It can be difficult to estimate program needs or the size of an adequate contingency reserve, particularly when there are changes in the economy. With indefinite authority, if program costs should significantly exceed budget estimates, it would never be necessary to seek a supplementary appropriation or implement a benefit reduction. This proposal would bring the structure of this critical program in line with other major social welfare programs that already have indefinite authority.

QUESTIONS SUBMITTED BY SENATOR CHRISTOPHER S. BOND

GUIDELINES ON FAT CONSUMPTION

Question. There is a linear relationship between high trans fatty acid and high saturated fat intake and chronic disease. We also know that the consumption of foods high in these two elements likely contribute to the statistics on obesity.

Does USDA intend to draft guidelines or standards for the consumption of these fats?

Answer. The 2005 Dietary Guidelines Advisory Committee (DGAC) is in the process of evaluating the most recent scientific evidence on fatty acids and health and is preparing to make science-based recommendations specifically for saturated and trans fatty acids consumption. At its most recent public meeting held on March 30 and 31, 2004, members of the Committee discussed the possibility of setting intake goals for both types of these fatty acids—saturated and trans—and also discussed the implications these proposed recommendations would have for the general public.

It is expected that the dietary fat recommendations will emphasize the reduction of current intake for saturated and trans fatty acids. The Committee is also expected to address the need for encouraging product reformulations by food manufacturers to reduce unhealthy fats in food products. It should be noted that on July 11, 2003, the Food and Drug Administration published a final rule requiring food manufacturers to list the amount of trans fatty acids on product nutrition labels by January 1, 2006. Some manufacturers have already responded to the rule by implementing the labeling requirement or by eliminating trans fatty acids from their products.

The Committee is continuing its deliberations on specific fatty acid recommendations. However, the final advisory report is expected to be submitted to USDA and HHS by June 30, 2004. The final science-based recommendations on saturated and trans fatty acids will be incorporated in the agency's education and communication efforts after completion of the DGAC report.

In an effort to help Americans reduce their risk of cardiovascular disease and improve their health, USDA's proposed new Food Guidance System, to be released in 2005, emphasizes consumption of oils instead of solid fats in the diet and differentiates between saturated and unsaturated fats. The guidance recommends that Americans choose fats mostly from foods higher in polyunsaturated or monounsaturated fat, and particularly Omega-3 fats such as those found in fish.

Question. Since not all oils are equally healthy, will USDA provide guidelines and or regulations to restaurants and other food manufacturers and—more importantly—provide them a roadmap to increasing the nutritional content and decrease trans and saturated fat levels of their products?

Answer. The 2005 Dietary Guidelines Advisory Committee (DGAC) is in the process of evaluating the most recent scientific evidence on fatty acids and health and is preparing to make science-based recommendations specifically for saturated and trans fatty acids consumption. The Committee is also expected to address the need for encouraging product reformulations by food manufacturers to reduce unhealthy fats in food products.

Additionally, researchers from the Agricultural Research Service are working with agricultural producers and the fats and oils industry to find alternative ingredients and develop oils such as canola and sunflower oils with higher levels of the fatty acids that may help reduce levels of low-density lipoproteins—or bad cholesterol—without reducing the high-density lipoproteins—or good cholesterol. Through Federal research and education efforts, these “heart-friendlier” oil products are expected to be utilized by the food industry, offering trans fatty acid-free products in the marketplace.

Question. Does USDA intend to provide specific guidelines and or regulations on the characteristics of healthy oils highlighting those oils that have low saturated fat and transfat profiles that can be used in most food manufacturing to improve overall health and nutrition of those foods?

Answer. The 2005 Dietary Guidelines Advisory Committee (DGAC) is in the process of evaluating the most recent scientific evidence on fatty acids and health and is preparing to make science-based recommendations specifically for saturated and trans fatty acids consumption. At its most recent public meeting held on March 30 and 31, 2004, members of the Committee discussed the possibility of setting intake goals for both types of these fatty acids and also discussed the implications these proposed recommendations would have for the general public. It is expected that the dietary fat recommendations will emphasize reduction in saturated fatty acids and trans fatty acids. The Committee is also expected to address healthy fats and provide intake recommendations on how consumers can incorporate “healthy” oils in their diets. The USDA will incorporate the recommendations from the DGAC into its education and communication efforts after completion of the DGAC report. The USDA will provide consumers with information on the most common sources for “healthy” oils to offer them healthy choices in selecting a balanced diet.

Question. Does USDA have this authority?

Answer. USDA has authority to provide consumers with information on the nutritional content of foods, including oils and common sources for “healthy” oils. USDA attempts to help consumers, producers and industry by offering information regarding healthy choices when selecting a balanced diet.

Question. How does USDA intend to incorporate the information it hopes to disseminate through the campaigns mentioned in Mr. Bost's testimony into USDA run food programs?

Answer. Nutrition promotion efforts such as the Eat Smart.Play Hard.TM campaign and Team Nutrition are designed specifically to be delivered through the Federal nutrition assistance programs. Materials are developed by the Food and Nutrition Service (FNS) and disseminated to State and local program partners through

the web and direct delivery. Program cooperators also order campaign materials through the Department of Commerce's National Technical Information Service (NTIS).

Most of the materials developed to date are designed for use in specific programs. Part of the requested \$2.5 million increase for cross-program nutrition activities will support development of nutrition promotion materials that can be integrated into more than one program, maximizing the impact of limited nutrition education funding.

FNS and the Center on Nutrition Policy and Promotion (CNPP) also work closely together to ensure that program-based nutrition education activities are fully consistent with the Dietary Guidelines for Americans and the food guidance system intended to deliver the Guidelines to the general population. These agencies confer directly, and participate together in the Dietary Guidance Working Group, which reviews nutrition education materials to ensure their consistency with Federal nutrition policy and guidance. When the new Guidelines and food guidance system are finalized, FNS will review all of its nutrition education interventions to ensure that they are consistent with the updated guidance, and make any needed changes.

SOYBEAN RUST

Question. In part due to a short U.S. soybean crop in 2003, the U.S. livestock industry is expected to import a larger amount of soybean meal this year than in the recent past. The usual source for U.S. soybean imports is Brazil, which experienced the arrival of Asian soybean rust a few years ago. Since Asian soybean rust has not yet arrived in the United States, it is important that we do everything we can to delay that arrival as long as possible.

When will APHIS make a decision about any additional quarantine steps for imported soybeans or soybean meal that it will impose, and will APHIS consult with the relevant stakeholder groups, such as the American Soybean Association and livestock groups, before making a final decision?

Answer. APHIS officials are looking closely at our country's importation of soybean seed, meal, and grain. Our analysis to date has shown that clean soybean seed and soybean meal—which is a heat-treated, processed product—is unlikely to pose any risk of introducing this disease. Historically, there has never been a documented instance of soybean rust spread through trade. Rather, it is spread naturally through airborne spore dispersal. We are currently conducting a risk assessment to study the viability of the pathogen. The preliminary results of the assessment indicate a very low risk, if any, of introducing this disease through imports. We posted our initial risk document on the APHIS' Web site and requested public comments. The comment period closed April 12, 2004.

We have been working very closely with the American Soybean Association and other stakeholders throughout our efforts to prevent and prepare for the introduction of soybean rust. Most recently, USDA officials participated in a soybean rust conference that was cooperatively organized by USDA, five pesticide companies, and the American Soybean Association. The primary goal of the conference was to disseminate to soybean farmers the knowledge, information, and techniques they will need to manage this pathogen when it reaches the continental United States. We are committed to continuing and expanding this outreach, including working with the livestock industry, in our efforts develop policies for preventing the human-assisted entry of the disease. We will ensure that any new regulations regarding soybean imports are based on the best available scientific information.

QUESTIONS SUBMITTED BY SENATOR HERB KOHL

COMBATING CHILDHOOD OBESITY

Question. Mr. Bost, both USDA and FDA have recently announced new efforts to combat the increasing problem of obesity. FDA announced the "Calories Count" program, and USDA has money in several programs, including WIC, to help battle this problem. However, for all of the government's efforts, all of the money being put into this effort pales in comparison to the food industry's billions of dollars worth of advertising.

How can the government successfully get its message out when, at first glance, its efforts appear to be dwarfed by the food industry? How do your agencies compete with that?

Answer. USDA has a strong partnership with the Department of Health and Human Services, including CDC and FDA, which helps ensure that the Federal investment to combat obesity is a collaborative effort with consistent messages to the

public. USDA plans to capitalize on the Federal infrastructure working with the vast network of State, county, and other local government agencies and groups to extend the reach of their messages and materials. USDA is participating in the creation of a new Food Guidance System which would be the cornerstone of other Federal nutrition assistance programs. USDA is also actively exploring options for partnerships and seeking opportunities to collaborate with other health organizations, advocacy and industry groups to help carry the Federal Government messages.

Question. Mr. Bost, the Senate report of the fiscal year 2004 Agriculture Appropriations bill encouraged the USDA to work with Share Our Strength and its Operation Frontline (as well as other innovative organizations) to improve eating habits and food budgeting skills of program participants. In view of growing concern about obesity and health, those objectives seem as valid as ever.

What progress can the Department report in response to this encouragement?

Answer. Share Our Strength SOS provided my office with a proposal for Operation Frontline to provide nutrition education to nutrition assistance program participants. I also met with Bill Shore, the Executive Director of SOS, to discuss it with him personally before it was sent to the Food and Nutrition Service for a more thorough review. In our discussion, I learned that the project shares many of the same goals as USDA's nutrition education efforts, and uses a model similar to that used by State agencies in providing nutrition education and promotion to Food Stamp recipients.

As you know, nearly all of the nutrition education funding provided to FNS must be used for grants to State agencies that operate the programs, often for specifically earmarked purposes. The Department's ability to provide direct funding for organizations such as SOS is thus highly constrained, and we were unable to offer a grant to support Operation Frontline in response to their proposal. However, I was pleased to learn more about their efforts, and value SOS as a non-profit sector partner in our shared effort to promote healthy eating and wise use of food resources among low-income people.

COMMODITY SUPPLEMENTAL FOOD PROGRAM FISCAL YEAR 2004 FUNDING

Question. The Commodity Supplemental Food Program was forced to cut nearly 30,000 participants in fiscal year 2004. The current budget flat lines program funding, but the carryover funding from the previous years is no longer available. It has been estimated that this will cause another 30,000 people taken off the rolls—all senior citizens.

How do you propose people at the state level, who actually carry out these programs, deal with a cut this deep?

Answer. About 29,500 fewer caseload slots were assigned in 2004 than in 2003. However, the caseload of 536,196 allocated in 2004 exceeds actual participation in any month to date, including the peak participation of 526,955 achieved in September 2003. Thus, the caseload available in 2004 covered actual nationwide program participation.

In reference to the President's fiscal year 2005 budget request, the \$98.335 million requested for the Commodity Supplemental Food Program (CSFP) equals Congress' fiscal year 2004 program appropriation, and is higher than the \$94.991 million requested in the budgets for fiscal years 2002 through 2004. However, variables beyond the Administration's control have yielded significantly fluctuating levels of total program resources over the same period. These variables are the amounts that Congress appropriates and cash carryover from the previous year, which is determined primarily by the extent to which States utilize their assigned caseloads. Even though the fiscal year 2005 budget request includes an increase over the prior year's request, the anticipated lack of cash carryover would result in a projected participation decrease of 60,700 nationally.

The Department will pursue all means to minimize the impact of straight-line funding for the program. We also wish to point out that we are implementing major initiatives, including more extensive and varied Food Stamp Program outreach efforts, which address the nutritional needs of the population served by the CSFP. People eligible for the program should also be eligible to receive benefits under the Emergency Food Assistance Program and the Nutrition Services Incentive Program now administered by the Department of Health and Human Services. The Food and Nutrition Service will work closely with State agencies to help affected individuals meet their nutritional needs through these other Federal nutrition assistance programs.

FOOD GUIDE PYRAMID

Question. Mr. Bost, you mentioned in your statement that the FNS is currently working on updating the food guide pyramid. I understand that you have received a significant number of comments so far on your efforts.

How many comments has FNS received on the proposed food guide pyramid?

Answer. Last September, a Notice was published in the Federal Register requesting comments from all stakeholders on the proposed technical revisions to the current Food Guide Pyramid. USDA is using an open and transparent process to revise the science base and communications elements for the current Food Guidance System, the Food Guide Pyramid. This process resulted in 255 response letters with 1,101 separate comments from a broad array of nutrition professionals, health organizations, academic faculty, food industry organizations and the general public. To continue this transparent process, we have made these comments available for anyone to view on our website at <http://www.usda.gov/cnpp/pyramid-update/index.html>.

Question. Do you believe you will be able to make the June deadline for publication?

Answer. The report to the Secretaries of Agriculture and Health and Human Services from the Dietary Guidelines Advisory Committee is expected to be finalized by June 30, 2004. The scientific advisory report will be published in electronic format on the USDA and HHS websites. The two Departments will then jointly review and publish the revised Dietary Guidelines, which is anticipated to be released in January 2005. The revised Food Guidance System is scheduled to be released approximately a month later, in February 2005.

LOW-CARBOHYDRATE DIETS

Question. How is USDA working to take into consideration the various low-carbohydrate diets that have become so popular in this country?

Answer. USDA continues to rely on consensus science from authoritative bodies and reports such as the report from the Dietary Guidelines Advisory Committee, the National Academy of Sciences, and USDA's food consumption surveys. USDA's Agricultural Research Service has six nutrition research centers that continually explore timely nutrition issues. As new weight-loss diet trends emerge, USDA works in collaboration with HHS as well as reputable organizations such as the American Dietetic Association and the Society for Nutrition Education, to plan communications strategies to help guide the American public to make healthy food choices.

Question. Is USDA, NIH or CDC doing any research on the safety and validity of these diets?

Answer. USDA's research is focused on energy balance and nutrient adequacy to effect long-term health. For optimal nutrient adequacy, the research continues to look at the nutrition requirements that ensure a healthy life, maximum vigor and well being and reduced risk of chronic disease, not to study the comparative effects of weight-loss diets. Where many new diet programs capture the interest of the public and come and go, nutritional requirements remain constant regardless of any particular diet. Much of our Federal research includes the role of carbohydrates, proteins, and fats and other nutrients play in a healthy diet.

NATIONAL ORGANIC STANDARDS BOARD

Question. Mr. Hawks, the Organic Foods Production Act is very clear that the NOSB should be able to hire their own Executive Director, and that that person should report to the NOSB directly. Is the job announcement published by USDA intended to meet the requirements of the statute in this regard?

Answer. AMS intends to meet the requirements of the Organic Foods Production Act (OFPA) which provides that the Board shall have a staff director.

The General Provisions of the Consolidated Appropriations Act, 2004, (Title VII) limit the Department's spending authority to "not more than \$1.8 million for all advisory committees within USDA. Of this total, AMS has been allotted \$90,000 for the National Organic Standards Board. This means that AMS can spend up to \$90,000 of the funds appropriated for Organic Standards on the expenses of the NOSB. The Organic Foods Production Act requires that Board members be reimbursed for their travel expenses, including per diem. AMS cannot transfer appropriated funds to the Board to hire its own staff, nor do we have the authority to hire or contract for an employee who is not responsible to AMS.

Consequently, AMS recently filled an Advisory Board Specialist position. All of the specialist's time is dedicated to NOSB support under the direction of the National Organic Program (NOP) Manager. A complete description of the Advisory Board Specialist's duties will be provided for the record.

The increased funding provided by Congress in fiscal year 2004 will enable the Department to hire additional staff which will further increase the program's quantity and timeliness of service.

[The information follows:]

Advisory Board Specialist Responsibilities:

- Bi-annual re-establishment of the NOSB Charter
- Development and publication of news releases and Federal Register notices seeking nominees for NOSB membership
- Preparation of nominations packages and supporting documents for NOSB appointments
- Development and publication of news releases and Federal Register notices alerting the public to NOSB meetings
- Arranging public meetings; travel, hotel and meeting accommodations, and contracting for Court Reporters and Audio Visual Equipment
- Arranging guest speakers at NOSB meetings
- Reimbursing NOSB members for travel expenses in accordance with Federal travel regulations
- Development, maintenance, and administration of an NOSB website
- Reporting on Board activities
- Arranging and participating in NOSB committee conference call meetings
- Developing and publishing rulemaking actions to implement NOSB recommendations
- Contracting with vendors for Technical Advisory Panel (TAP) review of petitioned materials
- Reviewing petitions for compliance with OFPA, its implementing regulations, and the petition procedures
- Communicating with petitioners and the TAP vendors
- Identifying program needs for which the NOSB can provide advice
- Reviewing the work of the NOSB for completeness, accuracy, and compliance with OFPA, its implementing regulations, and the requirements of other Federal entities
- Performing all activities required for compliance with FACA
- Representing USDA at all meetings of the NOSB and its committees

Question. I understand that AMS has contracted with the American National Standards Institute to review the National Organic Program. Will the ANSI effort be a one-time audit or ongoing oversight panel, which is what was envisioned by the statute and the organic community. If the ANSI effort is a one-time review, what steps, if any, are being taken to create an ongoing Peer Review Panel, to oversee the accreditation activities of the National Organic Program?

Answer. We are in the process of completing an initial peer review of the NOP and hope to complete that review later this fiscal year. After this review is completed, we will make the results public and invite members of industry and the Board to work with us to develop a process for ongoing Peer Reviews of the NOP.

Question. Could you please provide the Committee with a list of the policy recommendations made by the NOSB since passage of the final organic rule, and what action has been taken by the Department in response to those recommendations?

Answer. The information is submitted for the record.

NOSB NON-MATERIALS RECOMMENDATIONS SINCE MARCH 2000

NOSB Recommendations	AMS Response
June 2001: Recommended regulations pertaining to labels with principal display panel, ingredient deck and information panel all on a single labeling panel.	The recommendation is covered by existing standards. Should AMS determine that there are problems with application of the standards; AMS will engage in rule-making to clarify the requirements.
June 2001: Recommended Peer Review Panel procedures for review of accreditation program.	Review of AMS' accreditation program could not begin until after certifying agents were accredited. AMS has contracted with the American National Standards Institute for review of AMS' accreditation program. The review is underway.
June 2001: Recommended technical corrections to the final rule	AMS has acted on several of the recommended corrections and AMS is still working with the NOSB on others AMS will soon take action on the remainder.

NOSB NON-MATERIALS RECOMMENDATIONS SINCE MARCH 2000—Continued

NOSB Recommendations	AMS Response
September 2001: Recommended Apiculture Standards	The recommendation is covered by existing standards. Should AMS determine that there are problems with application of the standards; AMS will engage in rule-making to clarify the requirements.
September 2001: Recommended guidance for preservatives used in vaccines.	The recommendation did not need AMS action beyond acceptance and posting on the Web. The recommendation is posted on the Web. ¹
October 2001: Recommendations on Aquatic Animals	AMS accepted the recommendations. The recommendations are posted on the Web. ¹
October 2001: Recommendations on Pasture	The recommendation is covered by existing standards. Should AMS determine that there are problems with application of the standards; AMS will engage in rule-making to clarify the requirements.
October 2001: Recommendation, Principles of Organic Production and Handling.	The recommendation did not need AMS action beyond acceptance posting on the Web. The recommendation is posted on the Web. ¹
October 2001: Recommended procedures for amending the National List.	AMS follows the Federal Rulemaking procedures for amending regulations.
October 2001: Recommended Greenhouse Standards	The recommendation is covered by existing standards. Should AMS determine that there are problems with application of the standards; AMS will engage in rule-making to clarify the requirements.
October 2001: Recommended Mushroom Standards	The recommendation is covered by existing standards. Should AMS determine that there are problems with application of the standards; AMS will engage in rule-making to clarify the requirements.
October 2001: Recommended removing handlers from the \$5,000 exemption.	AMS has not accepted the recommendation because it would violate the Organic Foods Production Act.
October 2001: Recommended adding "certified" in front of "distributor" in 3 places.	AMS has not accepted the recommendation because distributors are not required to be certified.
May 2002: Recommended guidelines for determining whether a processing technology shall be reviewed by the NOSB.	The recommendation is posted on the Web. ¹ When AMS further defines what materials are subject to NOSB review, it may take further action on the technology recommendation.
May 2002: Recommended guidelines for US/EU equivalency	AMS has considered all points within this recommendation. USDA and USTR are in equivalency negotiations with the EU.
May 2002: Recommended that certifying agents use the Organic Farm Plan documents developed under an AMS cooperative agreement.	AMS fully supports the recommendation. The recommendation did not need AMS action beyond acceptance and posting on the Web. The recommendation is posted on the Web. ¹
May 2002: Recommended that certifying agents use the Organic Handling Plan documents developed under an AMS cooperative agreement.	AMS fully supports the recommendation. The recommendation did not need AMS action beyond acceptance and posting on the Web. The recommendation is posted on the Web. ¹
May 2002: Recommended clarification on "access to the outdoors" for poultry.	AMS accepted the recommendation and used it to develop an "access to the outdoors" policy statement for livestock which is posted on the Web. ¹

NOSB NON-MATERIALS RECOMMENDATIONS SINCE MARCH 2000—Continued

NOSB Recommendations	AMS Response
May 2002: Recommended a handling operation ingredient affidavit as guidance to handlers and certifying agents.	The recommendation did not need AMS action beyond acceptance and posting on the Web. The recommendation is posted on the Web. ¹
May 2002: Recommended clarification for section 205.606 relative to commercially available.	AMS is working with the NOSB on this issue. The NOSB is scheduled to provide a new recommendation on section 205.606 at its April 2004 meeting.
May 2002: Recommended clarification regarding planting stock for perennial crops grown as annual crops.	The recommendation did not need AMS action beyond acceptance and posting on the Web. The recommendation is posted on the Web. ¹
May 2002: Recommended guidance on transitional products	The recommendation is outside the National Organic Standards. AMS will take no action beyond posting the recommendation on the Web. ¹
May 2002: Recommended compost production methods beyond those specifically addressed in the NOP. The recommendation is intended as guidance.	AMS is working with the chair of the NOSB Compost Task Force on this issue. Specifically, AMS has requested scientific justification for the recommendations. AMS is concerned about the potential for human pathogens in the compost.
October 2002: Recommended regulation changes for origin of livestock; dairy animals.	The Organic Trade Association (OTA) filed its own recommendations relative to dairy animal replacement at the October 2002 NOSB meeting. The OTA and NOSB recommendations differ substantially. AMS is reviewing this issue.
May 2003: Approved a new recommendation on origin of dairy animals.	The Organic Trade Association (OTA) filed its own recommendations relative to dairy animal replacement at the October 2002 NOSB meeting. The OTA and NOSB recommendations differ substantially. AMS is reviewing this issue.
October 2002: Recommended criteria for certification of grower groups	AMS is reviewing this issue.
May 2003: Recommended publication of clarification management of breeder stock.	AMS is reviewing this issue.
May 2003: Recommended regulation change on chlorine contacting organic food.	AMS is working on a rulemaking docket that will address this recommendation.

¹ Website: <http://www.ams.usda.gov/nop/indexE.htm>.

BEAVER CONTROL

Question. How does APHIS/Wildlife Services plan to uphold their cooperative responsibility with the Wisconsin Department of Natural Resources to provide beaver damage management activities that are being requested of them to restore trout streams that have been damaged by beavers?

Answer. APHIS/Wildlife Services (WS) cooperates with the Wisconsin Department of Natural Resources (WDNR) to conduct beaver damage management on high quality trout streams in Wisconsin. Beaver dam building activities can greatly alter the natural flow of a trout stream, destroying its ability to support trout. Beaver dams and the impoundments they create cause decreased water flow, water warming, and increased siltation. They also pose a barrier to trout, interfering with spawning. One component of the WS trout habitat protection program is to maintain select trout streams in free flowing, natural condition in order to improve or restore trout habitat and protect habitat improvement structures. The fiscal year 2005 budget will continue to fund these programs at current levels.

Question. Beaver damage to roads, bridges, crops, forests and property are also increasing in Wisconsin resulting in an increasing number of requests to Wildlife Services for assistance. The State of Wisconsin, some counties and some townships

provide cooperative funding to Wildlife Services for their assistance with beaver damage problems.

How does Wildlife Services plan to fulfill their cooperative responsibilities in responding to Wisconsin citizens' requests for beaver damage assistance?

Answer. APHIS/Wildlife Services (WS) cooperates with a number of northern Wisconsin county highway and forestry departments, and numerous local township road departments, to provide beaver damage management services for the protection of roads and road structures, and forestry resources. The fiscal year 2005 budget will continue to fund these programs at current levels.

BOVINE SPONGIFORM ENCEPHALOPATHY RECALL

Question. Dr. Murano, during the BSE scare, USDA announced that approximately 38,000 pounds of beef were recalled, after originally stating that the recall was only 10,400 pounds. Over the course of the following few weeks, we read stories about consumers who feared that they ate the contaminated meat because they were never informed that they purchased a part of the recalled amount, because proprietary information, including sales and distribution records, is kept secret during a voluntary recall. Further, there was a 3 week delay between the time the recall was announced and the time retailers found out about it.

How much of the recalled beef was actually found?

Answer. FSIS field personnel worked cooperatively with other Federal and State partners to conduct recall effectiveness checks on 100 percent of the establishments that sold or distributed the product associated with the recall. FSIS is confident that the product was quickly removed from the marketplace. FSIS determined that the recalling firm and its customers made extensive efforts to retrieve and dispose of the recalled product.

FSIS announced the recall at 1:00 a.m. on December 24, 2003. Less than 18 hours later, over 325 locations—primarily grocery stores—had received notifications from their suppliers.

On February 9, 2004, FSIS issued an update to the recall stating that approximately 21,000 pounds of product had been returned. This estimate was developed in late January 2004 using information from the FSIS investigation, including recall effectiveness checks.

Question. How long did it take between the time USDA announced the recall and the time individual grocery stores found out they had part of the contaminated beef? Was the responsibility on the grocers to find out for themselves, or were they all informed by either their state governments or USDA?

Answer. FSIS announced the recall at 1:00 a.m. on December 24, 2003. FSIS issued a press release that was distributed nationally. Simultaneously, its recall management division began collecting distribution information from the establishments that slaughtered and processed meat from the affected animal. Less than 18 hours later, over 325 locations—primarily grocery stores—had received notifications from their suppliers. It is the responsibility of the recalling company to notify its customers, including grocers, that they had received recalled product. FSIS then conducted effectiveness checks on the recall to confirm that the responsibilities of the recalling firm were met.

Question. If USDA had the authority to initiate mandatory recalls, do you think consumers would have found out more quickly? Why or why not?

Answer. No establishment has refused to comply with a recall requested by FSIS. Should they refuse, then FSIS has the legal authority to detain and/or seize meat, poultry and egg products in commerce. The current recall process is the quickest way to determine where the affected product has been distributed because companies are familiar with who their customers are and can notify them much more quickly than the Federal Government could. Public health would not likely be enhanced by the addition of mandatory recall authority because the Agency already has the means to remove product quickly from commerce.

Question. After all of the dust has settled, is USDA looking again at its policy of not wanting the authority for mandatory recalls?

Answer. Through effectiveness checks, public meetings and other means, FSIS is constantly reviewing and looking for ways to improve the recall process. In December 2002, FSIS held a public meeting to discuss improving the process for recalls of meat, poultry and egg products and to gather useful input on related topics. FSIS expects to issue a revised recall directive in fiscal year 2004 taking into account the comments it received at the public meeting. The directive will discuss how public notification of recalls is to take place and will provide information on the new risk-based system the agency will use for determining the scope of effectiveness checks.

SOUND SCIENCE

Question. Dr. Murano, in your testimony you stated that there was a significant drop in E.coli 157:H7 between 2002 and 2003, and credited this drop to reassessment of plants' HACCP plans and increased audits.

Were the same plants that were sampled in 2002 sampled in 2003? If not, how can you make a comparison between the two years? Unless the exact same plants were sampled, how can you be statistically certain that the plants sampled in 2002, but not sampled in 2003 have shown any improvement?

Answer. There are valid methods for analyzing a time series of data even though, as in this dataset, there are changes in the establishments being sampled from year to year. The analysis conducted by FSIS compares over 6,000 scheduled samples of ground beef production from fiscal year 2002 with over 6,000 samples of ground beef production from fiscal year 2003 and tests whether the populations are the same from year to year with respect to the presence of E. coli O157:H7. Statistical analysis was done using the Chi-square test to show the association between positive E. coli O157:H7 samples and laboratory method, season and year. A Poisson regression model was used to demonstrate the significant decline in percent positive samples from 2002 to 2003, after controlling for season and laboratory method. The conclusion is that the reduction in E. coli O157:H7 in raw ground beef from fiscal year 2002 to fiscal year 2003 was statistically significant.

On April 29, 2004, the Centers for Disease Control and Prevention, in its annual report on the incidence of infections from foodborne pathogens, noted a decline of 42 percent of illness caused by E.coli O157:H7 from 1996 to 2003. Most significantly, between 2002 and 2003, illnesses caused by E.coli O157:H7, typically associated with ground beef, dropped by 36 percent.

Question. Further, I have been informed that of the 58,000 samples collected for Salmonella in 2002, nearly 40,000 were collected from beef products, which have a lower rate of Salmonella than poultry products. It would appear that due to the high percentage of beef products sampled relative to other products, FSIS would be more likely to find a lower rate of positive Salmonella samples than if the percentages were weighted for equal comparison. Can you comment on this?

Answer. The agency has seven Salmonella performance standards for classes of raw product, and the highest number of samples is for raw ground beef because more establishments are subject to this standard than other standards.

On April 29, 2004, the Centers for Disease Control and Prevention, in its annual report on the incidence of infections from foodborne pathogens, noted that from 1996 to 2003, illnesses caused by Salmonella decreased 17 percent and Salmonella Typhimurium (typically associated with meat and poultry) decreased 38 percent.

Question. You mention the new need for new baseline studies in your statement. In fiscal year 2004 FSIS received funding for these activities.

What will you do, or are you currently doing, to ensure that these studies do not have some of the same problems as the previous studies, as outlined by the National Academy of Science? Will FSIS be using any of its fiscal year 2005 funding to continue conducting new baseline studies?

Answer. For the current baseline project, using the funds provided for fiscal year 2004, the agency developed a study protocol that was reviewed by the National Advisory Committee on Microbiological Criteria for Foods (NACMCF). FSIS modified the current plans based on NACMCF recommendations and will continue to seek comments from the National Advisory Committee on Microbiological Criteria for Foods on future baseline projects.

FSIS considers the fiscal year 2004 \$1.65 million baseline initiative to be an addition to its base program and will continue to review funding needs for fiscal year 2005.

INSPECTOR TRAVEL

Question. Dr. Murano, it has been suggested that FSIS inspection personnel would benefit greatly from exposure and visits to slaughter facilities in different parts of the country, in order to compare differing methods of animal handling and slaughter practices to help them better enforce HMSA.

Would you consider making changes to your travel policy to provide an employee per diem for time spent visiting slaughter facilities, if done as part of an unrelated personal or business trip?

Answer. USDA is committed to strong enforcement of the HMSA. FSIS continually assesses its HMSA oversight and enforcement, primarily through the activities of the District Veterinary Medical Specialists (DVMSs). As methods are available to improve our HMSA efforts, the DVMSs develop strategies for incorporating them into the overall roles and responsibilities of the agency. Currently, DVMSs have au-

thority and opportunity to travel across district boundaries for humane activities when necessary.

SAUSAGE CASINGS

Question. Dr. Murano, this question involves a very specific issue related to food safety and sausage production in this time of concern about BSE. FSIS interim final regulations issued January 12 identify the distal ileum section of beef cattle small intestine as Specified Risk Material (SRM) in U.S. animals. In practice FSIS requires that the entire small intestine be removed and disposed of as inedible—presumably to ensure that the distal ileum is removed—even though I am told that the distal ileum can be definitively identified and removed without destroying the entire small intestine. This situation has the potential to cause harm to that segment of the sausage industry that relies on beef rounds as casing for their products.

Is there a way to ensure that the distal ileum SRM is completely removed, while still ensuring the safety and availability of beef rounds used as sausage casings?

Answer. FSIS is aware of the various methods for ensuring that the distal ileum is properly removed. FSIS specifically asked for comment in a Federal Register notice (January 12, 2004, Docket #03-0251F) on this issue and will be analyzing the comments. Meanwhile, FSIS also is aware that more than the distal ileum of the small intestine may demonstrate infectivity based on preliminary studies from the United Kingdom. FSIS is interested in gaining more information about this new development as FSIS analyzes the comments.

Question. I am told that current inventories for sausage casings could be exhausted within 2 months. Is it possible to provide further regulatory refinements to address this issue within that time frame?

Answer. Casings made from the small intestine of cattle slaughtered after January 12, 2004, are not currently allowed for human consumption. FSIS is aware of the demand for sausage casings made from the small intestine of cattle. However, in the interest of public health, FSIS will be analyzing the comments received on the interim final rule published on January 12, 2004, and further considering the potential ramifications of new findings that additional sections of the small intestine may demonstrate infectivity. FSIS will not change the restriction on the use of the small intestine in human food until after review of comments received.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

FOOD AND DRUG ADMINISTRATION

STATEMENT OF LESTER M. CRAWFORD, D.V.M., Ph.D., ACTING COMMISSIONER

Senator BENNETT. Dr. Crawford, we welcome you. I think this is your first time in this particular assignment and we look forward to hearing from you.

Mr. CRAWFORD. Thank you, Mr. Chairman and Senator Kohl. It is a pleasure for me to be here with my colleagues from USDA.

I want to thank you for the opportunity to discuss the Administration's fiscal year 2005 budget for the Food and Drug Administration.

As we approach our 100th birthday in 2006, our mission of promoting and protecting the public health has never been more vital. Likewise, the challenges and opportunities we face have never been greater.

This committee's generous support of FDA's mission over the past few years testifies to your recognition of the essential role our agency plays in the well being of all Americans.

The President's budget for proposal for fiscal year 2005 asks you to continue that support. It seeks \$1.85 billion, \$1.5 billion in budget authority and \$350 million in user fees.

The budget authority increases total \$138.9 and savings from administrative efficiencies and deferred facilities repairs and improvements of \$30.1 million for a net increase of \$108.8 million.

The President's budget request also asks you to build on your past support by increasing FDA funding in several priority areas. For Food Defense and Counterterrorism, we are seeking an increase of \$65 million. Working with the White House Homeland Security Council, FDA and USDA have created a Joint Food Defense Budget that will strengthen our ability to protect the Nation's food and agriculture supply from threats whether deliberate or accidental.

\$35 million is requested to establish a national laboratory network to test food samples. \$15 million is requested for research to protect the food supply by such measures as better and faster tests to detect toxic agents in food. \$7 million to increase FDA's food import examinations to nearly 100,000, six times the number we did in 2001. \$3 million to increase our crisis management capabilities and \$5 million to support the Administration's biosurveillance initiative.

For BSE, or mad cow disease, we are requesting an increase of \$8.3 million.

Mr. Chairman, FDA is proud, and I think justifiably so, that we were able to trace and control all of the meat and bone meal associated with the BSE-infected cow discovered late last year in the Pacific Northwest. All of the rendering facilities we inspected as part of this one BSE case were in full compliance with our rules designed to create firewalls against BSE in this country. Nevertheless, we can and should do more.

We have already announced several measures to make those firewalls even stronger. With this increased funding, which if you approve it would bring our total BSE resources to \$30 million, we will do three things. We will increase our State-funded BSE inspections by 2,500, we will add more than 900 risk-based BSE inspections and 600 targeted animal feed inspections, and we will conduct a total of 10,000 BSE inspections, 52 percent more than planned for the current year.

For our Medical Device Program, we are asking for an increase of \$25 million. We are committed to ensuring that the Medical Device User Fee and Modernization Act is implemented in a manner that meets its performance goals and that ensure the strongest and most effective medical device review program possible under the law with available resources. We need this increase to meet the appropriations triggers required for the Agency to collect medical device user fees. With these resources, FDA will meet all of the performance goals by fiscal year 2008.

For the Center for Drug Evaluation and Research move to White Oak in Maryland, we are requesting an increase of \$20.6 million in new budgetary authority and \$10 million in user fees. We will use these resources to relocate the 1,700 review staff in the Center for Drug Evaluation and Research to the White Oak Campus.

For medical countermeasures, we seek an increase of \$5 million. We are seeking this amount to bolster FDA's ability to help companies develop new medical countermeasures against terrorist attacks and to review those products quickly. FDA will use this increase to expedite the review of new drug applications, biologics license applications, generic drugs and over-the-counter medical product countermeasures.

For the pay increase we request an increase of \$14.4 million. Fully 60 percent of our budget pays the salaries of FDA's dedicated expert employees. I need not emphasize here how important this money is for our ability to carry out our public health mission.

For administrative efficiencies, this budget request includes a reduction of \$30 million. These funds will be used to partially fund the high priority initiatives I just mentioned as well as to support the goals of the President's Management Agenda.

Mr. Chairman, by focusing on the President's highest priorities for FDA, in some respects I have only scratched the surface of all that we do every day to protect the health of Americans.

An additional agency priority of particular interest to the Subcommittee, is lowering the rate of obesity, one of the most serious public health issues facing America today. We have just finished an FDA obesity working group which prescribes a number of recommendations and public input to reforming the food label to make it more amenable to the control of obesity, and also for demystifying some of the myths that now occur with respect to our food supply, not the least of which is confusion about carbohydrates and various classifications of carbohydrates.

PREPARED STATEMENT

I can list other additional program priorities, but in the interest of time I will submit my statement for the record and I appreciate very much the time accorded me.

Thank you.

[The statement follows:]

PREPARED STATEMENT OF LESTER M. CRAWFORD

Introduction

Good morning. Mr. Chairman and distinguished members of the Subcommittee, I'm pleased to have the opportunity to speak with you today and present to you the Food and Drug Administration's fiscal year 2005 budget request. I am Dr. Lester M. Crawford, DVM, Ph.D. Acting Commissioner, Food and Drug Administration.

The FDA is responsible for protecting the public health by assuring the safety, efficacy, and security of human and veterinary drugs, biological products, medical devices, our Nation's food supply, cosmetics, and products that emit radiation. The FDA is also responsible for advancing the public health by helping to speed innovations that make medicines and foods more effective, safer, and more affordable; and helping the public get the accurate, science-based information they need to use medicines and foods to improve their health.

I'd like to begin by conveying my appreciation to the Subcommittee members and their staffs for providing FDA with several key increases in the fiscal year 2004 appropriation such as those funds for generic drugs, food defense, and medical device review. In a moment, I will elaborate on how we have spent or plan to spend those funds in the current year. I can assure you that funds appropriated in the current year and additional increases appropriated in fiscal year 2005 will continue to be spent wisely. The American people would be impressed if they really knew how much bang for their buck they get out of FDA.

I am fully aware of the difficult funding decisions all of you must face in the current session, but I want to remind you that marginal investments in FDA's programs can have such a positive ripple effect across all of your constituencies—from the consumer to the farmer to the manufacturer and beyond. FDA is working diligently to reduce administrative and IT costs in fiscal year 2004 and 2005. In fiscal year 2004, we offered \$57 million in IT and administrative savings and we have again proposed another \$23 million in administrative savings in fiscal year 2005, which we are realizing through efficient administrative resource management. We will continue to seek administrative resource savings in order to support our critical mission requirements.

Executive Summary

FDA makes substantial and meaningful differences in the lives of over 290 million Americans. I am extremely thankful for the professional dedication, creativity, and expertise of our staff. Through a combination of dedicated and skilled staff, new authorities of recently passed legislation, and the resources this Subcommittee provides us to carry out our mission, we will be in a better position to meet our challenges than ever before.

The Administration and Congress have an obligation to the American public to ensure that adequate and properly targeted resources are available for the continued success of the Agency and the success of the Federal Government's efforts to promote quality health care. The importance and complexity of FDA's work will only increase in the years to come as FDA continues to carry out its primary mission of protecting and promoting the public health. This means that while more medical products and therapies will be available to save and improve lives, FDA also must think critically and carefully about how it uses its resources to improve the public wellbeing. In guiding us through our new Strategic Action Plan that attempts to balance demands with limited resources, we will constantly follow the practice of "efficient risk management."

FDA's Strategic Plan

On August 20, 2003, FDA released a 5-Part Strategic Action Plan entitled "Protecting and Advancing America's Health: A Strategic Action Plan for the 21st Century." This is a dynamic and evolving document that outlines how the Agency is taking new steps to protect and advance America's public health. In response to various public health threats, the Agency developed a core set of consumer-focused goals that includes the following: helping consumers get truthful and non-misleading information about FDA regulated products; promoting quick access to new medical technologies that are safe and effective; improving patient and consumer safety; responding to the new challenges of bioterrorism and food defense, and building a stronger, science-based FDA. These goals were developed and refined in conjunction with a number of key healthcare stakeholders, and were based on important feedback from the consumer and patient communities. These are among the many critical challenges the Agency faces as it moves forward into the 21st century. I will first discuss these challenges and progress within our strategic planning effort, and then will discuss the specifics of FDA's 2005 budget request.

Efficient, Science-Based Risk Management

In fiscal year 2005, FDA will be charged with regulating over 150,000 drugs and devices, overseeing the development of almost 3,000 investigational new drugs, monitoring 125,000 domestic product establishments including over 10,000 firms involved in the animal drugs and feed process, reviewing and acting upon an estimated 13 million import line entries, and the list goes on and on. On top of this workload, we cover the full life cycle of nearly all food and medical products, and also interact on a daily basis with all facets of Federal and State governments, consumers, public and private institutions, and foreign entities. Our proposed budget includes the equivalent of 10,844 full-time employees, including reimbursables. The numbers speak for themselves and they explain why we must practice efficient, science based risk management in fulfilling our increasingly complex mission.

FDA's approach entails the use of the best scientific data, the development of quality standards, and the use of efficient systems and practices that provide clear and consistent decisions and communications to the American public and the regulated industries. This is achieved by employing principles and technologies that can reduce avoidable delays and cost in product approvals, overhauling and updating the way medical products are manufactured, implementing more effective strategies for food imports and food safety, and by implementing an enforcement strategy that combines clear communications to industry backed up by effective civil and criminal enforcement, FDA will achieve quicker access to safe and effective new products, and reduce public health risks without unnecessary costs. Over the past year, our work resulted in a wealth of success stories related to enforcement, new medical product development, imports and the safety of our food supply.

Our science based enforcement strategy is one based on clarity, science, leveraging resources with our enforcement partners in Justice, Homeland Security, and the states, and most importantly, deterrence. In fiscal year 2003, our efforts led to 341 arrests, 199 convictions, fines and restitutions of more than \$800 million submitted to the U.S. Treasury (including a multimillion dollar settlement for health care fraud), 17 injunctions of firms/individuals, nearly 400 criminal cases opened, 25 seizures of violative products, and more than 500 Warning Letters. Additionally, we took action against drug counterfeiters, unscrupulous parties in the dietary supple-

ment industry, and those who spread misinformation or commit fraud via false labeling and advertising. We remain vigilant when necessary but hold the belief that our regulations and the enforcement of the regulations should be no more burdensome than necessary. In addition, FDA remains concerned about the public health implications of unapproved prescription drugs from entities seeking to profit by getting around U.S. legal standards for drug safety and effectiveness. Many drugs obtained from foreign sources that either purport to be or appear to be the same as U.S.-approved prescription drugs are, in fact, of unknown quality. Consumers are exposed to a number of potential risks when they purchase drugs from foreign sources or from sources that are not operated by pharmacies properly licensed under state pharmacy laws. Although some purchasers of drugs from foreign sources may receive genuine product, others may unknowingly buy counterfeit copies that contain only inert ingredients, legitimate drugs that are outdated and have been diverted to unscrupulous resellers, or dangerous sub-potent or super-potent products that were improperly manufactured. The Agency has responded to the challenge of importation by employing a risk-based enforcement strategy to target our existing enforcement resources effectively in the face of multiple priorities, including homeland security, food safety and counterfeit drugs. However, the number of incoming packages, as it works today, already overwhelms the system, and this presents a significant ongoing challenge for the Agency. The Agency understands Congress' desire to address importation of drugs and appreciates their understanding of FDA's responsibility to uphold the current law.

New drug development is an extremely costly process. Today, we see cases where the cost of developing a novel drug may reach \$800 million and take a decade to get from discovery to the marketplace. According to a Tufts University study, only 21.5 percent of new drugs successfully pass through the clinical phase and gain FDA approval. FDA must foster and encourage new product development by ensuring that its review and approval processes are efficient, transparent, consistent, and predictable. We need to ensure that biomedical innovation leads to the quick development of safe and effective medical products. As recently discussed in our report entitled "Innovation or Stagnation?—Challenge and Opportunity on the Critical Path to New Medical Products," FDA, together with academia, patient groups, industry, and other government agencies, must embark on an aggressive, collaborative research effort to create a new generation of performance standards and predictive tools that will provide better answers about the safety and effectiveness of investigational products, faster and with more certainty. This action promises not only to bring medical breakthroughs to patients more quickly, but to do so in ways that ensure greater understanding about how to maximize patient benefits and minimize their risks. This can be accomplished by developing quality systems for the Agency's review procedures, developing guidances in new areas of technology development, and continuing encouragement of quality improvement in the manufacturing sector.

We want to build on the past success of industry-supported programs such as the drug review process, which is funded by a combination of appropriated dollars and user fees defined by the Prescription Drug User Fee Act that will allow FDA to collect up to \$284 million in fiscal year 2005. This program's support helped bring median approval times for standard new drug applications from 26.9 months in 1993 to 15.4 months in 2003. Increased funding for the past several years in the generic drugs program has allowed median approval times to drop from 39.7 months in 1993 to 17.3 in 2003, and an estimated time under 17 months with the fiscal year 2004 appropriation. We plan on this kind of support translating into similar success for the medical device review program with the help of budget authority and user fee dollars in fiscal year 2004 and beyond. Increased funding in fiscal year 2005 will allow the Agency to expedite the speed and quality of the medical device review process.

In the past year, highlights of our medical product review process include:

- in total, approved 483 new and generic drugs and biological products, including 21 New Molecular Entities with active ingredients never before marketed in the United States;
 - approved 85 new drug applications;
 - approved 373 generic drug applications;
 - approved 25 biologic license applications;
- generic approvals included drugs for the treatment of hypertension and heart failure, the treatment and prevention of Cytomegalovirus Retinitis in AIDS and transplant patients; a treatment for major depressive disorder; and another for impetigo, an infection of the skin;
- accelerated approvals of a drug used for the treatment of pediatric patients with a type of myeloid leukemia—a rare, life-threatening form of cancer that ac-

- counts for approximately 2 percent of all leukemias in children, and another for use in combination therapy for chronic Hepatitis C;
- over-the-counter drug approvals including Claritin for allergies and Prilosec for frequent heartburn;
- device approvals included the first drug-eluting stent for angioplasty procedures to open clogged coronary arteries, clearance of the first device for diabetics which integrates a glucose meter and an insulin pump with a dose calculator into one device, and an innovative rapid HIV diagnostic test kit that provides results with 99.6 percent accuracy in as little as 20 minutes.

Lastly, FDA continues to pursue the most cost effective allocation of resources to identify food safety hazards and reduce injury and illness associated with food products. In 2003, building on an HHS strategic goal, FDA implemented new food security regulations that amount to the most substantial expansion of FDA's food safety activities in three decades. The Agency also instituted various new risk communications to improve upon more routine food safety for consumers. Additionally, the Agency continues to practice a cost effective allocation of resources through the targeting of field resources to imports that present the most significant risk. With no sign of import entries decreasing, FDA will intensify these efforts by implementing preventative food safety measures through collaborative arrangements with domestic and foreign governmental bodies.

Patient and Consumer Safety

As beneficiaries of the world's premiere health care system, Americans should not have to endure preventable medical errors and adverse events related to medical products, dietary supplements, and foods that are responsible for thousands of deaths, millions of hospitalizations, and tens of billions in added health care costs. Americans deserve better than settling for serious health consequences that can't be spotted until many years after a product has been on the market. And Americans and their physicians deserve better than having to rely on limited and often outdated information about risks, benefits, and costs of medical treatments when they are making medical decisions—which, these days, are among the costliest and most important decisions in their lives. So we are taking new steps to make our systems and processes for assuring the safety of food and medical products work better than ever, and to build new ways to assure better patient safety by taking advantage of modern information technology tools. We are thankful for the appropriated increases for patient, medical product safety and our various adverse event systems in the food and medical product centers that we have received in past years.

Preventing medical errors is a top priority at the Department of Health and Human Services and at FDA, and over the past year, FDA has introduced a number of solutions that are enabling a more sophisticated and effective 21st century patient safety system, thus helping lower healthcare costs and ensure longer, healthier lives for Americans. As a result of these new strategic initiatives, more programs are now in place to improve consumer safety than at any time in the Agency's history. In fiscal year 2003, FDA issued a new proposed requirement for bar codes on nearly all prescription drugs and some over-the-counter drugs, as well as machine-readable information on blood and blood components intended for transfusion, that will result in an estimated 413,000 fewer adverse events over the next 20 years. FDA has initiated partnerships that will allow use of external medical databases to investigate specific product safety issues. We continue to encourage the development of "active" reporting systems that use fast, easy web-based reports and systems to get more extensive and timely information on new drugs, important complications, and adverse events that are not well understood. In fiscal year 2003, we also proposed new safety standards to further reduce the incidence of adverse events, such as proposed amendments to radiation-safety standards for diagnostic x-ray equipment and new antibiotic labeling to prevent drug-resistant bacterial strains.

Through enhanced testing and other improvements in blood safety, the risk of transmission of viruses such as HIV, hepatitis B and C has been dramatically reduced. While a blood supply with zero risk of transmitting infectious disease may not be possible, the blood supply is safer than it has ever been. The agency's Center for Biologics Evaluation and Research, worked closely with other FDA Centers, the Center for Disease Control and Prevention, the National Institutes of Health, academic scientists, and the blood and diagnostic industries, in an unprecedented team effort that resulted in the development and implementation of investigational blood donor screening for West Nile Virus within 8 months of when the threat was first recognized. As a result, over 1,000 units of potentially WNV infected blood were identified and removed this past year before they could be transfused.

Lastly, the Agency's Center for Food Safety and Applied Nutrition launched the CFSAN Adverse Event Reporting System covering all food, dietary supplement, and

cosmetic products. Consumers submitted and FDA reviewed more than 6,000 adverse events and consumer complaints in an attempt to ensure consumers are alerted quickly to any potential new dangers. Recently, the CFSAN Adverse Event Reporting System provided information on the dangers of ephedra, which has been banned by FDA.

Better Informed Consumers So many of our stakeholders focus their attention on our mission to protect public health, and ensure the safety of the food supply and the safety and effectiveness of medical products or therapies. However, at the beginning of my testimony I restated FDA's mission which includes mention of our duty to promote public health and "[help] the public get the accurate, science-based information they need to use medicines and foods to improve their health." The public entrusts our subject matter experts and public affairs specialists in Congressional districts across the country at the state and local level to provide consumers with the tools they need to make better-informed choices. These choices range from diet to medical practice recommendations to disease management on the part of the individual. Our role as an educator or informer of the public will become evermore important as patients make more independent decisions about their health and medical care. We must continue to assist the public in how to use their health care dollars as we have done with our generic drug campaigns, and at times protect them from misleading information that could endanger the public's health.

Providing information on diabetes care and prevention is a top priority of FDA and the Administration. In recent years, diabetes rates among people ages 30 to 39 rose by 70 percent. Research shows that good nutrition lowers people's risk for many chronic diseases, including obesity, heart disease, stroke, some types of cancer, diabetes, and osteoporosis. For at least 10 million Americans at risk for type 2 diabetes, proper nutrition along with physical activity can sharply lower their chances of getting the disease.

FDA is also attempting to enhance the consumer understanding of the relationship between diet/obesity and chronic disease. A recently released report by FDA's Obesity Working Group includes recommendations to strengthen food labeling, to educate consumers about maintaining a healthy diet and weight and to encourage restaurants to provide calorie and nutrition information. It also recommends increasing enforcement to ensure food labels accurately portray serving size, revising and reissuing guidance on developing obesity drugs and strengthening coordinated scientific research to reduce obesity and to develop foods that are healthier and low in calories. This effort is important, as a new study from Centers for Disease Control and Prevention (CDC) shows poor diet and inactivity are poised to become the leading preventable cause of death among Americans—causing an estimated 400,000 deaths in 2000. CDC estimates that 64 percent of all Americans are overweight, including more than 30 percent who are considered obese. In addition, about 15 percent of children and adolescents, aged 6 to 19, are overweight—almost double the rate of two decades ago. FDA must promote good nutrition by allowing consumers access to credible, science-based information, and fostering competition based on the real nutritional value of foods rather than on portion size or spurious and unreliable claims. Such labeling can promote better public health by empowering consumers to make smart, healthy choices about the foods that they buy and consume. This is a high priority for the Administration to ensure that health claims are supported by scientific information. President Bush continues to emphasize the improvement of health through better diets and lifestyles.

FDA is undertaking major new efforts to ensure consumers have the most up-to-date, truthful information on the benefits and risks of FDA regulated products. In this arena, FDA fulfills two complementary roles: ensuring that the information sponsors provide about products is accurate and allows for their safe use; and, communicating directly with the public concerning benefits and risks of products FDA regulates.

FDA's strategic plan calls for the Agency to learn how to more effectively communicate the risks and benefits of FDA regulated products to consumers, as well as those in the health and medical professions. The goal is a well-informed public, empowered to make better choices to improve their health. Just this past year, FDA has been involved in a number of consumer education campaigns related to the prudent use of antibiotics, the misuse of pain relievers, the parity between generic and name brand drugs, buying medicines and medical products online, and several other campaigns aimed at addressing a number of areas where the consumer needs to minimize the risks and maximize the benefits of medicine use. FDA also teamed up with women's health organizations to raise awareness about hormone replacement therapy (HRT). The previous year, we conducted a similar campaign to raise awareness about diabetes. We spread the word widely about these efforts and we almost

always try to provide these messages in Spanish to reach as much of the public as possible.

Counterterrorism

FDA is improving its capability to assess and respond effectively to its mission of protecting the security of the Nation's food supply, and ensuring the safety and effectiveness of medical products used to prepare and respond to biological, chemical, or radiological attacks. As Secretary Thompson reported in the July 2003 report entitled, "Ensuring the Safety and Security of the Nation's Food Supply," the Agency is working with other government agencies and the private sector to develop and implement a comprehensive strategy to protect the food supply from attack. These include additional staff for food safety field activities, greater import presence at our Nation's borders, threat assessments, and additional money for food security research. FDA's medical product centers are also working harder and more creatively than ever to speed the availability of the next generation of safer, more effective countermeasures to protect Americans against biological, chemical, nuclear, and radiological agents of terrorism.

In fiscal year 2003, FDA implemented a number of fundamental enhancements on both the food defense and medical countermeasures fronts, in meeting the objectives of this strategic goal. In direct response to this heightened threat, and in conjunction with the Department of Health and Human Service's larger counterterrorism initiatives, FDA has implemented new steps in food defense that represent the most fundamental enhancements in the Agency's food safety activities in many years. FDA's implementation of four new food security regulations prompted by the Public Health Security and Bioterrorism Preparedness and Response Act of 2002 (Bioterrorism Act), will be fundamental and long lasting. Two additional regulations are expected to be finalized in the near future. The Bioterrorism Act gave the Agency some potentially effective tools in identifying, preparing for or responding to terrorist attacks on the food supply. The design and implementation of these four regulations has also spawned a closer working relationship with the U.S. Customs and Border Protection Agency (CBP). Our close relationship led to a recent Memorandum of Understanding (MOU) between FDA and CBP in December 2003 that allows FDA to commission thousands of CBP officers to conduct, on FDA's behalf, investigations and examinations of imported foods in accordance with the prior notice requirements. This cooperative arrangement with FDA's sister enforcement agency was in addition to a more than six-fold increase in the number of field examinations of imported foods from fiscal year 2001 to fiscal year 2003 (78,000) conducted by FDA inspectors and our state partners. Much more needs to be done in this area as we note in our Congressional budget request for an increase of \$65 million.

Protecting consumers against terrorism also requires that Americans have access to safe and effective medical countermeasures. This year, FDA has worked closely with scientists and product developers and has taken new steps to speed the development of these safe, effective treatments and preventive vaccines. FDA works closely with NIH, CDC, DHHS, DOD and industry to develop new and improved treatments and vaccines to counter smallpox, anthrax, and other potential emerging biowarfare and public health threats.

FDA has had to become more proactive in identifying possible products for approval for medical countermeasures due to the fact that no known group of patients are currently affected by many of the conditions linked to biological, chemical, or radiological agents. So, in fiscal year 2003, the Agency issued new guidance on the development of Radiogardase ("Prussian Blue") for treatment of internal contamination with thallium or radioactive cesium. Several months later, a firm submitted an application and FDA approved Radiogardase to treat people exposed to radiation contamination from harmful levels of cesium-137 or thallium after identifying existing safety and efficacy data. FDA has worked with other government agencies to facilitate the development of counter-terrorism products, such as vaccines and immune globulins against anthrax, smallpox, and botulism, by resolving regulatory issues and developing assays for potency testing. FDA also took various steps to make sure that manufacturers of medical countermeasures are following Current Good Manufacturing Practices (CGMPs). In 2003, FDA determined that CGMP inspections were lacking for 27 manufacturers of identified medical countermeasures, and the Agency took action to address this. Even without the legislation creating Project BioShield, an act designed in part to provide incentives for developing safer, more effective countermeasures, FDA will remain the only governmental Agency involved with the approval of products necessary to prevent or treat human exposure to these terrorist agents. We hope this Subcommittee supports our \$5 million request in fiscal year 2005.

A Strong FDA

The final goal of our Strategic Plan revolves around our world-class, professional workforce that is highly dedicated and committed to making a difference. FDA is aware of the need to maintain the highest level of public trust in its activities. I believe this component of our plan is the bedrock and the most critical component for the success of the Agency. For that reason, the Agency must adequately develop and support its cadre of experienced physicians, toxicologists, chemists, biologists, statisticians, mathematicians, and other highly qualified professions. Since 2001 and into the foreseeable future, we have continually sought new opportunities to improve our management, and efficiencies in our organization, infrastructure and information technology. The practice of efficient risk management certainly applies here as we must strive to adopt management practices that make the Agency's core programs most efficient. The fiscal year 2005 request fully funds the \$33.1 million (\$20.6 million of which is budget authority) to complete a part of the work force consolidation at White Oak, Maryland.

FDA's adherences to the strategies and goals of the President's Management Agenda have brought about real and positive change toward improving the management of the Agency. These five goals are Strategic Management of Human Capital, Competitive Sourcing, Improved Financial Performance, Expanded E-government, and Budget and Performance Integration. Over the past year, FDA management achieved a number of milestones in the area of "Strategic Management of Human Capital," including the development and phased stand-up implementation of the new shared service organization (SSO). Consolidation into the SSO, combined with improved business processes, will allow FDA to maintain administrative service levels with substantially fewer staff. Another area of continued progress is towards the goal of "improved financial performance." Due to this Subcommittee's continued support, the Agency is making progress towards the eventual replacement of its obsolete legacy accounting systems. The Department-wide Unified Financial Management System will integrate financial management to provide more timely and consistent information, and promote the consolidation of accounting operations that will substantially reduce the cost of accounting services. In addition, FDA has continued its progress towards the consolidation of its IT infrastructure by collaborating with HHS toward achieving its "One HHS" goals and objectives. FDA also competed six agency support functions in fiscal year 2003 to determine the most efficient organization for running and managing each function. The agency determined that the in-house operations for all six functions were the most efficient organizations for providing their respective services. We estimate savings of \$16.3 million over a 5 year performance period from just these six organizations. These are just a few examples of FDA's outstanding progress in making efficient use out of limited resources, and practicing efficient risk management.

Fiscal year 2005 Budget Request

As I noted earlier, adequate funding of the Agency's highest priorities is vital to our success. Our fiscal year 2005 President's budget request totals \$1.845 billion, including \$1.495 billion in budget authority and \$350 million in user fees. The Administration proposes both increases and savings related to the President's initiatives for a net budget authority increase of \$108.8 million above the fiscal year 2004 Appropriation. Requested increases cover: Cost of Living, Food Defense, Medical Device Review, Medical Countermeasures, Bovine Spongiform Encephalopathy prevention, and the Agency's relocation of the Center for Drugs to the consolidated campus. Additionally, the budget includes management savings achieved through administrative efficiencies and savings achieved by using carryover funds from our Buildings and Facilities account. The user fee increases total more than \$40 million. This proposed budget will support a total of nearly 10,800 full time employees.

Cost of Living

Adequate annual pay increases are essential to allow FDA to fully utilize programmatic increases. More than 60 percent of FDA's budget goes toward paying our highly skilled scientific workforce, far more than some Agencies. FDA's labor percentage is higher due to a number of reasons, but most importantly because the Agency's diverse workload requires numerous interdependent specialists in each of the Agency's product areas, the inspectional responsibilities require great geographic diversity to perform duties across the country and around the world, and the number of personnel necessary to monitor the entire life-cycle of all products under the Agency's purview (e.g., clinical drug trials to drug application review to advertising of approved product to actual effect of drug on patient's health). The lack of cost of living increases has the potential to limit or nullify other targeted

increases towards high priority Administration, Congressional and/or mission critical initiatives.

FDA is thankful for this Subcommittee's involvement in providing the Agency with additional funding to cover the cost of inflationary pay increases between fiscal year 2002 and fiscal year 2004. We approach you once again and request that you provide a \$14.4 million increase representing a congressionally approved 4.1 percent cost of living increase for calendar year 2004 as well as a 1.5 percent increase for calendar year 2005 as proposed by the President.

Food Defense

As I noted earlier, Food Defense is a major component of FDA's strategic goal to protect America from terrorism as it relates to foods and medical products under our purview. I am also pleased to report that this Subcommittee's support in the hiring of 655 new field staff through the fiscal year 2002 supplemental appropriation as well as the increases provided in fiscal year 2003 is beginning to produce positive results.

Despite some significant progress over the past year with the rapid implementation of the food registration and prior notice regulations and systems, increased training and outreach, record amounts of import examinations, expanded research programs, daily intelligence briefings of FDA officials, etc., additional steps need to be taken to fully prepare our Nation to handle various types of intentional attacks on the food supply.

FDA has spent an extensive amount of time over the past year coordinating this multifaceted plan with the White House Homeland Security Council, the Department of Homeland Security, and the USDA. The result is a joint budget developed with USDA and DHS for food defense to protect the agriculture and food sectors. Based upon the Administration's current knowledge, ability to respond, and capacity to handle an actual attack, FDA requests \$65 million in increased funding to shore up five key areas—\$35 million for the Food Emergency Response Network [FERN], \$15 million for research, \$7 million for inspections, \$3 million for incident management, and \$5 million for biosurveillance. The investments in these particular areas will help develop awareness amongst the various components of the food sector, build upon existing surveillance tools, institute prevention techniques to shield against an attack, prepare for an attack, and provide the capacity to respond if such an event should occur.

It is also vital that the Agency has the capability to coordinate and handle a food defense response with state and local governments and other Federal agencies. We are seeking to build a food defense laboratory network among states, part of a system called FERN. FERN is comprised of labs specializing in food testing for biological, chemical and radiological threat agents and these laboratories will have the capacity to rapidly test a large number of food products. We need to make a distinction here between a corresponding network of labs handled by the Centers for Disease Control and Prevention. CDC is in charge of the Laboratory Response Network that primarily handles clinical testing of human specimens such as blood or urine.

Another system we will build upon with our fiscal year 2005 request is the Electronic Laboratory Exchange Network or eLEXNET. This network is the Nation's first seamless, integrated, secure, web-based data exchange system for food testing information. eLEXNET allows health officials at multiple government agencies engaged in food safety activities to compare, share, and coordinate laboratory analysis findings on food products. Whereas FERN laboratories are involved in the actual analysis of food samples, eLEXNET provides a forum for the exchange of laboratory data. FDA is continuing efforts to expand eLEXNET to provide better nationwide data on food product analyses by regulatory agencies.

Between fiscal year 2001–2005, FDA will increase the number of import food inspections from approximately 12,000 to 97,000. Along with increased inspectional needs, FDA must take the lead in conducting or overseeing research projects that help us understand the effects of contaminated food supplies on people. There are some hostile agents capable of entering our food supply that we don't know how they will react in humans. This is a complex challenge and we must conduct calculated risk assessments and then use limited resources to study human food consumption contaminated with these agents. Our food defense task is challenging and we will make a concerted effort to gain a greater understanding of these threats to the food supply. We currently have over 90 research projects devoted to identifying food adulteration and we hope to improve testing and identification with these projects.

Bovine Spongiform Encephalopathy (BSE)

Although 150 deaths in Europe from variant Creutzfeldt-Jakob disease (vCJD) are linked to consumption of beef from cows with BSE, the economic impact to the farming communities was also devastating. The European Union estimated the cost of BSE contamination in affected countries to reach \$107 billion and Canada's recent discovery was costing an average of \$11 million a day in lost exports. The Administration is acting vigorously to limit the distribution or spread of any products suspected of carrying BSE following the December 23, 2003 discovery of a Holstein cow with BSE in the state of Washington. On January 26 of this year, FDA announced several new public health measures to strengthen the five existing firewalls that protect Americans from exposure to the agent thought to cause BSE. FDA intends to ban from human food, dietary supplements, and cosmetics a wide range of bovine-derived material so that the same safeguards that USDA implemented for meat products, also apply to food products that FDA regulates. FDA will also prohibit certain feeding and manufacturing practices involving feed for cattle and other ruminant animals. The Agency will strengthen its current controls and implement these new protections by publishing two interim final rules.

In fiscal year 2004, the base budget is \$21.5 million for BSE activities across all FDA programs. In fiscal year 2005, we request \$8.3 million for a total of \$29.8 million in total funding for this initiative. With the increased funding, we will undertake a trilateral approach of increased inspections, enforcement activities, and education. The requested resources will enable the Agency to increase field BSE inspections, sample collections and analyses; increase targeted sample collections and analyses of both domestic and imported animal feed or feed components; fund 2,500 more state inspections of animal feed firms; conduct industry outreach to better inform industry of responsibilities and opportunities to prevent BSE from contaminating animal feed; and strengthen the states' infrastructures to monitor, and respond to, potential feed contamination with prohibited materials. The Administration believes that an \$8.3 million request is a relatively modest increase in light of the potential health benefits and cost savings that can be achieved with these resources.

Medical Device

Review FDA is committed to ensuring that the Medical Device User Fee and Modernization Act (MDUFMA) performance goals are met and that the strongest and most effective medical device review program possible is available. The Administration requests a budget authority increase of \$25.5 million for a total of \$217 million, the amount needed to match the original levels specified by law for fiscal year 2005. On October 29, 2003, OMB Director Josh Bolten wrote to Congress describing the Administration's commitment to support this program at the level intended by MDUFMA in fiscal year 2005 and beyond. Within the approach outlined by Mr. Bolten, the Agency is committed to meeting the original MDUFMA performance goals.

As you know, MDUFMA requires that \$205.7 million be appropriated in budget authority each year for FDA's Center for Devices and Radiological Health and related field activities, adjusted for inflation (CPI). The President's fiscal year 2005 budget meets the MDUFMA threshold for fiscal year 2005 appropriations requirements. We look forward to working with Congress to modify MDUFMA to preclude the requirement to appropriate the entire "shortfall" from fiscal year 2003 and fiscal year 2004, in order to continue the user fee program beyond fiscal year 2005. FDA is committed to achieving the performance goals of MDUFMA.

In fiscal year 2005, FDA will utilize the appropriated increases to build upon the success in fiscal year 2003 and fiscal year 2004. In fiscal year 2003, FDA invested user fee and appropriated dollars in a number of ways that will contribute to the ultimate improvement in the review process in later years, including the hiring of more than 50 new scientific, medical, engineering, and other review staff and the development of process improvements to speed review from beginning to end.

Medical Countermeasures

Counterterrorism is a major priority for the FDA and the Department of Health and Human Services. Speeding the development of safe medical countermeasures to improve protection against terrorism and emerging diseases requires that Americans have access to safe and effective medical treatments. Prior to September 11th, FDA had been engaged in coordinated efforts with other Departments to develop and make available better countermeasures for biological, chemical and radiological attacks. The urgency is far greater now and so in fiscal year 2005, FDA will continue to work closely with scientists and product developers and take new steps to speed the development of these safe, effective treatments. FDA requests \$5 million

to expedite the review of new drug applications, biologics license applications, generic drugs and over-the-counter medical product countermeasures. The Agency must get involved in each facet of the process from animal studies to dosing requirements to the development of postmarket systems that will be in place to ensure rapid reaction to adverse events. These initiatives are all necessary to ensure that adequate treatments are available for a wide assortment of threats. One of these initiatives is Project BioShield, a program designed to help ensure that medical products are reviewed and approved for safety and effectiveness in the event of war or catastrophic events. The first request for proposals for procurement of a new generation anthrax vaccine through Project BioShield will be initiated shortly.

Center for Drugs Relocation

I can only imagine that it is difficult for members of this Subcommittee to write home about the funding you helped secure for FDA's consolidation of its Washington, D.C. metro area Headquarters Offices from 16 locations to three. However, I think they would be happy to hear that the eventual settling into the three new sites in White Oak, Laurel, and College Park, MD, create greater economies of scale and operational efficiencies. The bottom line is that you will save the American taxpayers money when this project is complete. Although substantial facility needs at White Oak are mostly addressed through the GSA appropriation, FDA must continue to seek your support for relocation costs. In accordance with the President's Management Agenda, the FDA plans to modernize document handling, use shared library and conference facilities, reduce redundancies in a wide range of administrative management tasks, convert to a single computer network, and reduce management layers. Without the requested funds, these management improvements and efficiency gains would be jeopardized.

This current plan calls for the relocation of 1,700 drug review personnel in April of 2005. The budget funds the total need for this move, \$33.1 million, and the request includes an increase of \$20.6 million in new budget authority. The remainder would come from \$2.4 million in the base budget, and \$10 million in PDUFA user fees. The General Services Administration has requested \$89 million in their fiscal year 2005 budget request to continue construction on the campus. If GSA's subcommittee approves the full request, the building construction would proceed as schedule. However, if GSA does not receive its full request for White Oak, it would have severe financial consequences for FDA. In a 2003 GAO report entitled "Federal Real Property: Executive and Legislative Actions Needed to Address Long-Standing and Complex Problems," the report spells out the Federal Government's problems in managing property, including the inefficient use of space. FDA would be faced with paying unnecessary rental payments for multiple properties unless the funding of construction and relocation costs are synchronized as is currently the plan.

User Fees

In fiscal year 2005, the Agency expects to collect \$350 million in user fees, primarily from PDUFA, MDUFMA, and ADUFA fee programs. These user fee programs provide substantial funding that compliment budget authority resources and allow FDA to meet agreed upon performance measures that allow for more rapid reviews of human drugs, medical devices and animal drugs. Additionally, the Agency collects modest fee amounts for the Mammography Quality Standards Act program as well as export certification and color certification programs.

President's Management Agenda & Administrative Consolidation

FDA has been very proactive in streamlining its operations and reducing its administrative expenses. Since November 2001, the Agency has worked with the Department of Health and Human Services to do its part to comply with the President's goal to improve the Strategic Management of Human Capital across the Federal Government. We have demonstrated tremendous success in efforts to delayer our organizational structure, consolidate FDA's decentralized Human Resources (HR) services to a single FDA HR office which has consolidated into the HHS Rockville HR Center; implement a shared services organization that makes best use of administrative resources; plan for consolidated facilities at White Oak Maryland, consolidation of IT activities, and, find efficiencies via competitive sourcing or A-76 studies. Thanks to your support, we also continue to improve financial management at FDA through the planned implementation of a new financial system. In fiscal year 2005, FDA proposes its second straight year of reductions by way of \$23.1 million in savings achieved through a seven and a half percent reduction in administrative staff, or a combined reduction of 15 percent between fiscal year 2004 and fiscal year 2005. In addition, no request is being made this year in the Buildings and Facilities appropriation. This represents a savings of \$7 million that was de-

voted to higher priority programs. Approximately \$4.6 million in carryover funds will sustain the program through fiscal year 2005.

Conclusion

I thank you for your commitment and continued support of FDA. I am confident that the information I provide to you today, and any additional information provided to the Subcommittee following this hearing, will give you further evidence of the Agency's needs in fiscal year 2005, and justify the requested increases these priorities. Thank you for the opportunity to testify today. I look forward to working with all of you and your staffs in the months ahead.

Senator BENNETT. Thank you, sir.
We appreciate all of you.

PROPOSED LEGISLATION

Mr. Bost, there are several requests in the budget for legislative language. One, you have requested a legislative proposal to exclude special pay for military personnel deployed in a designated combat zone if that pay was not received immediately prior to deployment. And second, a request for new legislative language to allow for indefinite funding authority for the Food Stamp Act.

Could you furnish the committee with a written explanation in both of these cases? Senator Kohl and I have determined that we are not going to legislate on an Appropriations Bill without the complete cooperation of the members of the authorizing committee. You have asked us to do this when it is within the purview of the authorizing committee. So I think a clear written statement on those two things would be helpful to us as we make our decision as to whether or not we are going to proceed on that.

Mr. BOST. Certainly Mr. Chairman. I would be more than happy to do so.

[The information follows:]

The President's fiscal year 2005 budget includes a provision to exclude "special" military pay when determining food stamp benefits for deployed members of the armed services. Current rules count all military pay received by the household as earned income in determining household eligibility and benefits. Military personnel receive supplements, such as combat or hazardous duty pay, to their basic pay when they serve in combat, which could reduce a family's benefits or make them ineligible.

The proposal excludes this income as long as it was not received immediately prior to deployment. It supports the families of servicemen and servicewomen fighting overseas by ensuring that they do not lose food stamps as a result of the additional income resulting from their deployment.

This change is being sought in appropriations language for fiscal year 2005 when it is most needed. The cost in fiscal year 2005 is \$3 million. Total cost for fiscal year 2005 to 2009 is \$12 million if it is needed and enacted in all those years. In fiscal year 2005, we expect to help 2,900 military families.

The indefinite authority proposal in the fiscal year 2005 budget request for the Food Stamp Program would provide such sums as necessary to fund program benefits and payments to States. It would ensure that sufficient resources were always available to provide access to the program for all eligible persons who wish to participate. Unlike the contingency reserve funds, if program costs should significantly exceed budget estimates, it would never be necessary to seek a supplementary appropriation or implement a benefit reduction. This proposal would bring the structure of this critical program in line with other major entitlement programs that already have indefinite authority.

Senator BENNETT. Thank you.

FOOD GUIDE PYRAMID

We have talked to you about the pyramid. I seemed to get a lot of publicity the last time I did that. You say it is currently undertaking a reassessment. Should we just leave it at that and say that it is still being reassessed or do you have any progress reports you want to share with us?

Mr. BOST. We do not really have any progress to report at this point but I think it is real important to know that the first aspect of that is a review of the Dietary Guidelines. Secretary Veneman and Secretary Thompson appointed a group of leading scientists and they are in the midst—I think they have had two meetings and one is upcoming to review the Dietary Guidelines. A review of the Dietary Guidelines will fold into a review of the Pyramid itself.

It is going to come as a result of the challenges we are facing concerning obesity and it continues to come under a great deal of scrutiny.

I think the challenge is trying to be everything to everyone and that is the biggest challenge. Essentially, we eat too much and exercise too little. We are trying to move everybody in this country toward a healthy lifestyle.

Senator BENNETT. Thank you.

LIVE BIRD MARKETS AND AVIAN INFLUENZA

Mr. Hawks, the Washington Post has run some stories on live bird markets and the fact that these markets may be a breeding ground for bird flu or avian influenza. Do you have any information you could provide to us here about that issue? Should we expect the Department to be taking any action with respect to the live bird markets?

Mr. HAWKS. Yes, sir, you sure should. As a matter of fact, there is almost \$13 million in our 2005 budget request to address avian influenza. That encompasses the live bird markets.

We are actually, as we speak, moving forward with plans to do more surveillance in those live bird markets, and to do more surveillance in general with respect to low path avian influenza. We are engaged with the States involved and certainly recognize the significance of the live bird markets and the need to address them.

We have already, in the past, actually closed those live bird markets. We have what we call a holiday in those bird markets. We close them for 3 days. We clean, disinfect and depopulate those birds that are there.

It certainly is an area that is of concern to us.

Senator BENNETT. What about those countries that have banned poultry exports from the United States because the bird flu? Are we doing anything to try to get those markets reopened?

Mr. HAWKS. Yes sir, we sure are. We are very much engaged in that.

We have submitted a significant amount of information to our trading partners about what we are doing about the epidemiological investigations that are ongoing.

The one that is the most significant is the high path avian influenza in Gonzalez, Texas. We have completed our surveillance programs there and have found no additional avian influenza.

I will personally be in Mexico City on April 13th, the week after next, to engage in continued discussions with my Mexican counterparts to try to reinforce our desire for them to open the market and follow the appropriate path.

BOVINE SPONGIFORM ENCEPHALOPATHY

Senator BENNETT. While we are on the subject of markets, that brings us now to BSE, and the request on the part of some countries that there be a 100-percent testing of the export market. I understand you are working, as you say, with Mexico, also Japan. Is 100-percent testing of the export market physically possible? Is that a feasible thing?

Mr. HAWKS. Mr. Chairman, we do not think that is the prudent thing to do, to test 100 percent for BSE. As a matter of fact, Mexico has opened parts of its market to us. We continue to move there. But the Japanese market is the one that seems to be the most insistent on an increased level of testing. We have communicated earlier this week with the Japanese our desire to go to the OIE, the Office of International Epizootics, with a panel there to look at our proposals and their proposals to make sure that we are taking the appropriate scientific measures. But we do not believe that 100-percent testing is the appropriate path.

Senator BENNETT. Thank you.

RECALL REPORT BY OFFICE OF INSPECTOR GENERAL

Dr. Murano, I was pleased to hear you talk about the dramatic decline in recall, but the Office of Inspector General has recently released a report—not that recently, but September of 2003—a report critical of several aspects of a specific recall in Colorado. Is that a one-of-a-kind situation that has been dealt with, or do you feel that the OIG has raised some issues that should be examined Department-wide?

Dr. MURANO. Thank you, Mr. Chairman. As you know, that particular recall took place in the summer of 2002, and as that recall was taking place, we identified right away things that we needed to correct to improve our effectiveness at overseeing how recalls are conducted by companies.

We identified a lot of the things that ended up in the OIG report, many months later. We certainly did not wait for the OIG report to start doing something about it, and I think that is what has made a big difference in the results that we see now.

Of course, the OIG takes quite a while to put out their reports. I think the report came out, as you said, last fall. We obviously had been working very, very diligently to address a lot of the issues. We have revised a lot of our directives. We have put in place new policies, and instituted new training modules for our inspectors. I think the proof of it is the recent BSE-related recall that we oversaw, because I think in that particular case, we were able to conduct effectiveness checks in a way that was certainly an improvement over what was done back in 2002.

MEDICAL DEVICE USER FEE AND MODERNIZATION ACT

Senator BENNETT. Thank you.

Dr. Crawford, you and I have visited about MDUFMA—I am learning the acronyms and how to pronounce them—and as you know, I was very supportive of that program, got a commitment from OMB. I am pleased to note—and you mention it in your testimony—how that is being followed through on.

There is speculation that we here on Capitol Hill may have to go to a year-long continuing resolution if we cannot get the appropriations bill through. If they left it to Senator Kohl and me, we would get them all through. But people above our pay grade seem to have some problem.

If there is a year-long continuing resolution, what would be the impact on MDUFMA?

Dr. CRAWFORD. Well, Mr. Chairman, we believe that under the law we would be required and obligated to continue with the user fee program. The problem would be—within the scope of my testimony, I mentioned that we will increase the funding for the medical device program. The President has asked for the increase of funding to \$25 million to fully fund this particular program.

Also, within the context of the Administration's budget request, we would seek relief from the shortfalls in fiscal year 2003 and fiscal year 2004. That probably would not be met under a continuing resolution, and so we would have to have another plan in place. If the continuing resolution did not last too long, I think it would be all right in correcting that.

However, we would be working with OMB to try to get an exception under the continuing resolution for this. And I can commit to doing that. Working with them is something we always do, but we would be particularly interested in getting this accomplished.

I was Acting Commissioner before when we got MDUFMA passed, and even though I was here then, I never did learn about the acronym. And I appreciate being educated on it.

I have a real commitment to making this thing work before this administration year is up, and I would feel pretty good about that.

GENERIC BIOLOGICS

Senator BENNETT. A final question. Let's talk about both generic versions of biotech drugs and counterfeit drugs. The Wall Street Journal ran an article a month or so ago: "FDA Takes Step Towards Allowing Generic Versions of Biotech Drugs." Are you familiar with that?

Dr. CRAWFORD. Yes, I am.

Senator BENNETT. Okay. Well, it is clear from reading the article that there is much to be learned, and it seems unusual to me that FDA is developing scientific guidance on how to do something when there is no legal structure by which to do it. There are some serious intellectual property and patient safety questions.

First, wouldn't everybody be better off if there was an open, transparent, and science-driven process before the FDA announces its conclusions?

Dr. CRAWFORD. Yes, I agree. And I also agree that we will need to pay special attention to the regulatory and legal framework that will enable this or not enable it to take place.

When I first testified on this subject some time ago, FDA had been in the mode of saying that generic biologics were not possible

for a number of reasons. Some of them were pharmacological, that is, characterizing what is actually in the biologic so that it can be transferred from one manufacturer to another one, that is, from the pioneer to the generic manufacturer. And the second thing was the very legal and regulatory constraints that you mentioned.

But as the science improves, we have no recourse, Mr. Chairman, but to be open-minded about it and to receive input from the public and from experts in the field, as well as the manufacturers. And although we do not know what the path is at this point to achieve that or even if it is achievable, we are open to suggestions.

We announced just last week a new initiative at FDA called the Critical Path Initiative, in which we are trying to take basic research developments and get them from the laboratory to the bedside quicker. So we intend a large investment, as much as we can afford, in trying to get that kind of thing done. It used to be called technology transfer. It is now much more complex than that and the tools are better.

I do not know what the outcome will be. All I can say to you is that we are open to suggestions from this committee, of course, but from all others.

COUNTERFEIT DRUGS

Senator BENNETT. Thank you. And, very quickly, the FDA earlier this year issued a report on the issue of counterfeit drugs, the efforts of a counterfeit task force. Is that task force report now available?

Dr. CRAWFORD. Yes, it is, and we can make one available to the committee. And if we haven't already done that, I apologize, Mr. Chairman. But it will be done before very much more time passes by, I assure you.

Senator BENNETT. All right. I was going to ask you to list the recommendations and so on, but that can be done with the submission.

Dr. CRAWFORD. We will submit that for the record, separately if we may.

[The information follows:]

COMBATING COUNTERFEIT DRUGS: A REPORT OF THE FOOD AND DRUG ADMINISTRATION

EXECUTIVE SUMMARY

The counterfeiting of currency and consumer products are common problems that plague governments and manufacturers around the world, but the counterfeiting of medications is a particularly insidious practice. Drug counterfeiters not only defraud consumers, they also deny ill patients the therapies that can alleviate suffering and save lives. In some countries the counterfeiting of drugs is endemic—with some patients having a better chance of getting a fake medicine than a real one. In many more countries, counterfeit drugs are common. In the United States, a relatively comprehensive system of laws, regulations, and enforcement by Federal and State authorities has kept drug counterfeiting rare, so that Americans can have a high degree of confidence in the drugs they obtain through legal channels. In recent years, however, the FDA has seen growing evidence of efforts by increasingly well-organized counterfeiters backed by increasingly sophisticated technologies and criminal operations to profit from drug counterfeiting at the expense of American patients.

To respond to this emerging threat, Commissioner of Food and Drugs Mark McClellan formed a Counterfeit Drug Task Force in July 2003. That group received extensive comment from security experts, Federal and State law enforcement offi-

cials, technology developers, manufacturers, wholesalers, retailers, consumer groups, and the general public on a very broad range of ideas for deterring counterfeiters. Those comments reinforced the need for FDA and others to take action in multiple areas to create a comprehensive system of modern protections against counterfeit drugs. FDA discussed those ideas, and considered alternatives and criticisms at its public meetings, to develop a comprehensive framework for a pharmaceutical supply chain that will be secure against modern counterfeit threats. The specific approach to assuring that Americans are protected from counterfeit drugs includes the following critical elements:

1. Implementation of new technologies to better protect our drug supply

Because the capabilities of counterfeiters continue to evolve rapidly, there is no single “magic bullet” technology that provides any long-term assurance of drug security. However, a combination of rapidly improving “track and trace” technologies and product authentication technologies should provide a much greater level of security for drug products in the years ahead. Similar anti-counterfeiting technologies are being used in other industries, and FDA intends to facilitate their rapid development and use to keep drugs secure against counterfeiters.

a. The adoption and common use of reliable track and trace technology is feasible by 2007, and would help secure the integrity of the drug supply chain by providing an accurate drug “pedigree,” which is a secure record documenting the drug was manufactured and distributed under safe and secure conditions.

Modern electronic technology is rapidly approaching the State at which it can reliably and affordably provide much greater assurances that a drug product was manufactured safely and distributed under conditions that did not compromise its potency. FDA has concluded that this approach is a much more reliable direction for assuring the legitimacy of a drug than paper recordkeeping requirements, which are more likely to be incomplete or falsified, and that it is feasible for use by 2007. Radiofrequency Identification (RFID) tagging of products by manufacturers, wholesalers, and retailers appears to be the most promising approach to reliable product tracking and tracing. Significant feasibility studies and technology improvements are underway to confirm that RFID will provide cost-reducing benefits in areas such as inventory control, while also providing the ability to track and trace the movement of every package of drugs from production to dispensing. Most importantly, reliable RFID technology will make the copying of medications either extremely difficult or unprofitable. FDA is working with RFID product developers, sponsors, and participants of RFID feasibility studies to ensure that FDA’s regulations facilitate the development and safe and secure use of this technology. FDA is also working with other governmental agencies to coordinate activities in this area.

b. Authentication technologies for pharmaceuticals have been sufficiently perfected that they can now serve as a critical component of any strategy to protect products against counterfeiting.

Authentication technologies include measures such as color shifting inks, holograms, fingerprints, taggants, or chemical markers embedded in a drug or its label. The use of one or more of these measures on drugs, starting with those considered most likely to be counterfeited, is an important part of an effective anti-counterfeiting strategy. Because counterfeiters will adapt rapidly to any particular measure and because the most effective measures differ by product, the most effective use of authentication technology will vary by drug product over time. FDA intends to clarify its policies and procedures to help manufacturers employ and update these technologies safely and effectively. In particular, FDA plans to publish a draft guidance on notification procedures for making changes to products (e.g., addition of taggants), their packaging, or their labeling, for the purpose of encouraging timely adoption and adaptation of effective technologies for detecting counterfeit drugs. FDA also intends to continue to evaluate and provide information to stakeholders on forensic technologies (e.g., use of product fingerprinting, addition of markers) and other analytical methods that allow for rapid authentication of drug products. FDA also plans to support the development of criteria that contribute to counterfeiting risk, and/or the development of a national list of drugs most likely to be counterfeited based on these criteria, to assist stakeholders in focusing their use of anti-counterfeiting technologies as effectively as possible.

2. Adoption of electronic track and trace technology to accomplish and surpass the goals of the Prescription Drug Marketing Act

At the time PDMA was enacted the only way to pass on a pedigree for drugs was to use paper, which has posed practical and administrative challenges. RFID technology, which would provide a de facto electronic pedigree, could surpass the intent of PDMA and do so at a lower cost. In light of the rapid progress toward much more

effective electronic pedigrees that can be implemented within several years, FDA intends to continue to stay its regulations regarding certain existing pedigree requirements to allow suppliers to focus on implementing modern effective pedigrees as quickly as possible.

3. Adoption and enforcement of strong, proven anti-counterfeiting laws and regulations by the States

Because States license and regulate wholesale drug distributors they have an important role in regulating the drug distribution supply chain. The FDA is working with the National Association of Boards of Pharmacy on its effort to develop and implement revised state model rules for licensure of wholesale drug distributors. Such rules will make it difficult for illegitimate wholesalers to become licensed and transact business, thus making it easier to deter and detect channels for counterfeit drugs. Some states have already reduced counterfeit threats by adopting such measures. FDA will continue working with NABP and states to facilitate adoption of the Model Rules.

4. Increased criminal penalties to deter counterfeiting and more adequately punish those convicted

Although increased criminal penalties would not affect FDA's regulatory framework for overseeing the U.S. drug supply, they would provide an added deterrent to criminals who work to counterfeit our citizens' medications. FDA has requested that the United States Sentencing Commission amend the sentencing guidelines to increase substantially the criminal penalties for manufacturing and distributing counterfeit drugs and to provide for enhanced penalties based on the level of risk to the public health involved in the offense.

5. Adoption of secure business practices by all participants in the drug supply chain

Effective protection against counterfeit drugs includes actions by drug producers, distributors, and dispensers to secure their business practices such as ensuring the legitimacy of business partners and refusing to do business with persons of unknown or dubious background, taking steps to ensure physical security, and identifying an individual or team in the organization with primary responsibility for ensuring that effective security practices are implemented. The wholesalers have already drafted a set of secure business practices and FDA will continue to work with other major participants of the drug supply chain to develop, implement, and disseminate such business practices, through such steps as issuing guidance and supporting the development of industry best practices. To help ensure secure business practices, FDA intends to increase its inspection efforts of re-packagers whose operating procedures place them at increased risk for the introduction of counterfeit drugs.

6. Development of a system that helps ensure effective reporting of counterfeit drugs to the agency and that strengthens FDA's rapid response to such reports

If counterfeit drugs do enter the American marketplace, procedures should be in place to recognize the hazard and alert the public quickly and effectively. FDA plans to take new steps to encourage health professionals to report suspected counterfeit drugs to FDA's MedWatch system. FDA also intends to create a Counterfeit Alert Network to provide timely and effective notification to affected health professionals and the public whenever a counterfeit drug is identified.

7. Education of consumers and health professionals about the risks of counterfeit drugs and how to protect against these risks

FDA will develop educational materials, including new tools on the FDA website at www.fda.gov, new public service announcements, and new educational partnerships with consumer and health professional organizations, to help consumers avoid counterfeits. FDA will enhance its educational programs for pharmacists and other health professionals about their role in minimizing exposure to, identifying, and reporting counterfeits.

8. Collaboration with foreign stakeholders to develop strategies to deter and detect counterfeit drugs globally

Counterfeit drugs are a global challenge to all nations, and criminal counterfeiting operations are increasingly operating across national borders. FDA intends to work with the World Health Organization, Interpol, and other international public health and law enforcement organizations to develop and implement worldwide strategies to combat counterfeit drugs.

The steps described in this report are intended to secure the safety and of the U.S. drug supply, which the FDA regulates. The FDA does not have the legal au-

thority or resources to assure the safety and efficacy of drugs purchased from other countries outside our domestic drug distribution system, or from unregulated Internet sites that are not run by pharmacies licensed and regulated by U.S. States.

A. Purpose of the Anti-Counterfeiting Initiative

The actions described in this report are based on the work of an internal FDA Counterfeit Drug Task Force¹, which was formed in July 2003 by Commissioner of Food and Drugs Mark McClellan, M.D., Ph.D., with the goals of:

- Preventing the introduction of counterfeit drugs and biologics into the U.S. drug distribution chain;
- Facilitating the identification of counterfeit drugs and biologics;
- Minimizing the risk and exposure of consumers to counterfeit drugs and biologics; and
- Avoiding the addition of unnecessary costs to the prescription drug distribution system, or unnecessary restrictions on lower-cost sources of drugs.

B. Scope of the Problem

FDA believes that counterfeiting is not widespread within the system of manufacturing and distributing pharmaceuticals legally in the United States, as a result of an extensive system of Federal and State regulatory oversight and steps to prevent counterfeiting undertaken by drug manufacturers, distributors, and pharmacies. However, the agency has recently seen an increase in counterfeiting activities as well as increased sophistication in the methods used to introduce finished dosage form counterfeits into the otherwise legitimate U.S. drug distribution system. FDA counterfeit drug investigations have increased to over 20 per year since 2000, after averaging only 5 per year through the late 1990's. (See Figure 1—Chart of FDA investigations) Increasingly, these investigations have involved well-organized criminal operations that seek to introduce finished drug products that may closely resemble legitimate drugs yet may contain only inactive ingredients, incorrect ingredients, improper dosages, sub-potent or super-potent ingredients, or be contaminated. Thus, drug counterfeiting poses real public health and safety concerns today, and may pose an even greater threat in the future if we fail to take preventative measures now. As counterfeiters continue to seek out new technologies to make deceptive products and introduce them into legitimate commerce, our systems for protecting patients must respond effectively.

¹The Task Force consists of senior agency staff from the Office of the Commissioner (Office of Policy and Planning, Office of External Affairs, and Office of the Chief Counsel), Office of Regulatory Affairs, the Center for Drug Evaluation and Research, and the Center for Biologics Evaluation and Research.

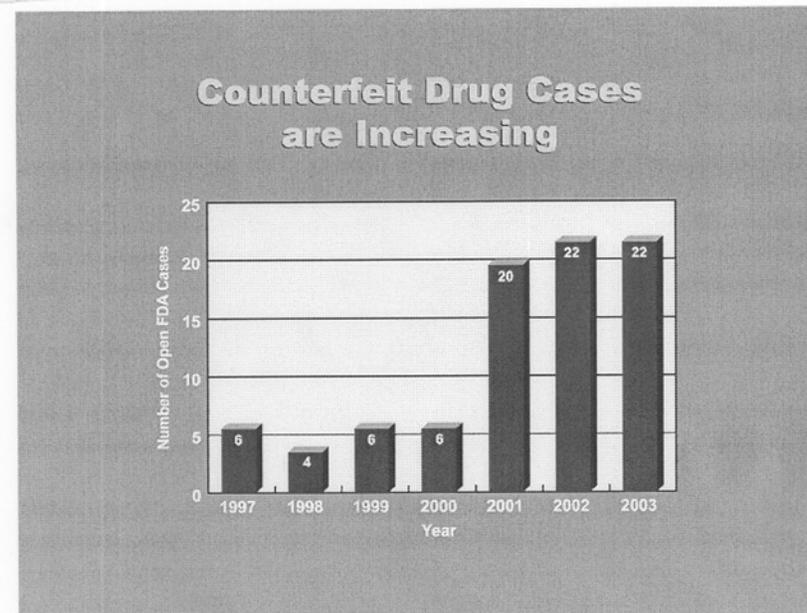


Fig. 1: FDA open investigations 1997-2003

Although exact prevalence rates in the United States are not known, outside the U.S. drug counterfeiting is known to be widespread and affect both developing and developed countries. In some countries more than half of the drug supply may consist of counterfeit drugs. For example, recent reports have detailed that more than 50 percent of anti-malarials in Africa are believed to be counterfeit. In virtually all countries, counterfeit drug operations have been uncovered in recent years.

C. What is in this Report

The body of this report contains a range of findings that have broad support from industry stakeholders and the public to identify and address the vulnerabilities in the U.S. drug distribution system to counterfeit drugs.

This report is based on the potential options discussed in the Task Force's Interim Report, the comments FDA received in response to that report, our internal discussions, and on information gathered and reviewed by the Task Force including:

- Meetings with government agencies, manufacturers, wholesalers, retailers, professional and trade associations, standard-setting organizations, consumer groups, and manufacturers of anti-counterfeiting measures;
- Reviewing reports prepared by, or on behalf of, Federal and State governments;
- Sponsoring a public meeting where 72 presentations were made
- Sponsoring a technology forum which included 54 exhibits
- Reviewing public comments to the anti-counterfeiting initiative docket
- Site visits to manufacturing facilities, wholesale distribution centers, retailers, radio-frequency identification (RFID) laboratories and pilot facilities;
- Attendance at stakeholder task force meetings and industry RFID feasibility study meetings
- Meetings with academic and industry experts

Appendix A contains the Counterfeit Alert Network Co-sponsorship agreement. See www.fda.gov/oc/initiatives/counterfeit/ for background information that was included in the Task Force's Interim Report (released on October 2, 2003) as well as a detailed discussion of the comments FDA received. Appendix B contains a more detailed discussion of the comments FDA received and considered in developing the final report.

The FDA is grateful for the input and universal support, not only with regard to the creation of the task force, but also with regard to the need for securing the Nation's drug supply.

D. Securing our Nation's Drug Supply

To secure the U.S. drug supply chain, there are several areas that deserve attention, including the areas of technology, business practices, legislation, regulation, public awareness and education, creation of an alert network, and international cooperation.

1. TECHNOLOGY

a. Unit of Use Packaging

(1) What FDA sought comment on:

Whether to package all finished dosage form drugs in unit of use packaging as appropriate for the particular product (e.g., tablet, multi-dose vial) at the point of manufacture?

(2) What the comments said:

Comments cited a large number of benefits, including eliminating the need for re-packaging and improved patient compliance, as well as a large number of costs, including those associated with shifting production from bulk packaging. The cost hurdle to counterfeiters, created by unit of use packaging, was said not to be high enough for it to be effective as a stand-alone anti-counterfeiting measure. A detailed discussion of the comments is in Appendix B.

(3) Discussion:

Although single unit containers (e.g., blister packs) usually come to mind, unit of use packaging is any container closure system designed to hold a specific quantity of drug product for a specific use and dispensed to a patient without any modification except for the addition of appropriate labeling.

Unit of use packaging does not create a sufficiently high level of security to justify its use as a stand-alone anti-counterfeiting measure. However, because of its many other benefits, which may vary on a product specific basis (e.g., tablets, liquid forms), manufacturer initiated cost-benefit analyses of particular products, starting with newly approved products and products that are likely to be counterfeited, are likely to show that unit of use packaging could be effective as one layer in a multi-layered anti-counterfeiting strategy.

(4) FDA Conclusions:

Unit of use packaging can be beneficial in fighting counterfeit drugs.

- It would be beneficial for all manufacturers and re-packagers to analyze the costs and benefits of using unit of use packaging for each product, starting with newly approved products and products that are likely to be counterfeited, and to consider implementing unit of use packaging for products where the benefits are equal to or outweigh the costs;
- Unit of use packaging can be helpful, but only as one layer in a multi-layered anti-counterfeiting strategy;
- FDA intends to encourage adoption of unit of use packaging by: inviting stakeholders and other interested individuals and organizations to submit research on the relative costs and benefits of unit of use packaging to assist FDA in developing future policy; and encouraging standard setting bodies to develop standards for unit of use packaging with the goal of reducing its costs (e.g., in areas such as size, shape, and pill organization).

b. Tamper Evident Packaging

(1) What FDA sought comment on:

Whether to use tamper evident packaging from the point of manufacture, for all dosage forms, active pharmaceutical ingredients (APIs), and bulk chemicals?

(2) What the comments said:

The comments on tamper evident packaging mirrored the comments on unit of use packaging.

(3) Discussion:

Decisions to employ tamper evident packaging on prescription drug containers as an anti-counterfeiting measure require a product specific cost-benefit analysis. As with unit of use packaging, FDA does not believe that tamper evident packaging presents a high enough hurdle for counterfeiters to make it effective as a stand-alone anti-counterfeiting measure.

(4) FDA Conclusions:

Tamper evident packaging may be beneficial in fighting counterfeiting of prescription drugs.

- It would be beneficial for manufacturers and re-packagers to consider using tamper evident packaging for prescription product containers, starting with products likely to be counterfeited or newly approved products, where the benefits are equal to or outweigh the costs;
- Tamper evident packing can be helpful, but only as one layer in a multi-layered anti-counterfeiting strategy.

*c. Authentication Technology**(1) What FDA sought comment on:*

Whether to incorporate at least two types of anti-counterfeiting technologies into the packaging and labeling of all drugs, at the point of manufacture, with at least one of those technologies being covert (i.e., not made public, and requiring special equipment or knowledge for detection) starting with those products at high risk of being counterfeited and where the introduction of counterfeit product poses a serious health risk;

Whether to incorporate a taggant, chemical marker, or other unique characteristics into the manufacturing process of all drugs that is only identifiable with the use of sophisticated analytic techniques starting with those products at high risk of being counterfeited and where the introduction of counterfeit product poses a serious health risk; and

Whether to issue FDA guidances concerning the appropriate use of anti-counterfeiting technologies and the application and review process for labeling and packaging changes or product changes such as incorporation of taggants, chemical markers, or other unique characteristics into the product for the purpose of product authentication.

(2) What the comments said:

The comments stressed that there was no “silver bullet” anti-counterfeiting technology because sophisticated, well-financed counterfeiters can defeat any anti-counterfeiting measure. Therefore, the best strategy is to use multiple, periodically changing, authentication measures on a product specific basis after doing a risk analysis that takes into account the risk that the product will be counterfeited and the public health risk if the product is counterfeited.

Given the rapid developments in anti-counterfeiting technology and the dangers of aiding counterfeiters by locking in or requiring certain technologies, most comments stressed that the FDA should not mandate the use of specific anti-counterfeiting technologies.

FDA issuance of guidance concerning the agency’s application and notification policies and procedures related to incorporating anti-counterfeiting measures into products (e.g., taggants), or labeling and packaging (e.g., inks, holograms) was universally supported.

A detailed discussion of the comments is in Appendix B.

(3) Discussion:

FDA agrees that the danger of unwittingly assisting counterfeiters and stifling technologic development outweigh the benefits that would accrue if it were to mandate the use of a specific authentication technology at this time. Furthermore, the decision to deploy authentication technologies is best made by the manufacturer, based on a product specific risk-benefit analysis that, in the future, should take into account whether mass serialization and radio-frequency identification technology (see below) is being used for tracking and tracing the drug.

However, due to the high costs and technical barriers that authentication technologies create for counterfeiters, their use is a critical component of any effective multi-layered anti-counterfeiting strategy, especially for products that are likely to be counterfeited. Therefore, FDA believes that an appropriate role for it is to facilitate the use of authentication technologies by reducing any regulatory hurdles that may exist relating to their use.

(4) FDA Conclusions:

Existing authentication technologies have been sufficiently perfected they can now serve as a critical component of any strategy to protect products against counterfeiting.

- The use by manufacturers and re-packagers of one or more authentication technologies on their products, particularly those likely to be counterfeited, would protect the public health and diminish counterfeiting;

- To facilitate the use of authentication technologies on existing products, FDA plans to publish a draft guidance on notification procedures for making changes to products (e.g., addition of taggants) their packaging, or their labeling for the purpose of deterring and detecting counterfeit drugs;
- FDA plans to continue to evaluate and disseminate information to stakeholders on developing forensic technologies (e.g., use of product fingerprinting, addition of markers) and other analytical methods that allow for rapid authentication of drug products.

d. Identification of Products likely to be counterfeited

(1) What FDA sought comment on:

- Are all products at high risk for being counterfeited?
- How can products at high risk for being counterfeited be identified?
- What criteria should be used to determine if a product is at high risk for being counterfeited?

(2) What the comments said:

Although a few comments suggested that all products were at high risk for being counterfeited, most of the comments FDA received supported the idea of developing criteria by which stakeholders could determine which products are likely to be counterfeited and/or developing a national list of products likely to be counterfeited based on these criteria. There was general agreement that the existence of state specific lists, each with its own regulatory requirements, could inhibit commerce and adversely affect the availability of drugs. FDA notes that the State of Florida has already published a list of “specified products” (i.e., a list of drugs most likely to be counterfeited) that is being used to implement state pedigree requirements. A detailed discussion of the comments is in Appendix B.

(3) Discussion:

Due to the large number of drugs with the potential to be counterfeited, FDA does not believe it is possible to create a comprehensive list of all such drugs. However, FDA does believe that a national list of those drugs most likely to be counterfeited and/or a set of criteria to use for determining those drugs would be useful for stakeholders to use at their discretion. Uses could include:

- Assisting manufacturers and re-packagers in making decisions whether to use authentication technologies and unit of use packaging;
- Assisting wholesalers in developing purchasing policies and allocating resources for detecting counterfeits;
- Assisting retailers in targeting certain drugs for authentication and patient education prior to dispensing;
- Assisting states in implementing regulatory requirements;
- Assisting stakeholders in developing migratory paths to adoption of mass serialization and electronic track and trace technology.

FDA strongly supports the development of such a set of criteria, or a list based on these criteria, that has the support and participation of all stakeholders. Regular input from interested parties as well as the ability to add or delete drugs from the list on short notice are important parts of the process.

FDA believes that members of regulated industry are better positioned at this time than FDA to develop a process for creating, maintaining, and updating such a list (and/or set of criteria).

(4) FDA Conclusions:

FDA has concluded that there would be great value in the creation of a national list of drugs most likely to be counterfeited based on factors that are likely to contribute to counterfeiting risk.

- FDA intends to encourage stakeholders and standards setting organizations to work together to create a national list of drugs most likely to be counterfeited, based on an assessment of criteria for determining counterfeit risk;
- The best result would be achieved if all stakeholders, including FDA, and other interested parties participate in developing a list, or criteria for determining, drugs most likely to be counterfeited;
- Any such list, and/or criteria, would be most effective if made publicly available to all stakeholders.

FDA is aware of only one national list of drugs most likely to be counterfeited. The list was developed by the National Association of Boards of Pharmacy and is available at www.nabp.org.

e. Radio-frequency Identification (RFID) Technology

(1) What FDA sought comment on:

Whether a pedigree for all drug products can be achieved by phasing in track and trace technology (i.e., electronic pedigree) starting at a case and pallet level for products likely to be counterfeited and progressively including all products at the case, pallet, and package level; and

Whether, as an interim measure, prior to widespread adoption of track and trace technology all drugs and biologics likely to be counterfeited should be tracked and traced either by limiting the number of transactions of the product or by using available track and trace technology, identifying the drug at the case and pallet level, and preferably at the product level, throughout the distribution system.

(2) What the comments said:

There was universal support for the adoption of electronic track and trace technology. RFID was cited as being the technology with the strongest potential for securing the supply chain but that it was not ready for widespread commercial use with pharmaceutical products. Many costs, potential benefits, and unresolved issues related to RFID were cited. The potential benefits included the ability to control inventory and conduct rapid, efficient recalls, while costs that could hinder the adoption of RFID included purchase of tags and other hardware, integration into existing information systems, and compliance with regulatory requirements (e.g., labeling, electronic records). Important unresolved issues included the need to develop standards and business rules for RFID, the need to address database management issues, and the need to determine the effect of RFID on product quality.

FDA was also informed that some companies are planning feasibility studies concerning business uses of RFID for early this year and that other activities related to creating standards, business rules, and migratory pathways for RFID are also ongoing. A detailed discussion of these activities and other comments concerning RFID is in Appendix B.

(3) Discussion

Use of mass serialization to uniquely identify all drug products intended for use in the United States is the single most powerful tool available to secure the U.S. drug supply. Mass serialization involves assigning a unique number (the electronic product code or EPC) to each pallet, case, and package of drugs and then using that number to record information about all transactions involving the product, thus providing an electronic pedigree from the point of manufacture to the point of dispensing. This unique number would allow each drug purchaser to immediately determine a drug's authenticity, where it was intended for sale, and whether it was previously dispensed.

Although there is general agreement that widespread use of mass serialization is inevitable, several important issues remain unresolved, including the migratory paths that participants in the drug distribution system will follow as they begin to serialize their products, and the most likely timeline for widespread commercial use.

It currently appears that the technology most likely to bring mass serialization into widespread commercial use by the pharmaceutical industry is RFID, although two-dimensional bar codes may be used for some products. RFID technology includes not only the silicon tags containing the EPC, but also antennas, tag readers, and information systems that allow all users to identify each package of drugs and its associated data. This data can be used not only to authenticate drugs but also to manage inventory, conduct rapid, targeted recalls, prevent diversion, and ensure correct dispensing of prescriptions.

Acquiring and integrating RFID technology into current manufacturing, distribution, and retailing processes will require considerable planning, experience, and investment of resources. Currently, some manufacturers, wholesalers, and retailers are developing business plans and testing mass serialization using RFID while others are taking a wait and see approach. Due to rapid technologic advancements, the lack of significant market place experience with it in the pharmaceutical supply chain, each participant is best situated to determine his optimal paths to adopting it.

Therefore, FDA has identified near term actions, described below, for it to take in order to facilitate the performance of mass serialization feasibility studies using RFID, and to assist stakeholders as they migrate towards the use of RFID technology.

In the long term, after there is significant market place experience with RFID, FDA plans to propose or clarify, as necessary and appropriate, policies and regulatory requirements relating to the use of RFID. Labeling, electronic records, product quality, and Current Good Manufacturing Practices (cGMP) requirements are

issues that have arisen in connection with RFID. However, regulatory or policy determinations regarding these, or other, issues should not be made until they can be informed by sufficient data and significant marketplace experience with RFID. FDA has also identified a series of actions, discussed below, that would help industry stakeholders and standard-setting organizations achieve this goal.

Lastly, stakeholders will need to ensure that they comply with the patient privacy protections provided by the Health Insurance Portability and Accountability Act as they implement use of RFID technology.

(4) FDA Conclusions:

The adoption and common use of RFID as the standard track and trace technology, which is feasible in 2007, would provide better protection.

—Due to industry's current initiatives, mass serialization and RFID technology is likely to be adopted according to the following timeline:

January—December 2004

—Performance of mass serialization feasibility studies using RFID on pallets, cases, and packages of pharmaceuticals;

January—December 2005

—Mass serialization of some pallets and cases of pharmaceuticals likely to be counterfeited;

—Mass serialization of some packages of pharmaceuticals likely to be counterfeited; and

—Acquisition and use of RFID technology (i.e., ability to read and use the information contained in RFID tags and the associated database) by some manufacturers, large wholesalers, some large chain drug stores, and some hospitals.

January—December 2006

—Mass serialization of most pallets and cases of pharmaceuticals likely to be counterfeited and some pallets and cases of other pharmaceuticals;

—Mass serialization of most packages of pharmaceuticals likely to be counterfeited; and

—Acquisition and use of RFID technology (i.e., ability to read and use the information contained in RFID tags and the associated database) by most manufacturers, most wholesalers, most chain drug stores, most hospitals, and some small retailers.

January—December 2007

—Mass serialization of all pallets and cases of pharmaceuticals;

—Mass serialization of most packages of pharmaceuticals; and

—Acquisition and use of RFID technology (i.e., ability to read and use the information contained in RFID tags and the associated database) by all manufacturers, all wholesalers, all chain drug stores, all hospitals, and most small retailers.

—FDA plans to assist, to the extent necessary and appropriate, in facilitating the rapid, widespread adoption of RFID in the drug distribution system by working with stakeholders in the following areas:

—Addressing any regulatory and policy issues related to the performance of feasibility studies;

—Addressing any regulatory and policy issues relating to the notification requirements associated with implementation of RFID;

—Addressing any product quality concerns and data issues related to the performance of feasibility studies;

—Reviewing protocols for feasibility studies;

—Working with other governmental agencies to coordinate activities;

—Encouraging stakeholders to convene meetings of supply chain participants to identify, discuss, and propose solutions to technical, business, and policy issues related to the use of RFID technology in the pharmaceutical distribution system; and

—Exploring the need for any other processes and venues that might be needed to assist stakeholders as they migrate towards the use of RFID technology.

—FDA intends to regularly review the pace at which RFID is being adopted in the U.S. drug distribution system;

—FDA plans to publish or clarify, as appropriate, regulatory requirements, policy guidance, and product quality testing requirements related to the use of RFID after sufficient data and marketplace experience with RFID are available to adequately inform our decision-making; and

—FDA intends to consider taking further steps to facilitate the adoption of mass serialization.

1. *Business steps for industry*

Each industry stakeholder interested in implementing RFID would benefit from the following steps:

- Create an internal team focused on the adoption of mass serialization and use of RFID technology;
- Perform internal feasibility studies to gain experience with mass serialization and RFID technology and to identify internal business issues requiring resolution;
- Perform external pilot studies with stakeholders across the supply chain to gain experience using mass serialization and RFID and to identify opportunities, barriers and external business issues associated with them;
- Develop policy and a business case for the use of mass serialization and RFID;
- Cooperate and work with other stakeholders and government agencies to develop infrastructure and information systems to use with mass serialization of pallets, cases, and packages of drugs;
- Participate on standard setting groups developing technical standards and business rules for use of mass serialization and RFID;
- Work with government agencies and other members of the supply chain to identify and address regulatory and economic issues that could delay the adoption of mass serialization and RFID; and
- Educate other members of the supply chain and government agencies about mass serialization and RFID.

To the extent possible, it would be most useful for interested firms to perform these actions concurrently. For example, standards development requires knowledge gained from feasibility studies in order to move forward, and vice versa.

2. *Standards Setting Issues*

Any effort to develop standards for mass serialization of pallets, cases, and packages would be most effective if it addressed the following issues:

- Minimum Information Requirements for the serial number—in the case of RFID tags this means containing a mass serialization code that uniquely identifies the object to which it is attached (e.g., minimum of 96 bits of information);
- Communication protocol standards—in the case of RFID this means standard protocols for interrogating and reading tags;
- Reader Requirements—Readers of mass serialization codes should be interoperable (e.g., readers must use protocols that allow them to read multiple classes of tags or bar codes, as applicable) and should be able to automatically upgrade software over an information network;
- Pedigree requirements—this means that databases containing transaction information should be compatible (e.g., format, mark-up language);
- Information Network Requirements
 - 1. Database Structure (e.g., centralized vs. distributive)
 - 2. Data ownership
 - 3. Data access (to meet business, track and trace, and recall needs)
 - 4. Data Access controls to assure information security;
- Software Requirements—all applications should be compatible and compliant to assure global interoperability; and
- Best use of Frequencies—(e.g., 13.56 megahertz on packages and 915 megahertz on cases and pallets due to interference and read range issues).

2. REGULATORY INITIATIVES AND STATE MODEL RULES

All levels of government, in addition to the private sector, should take responsibility for ensuring the safety and security of the U.S. drug distribution system. Each level has a role in deterring and preventing the introduction of counterfeit drugs into the Nation's drug supply chain. To complement and build on the technology measures described above, regulatory and legislative steps at all levels of government may be necessary. At the Federal level, FDA is taking steps to meet the objectives of the Prescription Drug Marketing Act (PDMA), which is intended to address vulnerabilities in the U.S. drug distribution system. At the State level, it would be beneficial for states to strengthen their provisions governing wholesale distribution, as described below in the revised Model Rules for Licensure of Wholesale Distributors. And, FDA plans to pursue increased criminal penalties for counterfeiting in the United States Sentencing Commission's sentencing guidelines.

*A. Prescription Drug Marketing Act (PDMA)**(1) What FDA sought comment on:*

What are the most effective ways to achieve the goals of PDMA and, given recent or impending advances in technology discuss the feasibility of using an electronic pedigree in lieu of a paper pedigree?

(2) What the Comments Said:

Many of the comments that discussed PDMA acknowledged the limitations and concerns of full implementation of PDMA. However, many comments also supported the use of paper pedigrees for their deterrent value and as a means to verify prior sales through due diligence. A risk-based approach to implementing PDMA, which focuses on those drugs that are at high risk of being counterfeited, was suggested, as well as maintaining a full pedigree that documents all sales and transactions back to the manufacturer for drugs and high risk. One comment suggested an interim solution of “one forward, one back” pedigree for high-risk drugs. However, a number of the comments noted the high cost and incomplete protection provided by such paper requirements, especially as a general interim measure; by the time these costly requirements were phased in, they could be replaced by a more modern system. A majority of the comments supported the eventual use of an electronic pedigree for all drug products in the supply chain and indicated that an electronic pedigree should be considered as a modern solution to fulfilling and exceeding the PDMA goals, and urged FDA to take steps to help achieve a reliable pedigree solution as quickly as possible. As noted above, FDA believes that substantial progress toward a more cost-effective solution than incomplete and costly paper pedigrees is possible within the next several years. A detailed discussion of the comments is in Appendix B.

(3) Discussion:

FDA has worked closely with affected parties to identify and resolve concerns related to the implementation of the pedigree requirements of the PDMA. Through the various public comment opportunities over the years, the agency has heard mixed reviews about the value, utility, and difficulty of implementing a paper pedigree that identifies each prior sale, purchase, or trade of such drug. The comments received in response to questions raised in the Interim Report confirm that these concerns continue.

FDA is encouraged by the enthusiasm and interest that stakeholders in the U.S. drug supply chain have expressed toward the adoption of sophisticated track and trace technologies that are more reliable than paper pedigrees. As discussed above, there appears to be movement by industry toward implementation of electronic track and trace capability in 2007. When this is in place, RFID should be able to function as a de facto electronic pedigree that follows the product from the place of manufacturer through the U.S. drug supply chain to the final dispenser. If developed properly, this electronic pedigree could be used to meet the statutory requirement in 21 U.S.C. § 353(e)(1)(A) to provide a pedigree under certain circumstances.

In the interim, until the electronic pedigree is in widespread use, voluntary adoption of multi-layer strategies and measures discussed in this report would reduce the likelihood that counterfeit drugs will be introduced into the U.S. drug distribution system. These measures, combined with RFID technology, can help provide effective long-term protections that will minimize the number of counterfeit drug products in the United States distribution system.

As discussed in a notice published in the Federal Register in conjunction with the publication of this report, FDA plans to continue to stay the implementation of 21 CFR §§ 203.3(u) and 203.50. However, the agency intends to continue to reassess the stay of implementation on an annual basis. The agency will monitor closely whether progress toward the implementation of electronic pedigrees continues at the rapid pace evident in this task force analysis. Our plan to reassess the stay annually is part of the agency’s strong commitment to see that effective product tracing is implemented as quickly as possible. The agency also encourages wholesalers to provide pedigree information that documents the prior history of a drug product, particularly for drugs most likely to be counterfeited, even when the passing of such a pedigree is not required by the Act. The suggestion from the comments that there be a one-forward, one-back pedigree for high-risk drugs in the interim, until an electronic pedigree is uniformly adopted, may have merit. However, FDA believes that Congress would have to amend section 503(e) of the Act if such a system is to become a requirement.

(4) FDA Conclusion:

Adoption of electronic track and trace technology would help stakeholders meet and surpass the goals of PDMA. Therefore, FDA intends to focus its efforts on facilitating industry adoption of this technology within the next few years.

—To allow stakeholders to continue to move toward the goal of an electronic pedigree, FDA intends to delay the effective date of 21 CFR §§ 203.3(u) (definition of ADR criterion) and 203.50 (specific requirements regarding pedigree) until December 2006;

—By December 2006, FDA intends to determine whether to further stay the regulations or take other appropriate regulatory action.

*B. Model Rules for Wholesale Distributor Licensing Strengthened**(1) What FDA sought comment on:*

How should the NABP Model Rules for Licensure of Wholesale Distributors (Model Rules) be updated?

Whether FDA regulations at 21 CFR Part 205, should be updated, as appropriate, to make it consistent with updates to the NABP Model Rules?

(2) What the Comments Said:

The comments overwhelmingly supported strengthening state requirements governing the licensure and oversight of wholesale distributors. Many comments cited the systemic weaknesses in the oversight of the wholesale drug industry and that existing inspection and due diligence processes are often insufficient to detect criminal activity. Some comments noted the positive steps already taken by some states, such as Florida, toward more effective regulation of wholesale distributors. For example, Florida has implemented more stringent requirements for licensure, stronger penalties, and due diligence requirements. Most comments stated that the full adoption of revised NABP model rules would improve security nationwide, and that stricter uniform standards were desirable across all 50 states so as not to create 50 different sets of criteria and rules for licensing. FDA was encouraged to revisit the current minimum standards requirements described in 21 CFR Part 205 to assess whether a “Federal floor” for states would enhance or diminish state efforts to meet the NABP recommendations. A detailed discussion of the comments is in Appendix B.

(3) Discussion

FDA is pleased to recognize the recent efforts by NABP in revising the Model Rules. The revised Model Rules significantly strengthen the requirements for licensure, as well as put in place or fortify requirements that will ensure and protect the integrity of drug products as they travel through the U.S. drug supply chain from the manufacturer to the consumer.

NABP sought comment from FDA, as well as interested stakeholders, in developing the revised Model Rules. The comments that FDA received as part of the anti-counterfeiting initiative have been discussed with NABP.

The revision of the Model Rules sought to enhance the protections included in the original version of the Model Rules and close existing gaps. The table below contains highlights of the revised Model Rules:

Revisions to Model Rules		
<p>Measures to ensure legitimacy and integrity of wholesalers</p> <ul style="list-style-type: none"> • More stringent licensure requirements • Extensive disclosure requirements for licensure • Including background checks and other detailed personal, financial, and business information • Minimum Bond of \$100,000 • Inspections before licensure and every 3 yrs thereafter • Due diligence prior to transacting business with another wholesaler 	<p>Reduced incentives for counterfeiting</p> <ul style="list-style-type: none"> • Increased penalties • Greater protections for susceptible products 	<p>Measures to ensure the integrity of the drug product</p> <ul style="list-style-type: none"> • National list of products most susceptible to being counterfeited • Pedigree requirements for all drugs – back to manufacturer for susceptible drugs • Electronic Pedigree by 2007 • Required use of authentication technologies • Required use of inventory management and control systems • Random and “for cause” authentication of pedigree • Stringent product examination and disposal requirements • Strengthened storage, handling, and recordkeeping requirements

NABP is taking steps to facilitate implementation of the revised Model Rules, including: (1) publishing a list of susceptible products and calling for a coalition of national organizations to develop a process to maintain and update the list; (2) serving as bondholder for wholesalers in order to consolidate the need to hold a bond in all states where a wholesaler may do business; and (3) establishing a clearinghouse that will list wholesalers who receive accreditation by NABP and who have passed an inspection by their newly created inspection service, which NABP will conduct in partnership with the states. FDA supports NABP's efforts to facilitate adoption and implementation of the enhanced Model Rules.

Counterfeiting is a problem that is not isolated to one state. If a state strengthens its licensing requirements while a bordering state does not, the counterfeiters and illegitimate wholesalers will likely move into the bordering state. Widespread state adoption, implementation, and enforcement of the Model Rules would help combat counterfeiting.

(4) FDA Conclusion:

Because States have an important role in regulating drug distributors, adopting and enforcing stronger state anti-counterfeiting requirements would help in our collective effort to detect and deter counterfeiting.

—FDA strongly supports the efforts taken by NABP to enhance the Model Rules and other actions taken to facilitate implementation;

—FDA supports all efforts by the States to adopt these Model Rules. Adoption of the model rules by all States would have a significant impact on protecting the Nation's drug supply by ensuring that all persons and entities involved in wholesale distribution of drug products meet stringent licensing criteria and maintained high ethical and business standards;

—FDA encourages these state actions and the agency intends to explore whether and to what extent to revise the current minimum standards for state licensing of wholesale prescription drug distributors in 21 CFR Part 205.

C. Higher Penalties for Drug Counterfeiting

(1) What FDA sought comment on:

Discuss the advantages and disadvantages of increased penalties for counterfeiting drugs

(2) What the Comments Said:

There was overwhelming support and unanimous agreement that higher penalties for counterfeiting are needed.

(3) Discussion:

FDA agrees with comments suggesting that higher penalties deter drug counterfeiters.

Current sentencing guidelines for counterfeit drug distribution are not commensurate with the public health threat posed by this criminal activity and strengthening the guidelines should help deter such conduct in the first instance. Despite the significant threat to public health posed by counterfeit drug products, current law provides penalties far below the level of some purely economic crimes. For example, counterfeiting a prescription drug label (bearing a registered trademark) is punishable by up to 10 years in prison, while counterfeiting the drug itself is punishable by a maximum of only 3 years in prison. Therefore, FDA plans to continue to pursue its request that the United States Sentencing Commission consider amending the sentencing guidelines to substantially increase criminal penalties for manufacturing and distributing counterfeit drug products and to specifically provide for enhanced penalties based on the level of risk to the public health involved in the offense.

(4) FDA Conclusion

FDA intends to pursue its request that the United States Sentencing Commission consider amending the sentencing guidelines to increase substantially criminal penalties for manufacturing and distributing counterfeit drugs and to provide specifically for enhanced penalties based on the level of risk to the public health involved in the offense.

3. Creation of a Counterfeit Alert Network for Information Dissemination and Education

(1) What FDA sought comment on:

Whether a counterfeit alert network should be created through use of existing, or newly developed, communication tools, that allow reception, dissemination, and sharing of information about counterfeit drugs in a timely manner;

What are the capabilities of current communication network, what a communication network should have in order to part of a counterfeit alert network, and costs associated with developing or adapting current systems.

(2) What the Comments Said:

The agency received many comments supporting the creation of a counterfeit alert network. Most of the comments suggested that the agency take steps to build on existing networks and several comments offered their organizations' distribution lists or network as a conduit for the counterfeit alert network. The agency was advised that the counterfeit alert network should not be overused in order to avoid alert "fatigue," which could create indifference or doubt regarding the importance of the messages. The agency was encouraged to consider cost-effective public/private partnerships to design communication strategies and facilitate efforts to standardize anti-counterfeit communications and to augment and coordinate communication systems. A detailed discussion of the comments is in Appendix B.

(3) Discussion:

The FDA is committed to informing the public, particularly consumers, pharmacists, other health professionals, wholesalers, and others involved in the U.S. drug distribution system, about counterfeit drug incidents in a timely manner. FDA is also committed to educating them about ways to identify and prevent counterfeits from entering into this system. To increase awareness of counterfeit drugs and safeguard the Nations drug supply, FDA is creating a network of national organizations, consumer groups, and industry representatives to deliver time-sensitive messages and information about specific counterfeit incidents and educational messages about counterfeits in general. The network is called the "Counterfeit Alert Network."

Partners in the Counterfeit Alert Network will be required to enter into a co-sponsorship agreement with FDA that lays out roles and responsibilities. Partners agree to disseminate the FDA time-sensitive messages to their members/subscribers/readers in the manner outlined in the co-sponsorship agreement, to partner in delivering educational messages, and in the case of health professionals, provide a link to the MedWatch website to report suspect counterfeits. A copy of the co-sponsorship agreement can be found in Appendix C.

The agency plans to maintain a list (as it does now) of additional health professional, consumer, and industry organizations, and media outlets to notify when an actual counterfeit incident is confirmed and what steps to take to minimize risks and remove the product from the U.S. distribution system. This will help ensure the widest possible distribution to the appropriate audience's.

FDA met with consumer groups, pharmacy groups, and physician groups to determine the type of information that would be most useful to receive from FDA in the event of a counterfeiting incident. FDA intends to create templates for standardizing the format and content of health professional and consumer information in the

event of a counterfeit incident that can guide outreach efforts in an efficient manner, while assuring the flexibility FDA needs to formulate the messages.

(4) FDA Conclusions:

FDA will create a Counterfeit Alert Network that links together and enhances existing counterfeit notification systems, to provide for timely and effective notification to health professionals and consumers of a counterfeit event.

- FDA is creating a counterfeit alert network to partner with national healthcare organizations, consumer groups, and industry representatives to deliver time-sensitive messages about specific counterfeit incidents and educational messages about counterfeits in general, and information about how and when to report suspect counterfeit drug products;
- FDA plans to develop and execute multi-media informational strategies for specific audiences to ensure that the messages reach the largest number of interested people possible through the network;
- FDA plans to develop internal guidelines for the informational contents of outgoing FDA messages that will be most useful to communicate a counterfeiting incident to individual stakeholder groups.

4. Health Professional Reporting Encouraged via MedWatch

(1) What FDA sought comment on:

Whether FDA's MedWatch system should be used as a tool to receive and disseminate timely information about counterfeit drug products, especially identification of suspect drug product?

(2) What the Comments Said:

Most of the comments supported the use of MedWatch for reporting suspect counterfeit drugs. These comments stated that health professionals are familiar with MedWatch and it would be too cumbersome and expensive to develop a new system, which people would have to be educated to use. One comment believed that reports of possible counterfeiting should be separate from MedWatch because it is not designed for criminal activity reporting and oversight. Another comment stated that because MedWatch is a voluntary reporting system, there could be significant under-reporting.

(3) Discussion:

For nearly 10 years, MedWatch has been FDA's reporting portal for adverse drug reactions and "product problems." These include problems with product quality that may occur during manufacturing, shipping, or storage, such as product contamination, defective components, poor packaging or product mix-up, questionable stability, and labeling concerns. If a pharmacist or consumer notices an unexplained change in size, shape, color, or taste of their dosage form, or notices that the coating is chipped or tablets are cracked, or that the drug is not working like it usually does, they may consider that to be a problem with their product. These are also characteristics that could occur if the product was a counterfeit drug. In fact, in the past, FDA has received some reports of suspect counterfeit drugs through MedWatch.

If a consumer suspects that his or her medicine is counterfeit, they are encouraged to contact the pharmacist who dispensed the drug, rather than report directly to MedWatch. The pharmacist may have information from the manufacturer that the shape, color, or taste of the product may have changed, or other information that may be helpful in determining if the product may be counterfeit or if the suspicious characteristic of the product or its packaging is expected.

The use of MedWatch is for health professional reporting. This would not affect the agreement with the Pharmaceutical Research and Manufacturers of America (PhRMA), whereby manufacturers have agreed to report counterfeits of their products to FDA's Office of Criminal Investigations, within 5 days of becoming aware of the counterfeit.

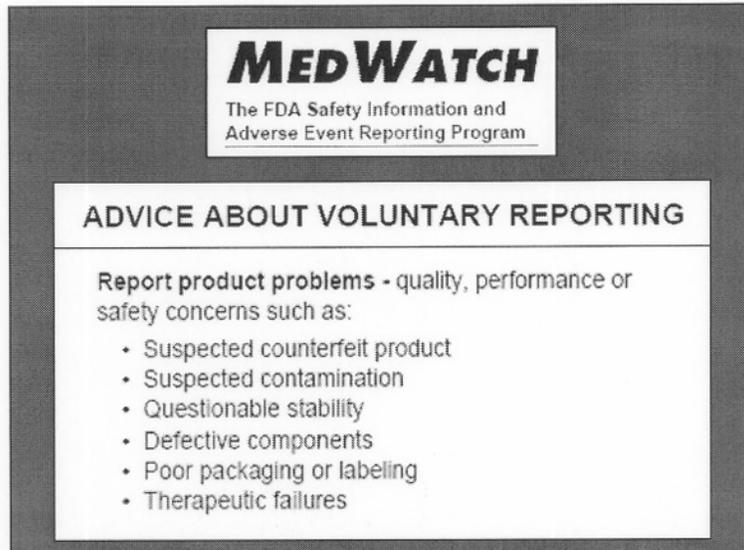
FDA has streamlined procedures for processing reports of suspect counterfeit drugs. The MedWatch Central Triage Unit (CTU) standard operating procedures (SOPs) have been amended to include "suspect counterfeit product" as a category of reports, so the CTU will know where to send the report for expedited processing.

It is easy and convenient to file a report with MedWatch. All reports are confidential and the identity of the reporter is not disclosed. FDA encourages reporting using the online reporting form that can be found at www.fda.gov/medwatch.

(4) FDA Conclusion:

FDA plans to encourage and educate health professionals to report suspect counterfeit drugs to MedWatch.

- FDA plans to encourage and educate health professionals to report suspect counterfeit drugs to MedWatch as an overarching mechanism to report such information;
- FDA plans to change the instructions for the MedWatch reporting form, both paper and online versions, so reporters will know how and when to report suspect counterfeits. Additionally, FDA plans to amend the MedWatch website description of product problems to include suspect counterfeits.



Change made to the instructions on the MedWatch reporting form.

5. Secure Business Practices

(1) What FDA sought comment on:

Whether to develop sets of “secure business practices” which would be voluntarily adopted by manufacturers, wholesalers, re-packagers, and pharmacies?

Whether stakeholders should designate an individual or team to coordinate security and anti-counterfeiting activities?

Issuance of an FDA guidance document concerning physical site security and supply chain integrity?

There was no proposal specific to re-packagers. However, FDA identified independent re-packaging operations, through several ongoing investigations, as a point of entry for counterfeit drugs into the distribution system, and some of the proposed options would have had the effect of limiting those re-packaging operations.

(2) What the comments said:

The comments supported the need for development of secure business practices by all stakeholders in the drug distribution chain because each stakeholder has a responsibility to ensure that pharmaceutical products are authentic. The comments suggested that such practices include ensuring the legitimacy of business partners and refusing to do business with persons of unknown or dubious background, taking steps to ensure physical security, and identifying an individual or team in the organization with primary responsibility for ensuring that effective security practices are implemented.

It is critically important that the physical facilities involved in the production, distribution, or dispensing of pharmaceuticals are secure against counterfeit drugs. In the area of food safety, our Center for Food Safety and Nutrition (CFSAN) has issued guidance for the food industry on preventive measures that establishments may take to minimize the risk that products under their control will be subject to tampering or other malicious, criminal, or terrorist actions.

Although it was acknowledged that re-packagers were required to comply with Current Good Manufacturing Practices as set forth in 21 CFR 210 and 21 CFR 211, due to the involvement of re-packaging operations in some recent counterfeiting schemes, FDA was asked to provide more oversight and to conduct more frequent inspections of re-packagers.

See Appendix B for a detailed discussion of actions taken by manufacturers, wholesalers, and pharmacists to develop secure business practices.

(3) Discussion:

Recent counterfeiting cases demonstrate that the current business practices of participants in the U.S. drug distribution system are in some cases inadequate to prevent the introduction of counterfeit drugs. Implementation of secure business practices by participants in the U.S. drug supply chain is critical for deterring and detecting counterfeit drugs. Therefore, FDA commends and strongly supports efforts to develop and implement secure business practices for these participants. FDA plans to facilitate and encourage the development of innovative approaches to securing business transactions in the drug supply chain. The number of stakeholders who have told FDA they are already implementing the business practices discussed above is very encouraging. In addition to identifying effective security measures, the designation of an individual or team to have primary responsibility for coordinating security activities helps ensure effective implementation.

FDA agrees that re-packaging operations can be a significant vulnerability in the drug supply chain. Although current statutory and regulatory requirements allow for appropriate oversight of re-packagers, FDA agrees that enforcement of those requirements could be strengthened.

(4) FDA Conclusions:

For government efforts against counterfeit drugs to be successful, drug producers, distributors, and dispensers will have to take effective actions to secure their business practices.

- Efforts by stakeholders to develop the secure business practices listed above would help protect the public health and diminish counterfeiting;
- FDA plans to work with individual stakeholders and groups representing stakeholders, as necessary and appropriate, to continue to develop, make publicly available, and widely disseminate secure business practices;
- Good security practices include designation of an individual or team, reporting directly to the organization's senior management, to coordinate the security and anti-counterfeiting activities for the organization;
- FDA supports efforts by pharmaceutical manufacturers, wholesalers, and retailers to secure their physical facilities against counterfeit drugs. FDA plans to issue guidance on physical site security that applies to participants in the U.S. drug distribution system.
- FDA plans to make its oversight over re-packagers of drugs a higher priority. FDA expects to increase the frequency with which it inspects re-packagers whose operations are found to be at increased risk for the introduction of counterfeit drugs. The increase in frequency will be based on the degree of risk, as determined by applying to re-packaging operations the risk based model FDA is developing for prioritizing inspections of drug manufacturing sites.

6. FDA'S Rapid Response to Reports of Suspect Counterfeit Drugs Streamlined

(1) What FDA sought comment on:

Enhancing FDA's internal processes for responding to and investigating reports of suspected counterfeit products

(2) What the Comments Said:

The comments unanimously supported any efforts by the agency to rapidly respond to reports of suspect counterfeit drugs.

(3) Discussion:

FDA takes reports of suspect counterfeit products very seriously. The agency is proud of its investigative tools and talents and its quick response to the public health needs when a counterfeit has been reported and has been confirmed. To improve this process, the agency evaluated its policies and procedures for responding to reports of counterfeit drugs to determine if FDA's response could be more efficient. Although FDA has had many positive experiences in responding and working with manufacturers and the public, FDA identified several ways to further enhance coordination and communication among all initial responders within the agency.

Because different parts of the agency throughout the country may receive the potential counterfeiting report, in some instances, it may take time for the information

to flow to the appropriate people who need it to respond efficiently. Therefore, FDA has established an FDA-wide rapid response protocol for suspect counterfeit drugs that will ensure that specified persons/offices/divisions within the agency are notified and engaged as soon as possible after the report is made to the agency. Policies and procedures have been or will be amended to reflect this streamlined information flow and coordination of agency response. Increased coordination and communication will help FDA to initiate rapidly any criminal or civil investigation, as well as to assess the health hazard of the counterfeit situation so the public health response can be launched.

(4) FDA Conclusion:

To respond rapidly to a report of a suspect counterfeit, FDA is further streamlining its internal processes to respond quickly to reports of suspect counterfeit drugs by improving coordination and communication among all initial responders in the agency.

- FDA intends to amend its internal SOPs, where appropriate, to provide for more rapid response when a suspect counterfeit is reported;
- FDA intends to build on lessons learned from working with manufacturers in past counterfeiting experiences to determine how industry/agency collaboration can and should be strengthened.

7. Educating the Public and Health Professionals

a. Consumers

(1) What FDA sought comment on:

As the sophistication of the “final product” drug counterfeiting operations has increased, the public needs to be more aware of ways to identify the risk of counterfeit drugs, receive instructions on ways to minimize the chance of receiving fake products and to identify potential counterfeits.

(2) What comments said:

The comments stated that it is imperative that consumers be encouraged to be more proactive in managing their health and be given useful tools to be vigilant to help avoid potential counterfeit drugs. Consumers should be educated to be aware of noticeable differences in their medication, the packaging, or any adverse events. In addition, consumers should understand the important role that their pharmacist and healthcare providers can play in identifying, reporting, and responding to counterfeit drug events. However, the comments warned that care should be taken in any education campaign to not unnecessarily alarm the public.

(3) Discussion:

Despite the growing sophistication of counterfeit drug threats, many consumers are not fully aware of these risks. The Agency, in conjunction with consumer and patient advocates, as well as industry representatives is eager to find additional creative ways to educate the public of the potential threat of counterfeit drugs. The messages should alert consumers to the risk, offer ways consumers can recognize the signs of a potentially counterfeit product, teach them how to reduce the risk of exposure and tell them what to do if they suspect they have encountered one. Of course, FDA wants to strike an appropriate balance in the need to proactively educate consumers without causing unnecessary alarm that could interfere with their use of prescribed drug regimes. Most important, it is critical to focus awareness, and education programs should focus on issues that consumers can control.

FDA has an ongoing educational campaign that is intended to educate consumers about the risks of buying medicines online. FDA intends to reaffirm this message and focus the educational campaign on teaching safe purchasing methods. Particular focus will be placed on encouraging the public to seek out the Verified Internet Pharmacy Practice Site (VIPPS) seal when purchasing from an online pharmacy.

In addition, stakeholders indicated that there is a need for better, timelier, accurate information about specific counterfeit situations. FDA plans to create a counterfeit drug resource page on our website. The objective of this webpage is to concentrate customized education tools into a resource library that can empower individual stakeholder groups.

(4) FDA Conclusions:

Educating the consumers about the risks of counterfeits is a critical piece in the effort to stop counterfeits from entering the stream of commerce.

- FDA plans to develop additional, multi-layer, consumer-oriented educational materials that will help them learn about counterfeits, what to watch for, and

where to turn for useful information if they think they have encountered a suspected counterfeit;

- FDA plans to re-launch the FDA public service announcement (PSA) campaign for best online buying practices to educate consumers about how to buy drugs online safely, and risks to avoid in online purchasing;
- FDA plans to house on its *www.fda.gov* website a comprehensive, consumer-friendly online library that will contain both general and specific counterfeit drug information. It will also contain targeted educational materials for various interest groups that discuss counterfeit issues generally. In addition, the agency intends to develop a new FDA anti-counterfeiting resources icon to increase familiarity with the issue.

b. Pharmacists and Other Health Care Professionals

(1) What FDA sought comment on:

Pharmacists need improved tools to receive information and to educate themselves about how to handle these situations and to keep abreast of current counterfeit events. They need to know how to identify and counsel consumers who might have received counterfeit products.

Physicians, nurses and other health professionals also have contact with consumers taking pharmaceuticals and can help identify and counsel patients that could have accessed a counterfeit. This will require these groups keep up to date on current counterfeit events and know steps to take to report situations if a counterfeit is suspected.

(2) What the comments said:

Groups representing pharmacists and pharmacies recognize the need for pharmacists to take a leadership role in the identification of counterfeits, prevention of their introduction into the distribution chain, and education of consumers about counterfeits.

The healthcare community indicated that awareness and education campaigns are important if its health professionals are to be active participants in the fight against counterfeit drugs.

(3) Discussion:

Pharmacists and health professionals can play a major role in helping identify counterfeits and preventing their introduction into the distribution chain. FDA has been working with pharmacy and medical professional groups to develop educational materials for pharmacists and other healthcare professionals, including doctors, nurses, and physician assistants.

(4) FDA Conclusion:

FDA plans to enhance its educational programs for pharmacists and other health professionals about their role in minimizing exposure to, identifying, and reporting counterfeits.

- FDA intends to work with pharmacy and health care professional groups to develop materials to help educate their profession on the risk of counterfeits, what to do in case a counterfeit is suspected and ways to aid in educating consumers. This will include development of clear, concise messages and protocols, as well as the establishment of a delivery mechanisms that will help them learn about the threat of counterfeits, what to watch for, and where to turn for useful information in the case of a suspected counterfeit;
- FDA intends to encourage pharmacy and health care professionals to become partners in the agency's newly established Counterfeit Alert Network;
- FDA intends to expand its outreach efforts by presenting at or participating in conferences and by publishing articles in professional journals and periodicals that target audiences of doctors, nurses, pharmacist and hospital administrators to educate them about counterfeits and raise awareness of the risks;
- FDA intends to work with health professional trade groups to identify or improve data collection/reporting systems that could help identify counterfeits as they enter the stream of commerce (i.e, include appropriate questions on the ER patient admission questionnaire that might help diagnose usage of a counterfeit drug.)

8. International Approach

(1) What FDA sought comment on:

Strengthening international cooperation in law enforcement efforts, identifying counterfeit products, using anti-counterfeiting technologies, and educating stakeholders and consumers

Whether there should be global standards for packaging of pharmaceuticals and the use of anti-counterfeiting technologies

(2) *What the comments said:*

The comments supported FDA involvement in global efforts to deter and detect counterfeit drugs.

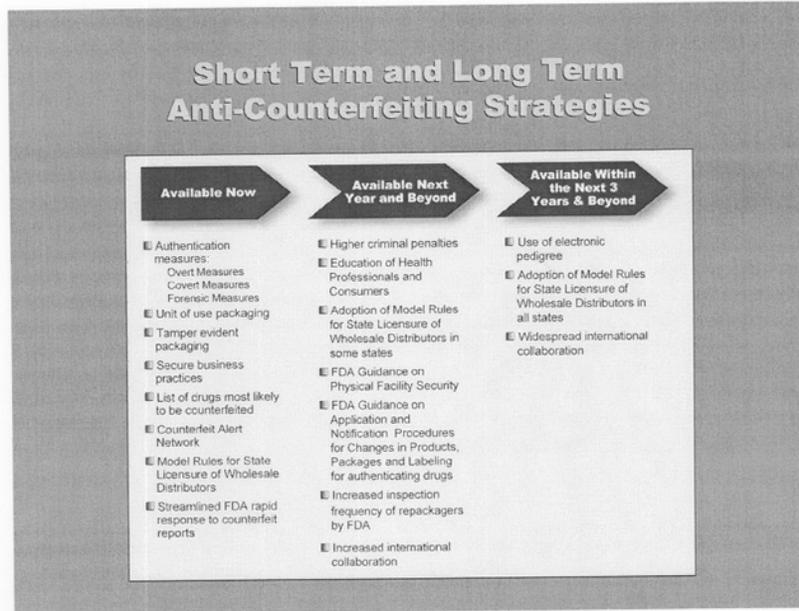
(3) *Discussion:*

The growing global prevalence of counterfeit drugs must be curtailed. The steps described in this report are intended to secure the U.S. domestic drug supply. However, as long as counterfeit drugs exist worldwide, opportunities could arise for counterfeit drugs to find their way into the United States. Many countries have taken steps to secure their Nation's drugs supply, while others struggle because of limited resources, inadequate regulatory infrastructure, or competing national health priorities. The World Health Organization (WHO) has taken the lead to increase worldwide collaboration and to develop strategies to deter and detect counterfeit drugs. There are several international criminal enforcement collaborations, such as the Permanent Forum on International Pharmaceutical Crime and the Interpol Intellectual Property Crimes Action Group. FDA intends to work with WHO and other international organizations to develop and implement worldwide strategies to combat counterfeit drugs.

(4) *FDA Conclusions:*

FDA will collaborate with foreign stakeholders to develop strategies to deter and detect counterfeit drugs globally.

Below is a table showing when certain anti-counterfeiting measures will be available:



APPENDICES

- Appendix A: Counterfeit Alert Network Co-sponsorship Agreement
- Appendix B: More detailed description of the comments received for certain issues (where the comments were diverse or lengthy)

COUNTERFEIT ALERT NETWORK CO-SPONSORSHIP AGREEMENT

Background

The U.S. Food and Drug Administration (FDA) is committed to informing the public, particularly consumers, pharmacists, other health care professionals, wholesalers, and others involved in the U.S. drug distribution system, about counterfeit drug incidents in a timely manner and educating these parties on ways to identify and prevent counterfeits from entering into this system. To increase awareness of counterfeit drugs and safeguard the Nations drug supply, FDA will create a network of national organizations, consumer groups, and industry representatives to deliver time-sensitive messages and information about specific counterfeit incidents and educational messages about counterfeits in general. FDA also will develop and execute informational strategies for specific audiences to ensure that the messages reach the largest number of interested people possible through the network. The network will be called the "Counterfeit Alert Network."

The goals of the Counterfeit Alert Network include, but are not limited to:

- disseminating alert messages to a wide audience about specific counterfeit drug incidents in the United States and measures to take to minimize exposure (e.g., recall information);
- outlining the roles and responsibilities of consumers, pharmacists, other health professionals, and wholesalers must play to identify counterfeit drugs, report suspect counterfeit drugs, and prevent them from entering the U.S. distribution system; and
- developing a network of national organizations, consumer groups, and industry representatives to help disseminate the information.

[INSERT CO-SPONSOR ORGANIZATION INFORMATION]

Importance of the Partnership to FDA and [Organization]

This partnership will increase the potential audience of FDA's important notifications about specific counterfeit drug incidents and messages about how and when to report suspect counterfeit drugs. By distributing FDA developed messages through the [ORGANIZATION] information system, these messages can reach more than [#] people.

Responsibilities of FDA and [Organization]

FDA will develop targeted messages, with a particular focus on consumers, pharmacists, and other health care professionals when a counterfeit drug is found in the U.S. distribution system. FDA will also develop educational and informational materials about how to detect a counterfeit drug, what to do if a drug is believed to be counterfeit, how to report the suspect counterfeit to the FDA, and ways to minimize the risk of receiving a counterfeit drug. These materials may include: web-based documents, print ads, posters, prepared newspaper articles, fact sheets, consumer brochures/pamphlets, and informational packets. FDA will provide any logistical and technical support, such as writing, layout, designing, and preparing illustrations for the products.

FDA will ensure that all materials are cleared through the Agency and the U.S. Department of Health and Human Services before releasing material to the [ORGANIZATION] for public distribution FDA will provide these materials in a format (hard copy, digital, or electronic) that [ORGANIZATION] can use, as appropriate, to create, manufacture, and/or have printed in enough quantities to distribute to various audiences. FDA will not be responsible for any costs outside of the materials already produced by FDA.

[ORGANIZATION] will distribute in a timely manner FDA's notifications about specific counterfeit incidents as an alert through an active messaging system (separate email or fax alert correspondence). [ORGANIZATION] will facilitate the ability of their members/subscribers/website visitors to report suspect counterfeit drug products to FDA, e.g., via a link to the FDA Counterfeit Drugs webpage or FDA's MedWatch webpage. [ORGANIZATION] will distribute relevant FDA-educational messages about counterfeits, covering such issues as awareness, recognition, prevention, tracking, and authentication of drug products.

The [ORGANIZATION] will pay for the cost, if any, of printing materials, posting materials on its website, email distribution, renting ad space, and securing print placement in magazines and newspapers, as appropriate. [ORGANIZATION] will make clear, in any solicitation for funds to cover its share of the distribution costs that it, not FDA, is asking for the funds. [ORGANIZATION] will not imply that FDA endorses any fundraising activities in connection with the event. [ORGANIZA-

TION] will make clear to donors that any gift will go solely toward defraying the expenses of [ORGANIZATION], not FDA.

FDA and the [ORGANIZATION] I will develop a dissemination plan that outlines where and how the educational materials and alert messages about specific counterfeit incidents will be distributed to various audiences.

FDA and the [ORGANIZATION] will review this agreement in 2 years from the original date of this agreement, but either party to this agreement can terminate its participation at any time by notifying the other party of its intent to do so in writing.

Charges

The [ORGANIZATION] will not sell any educational materials related to this joint effort. [ORGANIZATION] will not impose an enrollment or registration fee for subscribers to receive this information.

Independently Sponsored Portions and Endorsements

All materials and efforts related to the Counterfeit Alert Network will be jointly sponsored. FDA staff will not be used to develop, promote, or otherwise support any event that is independently sponsored by the co-sponsor, although official announcements and brochures may contain factual references to the available materials and Counterfeit Alert Network messages.

The [ORGANIZATION] will not use the name or logo of FDA except in factual publicity. Factual publicity includes materials provided to [ORGANIZATION] on FDA's program and Counterfeit Alert Network materials. Such factual publicity shall not imply that the involvement of FDA serves as an endorsement of the general policies, activities, or products of the [ORGANIZATION]. Where confusion could result, a disclaimer should accompany publicity to the effect that no endorsement is intended. The [ORGANIZATION] will clear all publicity materials with FDA to ensure compliance.

Records

Records concerning this partnership shall account fully and accurately for any financial commitments and expenditures of FDA and [ORGANIZATION]. Such records shall reflect, at a minimum, the amounts, sources, and uses of all funds.

Public Availability

This co-sponsorship agreement, as well as any financial records for this partnership, shall be publicly available.

Co-Sponsorship Guidance

FDA and the [ORGANIZATION] will abide by the memorandum of August 8, 2002, "Co-sponsorship Guidance," issued by the Associate General Counsel for Ethics.

APPENDIX B

EXPANDED DESCRIPTION OF COMMENTS RECEIVED

Technology

Unit of Use Packaging

Comments supporting widespread utilization of unit of use technology cited:

- The decreased need for repackaging which is a point of entry for counterfeit drugs;
- Authentication technologies applied by the manufacturer would reach the dispensing pharmacy and the patient;
- The lower cost for utilizing unit of use packaging on newly approved drugs;
- The deterrent value to counterfeiters of the higher costs of duplicating unit of use packages;
- Improvement in patient safety due to reduction in dispensing errors and better patient compliance; and
- Increased pharmacist availability for patient counseling (due to reduction in time needed to fill prescriptions).

Some comments cautioned the FDA against mandating unit of use packaging for all drugs citing:

- The high cost, and length of time, it would take to change production lines from bulk to unit of use packaging;
- The investment made by many pharmacies in re-packaging and pill counting equipment;

- The difficulty of packaging certain products (e. g. vaccines, multi-dose liquid formulations) in unit of use form;
- The need to differentiate repackaging performed under contract to a manufacturer or by a pharmacy (which may achieve market efficiencies) from repackaging by other entities;
- The need to perform a careful product-by-product cost-benefit analysis on unit of use packaging before creating any requirements;
- The minimal hurdle that unit of use packaging creates for sophisticated drug counterfeiters;
- The need to comply with the Consumer Product Safety Commission (CPSC) regulatory requirements for child resistant unit of use packaging;
- The difficulty some consumers (e.g., arthritic patients) may have in opening unit of use packaging such as some blister packs;
- The need for pharmacists to modify prescribed quantities to correspond with available unit of use packages which could require changes in state law; and
- The need to establish standards for such things as size and shape of unit of use packaging in order to minimize patient confusion and address shelf space issues.

Authentication Technologies

They supported use of authentication technologies as part of an overall anti-counterfeiting strategy and stated that authentication technologies serve two purposes:

They make it more difficult and expensive to produce a copy of the drug or its packaging and labeling, and

They provide a means for determining if a specific drug, package, or label is authentic.

Manufacturers of specific anti-counterfeiting technologies provided us with descriptions of their products that were extremely valuable in helping us understand how they work, their cost, and how they might be incorporated into pharmaceutical products, packaging, and labeling or used to detect counterfeit products through forensic and other analytical methods, including rapid methods.

Many comments supported the issuance of an FDA guidance document on the use of authentication technologies. They stated that there was no clear FDA policy specifically targeted to this important subject. They suggested that current FDA policies and practices for New Drug Applications (NDAs), Abbreviated New Drug Applications (ANDAs), and Biologics License Applications (BLAs), supplements, and other notification procedures should be clarified so the policies and procedures applicable to use of anti-counterfeiting technologies are clearly articulated and available in a single document.

The following points were made regarding the use of authentication technologies on drug products, their packaging and labeling:

- There is no “silver bullet” solution—all anti-counterfeiting technologies can be defeated;
- Because all anti-counterfeiting technologies can be defeated, a more extensive approach utilizing layered overt and covert technologies that are changed on a regular basis is frequently required;
- Authentication technologies are expensive;
- Manufacturers should determine which authentication technologies to use, on a product specific basis. The FDA should not require the use of any specific anti-counterfeiting technology. For example: the number and type (e.g., overt, covert) of technologies utilized for a given product need to take into account the type of product (e.g., solid, liquid), use, cost, history of counterfeiting etc.;
- Repackaging destroys anti-counterfeiting technologies employed by the manufacturer;
- Incorporation of anti-counterfeiting measures into the product, packaging, and labeling may be subject to application and notification requirements which means that initiating or changing such technology could require a significant time and expense;
- Although all products are at risk for being counterfeited there is a need to develop criteria or a classification system to help identify those products at highest risk for being counterfeited and thereby assist stakeholders in identifying products that might derive a greater benefit from the incorporation of authentication technologies;
- The large number of available technologies coupled with the number of different products stocked in pharmacies and the need to change anti-counterfeiting measures make it difficult for pharmacists to be knowledgeable about the technologies used for a product at any given time;

- Technologies that do not allow for “real time” or consumer authentication (e.g., covert technologies known only to the manufacturer and/or the FDA) may have an uncertain benefit in rapid identification of counterfeit drugs.

List of Drugs Likely to be Counterfeited

Many comments stated that it was important for stakeholders to allocate financial resources to protect those products that are most likely to be counterfeited. There was agreement that the criteria we suggested to identify drugs that were likely to be counterfeited were correct. These included:

- Impact on public health if the drug were counterfeited;
- Drugs history of counterfeiting;
- Drugs price;
- Drugs volume;
- Drugs dosage form;
- Drugs clinical uses; and
- Whether similar products had a history of being counterfeited.

However, there was no consensus on how to apply these, or other, criteria in creating a list of such products.

As stated above, some comments suggested that instead of developing a list of drugs likely to be counterfeited, a set of criteria for determining whether a drug was at likely to be counterfeited should be created. One proposal for such criteria was:

A drug has been subjected to a seizure or stop sale notice because of counterfeiting, or

There is documentation that a drug was counterfeited and is the subject of an investigation by Federal or State authorities AND

The product is high cost (e.g., over \$200 per dose) or high volume (e.g., top fifty drugs), or

The product is used extensively for treatment of HIV/AIDS or cancer, or

The product is injectable, or

The product distributed in a special or limited way, or

There are multiple documented instances of pedigrees not being passed with the product

Radiofrequency Identification Technology

We received a large amount of information on the benefits, costs, and unresolved issues relating to RFID. These include:

Benefits

- Ability to deter and detect counterfeit drugs;
- Ability to conduct efficient targeted recalls;
- Ability to manage inventory;
- Ability to identify theft;
- Ability to identify diverted drugs; and
- Improvement in patient safety by assuring correct dispensing of drugs.

Costs

- Purchasing hardware (e.g., tags, readers) and software;
- Integration into legacy information systems;
- Database creation, security, and maintenance;
- Integration of RFID technology into existing manufacturing processes, distribution procedures;
- Compliance with regulatory requirements (e.g., cGMP, notification, product integrity); and
- Feasibility studies.

Unresolved Issues

- Need for all stakeholders to embrace the technology in similar timeframes in order to realize the full potential of RFID technology including provision of a universal electronic pedigree;
- Need to develop standards and business rules;
- Need to address database issues such as structure (e.g., central vs. distributive), ownership, access, and security;
- Clarification of regulatory requirements pertaining to use of RFID (e.g., cGMP, electronic records, notification); and
- Need for a flexible migration path to the use of RFID in order to meet the needs of different stakeholders.

Stakeholder Activities

We have been informed of several feasibility studies, starting in early 2004, that should give members of the supply chain experience using RFID as well as provide them with an opportunity to test its business uses and identify potential barriers to its acceptance. These studies include:

- Wal-Mart*.—Drug manufacturers and wholesalers will attach RFID tags to all bottles of controlled substances;
- Accenture*.—Coordinating a study of RFID involving manufacturers, wholesalers, and retailers that will explore the use of RFID for tracking, tracing, recalls and theft of selected pharmaceuticals;
- CVS*.—Is studying the potential benefits that tagging and tracing pharmaceuticals and prescriptions in a retail pharmacy would have on operating efficiency, quality of patient care, and customer service; and
- Other feasibility studies using RFID are being planned in Europe to study the use of serialization for authentication at the point of dispensing.

In addition to feasibility studies, we understand that several groups representing many supply chain participants have been meeting to discuss ways to facilitate the adoption of RFID. For example the Product Safety Task Force (PSTF) convened under the auspices of the Healthcare Distribution Management Association (HDMA) is developing business requirements and identifying business issues relating to RFID technology.

The PSTF and other stakeholders have informed us that the migratory path (or phase in) to widespread use of RFID at a package level could vary by stakeholder based on the place of that stakeholder in the supply chain (e.g., manufacturer vs. retailer) and on specific costs and benefits accruing to that stakeholder (e.g., types of products manufactured, number of distribution centers, technology cost per product).

Several migratory paths were mentioned, including:

- Phasing in use of RFID technology with use at the case and pallet preceding use at the package level;
- Phasing in use of RFID technology starting with use on pallets, cases, and packages of “high risk” products with gradual inclusion of other products at all levels; and
- Use of RFID technology at the pallet and case level coupled with use of 2-D Bar Codes at the package level with gradual phase in of RFID technology at the package level.

According to stakeholders, these paths are not mutually exclusive and it is likely all of these, and other, paths will be utilized as RFID technology becomes more widely adopted.

Secure Business Practices

Below are some of the secure business practices that have been developed by participants in the U.S. drug distribution system.

Manufacturers

Several manufacturers have announced policies intended to secure the supply chain. These policies include:

- Limiting sales to authorized wholesalers. Authorized wholesalers are defined either as wholesalers who purchase a manufacturers products exclusively from that manufacturer or as wholesalers who purchase a manufacturers product directly from the manufacturer or from other authorized wholesalers;
- Making the list of authorized distributors publicly available;
- Ability to audit the sales records of wholesale distributors;
- Working with dispensing pharmacies to ensure they are aware of the identities of authorized distributors; and
- Designation of an individual or team to coordinate security and anti-counterfeiting activities.

Wholesalers

The Healthcare Distribution Management Association (HDMA) released a document entitled “Recommended Guidelines for Pharmaceutical Distribution System Integrity” which set forth a series of recommended actions for wholesalers to take prior to and while conducting business transactions with other wholesalers. In essence they comprise a “due diligence” checklist which includes items such as:

- Obtaining detailed information about the wholesalers licensure, inspection results, history of disciplinary actions, corporate officers, owners, and management personnel;
- Performing a criminal background check on the wholesaler, its officers, owners, and other key personnel;
- Obtaining a credit history and information about its business activities, financial status, and liability insurance;
- Performing a detailed physical site inspection; and

- Ensure that the wholesaler is in compliance with Federal and State requirements, verifies that the wholesaler is an authorized distributor for the products being transferred or has a process in place for verifying pedigrees.
- Individual wholesalers supported the HDMA guidelines and provided FDA with ideas for additional secure business practices including:
- Not selling pharmaceuticals to other wholesalers at all; and
 - Completely separating the functions of quality assurance and compliance from sales and marketing and requiring quality assurance and compliance staff to perform due diligence on potential business partners.

Pharmacies and Pharmacists

We have been informed that several organizations representing pharmacies and pharmacists are developing secure business practices as a guide for pharmacies and pharmacists. One pharmacy group notified us that they have already published a list of strategies to use for assuring the integrity of pharmaceuticals. This list includes:

- Staying informed about reports of counterfeit drugs;
- Contacting wholesalers to get information about the status of their licensure, whether they are authorized distributors, and where they source their drugs;
- Evaluate pharmacy security;
- Educate hospital staff;
- Follow up on patient complaints; and
- Report suspect products.

Prescription Drug Marketing Act (PDMA)

A majority of the comments that discussed PDMA noted the limitations and concerns of full implementation of PDMA. Such limitations include:

- Paper pedigrees can be forged and counterfeited;
- Paper pedigrees are logistically difficult to accommodate in the drug distribution system;
- ADRs are not required to pass pedigree information on to the next purchaser, so subsequent wholesalers are unable to obtain the pedigrees needed to sell their products;
- The pedigree for a product that circulates several times through the supply chain loses all prior sales history if the drug product is sold to an ADR;
- The net effect is that secondary wholesalers who cannot obtain pedigrees necessary to legally market drugs could be driven out of business; reducing the number of legitimate distributors in the system, decreasing competition and increasing prices;
- Manufacturers do not update their lists of ADRs so it is difficult for a wholesaler to obtain ADR status; and
- Costs of paper pedigrees outweigh the benefits.

A number of other comments, however, supported the use of paper pedigrees for their deterrent value and as a means to verify prior sales through due diligence. Comments noted that even forged pedigree papers provide an additional opportunity to identify counterfeiters and block introduction of counterfeit drugs into the drug supply if wholesalers exercise due diligence by tracing the sales through the pedigree and identifying the place where the forgery occurred. A few comments suggested that FDA should exercise enforcement discretion and not take enforcement action against a wholesaler who fails to provide pedigree information back to the manufacturer as long as the wholesaler provides pedigree information back to the first ADR who received the drug from the manufacturer.

Several comments suggested a risk-based approach to implementation of the PDMA, which focuses on those drugs that are at high-risk of being counterfeited. Many of these comments suggested that high-risk drugs maintain a full pedigree that documents all sales and transactions back to the manufacturer. One comment suggested an interim solution of “one forward, one back” pedigree for high risk drugs. This system would be analogous to recent bioterrorism legislation for food distributors, whereby participants in the food distribution system maintain only those records necessary to identify immediate previous sources and immediate subsequent recipients of food. However, comments on FDA’s food regulations have suggested it will take at least several years to phase in the paper recordkeeping requirements. Moreover, in contrast to drugs, there are no major steps in development now to provide widespread electronic pedigrees for drug products. Finally, as noted throughout the riskiest drug products are the ones for which modern anti-counterfeiting and track-and-trace methods should be implemented soonest.

Most comments supported the development of an electronic pedigree for all drug products in the supply chain and that an electronic pedigree should be considered

as a long-term solution to fulfilling the PDMA requirements codified at 21 CFR 203.50. Given the costs of implementing the partial anti-counterfeiting measures included in the PDMA, and the expectation of continued significant progress toward implementation of modern pedigree systems for drugs, more effective modern pedigree systems are likely to be available before it would be possible to phase in and achieve compliance with paper pedigree requirements.

Model Rules for Wholesale Distributor Licensing

The comments overwhelmingly supported strengthening requirements governing the licensure and oversight of wholesale distributors. Many comments cited the systemic weaknesses in the oversight of the wholesale drug industry, prior to Florida's implementation of licensing reform, that were described in the Florida Grand Jury Report, such as issuing licenses without proper background checks and granting licenses despite one or more felony convictions. The comments also stated that existing inspection and due diligence processes are often insufficient to detect criminal activity. As mentioned above, there was uniform agreement that the penalties for counterfeiting drugs are insufficient to serve as an adequate deterrent.

Many comments supported the concept of tighter requirements generally, while others gave specific suggestions for improvement. Some of the specific suggestions included:

- Detailed and robust applications that provide greater disclosure of information about the applicant and their prior history;
- Criminal background checks for applicant and company principals;
- List of prescription drug-related or fraud-related activities that are “not in the public interest” such that states should deny licenses to persons with criminal records for these activities;
- Pre-license inspection of wholesale distribution facilities;
- Periodic and unannounced inspections;
- National clearinghouse for information on wholesale licensure status, debarments, exclusions, and/or results of criminal background checks;
- Bonds of up to \$100,000;
- Requiring all wholesalers to transmit pedigree tracing transactions back to the manufacturer for susceptible products;
- Non-ADRs must pass pedigree with all drugs with transaction information back to an authorized distributor;
- Amending the definition of ADR to include those on the manufacturers list, have a written agreement currently in effect with the manufacturer, or has a verifiable account with the manufacturer and minimal transactional or volume requirement thresholds from the manufacturer of 5,000 sales units within 12 months or 12 purchases (invoices) within 12 months;
- Requiring authentication of pedigree if there is reason to suspect that the product may be counterfeit, as well as on a random basis;
- Migrating to electronic pedigree;
- More aggressive penalties and enforcement on state and national level;
- Quickly suspending and/or revoking licenses of violators; and
- Including due diligence requirements for wholesalers to conduct on its suppliers.

Most comments stated that the stricter standards should be uniform across all 50 states so as not to create 50 different sets of criteria and rules for licensing.

Concerns about several provisions in the new Florida and Nevada laws regarding licensing of wholesale distributors were expressed. Some of the comments described implementation and logistical problems that wholesalers have experienced in these states as a result of the new law.

Some comments encouraged FDA to revisit the minimum standards requirements described in 21 CFR Part 205 to create a “Federal floor” for States to meet. The comments were not uniform, however, on whether such a Federal floor might enhance or deter state efforts to implement the complete set of NABP recommendations.

Counterfeit Alert Network for Information Dissemination and Education

The agency received many supportive comments about the counterfeit alert network concept. Most of the comments suggested that the agency use existing networks and several comments offered their organizations distribution list or network as a conduit for the counterfeit alert network.

Some comments offered strategic approaches for the development of such a network, including suggested concepts for message delivery. Suggestions include using active notification via “push” e-mail technology, validated and secure systems, easily understood language with clear and unambiguous messages, multiple notification systems, accessible to all stakeholders, no cost for users, timely, visual alert to flag

importance, redundant delivery vehicles such as email, fax, direct mail, and phone, and have an embedded link to take user back to FDA or MedWatch website. The comments also suggested that consistency is an important element so there is familiarity in times of emergency situations. The agency was warned not to overuse the counterfeit alert network in order to avoid alert "fatigue," which could create indifference or doubt regarding the importance of the messages.

The agency was encouraged to consider public/private partnerships to design communication strategies and facilitate efforts to standardize anti-counterfeit communications and to augment and coordinate communication systems. The comments also said that costs to FDA and private partners should be kept to a minimum.

Senator BENNETT. Thank you. I appreciate the opportunity to ask questions of all four of you, and, again, thank you for your service.
Senator Kohl.

WIC CONTINGENCY FUND

Senator KOHL. Thank you, Mr. Chairman.

Mr. Bost, last week, when Secretary Veneman was here, I noted that States are already starting to take action to conserve WIC dollars because they are afraid they do not have enough money to finish out this year. I said we have a contingency fund to prevent things like this from happening and States need to be given as much advance notice as possible if contingency fund money will be made available.

At that time the Secretary said that USDA was aware of the problem and was looking into it. It has been a week now and we have not heard anything, so I would like to ask you the question that we asked her: Do you anticipate using any of the contingency fund this year? And when will an announcement be made with respect to this issue?

Mr. BOST. Well, Senator Kohl, it is interesting that you ask the question because the money was released to several States last night.

Senator KOHL. Last night.

Mr. BOST. Last night.

Senator KOHL. That is great. You know, I cannot imagine—

Senator BENNETT. He knew you were going to ask the question.

Senator KOHL. You cannot respond any more quickly than that.

Mr. BOST. Beg your pardon?

Senator KOHL. That is terrific.

Mr. BOST. Well, I think to be perfectly—

Senator KOHL. So the contingency funding is being made available.

Mr. BOST. Well, actually the States should have it in their letter of credit as we speak. They probably received it at midnight last night.

Senator Kohl, I think it is really important to note, too, that the issue of tracking that information from the States in terms of looking at participation and looking at the food cost is it is not an exact science. And we have been following it for some time. And we were trying to look at being as judicious as we possibly could with those contingency funds, but we did release them last night to those States that were in need, and they will not have to stop serving any clients that are eligible.

WIC FOOD COSTS

Senator KOHL. A follow-up on that. Can you confirm that WIC food costs have been higher than anticipated and that the food cost assumptions upon which the fiscal year 2005 funding request was based are now outdated?

Mr. BOST. Well, I don't know if I would say that they were outdated, but I think the preliminary information that we currently have available to us and that we have been reviewing would lead us to believe that the overall food costs are a little bit higher than estimated.

The other point I would like to make is that it is not only an issue of food cost, but it is also participation rates. In some States, the food costs are a little bit higher; in some States, it is not. We are watching and tracking it very, very closely. It is something that we are very concerned about.

Senator KOHL. And do you anticipate that this updated data and increased participation rate will make it likely that we will have to provide some additional resources in fiscal year 2005 for WIC?

Mr. BOST. I don't think I have drawn those conclusions at this point. It is something we are watching very closely. If we see that is indeed the case, we will come and work with you and Congress to ensure that the needs of these persons are met.

Senator KOHL. Good.

NATIONAL ORGANIC PROGRAM

Mr. Hawks, in fiscal year 2004, we provided a significant increase in funding to the National Organic Program and required that part of the funding be used to meet several statutory requirements of the Organic Foods Production Act of 1990 that have not yet been met. These include directives to hire an executive director for the National Organic Standards Board, to create an ongoing peer review panel, and to improve scientific technical support for the Organic National Standards Board.

Could you comment on the progress of the agency with respect to each of these three funding directives?

Mr. HAWKS. Yes, sir. We are making extremely good progress toward hiring. I think the executive director is very close to being hired. My staff tells me that we are moving judiciously in all of these areas with regard to organic.

Senator KOHL. The peer review panel, do you know if that is ongoing or are you moving in that direction? Have you created an ongoing peer review panel?

Mr. HAWKS. We are in the process of completing initial peer review as we speak.

Senator KOHL. And, finally, to improve scientific technical support for the National Organic Standards Board, any comment?

Mr. HAWKS. Yes, sir. We are doing that. The funds that were provided in our 2004 budget are helping us on the technical scientific review as well.

Senator KOHL. That is great.

Mr. HAWKS. We appreciate those funds.

ANIMAL FEED INSPECTIONS

Senator KOHL. Yes, thank you.

Dr. Crawford, FDA recently announced that they would be implementing new rules regarding animal feed as a result of BSE, including increasing inspections of rendering plants and feed mills. An increase of over \$8 million is provided in the budget for this purpose. How many rendering plants and feed mills are in the United States? Of those, how many handle ruminant material prohibited from being used in animal feed? And will these inspections, specifically of plants that handle ruminant material be physical inspections or paper audits? And what about plants that do not handle ruminant material?

Dr. CRAWFORD. With respect to the number of plants and what they handle, if it is agreeable, I would like to submit that for the record.

The second thing is the inspections will be doubled next year. We are asking for that in this budget. The kinds of inspections will be both physical and also audit types. We expect for the plants to know where the material came from and where it is going, and we have records access for that. And we will be evaluating that.

The other thing is that we want to know what kinds of materials went in there and what the feed was used for and whether or not we can trace that in order to be sure that it isn't going to the wrong species.

So it is a fairly complex inspection process that is reflected in that \$8.3 million more that we want for BSE. One of the major things we are trying to do is to control BSE because the most likely source of infection is animal feed, as you know.

[The information follows:]

ANIMAL FEED

As of February 6, 2004, there are 235 rendering plants, 1,085 FDA licensed feed mills, and 5,071 non-FDA licensed feed mills in the United States. Of these, 157 rendering plants, 310 FDA licensed feed mills, and 759 non-FDA licenses feed mills handle materials prohibited from being used in animal feed.

Senator KOHL. All right. Dr. Murano, your budget requests an additional \$23,500,000 for the Food and Agriculture Defense Initiative. Funding is also requested in FDA and other agencies for this. It sounds like the increases are going for computer system upgrades, increased surveillance, bio-surveillance and training.

For those of us who are not steeped in the language of homeland security, can you explain in laymen's terms what this money will be used for?

Dr. MURANO. Certainly. As you said very well, this is a coordinated effort between ourselves and FDA and other agencies as well, because we understand that we must do several things to maintain the safety of our food supply from intentional attack. One is surveillance, so both we and FDA need funds to survey the food supply for specific agents that we do not normally test for, for what we deem to be normal contamination of food. These are threat agents for which both of these agencies have conducted vulnerability assessments to see where we are the most vulnerable. We have determined where we are the most vulnerable, and are trying

to close those gaps and then test for the threat agents that we believe are most likely to be used.

Secondly, the Food Emergency Response Network that I described very briefly in my opening remarks, is also a joint effort with FDA. It is a network of laboratories throughout the entire country that have to work together and be well coordinated to respond to an event. More importantly, it must do the important surveillance work that needs to be done even before an event takes place. All of these labs have to be coordinated in terms of using the same methods and the information has to be shared among all the laboratories. That is why part of the funds are being asked for eLEXNET, which is a web-based information sharing platform.

For all of these reasons, we have our budget request and FDA has their budget request, but funds are to be used jointly to establish a very robust network of 100 labs in this coming year.

WIC-ONLY STORES

Senator KOHL. All right. Mr. Bost, I have recently been informed about a growing problem that is costing the WIC program several million dollars a year. The WIC-only stores that, as you know, serve only WIC clients and accept only WIC certificates, are increasing in numbers very rapidly. In California alone, there were 82 WIC-only stores in 1996, and now there are more than 600 across that State.

The problem with these stores is that they do not have to compete in the normal market, and so they are able to charge extremely high prices for their products. In California, the estimates are that the WIC-only stores charge 15 percent or more in addition to normal price for WIC food packages than other stores. This is a growing problem, and the WIC program obviously is suffering additional, unnecessary, and unprogrammed costs because of it.

With money so tight, obviously, Mr. Bost, we need to do as much as we can to control this problem. Can you comment on the problem? And to what extent are you aware and consider it serious and what you may be doing about it?

Mr. BOST. Well, interestingly enough, Senator Kohl, I think it is important to note that only 2 percent of all the authorized WIC vendors are essentially WIC-only. Right now we have the WIC-only stores only in California and in the Commonwealth of Puerto Rico. So, one, it is not widespread.

The second point is the fact that we have heard anecdotally that the cost to the Federal Government is more. However, the service is better than our clients are receiving other places. So we are in the process of reviewing that data to make a determination, if it is accurate information, generally speaking, is the cost more. So we have just started that review. I think we actually have two of my senior staff that are going to go into some of the stores in California over the course of the next couple of months and ascertain exactly what the situation is. We are concerned given the fact that we are seeing an increase in our overall WIC costs.

CRITICAL PATH INITIATIVE

Senator KOHL. Yes.

Dr. Crawford, FDA recently announced that they are going to use new technologies to help reduce the cost of developing new drugs. While the goal of this announcement is definitely worthy, announcements such as these raise a question of how closely the FDA should be working with the industry that it regulates.

What considerations are being taken before FDA makes a decision on something that will cause them to work in close collaboration with the industry that you are regulating?

Dr. CRAWFORD. Thank you, Senator Kohl. As you know, we are bound by very strict ethical guidelines to keep us from acting and colluding with the industry that we regulate. We have to be very careful about that.

Our record has been good over the years, but we want to keep it good and even better. So we are separated from working directly with the industry, either in a consulting capacity or in any other kind of capacity to improve their bottom line, their profitability, and even the approval of these drugs.

The genesis of this program, which we are very pleased with, is some years ago, as you know, there was a move to double the National Institutes of Health budget. And so that budget went from between \$13 and \$14 billion, to \$27 billion. This is expected with some concomitant increases in industrial research and development to produce a large number of new technologies and scientific developments that could and I believe will lead to the capability of this country and its pharmaceutical industry producing more useful products, not just in the human drug category but probably in other categories.

The bottleneck for these breakthroughs periodically in terms of getting the technology from the laboratory to the patient and, therefore, saving lives and improving the well-being of people in this country and in other countries has sometimes been the Food and Drug Administration. Obviously, if a large number of new products are developed as a result of the NIH research and the research that is taking place in the pharmaceutical world, we have to be ready for them. We have to know what kinds of categories of products are coming. We have to have the personnel that can rapidly, accurately review these products so that we are sure they are safe and effective, but also to get them to the market as quickly as we possibly can, consistent with their safety and efficacy. That needs a new mind-set, a new model at FDA, and we call it the Critical Path from the laboratory to the patient. It is a modest program to begin with, but it does require us to rethink how we do this.

Now, in saying that, although we will not be divorced from cooperating with NIH, we will be distanced from the pharmaceutical industry that we regulate as we try to get together a new system. So thank you for the question, and I assure you we will be separated to the maximum ethical extent.

BIOTERRORISM REGULATIONS

Senator KOHL. Thank you.

Dr. Crawford, it was recently announced that FDA would delay publishing a final rule on contaminated food tracking by 2 months. The purpose of this rule, as you know, is to help FDA track down

contaminated food and food ingredients as quickly as possible, and it has been lauded by consumer groups.

Why did the FDA postpone publishing the rule? Can you give us a date certain by which the rule will be published?

Dr. CRAWFORD. Thank you for the question. When the Bioterrorism Act was passed in June of 2002, we did get the authority to do this kind of thing, the recordkeeping authority that you are talking about, as well as three other new authorities which enable us to police the food supply better than ever before, thanks to the wisdom of the Congress. This is something that had been developing for a long time, but the advent of the terrorist threats that we are all aware of moved the Congress and also moved the agency to work together to try to get this passed.

We are delayed a bit from what we projected in December with publishing this final regulation. Exactly when it will come out we are not sure at this point. It shouldn't be very much longer. We are putting the finishing touches on it, and we are working with the administration to get it forward.

But I wanted you to know and I wanted to say for the record that the authority to take these kinds of action exists. We just have not implemented the regulations which set out how we will do it. But we are acting already and we are protecting the food supply through the authorities that were vested in us by the Bioterrorism Act.

BSE

Senator KOHL. Finally, Mr. Hawks, the Secretary announced on March 15th that USDA would greatly enhance BSE testing over a year to a year and a half period, 12 to 18 months. Do we understand that this enhanced testing is scheduled only for this limited length of time? And if test results show any additional BSE-positive cases in the United States, will USDA further enhance testing and continue it for an indefinite amount of time? And if so, will CCC funds be used for that purpose, or how will these costs be covered?

Mr. HAWKS. Thank you, Senator Kohl. You are exactly right, we did announce on March the 15th our enhanced surveillance package. We also announced that \$70 million would be transferred from CCC to implement this enhanced surveillance plan. This is in keeping with the international review team report, which recommended that we conduct very intensive surveillance of the targeted population for a period of 1 year. So that is what we have to do. Determinations will be made about where we move from here when we see what we find with this surveillance plan.

Our objective is to try to get as many of these samples as we possibly can. If we collect approximately 268,000, we believe this sampling will show one BSE positive animal in 10 million adult cattle a 99-percent confidence level. We are very committed to this. We are also testing a random sampling of normal animals in this process. We are working with the industry to make sure that we are able to get these samples as well.

So I think the answer is we will have to see where we are, see what the surveillance turns up, and then it would be appropriate to make determinations about how to proceed after that.

Senator KOHL. What happens in the public eye, Mr. Hawks? We tested one animal for BSE, and there was a panic across our country. Suppose you find one other animal or two other animals out of—how many do you intend to test?

Mr. HAWKS. We are going to test as many of the target population as we possibly can. We have been testing roughly 20,000 per year for the last 2 years. This year, we had intended to test 40,000. Now our goal is to test as many as we possibly can for the next 12 to 18 months.

Senator KOHL. Well, suppose you test 5 million and you find five and you announce that. I suppose you would announce that, right?

Mr. HAWKS. Well, I think statistically speaking, if we test 268,000 from the target population, it is almost as good as testing—

Senator KOHL. All right. Suppose you do and you find three more or four more.

Mr. HAWKS. The measures that we have already taken to protect food safety, including the removal of specified risk materials, those measures have been taken to ensure that the food supply is safe. And I think whether we find one more, or whether we find three more, or if we don't find any more, the measures that are in place are there to adequately protect our public.

The U.S. case is totally unlike what happened in Asia. In Japan, there was a total loss of consumer confidence. As we have seen in this country and in Canada as well, our consumers believe that we are doing a good job in protecting food safety. I will eat beef quite often. So I think it is very important to understand that I have total confidence, Dr. Murano has total confidence, because that is her responsibility as well. We share those responsibilities.

Senator KOHL. I thank you so much, Mr. Hawks.

Senator Burns.

Senator BURNS [presiding]. Senator Kohl, how are you this afternoon? I noticed that the chairman here asked me to come down here and to really mess up this whole hearing. He sent the right guy. And he has already covered a lot of these things: obesity, as if he had a problem.

Senator BURNS. And I am glad he took care of that before I got here. So let's go down the line.

By the way, first of all, since I have got you here, Mr. Hawks, and most of you, we all know that we probably dodged a humongous bullet last December the 23rd and again May the 4th up in Canada. We didn't have to go through the situation the Canadians went through up there.

I appreciate your actions, and I know it was the cow that stole Christmas, but, nonetheless, it was one of those things. And I don't know what my telephone log looks like, but it was pretty full.

I talked to the Secretary yesterday, and I expressed my gratitude, and I think it was done as well as it could be done for a bureaucracy. So I am happy about that. However, we still come under some criticism, but, nonetheless, it is usually criticism that probably does not quite understand how the system works and what we did.

If we tested 100 percent—I don't know. You might have already been asked this question, and I apologize if you have been. If we

started testing tomorrow 100 percent of our production in the beef market right now, do you think that export market would just snap back overnight?

Mr. HAWKS. No, sir, I do not. We did discuss this earlier. I think 100 percent testing has absolutely no scientific justification. I believe that the path that we are on with the aggressive surveillance, with the measures that we have taken to remove SRMs and the measures that FDA is announcing to put additional firewalls in place are more than adequate to prevent the spread of BSE if it is here and also to protect food safety.

NATIONAL ANIMAL IDENTIFICATION

Senator BURNS. Let me ask you another question. How are you moving on the national ID system?

Mr. HAWKS. We are moving very well. As you know, we have been developing a plan over a period of years. USAIP has been working for over 2 years. They have done a tremendous amount of work. The Secretary asked our Chief Informational Officer, Scott Charbo, as well as Nancy Bryson, and our Chief Economist, Keith Collins to look at this, with each one of them looking from their respective viewpoints, the legal, the technological and the economic.

We have put together a plan drawing heavily upon what USAIP is doing. It is certainly our intent later this year to be able to issue premises identifications, and early next year to do individual identifications. We have a few principles that we are working on, such as being technology neutral. We want to make sure that any system that we put in place does not add burden to our producers, as you and I both know and appreciate those concerns. We protect confidentiality of information. So those are some of the things we are addressing.

Senator BURNS. When can we expect to see that plan?

Mr. HAWKS. You should be able to see that plan real soon. It is going through final review at the Department now, and so we hope to have that plan to you in the very near future.

BSE TESTING

Senator BURNS. Give me an idea of those packing facilities that want 100 percent test in order to maybe get into the international market or see what they could do. We have seen a reluctance from the USDA for that. Can you give me an update on that situation and the position that you have taken?

Mr. HAWKS. Yes, sir. Certainly that is continually under review. We do not believe there is, as I have said, a scientific justification for doing 100 percent testing. We have recently approved some rapid-test test kits for use in our surveillance plan. We will continue to review those requests that are before us now in the Department of Agriculture, but we certainly do not believe there is scientific justification for doing 100 percent testing.

Senator BURNS. Tell me, on the test itself, have you settled on a particular test?

Mr. HAWKS. No, sir. We have recently approved two rapid tests for the surveillance plan. We are continuing to review other tests as we speak and hope to have, in the very near future, additional test kits approved for use.

Senator BURNS. When will we see those?

Mr. HAWKS. I would hope to see those, as I said, in the very near future. I am like you, coming into Government out of the private sector. It is very difficult to nail down those exact dates as we could when you and I are out there on the farm.

DENTICIAN

Senator BURNS. We look at those things. I am not an expert on that and I would have none, but I can tell you that I know some people that do know the difference. I think false positives are always out there, those kinds of situations in that respect. Now, age. You have first come out with a system to mouth the cattle. That has not been the most accurate procedure sometimes. In other words, it all depends on a little bit of heredity and genetic makeup of the animal. Also, whether it calved and where they are raised. And so, Dr. Murano, you want to—

Mr. HAWKS. She is our dentician expert.

Senator BURNS. Are you pretty good on horses?

Dr. MURANO. Sir, I will tell you that we have had to come up with a system that would help us determine the age of these cattle, and you are correct in that the dentician method is not perfect. We all know that. We have instructed our inspectors that what they do first and foremost is look, at the records that come with the animals, and use that as their main gauge of the age of the animal. If those records are complete, that is what we go by because that is the most accurate. When those records are not accurate or not available—and I presume that will be corrected once this animal ID system is all in place—the only other method that we have available to us that we know is the dentician.

However, having said that, the regulations that we published January 12th are still under an open comment period, and we have actively sought the input of the industry, any stakeholders, and anyone who may have information and evidence on what might be a better method than dentician. We are surely open to whatever other suggestions the experts in the field have for us, and we will move to do the best job we can and be as accurate as possible.

NATIONAL ANIMAL IDENTIFICATION

Senator BURNS. With a national ID system and a producer that keeps records—and most do now and especially in performance herds; we are doing it more with range cattle more every day to identify those animals who excel in their production and this type thing, I would say—and if we go to some sort of a digital ear tag, that at least the week the animal was born, it would also be part of that record on that ear tag. That is the only thing that I think the ear tag has an advantage over a hot iron brand, but that is a westerner talking and not the general run of the cattle business.

So I think we have to approach that because I will tell you, being in that business, I sat up there the other day, and just to see if I had any talent left at the auction when they were selling cattle the other day at the auction. I sat up there and I still got the touch, I want you to know, right now.

Mr. HAWKS. Are you looking for a job, Senator?

Senator BURNS. No.

I tell you how it can go. A farmer came in and set down beside me, and there was a little package of calves come in, and they probably weigh, I do not know, pretty close to 6 and pretty green. And he just leaned over and he said, "Conrad, what do you think those things will weigh?" And I said, "Do not ask me. I missed the weight of a chicken by 7 pounds one time."

But I really believe that the national ID system, I think you have a working group out there right now that is headed by Gary Wilson out of Ohio, and I have talked with him—he was in town about a week, week and a half ago—on the national ID system, and also on the age, because I will tell you, that age is critical. It is critical because we know of people that some feed calves, some feed yearlings, and then there is a little thing called a heiferette, and we know about those kind of stock, but it is critical as far as the return to the producer, and also critical to the man who sends them to market for slaughter, and how they are graded and this type of thing. Right now it is a pretty rapid market out there right now, especially on that class of cattle and livestock.

We would like to see what you have proposed. We would like to work with you on that, especially that working group on national ID and on age. I also talked to some people that want to do some work as far as verification of the animal from birth to the grocery store, tests along the way. Because there are some plans and programs in the private sector that are being developed, but they will depend on—they want to work with the Department of Agriculture, because we know when we go into the export market, it is the Department of Agriculture who really carries the message into the international market. So we want to do that if we possibly can.

ADDITIONAL COMMITTEE QUESTIONS

As far as the chickens, I know there are probably some people in this room that think chickens is awfully important. I am not one of them.

Only on Sunday every now and again. But I am really concerned about the cattle business.

I do not have any more questions. Senator, are you all done?

Senator KOHL. Yes.

Senator BURNS. I would just be like any other chairman. The record will be kept open for a couple of weeks. We may have some questions from other committee members that will be directed your way. We would appreciate if you would respond to those questions both to the committee and to the individual member of the committee. We appreciate that very much.

[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

DRUG INFORMATION WEB SITE

Question. I noted that the FDA recently launched a web site to allow both consumers and the medical community to find comprehensive information about FDA-approved drugs quickly and easily. Since the web site was launched on March 3, how many "visitors" has it had?

Answer. Drugs@FDA has had 154,065 visitors for the period March 3 through April 12, 2004.

Question. Has the FDA received any feed-back from consumers and health care professionals about the ease of access, and whether the information is comprehensive and useful?

Answer. Since March 1, 2004 we have received 70 comments on Drugs@FDA, version 1. It's important to note that there were two previous beta versions of Drugs@FDA on the Internet: beta 1 in June 2003, and beta 2 from September 2003-March 2004. We received a significant volume of very helpful feedback which was incorporated into Drugs@FDA, version 1.

The nature of the comments Drugs@FDA, version 1, ranged from the general (5) we liked it or didn't like it to questions about specific drug products (25) that were referred to CDER's Division of Drug Information for response. Most comments pertinent to Drugs@FDA (40) fall in the category of requesting new features. For example, users requested the ability to search by indication or drug class, wanted more labels added, to obtain NDC numbers and imprint information, to have more regulatory terms added to the glossary, links to the Orange Book, and even the ability to download the database for analysis.

MEDICAL DEVICE REVIEW

Question. According to the 2003 Annual Report of the Office of Device Evaluation, the Center for Devices and Radiological Health was meeting or exceeding most of its MDUFMA-prescribed performance goals in 2002. As previously noted, the fiscal year 2005 budget request includes \$25.555 million for this user fee program. What will the FDA actually do with this increased funding?

Answer. The FDA commitment letter defines the performance objectives FDA is pursuing under MDUFMA. It requires FDA to meet challenging objectives for both cycle and decision goals and to pursue a variety of other goals that do not involve quantifiable measures of progress, such as maintaining current performance in areas where specific performance goals are not identified, working with its stakeholders to develop appropriate performance goals for modular review of PMAs, and working to improve the scheduling and timeliness of pre-approval inspections.

The appropriation requested by the President's fiscal year 2005 Budget will provide FDA the resources needed to move forward to effectively implement MDUFMA. Substantial improvement will be required to meet both the fiscal year 2005 performance goals and to lay the foundation for the increasingly challenging performance goals of fiscal year 2006 through fiscal year 2007.

The additional funding will be used to:

- Cover the cost of living increases so that FDA can maintain staffing levels and scientific capabilities to meet the demands of an increasing workload and new challenges;
- Enhance the IT systems that support the current review process and develop system capabilities to facilitate the submission and acceptance of electronic pre-market applications;
- Enhance reviewer training and skill maintenance so that FDA reviewers are able to keep pace with rapidly developing and increasingly complex device technologies;
- Employ research and science based activities that provide support critical to the device product approval process;
- Invest in office and laboratory infrastructure to keep pace with rapid technological and scientific change in diverse fields of expertise;
- Work with outside experts to develop guidance and standards to help industry understand and meet FDA requirements, and to help support FDA's role in international harmonization on emerging technologies.
- Expand FDA's small business assistance program as required by the FD&C Act. Approximately 35 percent of the PMAs approved last year were from first time submitters who needed FDA's assistance;
- Conduct pre-approval inspections of device manufacturers;
- Enhance policy guidance document development, emergency response, review management and risk communication for products developed and used to respond to terrorist threats and national security crisis; and
- Contract with professional societies and agencies to address the agency's needs, including the need for adequate laboratory facilities, to plan bio-effects research, and to develop requirements for the safe use of devices.

Question. Since the agency has already reached most of its MDUFMA performance goals, should the FDA be working toward more aggressive goals?

Answer. Although FDA is making satisfactory progress towards achieving the ambitious performance goals established under MDUFMA, the fiscal year 2003 Office of Device Evaluation/Office of In Vitro Diagnostic Device Evaluation and Safety

(ODE/OIVD) Annual Report does not claim or imply that we “have already reached most” of MDUFMA’s performance goals. MDUFMA’s goals are based on receipt cohorts; for example, the fiscal year 2003 receipt cohort includes applications received from October 1, 2002 through September 30, 2003. For PMAs and PMA supplements, the receipt cohort performance data shown for fiscal year 2003 in the ODE/OIVD Annual Report represents only receipts through March 31, 2003 (6 months of data); for 510(k)s, the receipt cohort performance data shown for fiscal year 2003 represents only receipts through June 30, 2003 (9 months of data). See the footnotes on pages 48, 53, 56, and 68 of the fiscal year 2003 report. Furthermore, the results applicable to our MDUFMA performance goals will change over time as FDA completes work on pending applications. As of March 31, 2004, the following fiscal year 2003 applications were still pending (the numbers were substantially higher when the fiscal year 2003 report was prepared):

- PMAs—21
- Expedited PMAs—1
- 180-day PMA Supplements—2
- 510(k)s—316

Also, the goals become more stringent beginning in fiscal year 2005.

The ODE/OIVD Annual Report shows promising progress towards achieving MDUFMA’s objectives, but those results represent only preliminary indicators of performance. FDA will provide quarterly reports updating our progress towards achieving MDUFMA’s performance goals on our MDUFMA web site (www.fda.gov/cdrh/mdufma).

MEDICAL DEVICE/DRUG MARKETING

Question. We have all heard that a particular DC laser surgeon fixed Tiger Woods’ eyesight, and that former Senator Bob Dole has benefited from a particular prescription drug. Now we learn that golfer Jack Nicklaus has a new hip made by a particular company. The implications here are if it is good enough for Tiger/Bob/Jack, its good enough for me. What role does the FDA play in monitoring these types of advertisements?

Answer. FDA regulates drugs and medical devices in the United States under the authority of the Federal Food, Drug, and Cosmetic Act (FDCA). This authority extends to promotional labeling for all drugs and devices and advertising for prescription drugs and so-called “restricted” devices. (21 U.S.C. 342(a); 352(a), (n), (q), (r); 362(a).) The Federal Trade Commission (FTC) also has legal authority to regulate advertising (15 U.S.C. 52), and takes the lead in regulating the advertising of OTC drugs and non-restricted devices. FDA takes the lead in regulating the labeling of over-the-counter (OTC) and prescription drugs and non-restricted and restricted devices, and the advertising of prescription drugs and restricted devices.

Advertisements for prescription drugs must include, among other things, “information in brief summary relating to side effects, contraindications, and effectiveness,” as specified in FDA regulations. (21 U.S.C. 352(n); see also 21 CFR 202.1.) Advertisements for restricted devices must include “a brief statement of the intended uses of the device and relevant warnings, precautions, side effects, and contraindications. . . .” (21 U.S.C. 352(r).) Both prescription drug and restricted device advertisements also must not be false or misleading, meaning they must disclose material risk information. (21 U.S.C. 352(q)(1) & 321(n); 21 CFR 202.1(e)(5).) FDA’s rules for prescription drug and restricted device advertising are the same, whether the advertising is aimed at a consumer audience or at health care professionals.

The FDCA contains no special rules for celebrity endorsements in advertising. In general, an endorsement could be subject to the general rules for advertising set forth above. Thus, if a celebrity spokesperson were to make a statement in an advertisement for a prescription drug or restricted device that is false or misleading, or if an advertisement contained a celebrity testimonial but lacked the risk information required under the above provisions, FDA likely would have authority to initiate enforcement action under the FDCA. Statements by independent individuals not speaking on behalf of a drug firm are not subject to FDA’s advertising jurisdiction. Oral representations by paid representatives of drug firms concerning the safety or effectiveness of a product might also within FDA’s regulatory authority if they create a new intended use for a product, for which adequate directions would be required in labeling and for which premarket approval might be required. (See 21 U.S.C. 352(f)(1), 355.)

FDA believes consumer-directed advertisements play an important role in advancing the public health by encouraging consumers to seek treatment. Since 1997, consumer-directed advertisements have been aired (on television or radio) for about 98 prescription drugs. Of those, 14 are intended for under-treated conditions, such as

high cholesterol, heart disease, and mental health problems like depression. Others are for serious conditions such as asthma, Alzheimer's disease, arthritis, chronic obstructive pulmonary disease, diabetes, insomnia, migraine, obesity, osteoporosis, overactive bladder, serious heartburn, smoking cessation, and sexually transmitted diseases.

FDA held a public meeting to discuss the results of FDA surveys and other research on consumer-directed advertising on September 22–23, 2003. Based in part on discussion at that meeting, FDA has developed guidance to encourage advertising that provides risk and benefit information appropriate to support conversations between consumers and their health care providers. On February 4, 2004, the agency issued three draft guidance documents, addressing (1) options for presenting risk information in consumer-directed print advertisements for prescription drugs, to encourage use of consumer-friendly language and formats (2) criteria FDA uses to distinguish between disease awareness communications and promotional materials, to encourage manufacturers to disseminate disease educational messages to the public, and (3) a manner in which restricted device firms can comply with the rules for disclosure of risk information in consumer-directed broadcast advertising for their products, to help encourage compliance in this emerging area of medical product promotion.

FDA has adopted a comprehensive, multi-faceted, and risk-based strategy for regulating consumer-directed advertising of medical products. This strategy includes legally sustainable letters, guidance development, frequent informal communications with industry and advertisers, and research on the public health effects of consumer-directed promotional materials. We continue to monitor the impact of consumer-directed promotion on the public health.

METHYLMERCURY ADVISORY FOR SEAFOOD

Question. As you will recall, Dr. Crawford, in the Statement of the Managers to accompany the fiscal year 2004 Omnibus Appropriations bill, the conferees encouraged coordination between the FDA and the EPA on what is considered a safe level of methylmercury exposure. I was pleased to note that an updated consumer advisory regarding fish consumption and methylmercury was released in mid-March. How does this new advisory differ from that which was released by the FDA in July of 2002?

Answer. The FDA issued an advisory for mercury in fish in March of 2001; this advisory was then reviewed by the FDA's Food Advisory Committee (FAC) in July 2002. There was no new advisory issued in July 2002. The FAC made six recommendations at their meeting in July 2002 as follows:

- Better define what is meant by “eat a variety of fish” so that consumers can follow this recommendation effectively;
- Work with other Federal and State agencies to bring commercial and recreational fish under the same umbrella;
- Publish a quantitative exposure assessment used to develop the advisory recommendations;
- Develop specific recommendations for canned tuna, based on a detailed analysis of what contribution canned tuna makes to overall methylmercury levels in women;
- Address children more comprehensively in the advisory to relate dietary recommendations in the advisory to the age/size of the child; and,
- Increase monitoring of methylmercury to include levels in fish and the use of human biomarkers.

Based on these recommendations, meetings with stakeholders, focus group testing as well as further input from the FACs in December 2003, the FDA issued a revised advisory on March 19th 2004. The revised advisory differed from the 2001 advisory in a number of ways as follows:

- The 2004 Advisory is a joint advisory by FDA and EPA that addresses both commercial caught and locally caught fish and shellfish;
- The 2004 Advisory more strongly emphasizes the positive benefits of eating fish;
- The 2004 Advisory provides examples of commonly eaten fish that are low in mercury;
- The 2004 Advisory and the Question and Answers section specifically addresses canned light tuna and canned albacore (“white”) tuna, as well as tuna steaks;
- The 2004 Advisory recommends not eating any other fish in the same week as locally caught fish are consumed (the Advice on the amount of locally caught fish to eat is the same as in the 2001 EPA advisory); and,
- The 2004 Advisory contains a section that addresses the frequently asked questions about mercury in fish.

The 2004 advisory was revised to provide useful information for keeping fish as part of a healthy diet and at the same time reduce the exposure to mercury. The 2004 Revised Advisory more accurately reflects the purpose of the information.

NEW DRUG APPROVAL PROCESS

Question. The FDA recently issued a report which described the decrease in the number of new innovative drug application, and recommends reform to the existing regulatory process. I would appreciate it if you could explain just exactly what the FDA plans to do in this regard.

Answer. The “critical path” is best described as the crucial steps that determine whether and how quickly a medical discovery becomes a reliable medical treatment for patients. There are certain points on this path where difficulties are occurring. FDA believes that a major problem in today’s drug development process is that the new science and scientific tools being used in the discovery process are not being harnessed to guide the development process that brings products to market. FDA has called for a new focus on modernizing the tools that applied biomedical researchers and product developers use to assess the safety and effectiveness of potential new products, and the manufacturing tools necessary for high-quality mass production of cutting-edge therapies. FDA is in a unique position to identify scientific challenges that cause delays and failures in product testing and manufacturing because of its experience overseeing medical product development, assessment, and manufacturing/marketing; its vast clinical and animal databases; and its close interactions with all the major players in the critical path process.

FDA, through collaboration with academia, patient groups, industry, and other government agencies, will play a major role in identifying systemic medical product development problems via development of a Critical Path Opportunities List, and in conducting or collaborating on research to create a new generation of performance standards and predictive tools that will provide better answers about the safety and effectiveness of investigational products, faster, with more certainty, and at lower costs. Specific examples of critical path efforts include: developing guidances and scientific workshops on “best practices”, developing new animal or computer-based predictive models, developing new biochemical and genomic assays as biomarkers for safety and effectiveness, collaboration on the design of new clinical evaluation techniques, and facilitating multi-company studies of technologies which no one company could mount. FDA will identify and prioritize the most pressing product development problems and the areas that provide the greatest opportunities for rapid improvement and public health benefits across the three dimensions of the “critical path”—safety assessment, evaluation of medical utility, and product industrialization and will facilitate collaborative research in these areas.

Question. A consumer group has expressed the opinion that the FDA should approve only drugs which show concrete advantages to drugs currently on the market. What is your response to that suggestion?

Answer. Our present and future mission remains constant: to ensure that drug products available to the public are safe and effective. If the drug is effective and we are convinced its health benefits outweigh its risks, we approve it for sale. Statutory requirements dictate that we review products submitted to us requesting approval. From a medical perspective, it is desirable for physicians and consumers to have a variety of drug treatment choices. Not all people can tolerate a specific drug. Not all drugs have the intended affect in every person. From an economic perspective, it is also useful to have a market featuring a variety of products so that prices are competitive.

SEAFOOD INSPECTION/GAO REPORT

Question. The General Accounting Office recently issued a report on the FDA’s imported seafood safety program. Basically, GAO found that although the FDA has made some progress in the number of foreign firms being inspected and the number of seafood products being tested at U.S. ports of entry, there is more work to be done. Among other things, GAO recommends that the FDA work with NOAA to have NOAA employees provide various services under their Seafood Inspection Program. Have you reviewed this GAO report? Do you agree with their observations? What steps has the FDA taken to work with NOAA in this regard?

Answer. FDA reviewed the GAO report and provided a lengthy comment to the GAO on this particular recommendation. The comment was published in the Appendices to the report. In summary, FDA noted that it has a long and collegial working relationship with the seafood inspection program within the National Marine Fisheries Service (NMFS) and that the two agencies will be working together to find better ways of integrating their programs. Potential areas of integration were de-

scribed, including the use of NOAA laboratory capacity to carry out analyses of seafood samples that FDA takes during the normal course of work; the commissioning of NMFS inspectors; the use of NMFS inspectors who might already be on site in distant locations; and the issuance by NMFS of European Health Certificates for a fee to U.S. industry that ships fish and fishery products to Europe. The latter would free up FDA resources that are now devoted to that activity.

We have recently worked with NOAA Fisheries' National Seafood Inspection Laboratory (NSIL) located in Pascagoula, MS and the NOAA Fisheries' Northwest Fisheries Science Center in Seattle, WA to assess the use of NOAA laboratory capacity to carry out analyses of seafood samples that FDA takes during the normal course of our work, or during "crisis" situations. Specifically for chloramphenicol analysis, our discussions have resulted in FDA's provisional approval (pending on site review) of these laboratory's methods for sample submission, custody, routing, and accounting and documentation procedures necessary to maintain the regulatory chain of custody and tracking required for import collections. While FDA is not able to fund this initiative this fiscal year, we hope that we will be able to implement this proposal in the future.

AGRICULTURAL PRODUCTS

Question. The White House Office of Science and Technology Policy, (OSTP) had recommended approximately 2 years ago (August 2, 2002) that various agencies—including the FDA—complete guidelines regarding the early safety assessment of agricultural products developed through biotechnology for food and feed use. To date, there is no evidence that the FDA has acknowledged this mandate nor made any progress towards finalizing a policy. The U.S. regulatory system currently imposes a zero tolerance on the presence of unapproved biotech-enhanced events in food and feed, regardless of the risk level. It does not recognize the realities of a biological system. This zero-tolerance policy exposes grain handlers, food processors and feed manufacturers to the risk that any trace amounts of biotech-enhanced events in general commodity crops that have not been approved for food and feed under the U.S. regulatory process could render such crops adulterated and subject to seizure under Federal law. Such a policy is inconsistent with other food purity standards which have established thresholds for trace amounts of unexpected materials. Without having a policy in place, the United States risks significant disruptions in global agricultural trade. What is the FDA doing to meet their obligations and will they be able to complete their work by year's end?

Answer. On August 2, 2002, OSTP announced proposed Federal actions to update field tests requirements for biotechnology derived plants and to establish early food safety assessments for new proteins produced by such plants. As part of this proposal, FDA announced that it would publish for comment draft guidance to address the possible intermittent, low level presence in food and feed of new non-pesticidal proteins from biotechnology-derived crops under development for food or feed use, but that have not gone through FDA's pre-market consultation process. FDA is preparing draft guidance and expects to publish the draft guidance for comment this year.

TRANSGENIC ANIMALS IN CVM

Question. The FDA has resources in place for regulation of transgenic animals in CVM. However, the agency has to date not provided any guidance to industry for the regulation of transgenic animals. What is the FDA doing to refine and clarify the regulatory process for transgenic animals, and when can we expect to see specific regulatory guidance published?

Answer. It is true that CVM has not issued any general guidance to industry for the regulation of transgenic animals. Instead, CVM has worked with investigators one-on-one to ensure safe and efficient development of animal biotechnology products while an interagency group led by the White House Office of Science and Technology Policy (OSTP) develops a coordinated framework that is appropriate to animal biotechnology.

In 1984, the Federal Government embarked on project to develop a Coordinated Framework for regulation of biotechnology products. The early efforts focused on plant biotechnology for agricultural purposes. The effort has resumed at various times as new categories of products became feasible. For example, in May 2000, the White House directed its Council on Environmental Quality, "CEQ", and Office of Science and Technology Policy to conduct an interagency assessment of Federal environmental regulations pertaining to agricultural which includes both plants and animals, biotechnology and, if appropriate, make recommendations to improve them.

Information is available on the internet at http://www.ostp.gov/html/ceq_ostp_study1.pdf.

The White House-directed interagency process continues with respect to animal biotechnology products. The OSTP has convened over the last year an interagency group—which was similar to the group convened in May 2000—with FDA, APHIS, EPA, and OMB, represented. The group is focusing on the application of the Coordinated Framework to the wide range of animal biotechnology products that have been developed since the framework was created in the 1980's. There were very few examples of animal biotechnology products available to consider in the 1980's and only a limited number in 2000. The discussions are continuing, using various product examples, and including listening sessions with various stakeholders. Ultimately, a seamless Federal oversight system for animal biotechnology products is expected.

Both as part of this interagency process and separately, FDA has examined—and continues actively to consider—the many complex legal, scientific, and policy issues related to animal biotechnology. FDA has a variety of authorities potentially applicable to transgenic animals, including FDCA authorities over foods, food additives, and new animal drugs. In 2000, FDA commissioned the National Academy of Sciences/National Research Council Committee on Agricultural Biotechnology, Health, and Environment, (NAS) to identify and rank, where possible, potential risks associated with the introduction of animal biotechnology into commerce. FDA is using the resulting report recommendations, issued in the fall of 2002, as guidance in developing an action plan for the future. FDA is also preparing a risk assessment on animal clones and considering risk management measures that might be appropriate as a condition for marketing animal clones for use in the human food chain.

FDA is also involved in considering issues relating to particular applications of animal biotechnology. In March 2003, FDA began investigating and contacting universities engaged in genetic engineering research to ensure that genetically engineered animals do not enter the food or animal feed—as rendered animals—supply. In May, FDA issued a letter to the Presidents of the Land Grant Universities and posted the letter for more general access on its website. Information on the “Letter from FDA to Land Grant University”, from May 13, 2003, may be found on the internet at <http://www.fda.gov/cvm/biotechnology/LandGrantLtr.htm>. Roughly 2 dozen organizations have responded to FDA's outreach and identified multiple projects with transgenic animals. FDA is monitoring these and other projects as appropriate.

FOOD SAFETY

Question. The Chicago Tribune recently published an article regarding the rising threat to the U.S. food supply. Many of the quoted experts used the word “scary” in describing our vulnerability. What strategy, if any, has the FDA adopted to counter intentional tampering with the U.S. food supply. An additional \$65 million was requested in the fiscal year 2005 budget request for food defense. What exactly does the FDA plan to do with these funds? What outputs will these funds provide?

Answer. FDA employs five food defense strategies:

- Development of increased food security awareness among Federal, State, local, and tribal governments and the private sector by collecting, analyzing, and disseminating information and knowledge (awareness);
- Development of capacity for identification of a specific threat or attack on the food supply (prevention);
- Developing effective protection strategies to “shield” the food supply from terrorist threats (preparedness);
- Developing a rapid, coordinated response capability to a terrorist attack (response); and,
- Development of capacity for a rapid, coordinated recovery from a terrorist attack (recovery).

FDA's plan to protect the food supply will be executed on both the import and domestic fronts.

The fiscal year 2005 requested increase of \$65,000,000 for Counterterrorism food defense includes \$35,000,000 (including eLEXNET) to establish the Food Emergency Response Network (FERN) for increasing lab testing capacity in the event of a threat to the food supply. Roughly \$23,000,000 of FERN funds will be available to States for establishing food lab emergency response capabilities and \$5,500,000 for infrastructure costs. The request also includes \$15,000,000 to address a significant research need for ensuring that we have the capability of detecting or inactivating a broad range of agents that could pose serious threats to the food supply;

\$7,000,000 to increase import and domestic inspections activities; \$5,000,000 to coordinate with and establish connectivity of our existing food surveillance efforts to the Department of Homeland Security as part of the Administration's bio-surveillance initiative; and \$3,000,000 for the Emergency Operations Network project to upgrade our crisis/incident management capabilities in the event of a potential threat to the food supply.

Funds requested for FERN would establish 15 State food emergency response labs, and will also provide an additional 25 labs connected to the eLEXNET, plus necessary infrastructure such as a national operations center to support participating labs. Research funds would ensure that we have the capability of detecting or inactivating a broad range of agents that could pose serious threats to the food supply. The funds for inspections would result in an additional 37,000 import field exams over the projected 60,000 projected level in fiscal year 2004 for a total of 97,000 import field exams. It would also allow for increased surveillance of our food supply by funding an additional 750 domestic establishment inspections. Funds would also upgrade our Emergency Operations Center by investing in the Emergency Operations Network, and would increase coordination of our food surveillance efforts with the Department of Homeland Security.

Question. Last year, the FDA joined with the U.S. Bureau of Customs and Border Protection to develop a program to protect the American public from food bioterrorist attacks. There were high hopes that as many as 420,000 manufacturing, processing, packing, and holding facilities, both in the United States and abroad, would quickly register under this program and provide advance notice of imports in order to expedite the entry process. According to press reports, only about half of those facilities have registered, and food shipments are still arriving without prior notice. Why haven't all covered facilities complied with these requirements? What efforts have the FDA and the Customs Bureau undertaken to make sure that covered facilities register? It is estimated that 25,000 shipments of imported food arrive at U.S. ports of entry every day. Does the FDA have sufficient resources to adequately inspect these shipments?

Answer. In the Registration Interim Final Rule (IFR), FDA estimated that about 420,000 facilities would be covered by the requirements of the rule. In the Prior Notice IFR, FDA estimated that it would handle 25,000 prior notice submissions per day. To clarify the above question, FDA has not estimated that the approximately 420,000 facilities estimated in the Registration IFR would necessarily provide prior notice to FDA.

FDA is unsure why it has only received approximately 200,000 of the expected registrations to date. Because registration is a completely new requirement and covers so many food facilities, FDA believes many small facilities may still be unaware of the registration requirement. FDA continues to place a high emphasis on notifying as many affected entities as possible of the registration requirements through outreach. On April 1, 2004, FDA completed nine city domestic outreach meetings for small businesses and other stakeholders on the registration and prior notice IFRs. FDA's international component of Phase II outreach has been conducted through the collaboration and cooperation of the Department of State through a foreign press conference, Voice of America video teleconference, and USDA's Foreign Agricultural Service. Worldwide attachés disseminated the Registration and Prior Notice interim final rules, compliance policy guidance, and Questions and Answers. FDA, with Customs and Border Protection participation, is also conducting a series of four outreach meetings in Asia from April 21–29, 2004. FDA will continue to conduct outreach in order to notify affected entities of the registration requirement.

In response to the question regarding whether FDA has sufficient resources to adequately inspect the estimated 25,000 daily shipments of imported food arriving at U.S. ports, FDA would like to clarify that the goal is not to physically inspect each shipment associated with a prior notice submission. However, it is important to note that these shipments are reviewed electronically to determine if the shipment meets identified criteria for physical examination or sampling and analysis or warrants other reviews by FDA personnel. This electronic screening allows FDA to concentrate its limited inspection resources on high-risk shipments while allowing low-risk shipments to proceed into commerce.

Prior to receiving our prior notice authority, FDA already was receiving much of the entry information contained in the prior notice submission. However, FDA was not receiving the entry information in advance of the shipment arriving in the United States. With the new prior notice authority, FDA is receiving the entry information in advance of the shipment arriving in the United States (timeframe depends on mode of transportation), and thus, the Agency is better able to focus inspection resources on those shipments for which there is reason to believe they may pose a danger to the food supply.

MONOGRAPH DRUG APPROVAL SYSTEM

Question. The Senate Committee Report to accompany the fiscal year 2004 Agriculture appropriations bill discussed the interest in the establishment of a monograph system for prescription drug products. The FDA was asked to provide a report regarding the feasibility and cost of such a new monograph system for prescription drug products. What is the status of the FDA review of this proposal? If a monograph system is not the appropriate way to go, what efforts has the FDA undertaken to find a way to preserve health and safety while at the same time encourage competition, keep prescription drug prices low, and keep small businesses open?

Answer. In 2003, the Senate Committee on Appropriations asked FDA to prepare a report regarding the feasibility and cost of a new monograph system for prescription drugs that have been marketed to a material extent or for a material time without pre-market approval. The agency is currently preparing that report. The report will analyze critical issues that would need to be addressed if FDA were to develop monographs for the approval of marketed prescription drugs. The report will evaluate the cost and feasibility of developing such a system.

Question. The FDA just extended the comment period for consideration of a guidance document regarding enforcement priorities for older prescription drugs marketed outside of the current new drug approval system. In examining comments, will the FDA examine alternative approaches to the enforcement policy, such as a prescription drug monograph for these older prescription drugs?

Answer. In October 2003, the Agency issued a draft Compliance Policy Guide (CPG) outlining FDA policies to encourage companies to sponsor unapproved drugs through the agency's drug approval process. The draft CPG requests public comment and sets forth the agency's enforcement approach, explaining that FDA will continue to give priority to enforcement actions involving three categories of unapproved drugs: Those that pose safety risks; those that lack evidence of effectiveness; and those that constitute health fraud. It also explains how the agency intends to address those situations in which a firm obtains FDA approval to sell a drug that other firms have long been selling without FDA approval.

FDA received requests to reopen the comment period and has reopened the comment period until April 27, 2004. The Agency will carefully examine all comments, including comments relating to alternative approaches that are submitted on the matter.

PRESCRIPTION DRUG ABUSE

Question. Mr. Crawford, last month the FDA joined with the Office of National Drug Control Policy, the DEA, and the Surgeon General in releasing the President's National Drug Control Strategy. As noted in the ONDCP press release, this marks the first time that any Administration has included the issue of prescription drug abuse in this Strategy. What, exactly, is the FDA's role in this effort? Will the FDA be able to fulfill this mission with existing funds and authorities? If not, were additional resources requested in the fiscal year 2005 budget? Does the FDA need additional statutory authorities?

Answer. The strategy for reducing prescription drug abuse focuses on three core tactics:

First, Business Outreach and Consumer Protection: FDA will work to ensure product labeling that clearly articulates conditions for safe and effective use of controlled substances so that commercial advertising fully discloses safety issues associated with the drug's use. A specific example of this is labeling that properly identifies patients for whom these products are appropriate and that recommend a "stepped care" approach to the treatment of chronic pain, in accordance with treatment guidelines.

FDA will consider Risk Management Programs (RMPs). The Agency will evaluate the need for a RMP during the approval process for Schedule II opiate drug products. RMPs help ensure the safe prescribing and use of these drugs through identification of appropriate patients and monitoring for adverse outcomes.

FDA in conjunction with the DEA and the White House Office of National Drug Control Policy (ONDCP) will work with physician organizations to encourage comprehensive patient assessment prior to prescription of opiate therapy.

FDA and other Federal agencies are enlisting the support of responsible businesses affiliated with online commercial transactions. These legitimate businesses will be asked to alert law enforcement officials to suspicious or inappropriate activities related to these products.

Second, Investigation and Enforcement: The Internet is one of the most popular sources of diverted prescription drugs. An increasing number of rogue pharmacies offer controlled substances and other prescriptions direct to consumers online.

FDA's Office of Criminal Investigation (OCI) and DEA work together on criminal investigations involving the illegal sale, use, and diversion of controlled substances, including illegal sales over the Internet. Both FDA and DEA have utilized the full range of regulatory, administrative, and criminal investigative tools available, as well as engaged in extensive cooperative efforts with local law enforcement groups, to pursue cases involving controlled substances.

FDA and U.S. Customs and Border Protection (CBP), with assistance from DEA, continue to conduct spot examinations of mail and courier shipments for foreign drugs to U.S. consumers to help FDA and CBP target, identify, and stop illegal and potentially unsafe drug from entering the United States from foreign countries via mail and common carriers.

Finally, Protecting Safe and Effective Use of Medications: FDA will support DEA's efforts with medical associations to identify existing best practices in physician training in the field of pain management. DEA and FDA plan to develop a mechanism to support the wider dissemination and completion of approved Continuing Medical Education (CME) courses for use of opioids that include information on the risk of abuse and addiction.

FDA in conjunction with ONDCP and DEA will develop public service announcements that appear automatically during Internet drug searching to alert consumers to the potential danger and illegality of making direct purchases of controlled substances online. Currently, FDA, along with its sister agency, the Substance Abuse and Mental Health Services (SAMHSA), have jointly developed a public service announcement campaign to better educate consumers on the abuse of prescription pain killers.

FDA did not request additional resources in the fiscal year 2005 budget in order to participate in the activities stated above. This initiative does not require additional regulatory authority.

OBESITY

Question. In your prepared remarks you discuss the FDA Obesity Working Group whose recommendations were recently released as part of HHS Secretary Thompson's overarching new national education campaign for combating obesity. What is the FDA role in these anti-obesity efforts? Which of your Centers is responsible for these efforts? What, specifically, is the FDA doing to make sure labels on food is correct, and that claims made about food are factual and science-based? What, if any, additional plans will be implemented in fiscal year 2005?

Answer. In support of the President's Healthier U.S. initiative, the DHHS established a complementary initiative, Steps to a Healthier United States, which emphasizes personal responsibility for the choices Americans make for healthy behaviors. One aspect of this initiative focuses on reducing the major health burden created by obesity and other chronic diseases. Following DHHS' July 2003 Roundtable on Obesity and Nutrition, on August 11, 2003, FDA established an Obesity Working Group, or OWG, to prepare a report that outlines an action plan to cover critical dimensions of the obesity problem from FDA's perspective and authorities. This report was released on March 12, 2004.

There is no simple answer to the problem of obesity. Achieving success in reducing and avoiding obesity will occur only as a result of efforts over time by individuals as well as various sectors of our society. It should be noted, however, that most associations, agencies, and organizations believe that diet and physical activity should be addressed together in the fight against overweight and obesity.

The OWG report provides a range of short and long-term recommendations to address the obesity epidemic with a focus on a "calories count" emphasis for FDA actions. These recommendations are based on sound science and address multiple facets of the obesity problem under FDA's purview, including developing appropriate and effective consumer messages to aid consumers in making wiser dietary choices; establishing educational strategies and partnerships to support appropriate messages and teach people, particularly children, how to lead healthier lives through better nutrition; developing initiatives to improve the labeling of packaged foods with respect to caloric and other nutrition information; encouraging and enlisting restaurants in efforts to combat obesity and provide nutrition information to consumers, including information on calories, at the point-of-sale; developing new therapeutics for the treatment of obesity; designing and conducting effective research in the fight against obesity; and continuing to involve stakeholders in the process.

Regarding food labeling, the OWG report contains several recommendations based on sound science. I will provide these recommendations for the record.

[The information follows:]

Publish an advance notice of proposed rulemaking, or ANPRM, to seek comment on the following:

- How to give more prominence to calories on the food label, for example, increasing the font size for calories, including a column in the Nutrition Facts panel of food labels for percent Daily Value for total calories, and eliminating the listing for calories from fat;
- Whether to authorize health claims on certain foods that meet FDA’s definition of “reduced” or “low” calorie. An example of a health claim for a “reduced” or “low” calorie food might be: “Diets low in calories may reduce the risk of obesity, which is associated with type 2 diabetes, heart disease, and certain cancers.”
- Whether to require additional columns on the Nutrition Facts panel to list quantitative amounts and percent Daily Value of an entire package on those products and package sizes that can reasonably be consumed at one eating occasion—or declare quantitative amounts and percent Daily Value of the whole package as a single serving if it can reasonably be consumed at a single eating occasion; and,
- Which, if any, reference amounts customarily consumed of food categories appear to have changed the most over the past decade and hence require updating.

File and respond in a timely way to petitions the agency has received that ask FDA to define terms such as “low,” “reduced,” and “free” carbohydrate; and provide guidance for the use of the term “net” in relation to carbohydrate content of food—these petitions were filed on March 11, 2004. Encourage manufacturers to use dietary guidance statements, an example of which would be, “To manage your weight, balance the calories you eat with your physical activity.”

Encourage manufacturers to take advantage of the flexibility in current regulations on serving sizes to label as a single-serving those food packages where the entire contents of the package can reasonably be consumed at a single eating occasion. Encourage manufacturers to use appropriate comparative labeling statements that make it easier for consumers to make healthy substitutions.

We believe that if the report’s recommendations are implemented they will make a worthy contribution to confronting our Nation’s obesity epidemic and helping consumers’ lead healthier lives through better nutrition.

We also believe that the regulatory scheme for claims in food labeling, whether health claims, nutrient content claims, or other types of claims, are science based, and we continue to consider modifications to our regulations to keep up with recent scientific developments. Some of the modifications FDA is currently considering are described above in the list of topics to be covered by the ANPRM the agency intends to issue.

ALBUTEROL METERED-DOSE INHALERS

Question. As noted in the Senate Report last year, there are a number of organizations which support the removal of ozone-destroying CFC albuterol metered-dose inhalers from the market. The FDA has indicated in its regulatory plan that it intends to issue a rule on this matter. Proponents of this rule had expected a proposed rule by now. When can this Committee expect the FDA to issue a proposed rule to remove albuterol metered-dose inhalers from the U.S. market? Can you tell us at this time what you expect the effective date would be for that rule? When do you expect the FDA will issue a final rule?

Answer. FDA is currently working on the CFC albuterol proposed rule and expects it to publish shortly. The rulemaking process prohibits FDA from describing the contents of the proposed rule, so the Agency cannot state the effective date of the rule at this time. FDA expects the final rule to publish in March 2005.

BIOTECH-ENHANCED EVENTS IN FOOD AND FEED

Question. The U.S. regulatory system currently imposes a zero tolerance on the presence of unapproved biotech-enhanced events in food and feed, regardless of the risk level. It does not recognize the realities of a biological system. This zero-tolerance policy exposes grain handlers, food processors and feed manufacturers to the risk that any trace amounts of biotech-enhanced events in general commodity crops that have not been approved for food and feed under the U.S. regulatory process could render such crops adulterated and subject to seizure under Federal law. Such a policy is inconsistent with other food purity standards which have established thresholds for trace amounts of unexpected materials. Without having a policy in place, the United States risks significant disruptions in global agricultural trade. What is the FDA doing to meet their obligations and will they be able to complete their work by year’s end?

Answer. On August 2, 2002, OSTP announced proposed Federal actions to update field tests requirements for biotechnology derived plants and to establish early food safety assessments for new proteins produced by such plants. As part of this proposal, FDA announced that it would publish for comment draft guidance to address the possible intermittent, low level presence in food and feed of new non-pesticidal proteins from biotechnology-derived crops under development for food or feed use, but that have not gone through FDA's pre-market consultation process. FDA is preparing draft guidance and expects to publish the draft guidance for comment this calendar year.

GENERIC BIOLOGICALS

Question. In your testimony you stressed the importance of being "open-minded" about the science "as the science improves." Can you assure the Subcommittee that the Agency will not adopt an approach that resurrects old science, and that the Agency intends to remain open minded as it evaluates application of the vast innovation in analytical tools to the development and evaluation of follow-on biologicals?

Answer. We can assure the subcommittee that the Agency will not adopt an approach that resurrects or relies on outdated scientific techniques in the development and evaluation of follow-on biologics. Indeed, the Agency has been very proactive in striving to understand and embrace the latest technology used in the characterization of biotechnological products. For example, the Agency supports active research programs that utilize current technologies in addressing mission related research and in developing technologies that help address regulatory and scientific issues. These efforts are important to ensure that FDA scientists remain current with the latest advances in analytical techniques. Scientific staff also participates in scientific symposia and extensively interact with colleagues. Indeed, many of our scientific staff involved in the regulation of biotech products, are located on the NIH campus, which provides an enriched research environment utilizing advanced technology that is second to none.

In June 2003, the Agency cosponsored, along with the International Association of Biologicals and the National Institute for Biological Standards and Control, a conference on the "State of the Art Analytical Methods for the Characterization of Biological Products and Assessment of Comparability". This meeting focused on what current analytical technologies can and cannot tell us about the physicochemical structure and function of biological therapeutics;

The Agency's scientists participate yearly in the annual Symposium on "Well Characterized Biotechnological Products" cosponsored by FDA and the California Separation Sciences Society. This symposium includes highly technical seminars, workshops, and poster sessions that introduce the latest analytical technologies for the evaluation of biotechnological products. These technologies are presented by the leading academic, Industrial (pharmaceutical and equipment vendors), and government scientists;

The Agency's scientists actively participate in many International conferences sponsored by biotech and pharmaceutical organizations (Bio, Pharma, and DIA) and other organizations that provide scientific, technological and regulatory information to the pharmaceutical industry. These conferences frequently present the application of the latest analytical methods for the characterization of protein and glycoprotein therapeutics;

The Agency also invites innovative scientists from academia and industry to present and discuss with FDA scientists the latest advances in analytical technology and the development of animal models that address some of the current limitations of physicochemical characterization of protein products.

Regarding immune responses to biological therapeutics (immunogenicity), which can cause serious adverse events and limit product effectiveness, the agency cosponsored a meeting entitled "Immunogenicity of Therapeutic Biological Products" in October 2001, and has participated in numerous symposia on this topic in national meetings. Agency research scientists work with industry and academia in bringing to bear, on biological product development, informative animal models (transgenic, knockout, and knock-in) to more accurately predict the human immune response to various biotech products.

Question. In your testimony you highlighted the extraordinary strides made over the past few years in developing instrumentation and other analytical tools that have vastly improved the ability to evaluate follow-on biologicals. Please identify for the Subcommittee the type of new analytical tools now available to industry and the Agency to conduct rigorous evaluations of follow-on biologics.

Answer. Over the last several years there have been many advances in analytical tools that have improved the ability to evaluate follow-on Biologicals.

Electrospray, matrix assisted laser desorption (ES-MS), and fast atom bombardment mass spectrometry (MALDI-TOF) have been used in conjunction with advances in separation technologies (Reverse Phase-High Performance Liquid Chromatography (RP-HPLC), Ion Exchange Chromatography, Hydrophobic Interaction Chromatography, Affinity Chromatography, and Size Exclusion Chromatography) to identify protein and carbohydrate heterogeneities and are very powerful tools for characterizing variations in a protein that are typically present in a single product.

Recent advances in mass spectrometry (time of flight, fourier transform) have greatly improved the resolving powers of the technology and now provide the capability to resolve to within a 1 Da mass accuracy, the mass of a protein. In conjunction with powerful deconvolution software, this technology allows for very accurate mass data and a more comprehensive assessment of the carbohydrate profiles. This technology has resulted in a new approach called "top down" that allows for the analysis of intact proteins. In contrast, the traditional approach analyzes protein fragments generated by digestion with proteases, making it difficult to provide assurance that minor modifications to the protein have been identified.

Protein aggregates can compromise the quality of a product as it relates to its safety and efficacy and are thought to be the most important product characteristic in generating immune responses. Such aggregates have typically been analyzed by size exclusion chromatography (SEC), an analytical method with limitations that result in the detection of only a very narrow spectrum of aggregates that can form in a protein product. Technological advances in a number of other analytical methods such as sedimentation velocity obtained by analytical ultracentrifugation and field flow fractionation can detect a much wider spectrum of aggregates, many of which are not detected by SEC.

Advances in gel electrophoresis primarily various forms of capillary electrophoresis, now provide excellent resolution between protein species which differ slightly in net charge and can be coupled to various detection methods (UV, fluorescence, MS) for enhanced product characterization.

Surface plasmon resonance technology monitors molecular interaction in real time and allows for the accurate detection and quantification of the on and off rates (kinetic rate constants) of protein-to-protein interactions. This technology has been applied to the design of immunoassays used for the detection of host antibodies formed against biotechnology products and to the characterization of mAb product interactions with their therapeutic target.

Advances in the understanding of signal transduction mechanisms for many protein products have provided for the development of more precise in vitro bioassays that monitor an early event in the biological function of a protein rather than a cellular response, such as cell growth, that is subject to greater variability in outcomes.

Protein products are not rigid structures and frequently the ability to flex and change conformations is critical to a protein's function. This property is difficult to detect by convention physicochemical techniques. However, advances in scanning probe microscopy particularly Atomic Force Microscopy (AFM), facilitate the mapping of biological samples to three-dimensional images and are capable of detecting multiple conformations. AFM-generated surface topology maps can portray in explicit detail the surface features of proteins and DNA. The application of this technology is broad and includes the study of protein and DNA structure, protein folding/unfolding, protein-to-protein interactions, protein-to-DNA interactions, enzyme catalysis and protein crystal growth.

Dynamic light scattering and multi-angle light scattering (LS) are beginning to be used in conjunction with advances in separation systems such as field flow fractionation and size exclusion chromatography. LS can provide absolute molecular weight, root-mean square radius and hydrodynamic radius of individual species of product.

Microcalorimetry allows one to assess the thermodynamic profile of a protein, which provides a measurement of the structural stability of the protein product or interactions with other proteins. The method can determine affinity constants, enthalpy, entropy, heat capacity, Gibbs free energy and the number of binding sites, parameters that help characterize proteins but have not been routinely employed in the biotech industry.

Fluorescence spectroscopy has been useful in monitoring flexibility of proteins and conformational stability.

Nuclear Magnetic Resonance Spectroscopy (NMR) has traditionally been used to identify small molecules and their structures are now being applied to solving the structure of much larger and more complex biological macromolecules.

Question. Please outline for the Subcommittee the history of FDA's regulation of biologicals, the range and volume of biological approvals issued by the Agency over the course of that history, and any other factors you consider relevant to FDA's vast

scientific expertise that is being applied to development of the draft Guidance and that ultimately would be brought to bear in evaluating follow-on biologics.

Answer. The regulation of biologics began in the United States in 1902, when Congress passed the Virus, Serum and Antitoxin Act (also known as the Biologics Control Act of 1902 and as the Virus Toxin Law). This law was enacted following the deaths of ten children who had received injections of diphtheria antitoxin contaminated with tetanus. In 1901, there was a serious epidemic of diphtheria resulting in a great demand for the diphtheria antitoxin. At the time, there was no requirement for safety testing and none was performed, and the manufacturing process was not controlled properly. The tetanus contamination was traced to an infected horse whose serum was used in producing the antitoxin.

The 1902 Act required biologics to be manufactured in a manner that assured safety, purity, and potency. Provisions of the Act included:

- Establishment license requirements;
- Product license requirements;
- Labeling requirements;
- Inspection requirements;
- Suspension/revocation of licenses; and,
- Penalties for violations.

The responsibility for implementing this new law was given to the Hygienic Laboratory of the Public Health Service (PHS). In 1903, PHS issued regulations that included requirements that inspections would be unannounced and licenses were to be issued and re-issued on the basis of an annual inspection. The 1902 Act was amended in 1944. One change included a requirement that a biological license could be issued only upon demonstration that the product and the establishment met standards to ensure the continued safety, purity and potency of such products. This evaluation was to be made during pre-licensure inspections. These provisions are codified in section 351 of the PHS Act (42 U.S.C. 262). Another change that occurred at this time was the focal point for administering the Act. This responsibility was given to the National Institute of Health's National Microbiological Institute. Changes in responsibility for regulating biological products under the PHS Act occurred in the mid-1950 with the advent of polio vaccines. From 1955 to 1972, biologics were regulated within the National Institutes of Health (NIH), in the Division of Biologics Standards (DBS). In 1972, biologic regulation was transferred to the FDA's Bureau of Biologics.

After this transfer to the FDA began a merger of the regulatory requirements of the PHS Act and the Federal Food, Drug and Cosmetic (FD&C) Act (21 U.S.C.). Biologics were viewed as biological products under the PHS Act, and as drugs under the FD&C Act, subject to inspection under the Good Manufacturing Practices (GMP) regulations for drugs. The reagent manufacturers were also inspected under drug GMPs because there were no device regulations until 1976. Among the several changes that occurred, blood banks were required to register with the FDA and GMPs for blood and blood products were promulgated. Today one of the major responsibilities of FDA is to ensure the safety of the Nation's blood supply.

In 1982, the FDA merged the Bureau of Biologics and the Bureau of Drugs into the Center for Drugs and Biologics. After a subsequent reorganization the responsibility for biologics regulation was placed under the Center for Biologics Evaluation and Research (CBER). The responsibilities for regulating biological products has grown and become more complex from its beginning in 1902, when technologies for producing biological products were in their infancy and the primary role was vaccine regulation. Today the regulation of a wide variety of novel biological products and their use as therapeutics requires knowledge of new scientific developments and concepts of research in the relevant biological disciplines. The therapeutic biological products that the FDA regulates are on the leading edge of technology. Rapid scientific advances in biochemistry, molecular biology, cell biology, immunology, genetics, and information technology are transforming drug discovery and development, paving the way for unprecedented progress in developing new medicines to conquer disease.

As a representative sample of the range and volume of biological products approved, we offer below the fiscal year 2003 approvals. CBER's fiscal year 2003 major approvals include all approvals for original new BLAs (except those for blood banking), and other approvals for original biologic, drug, or device applications or supplements (e.g., for new/expanded indications, new routes of administration, new/improved tests, new dosage formulations and regimens). Although most of the Office of Therapeutics Research and Review's applications were transferred to the Center for Drug Evaluation and Research on June 30, 2003, all major BLA approvals are included in this list for both centers.

[The information follows:]

BIOLOGICS LICENSE APPLICATIONS

Tradename/Proper Name	Indication for Use	Manufacturer
Pegasys Peginterferon alfa-2a	Treatment of adults with chronic hepatitis C who have compensated liver disease and who have not been previously treated with interferon alfa.	Hoffmann-La Roche Inc. Nutley, NJ
COBAS Ampliscreen HCV Hepatitis C Virus (Hepatitis C Virus/Polymerase Chain Reaction/Blood Cell Derived).	For the detection of HCV RNA, in human plasma.	Roche Molecular Systems, Inc. Pleasanton, CA
Pediarix DTaP & Hepatitis B (Recombinant) & Inactivated Polio Virus Vaccine.	Combination vaccine for childhood immunization.	GlaxoSmithKline Biologicals Rixensart, Belgium
COBAS Ampliscreen HIV-1 Human Immunodeficiency Virus Type 1 (HIV-1/ Polymerase Chain Reaction).	For detection of Human Immunodeficiency Virus (HIV-1) in human plasma using Polymerase Chain Reaction.	Roche Molecular Systems, Inc. Pleasanton, CA
Aralast Alpha-Proteinase Inhibitor (Human)	Chronic replacement therapy (augmentation) in patients having congenital deficiency of Alpha-1-Proteinase Inhibitors with clinically evident emphysema.	Alpha Therapeutic Corporation Los Angeles, CA
HUMIRA Adalimumab	Reducing signs and symptoms and inhibiting the progression of structural damage in adult patients with moderately to severely active rheumatoid arthritis who have had an inadequate response to one or more disease modifying antirheumatic drugs (DMARDs).	Abbott Laboratories Abbott Park, IL
Amevive Alefacept	Treatment of adult patients with moderate to severe chronic plaque psoriasis who are candidates for systemic therapy or phototherapy.	Biogen, Inc. Cambridge, MA
Crosseal Fibrin Sealant (Human)	Adjunct to hemostasis during liver surgery.	OMRIX Biopharmaceuticals, Ltd. Fairfax, VA
Peroxidase Conjugate ORTHO Antibody to HBsAG ELISA Test System 3 Antibody to Hepatitis B Surface Antigen (Mouse Monoclonal) Enzyme-Linked Immunosorbent Assay (ELISA) (Antibody to HBsAg/Enzyme Immuno Assay (EIA), Version 3.0/Monoclonal).	Detection of hepatitis B surface antigen in human serum or plasma as a screening test and an aid in the diagnosis of potential hepatitis B infection.	Ortho-Clinical Diagnostics, Inc. Raritan, NJ
Fabrazyme agalsidase beta	For use in patients with Fabry disease to reduce globotriaosylceramide (GL-3) deposition in capillary endothelium of the kidney and certain other cell types.	Genzyme Corporation Cambridge, MA

BIOLOGICS LICENSE APPLICATIONS—Continued

Tradename/Proper Name	Indication for Use	Manufacturer
Aldurazyme Laronidase	For treatment of patients with Hurler and Hurler-Scheie forms of Mucopolysaccharidosis I (MPS I) and for patients with the Scheie form who have moderate to severe symptoms.	Biomarin Pharmaceutical, Inc. Novato, CA
FluMist Influenza Virus Vaccine Live, Intranasal	For active immunization for the prevention of disease caused by influenza A and B viruses in healthy children and adolescents, 5–17 years of age, and healthy adults, 18–49 years of age.	MedImmune Vaccines, Inc. Mountain View, CA
XOLAIR Omalizumab	For adults and adolescents (12 years of age and above) with moderate to severe persistent asthma who have a positive skin test or in vitro reactivity to a perennial aeroallergen and whose symptoms are inadequately controlled with inhaled corticosteroids.	Genentech, Inc. South San Francisco, CA
BEXXAR Tositumomab and Iodine I 131 Tositumomab	Treatment of patients with CD20 positive, follicular, non-Hodgkin's lymphoma, with and without transformation, whose disease is refractory to Rituximab and has relapsed following chemotherapy.	Corixa Corporation Seattle, WA
Zemaira Alpha-1-Proteinase Inhibitor (Human)	To use as chronic augmentation and maintenance therapy in individuals with Alpha-1-Antitrypsin Deficiency and evidence of emphysema.	Aventis Behring L.L.C. King of Prussia, PA
Advate Antihemophilic Factor (Recombinant), Plasma/Albumin Free Method.	Indicated in hemophilia A (classical hemophilia) for the prevention and control of bleeding episodes, and in the perioperative management of patients with hemophilia A.	Baxter Healthcare Corporation Westlake Village, CA
Genetic Systems HIV-1/HIV-2 Plus O EIA Human Immunodeficiency Virus Types 1 and 2 (HIV-1 and HIV-2/Enzyme Immunoassay (EIA)/Recombinant and Synthetic).	For detection of antibodies to human immunodeficiency types 1 and 2.	Bio-Rad Laboratories, Inc. Hercules, CA
GAMUNEX Immune Globulin Intravenous (Human), 10 percent by Chromatography Process.	Indicated in primary humoral immunodeficiency and idiopathic thrombocytopenic purpura.	Bayer Corporation Berkeley, CA

**BIOLOGICS LICENSE SUPPLEMENTS (FOR NEW INDICATIONS, NEW ROUTES OF ADMINISTRATION,
NEW DOSAGE FORMS, IMPROVED SAFETY)**

Tradename/Proper Name	Indication for Use	Manufacturer
Pevnar Pneumococcal 7-valent Conjugate Vaccine (Diphtheria CRM197 Protein).	New indication for the prevention of otitis media.	Lederle Laboratories Division Pearl River, NY
Avonex Interferon beta-1a	Package insert revised to include updated information regarding serum neutralizing antibodies.	Biogen, Inc. Cambridge, MA
Pegasus Peginterferon alfa-2a	Combination therapy with Ribavirin, USP (COPEGUS), for the treatment of chronic Hepatitis C Virus infection in adults.	Hoffmann-La Roche Inc. Nutley, NJ
Aranesp Darbepoetin alfa	Darbepoetin alfa Albumin (human) formulation in single dose prefilled syringes for six dosage strengths (60, 100, 150, 200, 300 and 500 micrograms).	Amgen, Inc. Thousand Oaks, CA
Simulect Basiliximab	Addition of new single dose 10 mg strength of drug product.	Novartis Pharmaceuticals Corporation East Hanover, NJ
Avonex Interferon beta-1a	Package insert revised to include safety and efficacy data from a study of patients who experienced a single clinical exacerbation of multiple sclerosis and to provide a Medication Guide.	Biogen, Inc. Cambridge, MA
Betaseron Interferon beta-1b	To revise the Clinical Studies section to include data from two studies conducted in patients with secondary progressive multiple sclerosis (MS), also to update the Adverse Reactions and Warnings sections to include new safety information, and to provide a Medication Guide.	Chiron Corporation Emeryville, CA
Remicade Infliximab	For reducing the number of draining enterocutaneous and rectovaginal fistulas and maintaining fistula closure in patients with fistulizing Crohn's disease.	Centocor, Inc. Malvern, PA
Rebif Interferon beta-1a	Final pivotal study report that confirms the results of 48 week data.	Serono, Inc. Rockland, MA
Avonex Interferon beta-1a	HAS-free liquid formulation in a prefilled syringe as an alternate dosage form and to provide for a Medication Guide.	Biogen, Inc. Cambridge, MA

**BIOLOGICS LICENSE SUPPLEMENTS (FOR NEW INDICATIONS, NEW ROUTES OF ADMINISTRATION,
NEW DOSAGE FORMS, IMPROVED SAFETY)—Continued**

Tradename/Proper Name	Indication for Use	Manufacturer
Dryvax Smallpox Vaccine, Dried, Calf Lymph Type	Active immunization against smallpox disease.	Wyeth Laboratories, Inc. Marietta, PA
Dryvax Smallpox Vaccine, Dried, Calf Lymph Type	Include new safety information for the recent reports of cardiac events and updated storage period for the vaccine after reconstitution from 15 days to 90 days.	Wyeth Laboratories, Inc. Marietta, PA
Infanrix Diphtheria & Tetanus Toxoids & Acellular Pertussis Vaccine Adsorbed.	To include in the indication a fifth dose at 4–6 years of age after 4 prior doses of Infanrix.	GlaxoSmithKline Biologicals Rixensart, Belgium
Enbrel ¹ Etanercept	To expand the rheumatoid arthritis indication to include improving physical function.	Immunex Corporation Seattle, WA
Enbrel ¹ Etanercept	For reducing signs and symptoms in patients with active ankylosing spondylitis.	Immunex Corporation Seattle, WA
Enbrel ¹ Etanercept	To expand the indication to include inhibiting the progression of structural damage of active arthritis in patients with psoriatic arthritis.	Immunex Corporation Seattle, WA
Kineret ¹ Anakinra	To expand the indication to include slowing the progression of structural damage in moderately to severely active rheumatoid arthritis, in patients 18 years of age or older who have failed one or more DMARDs.	Amgen, Inc. Thousand Oaks, CA
Synagis ¹ Palivizumab	To expand the indication to include children with hemodynamically significant congenital heart disease.	MedImmune, Inc. Gaithersburg, MD

¹ OTRR product applications transferred to CDER on 6–30–03.

NEW DRUG APPLICATIONS

Tradename/Proper Name	Indication for Use	Applicant
TriCitasol Anticoagulant Sodium Citrate Conc. 46.7 percent Trisodium Citrate, 30 mL Anticoagulant Sodium Citrate Solution	triCitasol, after dilution of a rouleaux agent, is an anticoagulant used in granulocytapheresis procedures.	Cytosol Laboratories, Inc. Braintree, MA

NEW DRUG APPLICATIONS—Continued

Tradename/Proper Name	Indication for Use	Applicant
Anticoagulant Citrate Dextrose Solution, Solution A, U.S.P., (ACD-A). 50 mL, PN 6053 Anticoagulant Citrate Dextrose Solution (ACD)	To provide for the use of Anticoagulant Citrate Dextrose Solution, Solution A, U.S.P., (ACD-A) 50 mL for the extracorporeal processing of blood with Autologous PRP systems in production of platelet rich plasma (PRP) for in vitro use.	Cytosol Laboratories, Inc. Braintree, MA

SUPPLEMENTAL NEW DRUG APPLICATIONS

Tradename/Proper Name	Indication for Use	Applicant
Abbokinase Urokinase	Improvements in the manufacture and testing of the bulk drug substance and drug product, and withdrawal of the indication for coronary artery thrombosis indication (CAT) and the Open-Cath dosage strengths.	Abbott Laboratories Abbott Park, IL

DEVICE APPLICATIONS

Tradename	Description and Indication for Device	Applicant
OraSure OraQuick Rapid HIV-1 Antibody Test	For the detection of antibodies to HIV-1 in human fingerstick whole blood specimens.	OraSure Technologies Bethlehem, PA
MedMira Rapid HIV Test	For detection of HIV-1 and HIV-2 Antibodies.	MedMira labs Bayers Lake Halifax, Canada
Ortho ProVue, Software Version: 2.10	Modular, Microprocessor-controlled instrument designed to automate in vitro immunohematological testing to human blood utilizing the ID MTS/Gel Technology.	Micro Typing Systems Inc. Pompano Beach, FL
Vironostika HIV-1 Plus O Microelisa System	For the qualitative detection of antibodies to Human Immunodeficiency Virus Type 1 (HIV-1), including Group O, in human specimens collected as serum, plasma, or dried blood spots.	BioMerieux, Inc. Durham, NC

DEVICE SUPPLEMENTS (FOR NEW INDICATIONS, IMPROVED SAFETY)

Tradename	Description and Indication for Device	Applicant
Calypte HIV-1 Urine EIA	HIV-1 Urine EIA to include changes to the black box warning statement.	Calypte Biomedical Corporation Alameda, CA

QUESTIONS SUBMITTED BY SENATOR CHRISTOPHER S. BOND

NUTRITIONAL GUIDELINES

Question. There is a linear relationship between high transfatty acid and high saturated fat intake and chronic disease. We also know that the consumption of foods high in these two elements likely contribute to the statistics on obesity. Does FDA intend to draft guidelines or standards for the consumption of these fats?

Answer. FDA issued on July 11, 2003 final rules to require that trans fatty acids be listed in mandatory nutrition labeling. Manufacturers must have this information in Nutrition Facts panels on all food packages entering interstate commerce by January 1, 2006. On July 11, 2003, FDA also published an advance notice of proposed rulemaking (ANPRM) to solicit data and information that could be used to establish new nutrient content claims about trans fatty acids; to establish qualifying criteria for trans fat in current nutrient content and health claims; and to consider statements about trans fat, either alone or in combination with saturated fat and cholesterol to enhance consumers' understanding about such cholesterol-raising lipids and how to use the information to make healthy food choices. The agency has reopened the comment period to this ANPRM to receive comment on the Institute of Medicine's (IOM) December 2003 report on Dietary Reference Intakes in which the IOM included a suggested approach for establishing a daily value for trans fat. In addition, FDA has scheduled a Food Advisory Committee Nutrition Subcommittee meeting at the end of April 2004 to consider scientific questions related to saturated fat and trans fat that may help determine the agency's course for food labeling of these fats.

Question. Will FDA provide guidelines and or regulations to restaurants and other food manufacturers and—more importantly—provide them a roadmap to increasing the nutritional content and decrease saturated fat levels of their products?

Answer. An important goal of the Nutrition Labeling and Education Act of 1990 was to provide incentives to manufacturers to improve the nutritional composition of food products. Studies have shown that the implementing regulations, which required nutrition labeling on most packaged foods, resulted in a significant increase in the number of low- and reduced-fat products in the marketplace. We anticipate that the new labeling regulations requiring that trans fat be listed will have a similar effect, reducing total intake of trans fat. In fact, since publication of the final rule requiring the listing of trans fat, several food manufacturers and at least one major fast food restaurant chain have announced that they are changing the type of fats used in order to reduce levels of trans fats.

Question. Does FDA intend to provide guidelines and or regulations on the characteristics of healthy oils' that can be used in most food manufacturing to improve overall health and nutrition of those foods?

Answer. By requiring the saturated and trans fat content to be declared in Nutrition Facts panels on most packaged foods, FDA is providing an incentive for manufacturers to reduce the levels of those fats whose consumption is associated with increased levels of LDL-cholesterol.

Question. Does FDA have this authority?

Answer. Manufacturers may choose between different food ingredients to use in their food products, provided that such ingredients are safe for such use under the Federal Food, Drug, and Cosmetic Act (the Act). FDA has authority, under section 403(q) of the Act, to require nutrition labeling on packaged food products. Restaurant foods are exempt unless they make a nutrition claim.

Question. How will FDA ensure that as they move forward with trans-fat labeling that saturated fats will not come back into the diet?

Answer. Nutrition labeling will indicate the levels of both saturated fat and trans fat in most packaged foods. Consumer education programs will encourage consumers to look at both types of fats and to consider the combined total amount in making purchasing decisions.

QUESTIONS SUBMITTED BY SENATOR HERB KOHL

OBESITY

Question. Dr. Crawford, both USDA and FDA have recently announced new efforts to combat the increasing problem of obesity. FDA announced the "Calories Count" program, and USDA has money in several programs, including WIC, to help battle this problem. However, for all of the government's efforts, all of the money being put into this effort pales in comparison to the food industry's billions of dollars worth of advertising. How can the government successfully get its message out

when, at first glance, its efforts appear to be dwarfed by the food industry? How do your agencies compete with that?

Answer. In support of the President's *Healthier U.S.* initiative, the DHHS established a complementary initiative, *Steps to a Healthier U.S.*, which emphasizes personal responsibility for the choices Americans make for healthy behaviors. One aspect of this initiative focuses on reducing the major health burden created by obesity and other chronic diseases. Following DHHS' July 2003 Roundtable on Obesity and Nutrition, on August 11, 2003, FDA established an Obesity Working Group, or OWG, to prepare a report that outlines an action plan to cover critical dimensions of the obesity problem from FDA's perspective and authorities. This report was released on March 12, 2004.

There is no simple answer to the problem of obesity. Achieving success in reducing and avoiding obesity will occur only as a result of efforts over time by individuals as well as various sectors of our society. It should be noted, however, that most associations, agencies, and organizations believe that diet and physical activity should be addressed together in the fight against overweight and obesity.

The OWG report provides a range of short and long-term recommendations to address the obesity epidemic with a focus on a "calories count" emphasis for FDA actions. These recommendations are based on sound science and address multiple facets of the obesity problem under FDA's purview, including developing appropriate and effective consumer messages to aid consumers in making wiser dietary choices; establishing educational strategies and partnerships to support appropriate messages and teach people, particularly children, how to lead healthier lives through better nutrition; developing initiatives to improve the labeling of packaged foods with respect to caloric and other nutrition information; encouraging and enlisting restaurants in efforts to combat obesity and provide nutrition information to consumers, including information on calories, at the point-of-sale; developing new therapeutics for the treatment of obesity; designing and conducting effective research in the fight against obesity; and continuing to involve stakeholders in the process.

Regarding food labeling, the OWG report contains several recommendations based on sound science. I will provide these recommendations for the record.

[The information follows:]

Publish an advance notice of proposed rulemaking, or ANPRM, to seek comment on the following:

- How to give more prominence to calories on the food label, for example, increasing the font size for calories, including a column in the Nutrition Facts panel of food labels for percent Daily Value for total calories, and eliminating the listing for calories from fat;
- Whether to authorize health claims on certain foods that meet FDA's definition of "reduced" or "low" calorie. An example of a health claim for a "reduced" or "low" calorie food might be: "Diets low in calories may reduce the risk of obesity, which is associated with type 2 diabetes, heart disease, and certain cancers."
- Whether to require additional columns on the Nutrition Facts panel to list quantitative amounts and percent Daily Value of an entire package on those products and package sizes that can reasonably be consumed at one eating occasion—or declare quantitative amounts and percent Daily Value of the whole package as a single serving if it can reasonably be consumed at a single eating occasion; and,
- Which, if any, reference amounts customarily consumed of food categories appear to have changed the most over the past decade and hence require updating.

In addition, FDA will file and respond in a timely way to petitions the agency has received that ask FDA to define terms such as "low," "reduced," and "free" carbohydrate; and provide guidance for the use of the term "net" in relation to carbohydrate content of food—these petitions were filed on March 11, 2004.

FDA will also encourage manufacturers to use dietary guidance statements, an example of which would be, "To manage your weight, balance the calories you eat with your physical activity." In addition, the Agency will encourage manufacturers to take advantage of the flexibility in current regulations on serving sizes to label as a single-serving those food packages where the entire contents of the package can reasonably be consumed at a single eating occasion and encourage manufacturers to use appropriate comparative labeling statements that make it easier for consumers to make healthy substitutions.

FDA believes that if the report's recommendations are implemented they will make a worthy contribution to confronting the Nation's obesity epidemic and helping consumers' lead healthier lives through better nutrition.

FDA also believes that the regulatory scheme for claims in food labeling, whether health claims, nutrient content claims, or other types of claims, are science based, and we continue to consider modifications to our regulations to keep up with recent scientific developments. A benefit of standardized, science-based terminology, as with other terms that FDA has defined that consumers may use to make health-based dietary choices—e.g., terminology concerning fat content-, is that it allows consumers to compare across products and it encourages manufacturers to compete based on the nutritional value of the food. However, FDA does not regulate television and other media marketing of food products. Some of the modifications FDA is currently considering are described above in the list of topics to be covered by the ANPRM the agency intends to issue.

With respect to conveying the report's messages to the public, FDA believes that all parties, including the packaged food industry, restaurants, academia, and other private and public sector organizations in addition to government agencies at all levels, have an essential role to play. On April 22, 2004, FDA's Science Board focused on specific recommendations from the OWG report. These recommendations call on FDA to work through a third-party facilitator to engage all involved stakeholders in a dialogue on how best to construct and convey obesity messages in the restaurant setting and in the area of pediatric obesity education.

This approach is one example of how the Agency intends, by means of public and private partnerships, to leverage its ability to convey appropriate messages on obesity to the public with the goal of changing behavior and ultimately reversing obesity trends in the United States.

IMPORT INSPECTIONS

Question. Dr. Crawford, the FDA budget this year includes a \$7 million increase to fund 97,000 food import examinations. This is a big increase in inspections over any previous year—still, however, less than one percent of all of the food imported into this country will be inspected. How would you respond to charges that you still aren't inspecting nearly enough imported food, especially in light of events during the past year where bad food has gotten in and people have died? How do we ensure consumers that their food is indeed safe?

Answer. FDA is appreciative of the additional funding we have received for the inspection of domestic firms and for inspections of imported foods. FDA believes it is more effective to focus our resources in a risk-based manner than to focus simply on increasing the percentage of imported food shipments that are physically inspected. It is important to note that every shipment of FDA-regulated food which is entered through Customs and Border Protection as a consumption entry is electronically reviewed by FDA's Operational and Administrative System for Import Support to determine if it meets identified criteria for further evaluation by FDA reviewers and physical examination and/or sampling and analysis or refusal. This electronic screening allows FDA to concentrate its limited inspection resources on high-risk shipments while allowing low-risk shipments to proceed into commerce.

Due to constantly changing environments of operation, e.g., counterterrorism and BSE, our domestic inspection and import strategy cannot be defined in terms of a percentage of coverage through inspections, physical examinations and sample analyses. It needs to be a flexible blend of the use of people, technology, information and partnerships to help protect Americans from unsafe imported products. Accordingly, the Agency is developing and using strategies for mitigating risks prior to importation through partnerships and initiatives based on best practices and other science based factors relevant to the import life cycle, i.e., from foreign manufacturer to the U.S. consumer. Recently this principle has been applied in the "Canadian Facility Voluntary Best Management Practices for Expediting Shipments of Canadian Grains, Oilseeds and Products to the United States" implemented February 24, 2004, and designed to mitigate the potential of mammalian protein prohibited from being fed to cattle or other ruminants under BSE-prevention regulations promulgated by CFIA and FDA.

Another piece of the long term solution to a higher level of confidence in the security and safety of food products lies in information technology that will merge information on products and producers with intelligence on anticipated risks to target products for physical and laboratory examination or refusal. This strategy would rely on data integrity activities that reduce the opportunity for products to be incorrectly identified at ports. It would also rely on cooperation from producers so that FDA can identify sources that are unlikely to need physical testing. However, even with such targeting, improvements are limited by the available methodologies for assessing threat agents and our ability to predict which tests ought to be used.

We are ramping up our food inspections, but we recognize that we also need to inspect smarter, not just inspect more. That is why FDA is making significant investments in technology and information resources such as the development of the Mission Accomplishment and Regulatory Compliance Services System, MARCS. MARCS is a comprehensive redesign and reengineering of two core mission critical systems at FDA: FACTS and the Operational and Administrative System for Import Support, OASIS. OASIS supports the review and decision making process of products for which entry is sought into the United States. We are using funds to work to further improve targeting and using force multipliers such as IT.

FDA also has a proof of concept project, called "Predict," with New Mexico State University under a Department of Defense contract which is being designed to enhance agency capability to rapidly assess and identify import entries based on risk using relevant information from various sources including regulated industry, trade, other Federal, State, and local entities, and foreign industry and governments. This project, if successful, will greatly enhance FDA's capability to be smarter in directing field activities on products of greater risk to public health and safety. The proof of concept project is projected to be completed in the Fall of 2004. The relentless growth in the volume of domestic as well as imported food products, which are increasingly in "ready for consumer sale packaging." Food imports are now growing at 19 percent per year. FDA needs to use all the potential tools available to improve its efficiency in food security and safety coverage.

In addition, FDA has several strategic initiatives to enhance safety. One of these is "Agency Initiatives to Improve Coverage," which includes the creation of the Southwest Import District to better coordinate import activities on the southern border. Another is reciprocal FDA and U.S. Customs and Border Protection training to improve product integrity of goods offered for import and increase enforcement actions by Customs to deter willful violations of U.S. laws and regulations. While foreign inspections and border operations provide some assurance that imported foods are safe, the agency continues to work to foster international agreements and harmonize regulatory systems. For instance, we actively participate in the Canada/U.S./Mexico Compliance Information Group, which shares information on regulatory systems and the regulatory compliance status of international firms to protect and promote human health.

It is very important that American consumers trust the safety of the food supply. FDA has made fundamental changes in how we implement our mission of protecting the food supply, so that all Americans can have confidence that their food has been handled under secure conditions that provide assurance of its safety.

FDA FOIA POLICIES

Question. Dr. Crawford, my office has been working with a non-profit patient advocacy group, the TMJ Association, in their efforts to have two FOIA requests that are well over a year old responded to. Their original FOIA request was made on November 1, 2002 (request number 02017071), more than 17 months ago, and the subsequent request was made on March 25, 2003 (request number 03004361). They have not yet received the information requested, and have been unable to get a date commitment by FDA as to when the information will be provided. It is my understanding that they have been informed that FOIA requests are severely backlogged, and the FDA has no idea when they will be able to process their request. What is the current backlog for FOIA requests?

Answer. As of April 28, 2004, FDA has 19,369 pending FOIA requests—17,555 have been pending more than 20 days and 1,814 have been pending 20 days or less. The Denver District Office is responsible for responding to the two requests from the TMJ Association. As of April 28, 2004, Denver District Office has 369 pending FOIA requests—357 requests have been pending more than 20 days, and 12 requests have been pending 20 days or less.

Question. How many FDA staff are responsible for handling these requests? Is this their sole responsibility, or do they have other responsibilities as well?

Answer. For fiscal year 2003 the total number of personnel responsible for processing FOIA requests was 91 FTE, 75 full time employees, and 16 FTE work years representing personnel with part-time FOIA duties in addition to other responsibilities.

Question. Does FDA need additional staff or resources in order to process these requests on a timely basis?

Answer. In some agency components FOIA is a collateral duty. For example, in most FDA field offices, Compliance Officers whose primary responsibilities are related to the Agency's regulatory enforcement activities also perform FOIA duties as

permitted by time and regulatory workload. Additional staff devoted to FOIA could shorten the amount of time for processing requests.

Question. What do you believe is a reasonable length of time for a group to wait for an information request to be processed and responded to?

Answer. Requests are processed by the agency component that maintains the requested records. There are a number of factors that must be considered in order to predict a reasonable amount of time for a request to be processed. Those factors include the volume of requests received by the component, the complexity of requests received, the amount of time required to search for records, the amount of time required to review the records to determine whether information is releasable under FOIA, and the resources available to process requests.

Question. What is the average length of time it takes to process a FOIA request? Can you please explain the severe delay in processing this specific one, which has taken over 2 years and apparently has no end in sight? Can you please provide me a timeframe within which the FDA will respond to these two particular FOIA requests?

Answer. Under the Electronic Freedom of Act Amendments of 1996, agencies are permitted to establish multiple tracks for processing FOIA requests based on the complexity of the requests and the amount of work and time required to process requests. Some FDA components have established multiple processing tracks. Requests are processed on a first in, first out basis within each track. The median number of days to process requests in the simple processing track is 19 days. The median number of days to process requests in the complex processing track, for more complicated requests, is 363 days. For requests that are not processed in multiple processing tracks, the median number of days to process is 44 days.

Due to a heavy load of regulatory cases in the Denver District Office that must be handled by the Compliance Officers in addition to staff shortages, FOIA work in the Denver District is being performed by one individual on a part-time basis. This has resulted in a significant backlog of FOIA requests. The Denver District Office expects to fill request 02-17071 from the TMJ Association in six months, and request 03-4361 in one month.

Question. What additional efforts can this group undertake in order to speed up their request?

Answer. The Denver District Office expects to fill request 02-17071 from the TMJ Association in 6 months, and request 03-4361 in one month.

In addition, the Denver District is reviewing and evaluating its FOIA workload and will develop a strategy aimed at reducing the backlog of FOIA requests.

Question. What is the FDA's policy on charging for FOIA requests made by non-profit patient advocacy groups?

Answer. The FOIA sets forth criteria that agencies must follow with respect to charging for processing FOIA requests. Non-profit organizations are considered Category III requesters. Such requesters receive 100 pages of duplication and 2 hours of search at no charge. If the number of pages exceed 100 and/or if the amount of search time exceeds 2 hours, Category III requesters are charged based on the FOIA fee schedule of the Department of Health and Human Services. The fee for duplication is \$.10 per page, and the fee for search is based on the grade level of the individual who processes the request. I will be happy to provide the current grade rates for the record.

[The information follows:]

Current Grade Rates

GS-1 through 8—\$18.00 per hour

GS-9 through 14—\$36.00 per hour

GS-15 and above—\$64.00 per hour

In addition, requesters may make a request for waiver or reduction of fees if their request meets the following criteria: disclosure of the information is in the public interest because it is likely to contribute significantly to public understanding of the operations or activities of the Government; and, disclosure is not primarily in the commercial interest of the requester.

IMPLICIT PRE-EMPTION

Question. Adverse reactions to prescription drugs and other medicines take the lives of more than 100,000 Americans each year, and millions more are seriously injured. For many years, state tort laws have enabled some victims to receive compensation for their injuries. It has been brought to my attention that the Food and Drug Administration (FDA) has stepped in to protect drug companies from liability in some of these lawsuits, potentially robbing individuals of their only means of compensation. FDA's actions are even more troubling when you consider that these

lawsuits have other important purposes, such as deterring future bad behavior and providing the American public with access to important health and safety information. How many times has the FDA interfered in lawsuits, arguing that implicit preemption prohibits a plaintiff from receiving compensation for their injuries? In how many of these cases has a court held that the plaintiff's tort claim was implicitly pre-empted by Federal law?

Answer. In the past several years, the Department of Justice (DOJ) has represented the United States in four cases involving state-law challenges to the adequacy of FDA-approved risk information disseminated for FDA-approved new drugs.¹ In each case, DOJ contended that the state-law claim was preempted by Federal law. In addition, in some cases, DOJ argued that the state-law claim was not properly before the court by operation of the doctrine of primary jurisdiction.²

The legal basis for preemption in these cases is FDA's careful control over drug safety, effectiveness, and labeling according to the agency's comprehensive authority under the FDCA and FDA implementing regulations. If state authorities, including judges and juries applying state law, were permitted to reach conclusions about the safety and effectiveness information disseminated with respect to drugs for which FDA has already made a series of regulatory determinations based on its considerable institutional expertise and statutory mandate, the Federal system for regulation of drugs would be disrupted. I will be happy to include information on the four cases for the record.

[The information follows:]

Bernhardt

In 2000, two individual plaintiffs filed product liability actions in a New York court against Pfizer, Inc., seeking a court order requiring the company to send emergency notices to users of the prescription antihypertensive drug CARDURA (doxazosin mesylate) and their physicians. The notices would have described the results of a study by a component of the National Institutes of Health (NIH) that, the plaintiffs alleged, demonstrated that Cardura was less effective in preventing heart failure than a widely used diuretic. FDA had not invoked its authority to send "Dear Doctor" letters or otherwise disseminate information regarding a drug that the agency has determined creates an "imminent danger to health or gross deception of the consumer." (21 U.S.C. 375(b).) The plaintiffs, nevertheless, filed a lawsuit under state common law seeking relief that, if awarded, would have pressured the sponsor to disseminate risk information that FDA itself had not disseminated pursuant to its statutory authority.

FDA's views were submitted to the Federal district court in the form of a Statement of Interest.³ The Statement relied on the doctrine of primary jurisdiction. The Statement also took the position that the plaintiffs' request for a court order requiring the dissemination of information about NIH study results to users and prescribers of CARDURA was impliedly preempted. According to the Statement, the court order "would frustrate the FDA's ability effectively to regulate prescription drugs by having the Court substitute its judgment for the FDA's scientific expertise." The Statement also noted that, if the court granted the requested order, a direct conflict would be created between the information required to be disseminated by the court and the information required to be disseminated by FDA under the FDCA (in the form of the FDA-approved labeling).

The Statement contended that state law could not provide a basis for requiring a drug manufacturer to issue drug information that FDA had authority to, but did not, require. Importantly, the submission did not argue that the state-law claim was preempted because FDA had reached a determination that directly conflicted with the plaintiff's view. Nor did it assert that FDA had specifically determined that the information on the NIH study requested by the plaintiffs was unsubstantiated, false, or misleading. In this sense, the Statement of Interest in *Bernhardt* was the most aggressive, from a legal perspective, than the three subsequent DOJ submissions on FDA's behalf in preemption cases made during the present Administration.

The United States District Court for the Southern District of New York accepted the primary jurisdiction argument made on FDA's behalf. (*Bernhardt v. Pfizer, Inc.*,

¹ FDA also periodically becomes involved, through the Department of Justice, in cases involving preemption of state-law requirements under the medical device provisions of the FDCA, which include an express preemption provision, 21 U.S.C. 360k(a).

² Primary jurisdiction allows a court to refer a matter to an administrative agency for an initial determination where the matter involves technical questions of fact and policy within the agency's jurisdiction. See, e.g., *Israel v. Baxter Labs., Inc.*, 466 F.2d 272, 283 (D.C. Cir. 1972); see also 21 CFR 10.60.

³ Statement of Interest of the United States; Preliminary Statement, *Bernhardt v. Pfizer, Inc.*, Case No. 00 Civ. 4042 (LMM) (S.D.N.Y. filed Nov. 13, 2000).

2000 U.S. Dist. LEXIS 16963, *9 (whether the additional warnings sought by the plaintiffs were appropriate “is a decision that has been squarely placed within the FDA’s informed expert discretion”).) It did not address the preemption issue. The case was voluntarily dismissed on April 22, 2003.

Dowhal

In 1998, an individual plaintiff in California asked that State’s attorney general to initiate an enforcement action against SmithKline Beecham and other firms marketing OTC nicotine replacement therapy products in California. (These products are marketed pursuant to an approved new drug application.) The plaintiff contended that the FDA-approved warnings for the defendants’ products did not meet the requirements of a state statute called the Safe Drinking Water and Toxic Enforcement Act (Cal. Health & Safety Code § 25249.5 et seq.), also known as Proposition 65. From 1996 through 2001, FDA had repeatedly advised the defendants that they could be liable under the FDCA for selling misbranded products if they deviated from the FDA-approved warning labeling for their products. FDA also advised the state attorney general in writing in 1998 that the defendants’ warning in the labeling clearly and accurately identified the risks associated with the products and, therefore, met FDA requirements under the FDCA. After receiving the letter, the attorney general declined to initiate enforcement action.

Nevertheless, in 1999, the individual plaintiff initiated a lawsuit of his own in California state court under Proposition 65’s “bounty-hunter” provision, which empowers individuals to file enforcement actions under that statute on behalf of the people of the State of California. The lawsuit asked the court to award civil money penalties and restitution, and to issue an injunction requiring the defendants to disseminate warnings for their products that differed from the warnings required by FDA. In 2000, the plaintiff filed a citizen petition with FDA requesting that the agency require the defendants to change their warnings to reflect the language sought by the plaintiff in the lawsuit. FDA rejected the proposed language, determining that it lacked sufficient support in scientific evidence and presented a risk of mischaracterizing the risk-benefit profile of the products in a way that threatened the public health. Although the trial court found for the defendant, the California Court of Appeal rejected the defendant’s contention that the plaintiff’s claim was preempted under the FDCA, and allowed the lawsuit to proceed. (*Dowhal v. SmithKline Beecham Consumer Healthcare*, 2002 Cal. App. LEXIS 4384 (Cal. Ct. App. 2002), argued, Case No. S-109306 (Cal. Feb. 9, 2004).)

FDA’s views were presented to the Court of Appeal of California in an amicus curiae (“friend of the court”) brief and to the Supreme Court of California in a letter brief and an amicus brief.⁴ All three documents explained that the warning language sought by the plaintiffs had been specifically considered and rejected by FDA as scientifically unsubstantiated and misleading. Including the language would, therefore, misbrand those products and cause the defendants to violate the FDCA. The documents explained, further, that principles of conflict preemption applied to the plaintiffs’ claim because it was impossible for defendants to comply with both Federal and State law and because the state law posed an obstacle to the accomplishment of the full purposes and objectives of the FDCA.

The California Court of Appeal rejected the preemption argument. (*Dowhal v. SmithKline Beecham Consumer Healthcare*, 2002 Cal. App. LEXIS 4384, . . . 16–17 (Cal. Ct. App. 2002) (reversing trial court decision granting summary judgment for defendants on preemption grounds).) On April 15, 2004, the California Supreme Court reversed the appeals court decision, finding a direct conflict between FDA requirements and the state-law warning requirement advocated by the plaintiff. (*Dowhal v. SmithKline Beecham Consumer Healthcare*, 2004 Cal. LEXIS 3040.)

Motus

Also in 2000, an individual plaintiff sued Pfizer in a California court alleging, among other things, that the company had failed to fulfill its state common law duty to warn against the risk of suicide the plaintiff alleged was presented by ZOLOFT (sertraline HCl), an FDA-approved drug in the selective serotonin reuptake inhibitor (SSRI) class indicated to treat depression (among other things). On numerous occa-

⁴ Letter from Robert D. McCallum, Jr., Ass’t Attorney General, et al., to Frederick K. Ohlrich, Supreme Court Clerk/Administrator, *Dowhal v. SmithKline Beecham Consumer Healthcare LP*, et al., Case No. S-109306 (Cal. filed Sept. 12, 2002); Amicus Curiae Brief of the United States of America in Support of Defendants/Respondents SmithKline Beecham Consumer Healthcare LP, et al., *Dowhal v. SmithKline Beecham*, Case No. A094460 (Cal. Ct. App. filed Mar. 22, 2002); Amicus Curiae Brief of the United States of America in Support of Defendants/Appellants SmithKline Beecham Consumer Healthcare LP, et al., *Dowhal v. SmithKline Beecham*, Case No. S109306 (Cal. filed July 31, 2003).

sions, FDA had specifically considered and rejected such language for SSRIs as scientifically unsupported and inconsistent with FDA determinations as to the safety and effectiveness of the products.

The United States District Court for the Central District of California (to which the case had been removed on the ground of diversity) rejected the defendant's preemption argument, allowing the lawsuit to proceed. (*Motus v. Pfizer Inc.*, 127 F. Supp. 2d 1085 (C.D. Cal. 2000).) The court later granted the defendant's motion for summary judgment on non-preemption grounds (196 F. Supp. 2d 984, 986 (C.D. Cal. 2001)), and the plaintiff appealed. DOJ submitted an amicus curiae brief to the United States Court of Appeals for the Ninth Circuit on FDA's behalf.⁵ The brief's arguments were essentially the same as the arguments advanced in *Bernhardt*. In contrast to the situation in *Bernhardt*, however, in *Motus*, FDA had specifically considered, and rejected, the language requested by the plaintiff under state law. The appeals court affirmed the trial court's decision earlier this year (2004 U.S. App. LEXIS 1944 (9th Cir. February 9, 2004)).

In re PAXIL

In 2001, individuals filed suit in a California court on behalf of past or current users of PAXIL (paroxetine HCl) against the drug's manufacturer, GlaxoSmithKline (GSK), alleging that the company's direct-to-consumer (DTC) broadcast advertisements for the drug failed adequately to warn about the consequences of discontinuing the drug. In reviewing the new drug application for the drug, FDA had found no evidence that it was habit-forming and did not require GSK to address that risk in FDA-approved labeling. FDA did, however, require GSK to include in labeling statements regarding discontinuation syndrome, and the labeling consequently recommends that doctors gradually reduce dosages and monitor patients for syndrome symptoms. FDA reviewed proposed DTC advertisements GSK had submitted for Paxil that said that the drug was not habit-forming. The agency at no time determined that this statement was misleading. In August 2002, notwithstanding FDA's determination, the court issued a preliminary injunction prohibiting GSK from running DTC advertisements stating that Paxil is not habit-forming. (*In re Paxil Litigation*, 2002 U.S. Dist. LEXIS 16221 (C.D. Cal. Aug. 16, 2002).)

On reconsideration, the court declared that the preliminary injunction challenged only "FDA's . . . determination that the public is not likely to equate the words 'not habit forming' as used in direct-to-consumer advertisements with no withdrawal symptoms." According to the court, "The question of how members of the general public are likely to interpret (or misinterpret) a statement is within one of the courts' core competencies." Declaring itself "unwilling to blindly accept FDA's ultimate determination here," the court rejected the defendants' preemption and primary jurisdiction arguments. It nevertheless denied the injunction on the ground that the plaintiff was not likely to succeed in demonstrating that "non-habit forming" statement in the advertisement is misleading. Thus, although the court ultimately declined to award the injunctive relief sought by the plaintiff, it continued to distinguish between FDA's determinations as to the adequacy of drug warnings under Federal law, and its own view of warnings adequacy under state common law. (*In re Paxil Litigation*, 2002 U.S. Dist. LEXIS 24621 (C.D. Cal. Oct. 16, 2002).)

DOJ submitted to the court a Statement of Interest and a brief asserting preemption.⁶ The Statement of Interest contended that a court order requiring GSK to remove the "non-habit-forming" claim from its advertisements for Paxil would be inconsistent with FDA's determination that the company's advertisements were proper and that Paxil is not, in fact, "habit-forming." The brief contended that the court should find the plaintiff's state-law request for a court order preempted because it poses an obstacle to achievement of the full objectives of Congress "by attempting to substitute th[e] Court's judgment for FDA's scientific expertise." As the brief pointed out, FDA had specifically reviewed the advertisements, made suggestions concerning the proper manner of presenting information relating to whether Paxil is "habit-forming," and, in the exercise of its scientific and medical expertise, found the advertisements acceptable. The brief also included a primary jurisdiction argument. The court reversed its earlier award of an injunction prohibiting the manufacturer from running advertisements that had been reviewed and approved by FDA,

⁵Amicus Brief for the United States in Support of the Defendant-Appellee and Cross-Appellant, and in Favor of Reversal of the District Court's Order Denying Partial Summary Judgment to Defendant-Appellee and Cross-Appellant, *Motus v. Pfizer*, Case Nos. 02-55372 & 02-55498 (9th Cir. filed Sept. 3, 2002).

⁶Statement of Interest of the United States of America, *In re PAXIL Litigation*, Case No. CV 01-07937 MRP (CWx) (C.D. Cal. filed August 20, 2002); Brief of the United States of America, *In re PAXIL Litigation*, Case No. CV 01-07937 MRP (CWx) (C.D. Cal. filed Sept. 4, 2002).

but the reversal was based on a ground other than preemption. (*In re Paxil Litigation*, 2002 U.S. Dist. LEXIS 24621 (C.D. Cal. 2002).)⁷

Conclusion

As these cases illustrate, courts entertaining lawsuits filed under state law do not always defer to FDA on matters that Congress has placed squarely within the agency's authority. In FDA regulatory areas characterized by comprehensive regulation and requiring a careful and expert evaluation of scientific data and public health issues, state coregulation can stand as an obstacle to or directly conflict with the agency's administration of its statutory mandate. Preemption is the constitutionally prescribed mechanism for resolving these conflicts.

The practice of citing preemption and primary jurisdiction under the FDCA in litigation in which the United States is not a party is well-established and substantially predates the current Administration. DOJ and FDA participation in these cases is unusual. In the current Administration, DOJ has participated in private state-law actions on FDA's behalf only following a judicial finding that the action should proceed, and only to address a state-law finding that, left undisturbed, would undermine FDA's execution of its statutory mission or directly conflict with Federal law. Responsibility for making final decisions whether to make submissions in private lawsuits, on preemption, primary jurisdiction, or any other issue, rests with the Department of Justice—not FDA itself.

Question. These arguments conflict with long-standing FDA policy. The law appears to contradict what the FDA has argued. What motivated FDA to change its policy?

Answer. The Government's participation in cases arising under state-law and presenting preemption issues is consistent with past FDA practice and with the pertinent law.

The principal enabling statute of the Food and Drug Administration is the Federal Food, Drug, and Cosmetic Act, FDCA. Under this statute, FDA has broad authority to protect the public health by ensuring that foods are safe, wholesome, sanitary, and properly labeled, and that drugs and medical products are safe and effective. (See 21 U.S.C. § 393(b)(2)(A)–(C).) By operation of the Supremacy Clause of the United States Constitution (U.S. Const. Art. VI, clause 2), the FDCA nullifies conflicting requirements established by the States in legislation, regulations, or common law. (See *Gibbons v. Ogden*, 22 U.S. (9 Wheat.) 1, 211 (1824) (Marshall, C.J.).)

In the past, FDA has addressed conflicting state requirements in the context of rulemaking. In 1982, for example, FDA promulgated regulations requiring tamper-resistant packaging for over-the-counter drugs. In the preamble accompanying the regulations, FDA stated its intention that the regulations preempt any state or local requirements that were "not identical to . . . [the rule] in all respects." (47 FR 50442, 50447; Nov. 5, 1982.) Similarly, in 1986, FDA issued regulations requiring aspirin manufacturers to include in labeling a warning against use in treating chicken pox or flu symptoms in children due to the risk of Reye's Syndrome. In the accompanying preamble, FDA said the regulations preempted "State and local packaging requirements that are not identical to it with respect to OTC aspirin-containing products for human use." (51 FR 8180, 8181; Mar. 7, 1986.) In 1994, FDA amended 21 CFR 20.63 to preempt state requirements for the disclosure of adverse event-related information treated as confidential under FDA regulations. (59 FR 3944; Jan. 27, 1994.)

In addition, for many years, conflicting state requirements have been addressed by FDA through case-by-case participation in selected lawsuits to which the

United States has not been a party. Because FDA lacks independent litigating authority, this participation has been by the Department of Justice (DOJ) on FDA's behalf. The practice of addressing conflicting state requirements through participation in litigation dates back many years. For example, DOJ participated on FDA's behalf in favor of preemption in both *Jones v. Rath Packing Company*, 430 U.S. 519 (1977), and *Grocery Manufacturers of America, Inc. v. Gerace*, 755 F.2d 993 (2d Cir. 1985). In addition, as discussed in our response to the previous question on preemption, FDA has recently participated in several cases involving state-law requirements for the communication of risk information for prescription drugs. Of note, the first—and most aggressive, from a legal perspective—of these submissions occurred during the previous Administration—*Bernhardt* case included in materials for the record.

⁷In December 2003 (296 F. Supp. 2d 1374), the litigation, consisting of twelve action in eleven Federal judicial districts, was centralized for pretrial proceedings in the United States District Court for the Central District of California.

NARMS

Question. What is the total amount of funding for NARMS, and from what account does it come?

Answer. The total amount of funding for NARMS in fiscal year 2004 is \$7.634 million. This funding is located in the Salaries and Expenses, or S&E, account.

Question. How much is FDA giving to USDA and CDC in fiscal year 2005? How does that compare to fiscal year 2004? Please describe what factors are used to determine the division of funds.

Answer. At this time, FDA has not determined the exact funding for CDC and USDA for NARMS for fiscal year 2005 but plans to make decisions by Fall 2004. In fiscal year 2004, FDA funding on NARMS will be reduced due to government-wide rescissions. In fiscal year 2004, FDA provided funds of approximately \$1.6 million to USDA and \$2 million to CDC. It is important to point out that a large portion of the funds provided to CDC is given to the states for the collection, isolation and identification of bacterial isolates, which are then shipped to CDC and the Food and Drug Administration's Center for Veterinary Medicine—NARMS retail arm—for susceptibility testing. In determining the funds provided to CDC and USDA, we analyze the entire NARMS program, including the retail food arm of NARMS, and strive to fill in data gaps and avoid duplication of organisms to be tested.

Question. How much NARMS money is currently being spent in foreign countries, specifically Mexico? How is this money being used?

Answer. FDA is not spending any current year NARMS funding in Mexico or other foreign countries.

Question. Does USDA or CDC spend any of their NARMS money in foreign countries?

Answer. In fiscal year 2004 FDA is providing USDA and CDC, \$1.6 million and \$2 million respectively. FDA does not keep detailed records of USDA and CDC funding for NARMS.

COUNTERFEIT DRUGS

Question. In February, FDA released a report on combating counterfeit drugs. Several new technologies were mentioned that could be used to this effect, including Radiofrequency Identification tagging, color shifting inks, and holograms. Specifically regarding color shifting inks, which I understand are currently available, has FDA taken any action, or do you have any plans to pursue this option?

Answer. It is true that color shifting ink technology is currently available for use on drug packaging and labeling. However, we heard uniformly from all stakeholders that this technology is expensive and requires significant investment of resources and time prior to implementation. Due to the wide variety of products, packaging, and labeling on the market, we heard from manufacturers, wholesalers, and retailers that the decision to use color shifting inks, or any other authentication technology, should be made by the manufacturer after a manufacturer initiated product risk assessment. Without such an analysis, use of color-shifting ink, or other authentication technology, could lead to an unnecessary increase in the cost of drugs to consumers. For example, we heard that color-shifting ink could be appropriate for use on a very expensive, high volume brand name drug product that is likely to be counterfeited, but not on a generic or low volume drug product that is less likely to be counterfeited.

Based on our discussions with manufacturers, we estimate that it would take a minimum of six to twelve months to implement a technology such as color shifting ink from the time a decision is made to use the authentication technology on the packaging and/or labeling of a drug product. It could take longer if the technology, e.g., color-shifting ink, is used on the product itself because safety studies might have to be performed to ensure that the technology, e.g., the ink, does not affect the safety or stability of the product.

ANIMAL DRUG COMPOUNDING

Question. Dr. Crawford, on February 10, I submitted a letter to Dr. McClellan regarding FDA's new Compliance Policy Guidelines, issued July 14, 2003, regarding animal drug compounding. I received a response from FDA on March 31st, and I thank you for that. However, I do have a few more questions in light of the response.

First, the letter stated that FDA issued the CPG for immediate implementation because of the "urgent need to explain how it intended to exercise its enforcement discretion regarding compounded drugs for animal use in light of *Thompson v. Western States Medical Center*." However, this case dealt only with compounding in

human drugs, not animal drugs. How does this create an urgent need to deal with animal drugs?

Answer. After the *Western States* decision, FDA revised its enforcement policy on pharmacy compounding of human drugs. FDA was concerned that without updated guidance regarding compounding of animal drugs, the public would remain uncertain about whether and how FDA would change its enforcement policy with respect to compounded animal drugs. In addition, agency staff would lack clear guidance on enforcement matters.

As FDA stated in its letter, although prior public comment was not sought in this case, pursuant to the good guidance practices regulations the public was invited to comment on the CPG when it was issued and may comment on it at any time (68 FR 41591 (July 14, 2003)). FDA has been reviewing those comments and will revise the guidance as appropriate upon completion of our review.

Question. Second, the response states that two Federal appeals court decisions have held that “the Federal Drug & Cosmetic Act does not permit veterinarians to compound unapproved finished drugs from bulk substances, unless the finished drug is not a new animal drug. These cases support FDA’s position that new animal drugs that are compounded from bulk substances are adulterated under the FD&C Act and may be subject to regulatory action.” I have been informed that the cases cited deal only with veterinarians compounding drugs, not pharmacists. Why do you limit pharmacists as well as veterinarians? Is this supported by any congressionally-enacted statutory authority, legislative history or case law?

Answer. The principle established by the courts applies equally to compounding by pharmacists and veterinarians.

Veterinary medicine has not traditionally utilized the services of compounding pharmacies to the extent that they have been utilized within human medicine. The increasing activities and presence of compounding pharmacies in veterinary medicine is a relatively recent development.

The Federal Food Drug and Cosmetic Act, or “the Act”, and its implementing regulations do not exempt veterinarians or pharmacists from the approval requirements in the new animal drug provisions of the Act, 21 U.S.C. Section 360b. In the absence of an approved new animal drug application, the compounding of a new animal drug from any unapproved drug or from bulk drug substances results in an adulterated new animal drug within the meaning of section 21 U.S.C. Section 351(a)(5). The compounding of a new animal drug from an approved human or animal drug also results in an adulterated new animal drug within the meaning of 21 U.S.C. Section 351(a)(5), unless the conditions set forth in 21 CFR 530.13(b) relating to extralabel use are met.

FDA is concerned about veterinarians and pharmacists that are engaged in manufacturing and distributing unapproved new animal drugs in a manner that is clearly outside the bounds of traditional pharmacy practice and that violates the Act—such as compounding that is intended to circumvent the drug approval process and provide for the mass marketing of products that have been produced with little or no quality control or manufacturing standards to ensure the purity, potency, and stability of the product.

Pharmacists and veterinarians who engage in activities analogous to manufacturing and distributing drugs for use in animals may be held to the same provisions of the Act as manufacturers.

Question. Finally, the final paragraph of the FDA response states “Accordingly, the regulations that implement AMDUCA provide that extralabel use by compounding applies only to compounding of a product from approved drugs, and that nothing in the regulations is to be construed as permitting compounding from bulk drugs.” Is there in the agency’s view anything in AMDUCA’s regulations or the Act that is to be construed as not permitting compounding from bulk substances?

Answer. As previously noted, under the Federal Food, Drug and Cosmetic Act, in the absence of an approved new animal drug application, the compounding of a new animal drug from a bulk substance results in a new animal drug that is adulterated as a matter of law. This has been FDA’s longstanding position, which is supported by two Federal appeals court decisions, *United States v. Algon Chemical Inc.*, 879 F.2d 1154 (3d Cir. 1989) and *United States v. 9/1 Kg. Containers*, 854 F.2d 173 (7th Cir. 1988).

QUESTIONS SUBMITTED BY SENATOR BYRON L. DORGAN

DRUG REIMPORTATION

Question. In Canada and the European Union, all drugs sold in those countries must meet the safety requirements of those countries. Given that, why is the FDA opposed to legalizing the importation of drugs that stayed within their systems? In what areas does the FDA believe that the Canadian or European drug regulatory systems are inferior to its own? Please provide specific examples.

Answer. We have concerns about medicines purchased outside of the United States because they are typically not FDA-approved and they have been manufactured, processed, shipped, and/or held outside the reach of the domestic Federal and State oversight systems intended to ensure that all drugs are safe and effective for their intended uses. The Medicare Prescription Drug, Improvement and Modernization Act of 2003, directed the Secretary of Health and Human Services to conduct a study on the importation of drugs. The Conference Report detailed the information to be included in the study. The information you have requested as to assurances of the safety of imported drugs from Canada and the European Union is information requested as part of the study. We have been actively involved in collecting, analyzing and assessing information, including the safety of such products, the economic implications, the cost of implementation, and expect to provide a comprehensive study to Congress before or by the due date.

Question. How much funding and new personnel do you estimate that the FDA needs in order to implement a safe system of drug importation? [In 2000, FDA estimated that it would need \$23 million for the first year of implementation.] What specific additional authorities does the FDA feel it needs to "police imports"?

Answer. FDA made several cost estimates during consideration of the MEDS Act in 2000 and during consideration of other importation legislation. In 2000, FDA estimated that implementation of the MEDS Act would cost \$21 million in each of the first 2 years following passage of the legislation, as the agency drafted implementing regulations. Other figures were provided in direct response to particular inquiries. It should be noted that the figures previously calculated were specific to the different legislation and programs reviewed and include limitations on the types of importations. For the MEDS Act, if the program was fully implemented, the cost estimates rose to more than \$100 million per year. The information you have requested as to what additional authorities FDA needs to "police imports" is information that is being assessed as part of the Medicare Section 1122 study.

Question. The drug importation provision in the new Medicare law (Section 1121) gives the HHS Secretary the authority to write regulations that "contain any additional provisions determined by the Secretary to be appropriate as a safeguard to protect the public health or as a means to facilitate the importation of prescription drugs." Is this not enough additional authority to allow FDA to police imports?

Answer. This information will also be assessed as part of the Medicare study, as noted above.

Question. Recently, edible bean shipments were stopped by at the U.S. border from Canada because the beans were contaminated with the chemical "Ronilan," which is banned from use on edible beans in the United States. I come to find out that according to the Food and Drug Administration, less than one-half of 1 percent of the edible beans imported into the United States are inspected. North Dakota is the number one State in dry edible bean production in the country. My farmers have a vested interest in seeing that their industry is protected the importation of contaminated edible beans. What will the FDA do to increase inspections to insure that our edible bean industry is protected?

Answer. Based on sampling conducted and residues found, FDA does not believe that additional testing/sampling beyond what is currently planned is warranted. The common violations involve a pesticide use on a food for which no United States tolerance has been established for that particular food although that pesticide has been registered with EPA and has a tolerance established on other foods. If new information becomes available indicating a compliance problem, whether from FDA sampling or other valid sampling, the FDA will consider increasing the priority for pesticide testing for dried edible beans.

QUESTIONS SUBMITTED BY SENATOR DIANNE FEINSTEIN

LARIUM (MEFLOQUINE)

Question. Mefloquine is an anti-malarial product that is approved and prescribed in the United States but is used by consumers overseas to prevent or treat malaria

infections. There have been many reports in the press about mefloquine's potentially dangerous side effects and FDA issued a press release describing these side effects. With most of the consumers of mefloquine using the product abroad how can we be certain that the reporting of adverse events experienced overseas is occurring sufficient for adequate assessments of risk and benefit during the post-marketing period?

Answer. Adverse event reporting is voluntary for consumers and health care providers. Health care providers or consumers may report to the drug manufacturer (who is required to forward the report to FDA under 21CFR 314.80) or directly to FDA. The reports received are then entered into the AERS database, which is used to evaluate the adverse events associated with a particular drug in the aggregate. This data is used to identify potential drug safety concerns, on which FDA can either take immediate action, or study further in some way. In the case of mefloquine hydrochloride, the response to your next question demonstrates that we are receiving reports of serious adverse events, even though the drug is primarily used while patients are overseas.

Question. How many and what types of adverse events are being reported? Who is submitting the reports, the consumer experiencing the adverse event or the practitioner? Given the serious nature and potential for long term side effects is there a registry or follow-up of consumers of this product, either during use or after finishing use of the product?

Answer. As of April 13, 2004, the FDA's Adverse Event Reporting System (AERS) post marketing database contains 2,786 cases with Lariam® (mefloquine hydrochloride) as a suspect drug. Case reports have been received since Lariam® was approved in 1989 and continue to come to the Agency at a rate of more than 100 per year. For example, AERS has received 139 posts marketing adverse event cases¹ associated with Lariam® since April 1, 2003. As with most drugs, many types of adverse events are reported for Lariam®. However, the largest number of reports is for neuropsychiatric events; of the 2,786 Lariam® cases in AERS, 1,821 contain at least one event categorized as neurological and/or psychiatric in nature. Seven of the ten events most frequently reported for Lariam® (see below) are neuropsychiatric in nature:

Dizziness 381 cases;¹ Headache 235; Anxiety 360; Fever 196; Depression 303; Hallucination 179; Insomnia 268; Diarrhea 169; Nausea 238; Abnormal dreams 148.

The Lariam® labeling (package insert) was recently updated to include stronger warnings about neuropsychiatric events. In addition, an official Medication Guide discussing neuropsychiatric and other adverse events, and describing malaria chemoprevention, is required by law to be given to every patient to whom Lariam® is dispensed.

Lariam® reports are being submitted from multiple sources. According to AERS, of the 2,786 reported cases, 512 cases were reported by consumers and 1,540 by health professionals.²

Although most Lariam® adverse events occur while the users are traveling, more than 1,500 of the 2,786 Lariam® cases were reported from the United States. This indicates that travelers are notifying their health practitioners, Roche Pharmaceuticals, and/or the FDA directly of adverse events associated with Lariam® upon their return to this country.

There is no registry for follow-up of Lariam® adverse events. It should be noted that post-market reporting is only one component of FDA's adverse event monitoring. Controlled comparative trials give us the most reliable data, and there are many such trials in the published literature. In addition, there are publications describing active surveys, which provide information on very large numbers of patients in a relatively controlled manner.

Question. DOD has begun an investigation into psychiatric adverse events in soldiers and plans a study of mefloquine. DOD has stated that it has not included in its assessments several incidents in soldiers who have taken mefloquine or soldiers who do not demonstrate blood levels of the drug. FDA's News Release of July 9, 2003 states that "Sometimes these psychiatric adverse events may persist even after stopping the medication." What is being done by FDA to investigate the incidents of suicides in soldiers while on or returning from deployment?

Answer. As a general matter, FDA takes numerous steps to improve product and patient safety and reduce medical errors. Suicides in the military are not inves-

¹This raw count from AERS probably contains some duplicate cases, as well as cases resulting from literature articles and studies.

²The categorization by source includes a large number of cases with null values. In addition, more than one source can be indicated for a given case (for example, both "health professional" and "literature").

tigated by FDA and would fall presumably within the purview of DOD. Frequent discussion between DOD and FDA has occurred related to antimalarial prophylaxis, and DOD has not communicated concerns regarding soldier suicides and the use of Lariam®. Since Lariam® was approved in 1989, AERS has identified 17 cases of suicide worldwide, associated with Lariam® use. These cases are reviewed on an ongoing basis. Many of the cases lack sufficient evidence to conclude that the suicide was related to Lariam®. The relationship between suicide and Lariam® is not conclusive since many of the cases involve previous psychiatric disease or other confounding factors. Only five of the reported cases occurred in U.S. residents, and none of them were soldiers. One, however, was a former Marine who had taken Lariam® while serving in Somalia, more than 6 years before his eventual suicide. Suicides have also been reported with other antimalarial agents including chloroquine and malarone.

Current labeling of Lariam® includes the following warning: Mefloquine may cause psychiatric symptoms in a number of patients, ranging from anxiety, paranoia, and depression to hallucinations and psychotic behavior. On occasions, these symptoms have been reported to continue long after mefloquine has been stopped. Rare cases of suicidal ideation and suicide have been reported though no relationship to drug administration has been confirmed. To minimize the chances of these adverse events, mefloquine should not be taken for prophylaxis in patients with active depression or with a recent history of depression, generalized anxiety disorder, psychosis, or schizophrenia or other major psychiatric disorders. Lariam should be used with caution in patients with a previous history of depression. During prophylactic use, if psychiatric symptoms such as acute anxiety, depression, restlessness or confusion occur, these may be considered prodromal to a more serious event. In these cases, the drug must be discontinued and an alternative medication should be substituted.

A Medication Guide was developed that communicates these issues to the patient.

EMERGENCY CONTRACEPTION

Question. There are reports in the press that decisions about OTC approval of Plan B contraception are being made differently than decisions about other products, made outside the Center, at the Commissioner level or above. Could you explain if this is true, if FDA is politicizing the approval process and why this is the case? Why is the Plan B OTC approval being handled differently from other products?

Answer. The review and decision-making for the Plan B application is not being made differently than other applications. The review is occurring within the FDA's Center for Drug Evaluation and Research. FDA will have signatory authority of the application. The Center commonly involves the Office of the Commissioner in prominent regulatory decisions.

Question. Given that advisory committee members voted unanimously that Plan B Emergency contraception was safe under OTC conditions of use and that studies investigating the OTC instructions, including contraindications, side effects and precautions were well understood by users of the product and that there was low abuse and misuse potential, why has the decision to approve OTC use of Plan B emergency contraception been delayed? When does FDA plan to make a decision on OTC use of Plan B emergency contraception?

Answer. Since the December 2003 joint meeting of two FDA advisory committees, the sponsors of the supplemental new drug application (NDA) submitted additional information to FDA in support of their application to change Plan B from a prescription to an over-the-counter product. This additional information was extensive enough to qualify as a major amendment to the NDA. Under the terms of the PDUFA, major amendments such as this automatically trigger a 90-day extension of the original PDUFA deadline. The PDUFA extension will permit the FDA to complete its review of the application, including additional data on adolescent use that was submitted by Barr and WCC in support of the application. The new PDUFA deadline is May 21st. Such extensions are required so that FDA staff has adequate time to review the additional medical and scientific evidence. FDA's final decision will be based on sound science and in full compliance with the applicable laws and regulations, while taking into consideration the recommendations of these advisory committees.

Question. Plan B, levonorgestrel, has been proven most effective when taken within 24 hours of coitus. Retaining prescription status of this drug impedes the ability of consumers to use the product when it is most effective. If FDA does not anticipate approving Plan B emergency contraception for OTC status, please explain the rationale, when the product has been identified as safe and effective and eligible for

transfer to OTC status under the 1951 Durham-Humphrey Amendment to the Food Drug and Cosmetic Act, that this change in status was not approved?

Answer. FDA is still reviewing the application, so therefore we are unable to answer this question until the review is complete and a decision has been made based on this review.

Question. Some questions were raised by groups against the approval of Plan B as an OTC product, that use of an OTC emergency contraceptive may promote promiscuity in teens. Studies indicated that this was not the case. Is this still an issue for the FDA?

Answer. FDA is still reviewing the application, so therefore we are unable to answer this question until the review is complete and a decision has been made that is based on the safety and efficacy in an OTC setting, which includes comprehension of the label and usage of the product.

QUESTIONS SUBMITTED BY SENATOR RICHARD J. DURBIN

DIETARY SUPPLEMENTS

Question. Do you agree it would be easier for the FDA to remove unsafe dietary supplements from the market if supplement manufacturers were required to submit serious adverse event reports your agency?

Answer. Adverse event reports are one way that FDA may become aware of a potential safety problem.

In evaluating the safety of dietary supplements containing a particular dietary ingredient, we consider evidence from a variety of sources, including: (1) the well-known, scientifically established pharmacology of the ingredient or its constituents; (2) peer-reviewed scientific literature on the effects of the dietary ingredient or its constituents; and (3) adverse events reported to have occurred following consumption of dietary supplements containing the dietary ingredient or its constituents. Therefore, a conclusion that a particular dietary supplement or dietary ingredient should be removed from the market will still rest upon a determination that the available scientific information supports a finding that is adulterated.

Question. How do you respond to the IOM's conclusion in their recent dietary supplement report that "a core issue that constrains the development and utility of a scientifically based framework for evaluating the safety of dietary supplements is the lack of data readily available for evaluation? Without amendment to DSHEA by Congress, the FDA is not empowered to require the submission to the agency of such key information as adverse events."

Answer. In evaluating the safety of dietary supplements, FDA relies on all available information including, the well-known, scientifically established pharmacology of an ingredient or its constituents, peer-reviewed scientific literature on the effects of the dietary ingredient or its constituents, and adverse events reports. Certainly, FDA welcomes the submission of any safety-related information that a firm may have, and such information may facilitate FDA's evaluation of the potential hazards of a dietary ingredient.

Such information often does not resolve the safety questions about an ingredient, however, that is because the major limitation to establishing that a particular dietary ingredient or dietary supplement presents a significant or unreasonable risk is the relatively incomplete scientific information about the pharmacology and effects of many dietary ingredients rather than lack of FDA access to the information a firm may have assembled.

Amending DSHEA to provide FDA access to a firm's safety information would not resolve the basic issue that in many cases there is inadequate information to understand the risk, if any, that a particular dietary ingredient may present to consumers. FDA believes that actions to facilitate the conduct of scientific studies of the composition, pharmacology, and effects of dietary ingredients would be useful in generating the data that the IOM believes is necessary to develop a scientifically based framework for evaluating the safety of dietary supplements.

Question. The definitions of "unreasonable risk" used by FDA in the ephedra rule and the IOM in their report require that only a likelihood of future risk be shown, which would allow the FDA to take supplements that are harmful off the market faster. Do you agree?

Answer. Yes. As FDA stated in the ephedra rule, "unreasonable risk" does not require a showing that a dietary supplement has caused actual harm to specific individuals, only that scientific evidence supports the existence of risk.

Question. I am concerned that the FDA does not have the proper tools, systems, and resources to promptly implement the new "unreasonable risk" standard for die-

tary supplements in future situations. For example, the agency's interpretation of the "unreasonable risk" standard relies in part on an evaluation of the benefits (or lack of benefits) of a particular supplement. What mechanisms, if any, does FDA have in place to evaluate the benefits of dietary supplements?

Answer. In evaluating the benefits of dietary supplements, FDA reviews published studies and other relevant sources of scientific information. Collaboration with academic centers such as the National Center for Natural Products Research (NCNPR), Federal partners such as the National Institutes of Health and the National Center for Toxicological Research, and our consumer and industry stakeholders is important in developing a comprehensive risk-benefit evaluation of dietary supplement products. We believe that efforts to strengthen our relationship with scientific centers that emphasize primarily efficacy research is the best approach to ensure that such information is available, when needed, for safety evaluations under the "unreasonable risk" standard. Further, it is important to recognize that in circumstances in which there is clear and persuasive evidence of a substance's risks but information on its benefits is incomplete or absent there is no barrier to FDA action. Under the risk-benefit analysis that FDA described in the ephedra rulemaking, having efficacy data is not a prerequisite for acting against unsafe dietary supplements; that is, if there is adequate evidence that a product presents a known or reasonably known or reasonably likely risk but there is no data sufficient to show that the product has known or reasonably likely benefits, FDA can take action against the product based on unreasonable risk.

Question. Commissioner McClellan promised enforcement action against bitter orange and usnic acid in the wake of the ephedra decision. Yet, all the agency has done so far is to reiterate its warnings to the public that these supplements pose hazards. Is the lack of efficacy information for these substances hindering prompt FDA regulatory action?

Answer. In a speech at the University of Mississippi in January, Dr. McClellan indicated that FDA might "take a closer look" at the safety of other dietary supplements, specifically naming some ephedra substitutes, such as bitter orange (citrus aurantium) as well as usnic acid. FDA is actively engaged in coordinating research on bitter orange.

At the present time, FDA is examining the available scientific information to determine what safety concerns, if any, may be associated with the use of dietary supplements containing bitter orange and usnic acid. Although FDA cannot predict ahead of time what the findings of this review will be, FDA can assure you that if the evidence establishes that the use of these ingredients in dietary supplements presents an unreasonable risk of injury or illness, FDA will take action to address those risks. In the interim, the Agency feels it is important to keep consumers informed of safety concerns about these substances so that they may make informed decisions about whether or not to use dietary supplements containing them.

Question. The May 2004 edition of Consumer Reports Magazine contains a list of 12 dietary supplement ingredients they recommend consumers stay away from. One of the ingredients is androstenedione, and anabolic steroid, which has already been banned. Will you commit to a full scientific safety review of eleven remaining substances listed by Consumer Reports?

Answer. We continually monitor the marketplace and the scientific literature to identify dietary supplements and dietary ingredients that may present safety concerns. The potential risks presented by different dietary ingredients vary widely. Depending on the specific facts surrounding the characteristics and use of each substance and the risks it may present, FDA will make every attempt to allocate resources to address those that present the most significant public health concerns. As part of on-going dietary supplement marketplace monitoring efforts, FDA will critically examine the list of substances identified by Consumer Reports Magazine and consider the safety risks that they present and what action by FDA may be warranted.

SUBCOMMITTEE RECESS

Senator BURNS. Dr. Crawford, I did not have a question for you. We can get together offline, sir.

Mr. Bost, nice to see all of you here today, and again, thanks for your good work. I think you all are to be commended. That is not to say that we should let our guard down because we know that we still have—any time that you deal in this area of food and food safety and especially for our consumers. They come first. I think

the industry is of a mindset they want to do the right thing but make sure it is the right thing to do, that we just do not give some cosmetic look at it and not address the real problems.

Thank you for coming. These hearings are closed.

[Whereupon, at 2:21 p.m., Thursday, April 1, the subcommittee was recessed, to reconvene subject to the call of the Chair.]

**AGRICULTURE, RURAL DEVELOPMENT, AND
RELATED AGENCIES APPROPRIATIONS FOR
FISCAL YEAR 2005**

WEDNESDAY, APRIL 7, 2004

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

The subcommittee met at 3:33 p.m., in room SD-192, Dirksen Senate Office Building, Hon. Robert F. Bennett (chairman) presiding.

Present: Senators Bennett, Kohl, and Harkin.

DEPARTMENT OF AGRICULTURE

STATEMENTS OF:

KEITH COLLINS, CHIEF ECONOMIST

J.B. PENN, UNDER SECRETARY FOR FARM AND FOREIGN AGRICULTURAL SERVICES

MARK REY, UNDER SECRETARY FOR NATURAL RESOURCES AND ENVIRONMENT

GILBERT G. GONZALEZ, ACTING 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.

Last week, we had a budget hearing with a number of Under Secretaries of the Department of Agriculture which was very informative, and this week, we are going to continue with the rest of the Under Secretaries as well as the Chief Economist. We welcome you all, thank you for your service, thank you for your willingness to work in a situation that sometimes is stimulating and exciting and rewarding and sometimes makes you the target of the slings and arrows of outrageous constituents or Congressmen, and we are trying not to do that here today.

Since this will be the last hearing you will appear at in this Administration in this capacity, I want to take the occasion to thank each of you for your willingness to serve your country in this way. We look forward to hearing your testimony. Senator Kohl is tied up in another hearing and will be joining us as quickly as he can but has indicated that he would be comfortable with our proceeding with the testimony without him and will be brought up to date on what we have to say.

So we will hear from the following witnesses in the following order: Keith Collins, who is the Chief Economist at USDA; J.B. Penn, who is the Under Secretary for Farm and Foreign Agricultural Services; Mark E. Rey, who is the Under Secretary for Natural Resources and Environment; Gilbert Gonzalez, who is acting as Under Secretary for Rural Development; and then Joseph Jen, who is the Under Secretary for Research, Education and Economics.

I remember our previous conversations in last year's hearing with some pleasure and look forward to what each of you has to say here today. So, Dr. Collins, we will begin with you, and welcome to the Subcommittee.

STATEMENT OF KEITH COLLINS

Dr. COLLINS. Thank you very much, Mr. Chairman, and thanks for the chance to start this hearing by providing a brief overview on the economic situation in agriculture, which I think will help set at least part of the context for the comments of our mission area leaders who will follow mine.

U.S. AGRICULTURAL ECONOMY

The U.S. agricultural economy is showing remarkable strength after several years of weakness. Last week, you may know that we released the index of prices received by farmers for the month of March, and that was the highest price ever received for farmers for any month since we started keeping records in 1910. And that price occurred despite generally good harvests in 2003 and disease-caused disruptions in livestock and poultry trade.

Consequently, as we look forward to this year, we expect that farm income will have another reasonably strong year. The improvement in agriculture is a result of some transitory factors on the supply side, such as last year's poor grain crops in Europe and in the former Soviet Union, but several demand factors, I think, will persist. First, we predict farm exports at \$59 billion this year, and that nearly equals the all-time record high. And had it not been for the finding of BSE and the lost beef exports, total U.S. agricultural exports surely would have been or would be an all-time record by several billion dollars. The improving world economy, the weaker dollar and China's growing net imports are all factors.

The second factor is domestic demand, which is very strong. If you consider sales by grocery stores and restaurants for the month of February, the most recent data, they were up 6 percent year over year. And for some foods such as meat and poultry, dietary changes seem clearly to be affecting demand trends.

A third factor is the industrial uses of agricultural products are growing; in particular, ethanol production reached another record in January.

If you look at the supply side, USDA's Planting Intention Survey released last week gives some indication of how farmers might respond to this year's tight markets compared with last year. Producers said they plan to plant 8 percent more rice, 7 percent more cotton, 3 percent more soybeans but about the same level of corn. The wheat area, however, will be down because of poor fall weather and better prospects for these other crops.

With average weather, we could have record high corn and soybean crops this year, good cotton and rice crops, but wheat would be down over 10 percent from last year's record high yield. But even with large U.S. production in prospect, and even with a rebound in production overseas, world markets are likely to remain firm. World grain demand is expected to exceed production for the fifth consecutive year this year. So by the end of this summer, we expect the grain stocks, global grain stocks as a percent of use, will be the lowest since 1981 for rice, the lowest since 1972 for wheat, and the lowest ever recorded for coarse grains. And stocks are also low for cotton and soybeans as well.

Regarding animal agriculture, U.S. production of meat and poultry was down last year, and we think it will be flat this year. So if you combine that with stronger consumer demand, livestock prices remain above historical levels despite the discovery of BSE and the outbreaks of avian influenza in the United States. And we had stable milk production last year; we expect stable milk production this year, and with strong demand for dairy products, that has resulted in surging milk prices.

With these kinds of markets, farm cash receipts are expected to be a record high \$215 billion this year; however, with higher spending on energy-based inputs this year as well as lower government payments and the reduction in cattle revenue due to the BSE finding, net cash farm income is going to decline from the record high 2003 level, but it would still equal the average of the last 2 years.

This reduction in earnings from farm sources will have a small effect on the majority of households that operate residential and intermediate-sized farms, because their incomes are mostly derived off the farm. The incomes of households that run commercial-sized operations will be somewhat lower in 2004, although their average incomes will remain well above the average of nonfarm households.

PREPARED STATEMENT

With another sound income year in prospect, farm land values will likely rise again, which would continue the improvement in the farm sector balance sheet that we saw in 2003. Finally, consumers will continue to have abundant and affordable food, although with the strong farm prices I mentioned, retail food prices are expected to be up 3 to 3.5 percent this year compared with 2.2 percent in 2003 as dairy products, poultry and fats and oils prices increase.

That completes my statement, 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. The agricultural economy continues to show improvement after several years of low prices. Farm prices for major crops have reached levels unseen in several years and livestock prices generally remain well above levels of 2 years ago, despite the sharp reduction in beef exports following the discovery of a cow in Washington with Bovine Spongiform Encephalopathy (BSE) in December of last year. While cash receipts are expected to register another strong gain in 2004, rising prices for energy-related inputs and higher feed costs along with sharply lower government payments will likely cause net cash farm income to decline from last year's record, although it would equal the average of the past 2 years. Despite a pull back

in farm income, cash flow and balance sheet prospects suggest the farm economy will remain on a solid footing in 2004.

Outlook for United States and World Economies and the Implications for Agriculture

After several years of a weak and variable global economy that constrained the demand for U.S. agricultural products, the U.S. economy and the world economy had a very positive year in 2003. Both the U.S. economy and the world economy are poised to experience another sound and prosperous year ahead, which will bolster the demand of U.S. agricultural products domestically and abroad.

In 2003, we saw the U.S. economy grow 3.2 percent. Expansionary fiscal policy resulting from the budget deficit and the Jobs and Growth Act of 2001; the lowest interest rates since the 1950's leading to rising consumer confidence and spending; and, during the second half of the year, increasing business fixed investment all boosted growth. With these factors all in place again in 2004, combined with an expectation of even stronger business investment, a depreciating dollar, few signs of inflation and stronger foreign economic growth, macroeconomic forecasters foresee U.S. Gross Domestic Product (GDP) growth of 4.5 to 5 percent.

The improving domestic demand base may be seen in the demand for food, which also drives demand for animal feed. Monthly retail sales of grocery stores, food and beverage stores and food service establishments are usually higher than sales a year earlier. The U.S. economic slowdown in 2002 noticeably slowed sales. As the U.S. economic recovery took hold in 2003, sales moved up nicely and strong sales are again likely for 2004. Sales in February were 6 percent above a year earlier.

In addition to rising food demand, domestic industrial demand for farm products is also increasing. As an example, monthly ethanol production is setting new record highs almost every month. In 2004, spurred by phase-outs of Methyl Tertiary Butyl Ether (MTBE) in California, New York and Connecticut, U.S. ethanol production from corn should reach 3.25 billion gallons and account for over 1.1 billion bushels of corn use.

Foreign GDP is projected to grow about 3 percent this year, after averaging less than 2 percent annually over the past 3 years. Japan is finally growing, and Asia and Latin America are expected to propel developing country growth to the highest rate in 4 years. With the European economies lagging, foreign economic growth likely will not push over the 3 percent rate, which has often been a level associated with an upward surge in U.S. agricultural exports.

Although the dollar remains relatively strong, 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. A further drop is anticipated in 2004 reflecting the trade deficit and the continuation of low real interest rates in the United States.

U.S. agricultural exports are forecast to reach \$59 billion in fiscal year 2004, up \$2.5 billion from the previous year. This forecast is \$0.5 billion below USDA's forecast published prior to the finding of a cow with BSE at the end of last year. The new export forecast reflects, in part, the assumption that the markets that are now closed to U.S. beef exports will remain closed in 2004. This is not a forecast of what foreign countries will do. It simply reflects our standard forecasting procedure to assume the policies of foreign countries remain in place until they are changed.

At \$59 billion, U.S. farm exports would experience the 5th consecutive annual increase since hitting the cyclical low of \$49 billion in fiscal year 1999, following the onset of the Asian currency crisis. A strengthening world economy, the declining value of the dollar, low global commodity stocks, and expanding U.S. crop acreage will all support export growth in 2004. During the first three months of fiscal year 2004, U.S. agricultural exports were up \$3 billion over a year earlier. Also notable is the upward trend we are beginning to see in bulk exports, which, since 1980, have been experiencing a long, slow downward trend.

United States meat exports experienced explosive growth in the 1990s but have faced slower growth over the past few years due to animal diseases and policy-driven import limitations in some countries. The United States finding of BSE has resulted in the closing of over 80 percent of U.S. export markets for beef and related products, and U.S. poultry exports are expected to be flat in fiscal year 2004, as outbreaks of Avian Influenza in several States has resulted in a number of countries placing restrictions on poultry imports from the United States. However, this, stronger global incomes, and restrictions on poultry trade due to outbreaks of Avian Influenza abroad are expected to create additional export opportunities for pork.

Outlook for Major Crops

For major crops, the supply-demand balances are favorable for strong markets again in 2004, even with normal yields and a rebound in global production. With

relatively low world and U.S. stocks going into the 2004/2005 marketing year, crop prices could move higher if adverse weather lowers production prospects over the coming months.

In 2003/2004, total use is generally exceeding total supplies of major crops, leading to higher prices and reduced world and United States carryover. Wheat is an exception, as a sharp increase in U.S. production is expected to lead to a slight increase in United States carryover. However, world wheat stocks are expected to decline from 166 million tons at the end of the 2002/2003 marketing year to 125 million tons at the end of the 2003/2004 marketing year. At the end of this marketing year, world stocks of coarse grains are forecast to be 44 million tons lower than 1 year ago, world stocks of oilseeds are forecast to fall from 43 million tons to 40 million tons and world cotton stocks are projected to decline from 36 to 32 million bales.

For wheat, plantings in 2003 increased by 1.2 million acres to 61.7 million acres. Reflecting the increase in acreage and a record yield, U.S. wheat production rose from 1.6 billion bushels in 2002 to 2.3 billion bushels in 2003. Total wheat supplies increased by 430 million bushels, as lower beginning stocks partially offset the increase in production. Despite the sharp increase in wheat production and total supplies, U.S. wheat carryover is forecast to increase by only 53 million bushels, as increases in domestic use and exports are expected to absorb nearly all of the increase in domestic supplies. U.S. wheat exports are forecast to increase by nearly 300 million bushels to 1.15 billion bushels in 2003/2004. In 2003/2004, U.S. wheat exports expanded to fill production shortfalls created by a 38-million-ton drop in foreign wheat production. For the current marketing year, the farm price of wheat is projected to average \$3.30–\$3.40 per bushel compared with last season's \$3.56 per bushel.

U.S. rice acreage was off 7 percent in 2003, as rice producers responded to two consecutive years of very weak prices and returns. The decline in acreage and reduced beginning stocks lowered total supplies from 265 million cwt in 2002/2003 to 241 million cwt in 2003/2004. Ending stocks at the end of the current market year are forecast at 23 million cwt, down from 27 million cwt at the end of the 2002/2003 marketing year. The farm price of rice is forecast to average \$7.45–\$7.75 per cwt this marketing year, compared with \$4.49 per cwt during the 2002/03.

In 2003, the corn crop was a record 10.1 billion bushels, causing total corn supplies to increase from 10.6 billion bushels in 2002/2003 to 11.2 billion bushels this season. Despite the increase in total supplies, carryover stocks are projected to decline from 1.1 billion bushels at the end of the 2002/2003 marketing year to 0.9 billion bushels at the end of the current marketing year. U.S. corn exports are forecast to increase to 2.0 billion bushels, up 0.4 billion bushels in 2002/2003, as reduced foreign supplies have increased export opportunities. Domestic use is also up this marketing year, reflecting increase feed and industrial use. This marketing year the farm price of corn is projected to average \$2.35–\$2.55 per bushel, compared with \$2.32 per bushel last season.

Hot, dry weather during pollination reduced soybean production to 2.4 billion bushels in 2003, and total soybean supplies fell from 3.0 billion bushels in 2002/2003 to 2.6 billion bushels in 2003/2004. The drop in soybean supplies has boosted U.S. farm prices and is lowering domestic use, exports and carryover stocks. U.S. carryover stocks are projected to fall to 125 million bushels, which would be the lowest carryover in 27 years. In recent weeks the Brazilian crop potential has been reduced, and that putting further demand pressure on the limited U.S. supplies, driving up recent cash prices to over \$10.00 per bushel, the highest in over 15 years. Reflecting the expected decline in carryover stocks, the farm price of soybeans is projected to increase from last season's average of \$5.53 per bushel to \$7.15–\$7.55 per bushel this marketing year.

In 2003, the United States produced 18.2 million bales of cotton, compared with 17.2 million bales in 2002. Lower supplies coupled with increased exports have lowered projected carryover and pushed prices higher this season. Increased exports to China are projected to boost U.S. exports of cotton to a record-high 13.8 million bales, up 1.9 million from last season's 11.9 million. Carryover stocks at the end of this season are projected to fall to 3.6 million bales, the lowest in 8 years. During the first 6 months of the current marketing year, cotton prices have averaged 62.8 cents per pound, compared with last season's average of 44.5 cents per pound.

As we look to the 2004-crop spring planting season, prices for corn, rice, soybeans and cotton will be the highest at planting time since 1998. Despite this, USDA's survey of spring planting intentions of producers that was taken in early March 2004, showed little prospective change in total acreage of principal crops. One reason is that fall seedings of winter wheat, combined with intended spring wheat planted area, indicate a 3.6-percent decline in total wheat planted area for the 2004 crop, compared with the 2003 crop. The survey indicated strong prices are expected to

lead to record high soybean planted area of 75.4 million acres, up nearly 3 percent. Producers indicated little change in corn planted area, nearly a 7-percent increase in cotton area and an 8-percent increase in rice planted area. These acreages and trend yields would result in record high corn and soybean crops of 10.2 billion and 2.97 billion bushels, respectively, a cotton crop of 18.0 million bales, about the same as last year, and a rice crop of 218 million cwt, near last year's level. The wheat crop would be about 11 percent below 2003's level, which had a record-high yield.

These production levels could cause corn farm prices to rise again for the 2004/2005 crop as demand remains at or above production, soybean prices to decline somewhat under some stock rebuilding, and wheat prices to remain about the same as this season, as foreign production rebounds, assuming trend yields. While we should expect production rebounds in 2004/2005 from poor weather in Europe, the former Soviet Union (SU) and Brazil, there are several reasons to think global markets will remain robust. First, there is a very strong foundation under global grain demand. For the 2003/2004 crop years, global grain demand is expected to exceed global grain production for the 5th consecutive year.

Second, this gap means that by the end of the summer, global grain stocks as a percent of use will be at the lowest level since 1972 for wheat, 1981 for rice and the lowest on record for coarse grains. Stocks are also low compared with history for soybeans and cotton. With low stocks and the improving global economy, it is likely that even with a return to normal yields in the key producing countries, crop stocks will remain low and prices firm for most major commodities.

A third factor has been China's production and trade changes. After emphasizing self-sufficiency in the early 1990s and building large grain stocks, China has sharply reduced their grain surpluses. China's role as a U.S. competitor in grain markets declined in 2003 and could drop further in 2004. In addition, their growing oilseed crushing and textile export industries have resulted in soaring soybean and cotton imports. China is likely to continue to be a positive factor for U.S. agriculture in 2004/2005. USDA forecasts U.S. farm exports to China in fiscal year 2004 of \$5.4 billion, imports from China of \$1.4 billion, for a trade surplus of \$4 billion.

United States producers will continue to face significant competition from a host of foreign producers. For example, Brazil has increased its soybean planted area by 25 million acres since the mid 1990s. They have also increased production of beef, broilers, corn, cotton and pork by 25 to 75 percent since the late 1990s. Summing up the soybean exports of Brazil and Argentina, the coarse grain exports of China and the former SU, and the wheat exports of India and the former SU provides an indication of the recent increase in competition facing U.S. crop producers. Exports from these countries grew from less than 10 million tons in 1994 to about 85 million in 2002—from 2 percent of world grain and soybean trade to 25 percent. This growth limited U.S. exports and market prices. However, in 2003, exports from these competitors has fallen back following lower production in the former SU, China and India, helping to boost U.S. exports and farm prices.

Horticultural markets have become an important contributor to farm income for all size producers. For 2003, cash receipts from fruits, vegetables and greenhouse and nursery crops are forecast to be \$45.3 billion, up 2 percent from last year and 17 percent over 1998. In 2004, we look for larger crops of citrus and processing vegetables while prices for deciduous fruits are strong on tight world supplies. With average weather, farm receipts for fresh vegetables are expected to decline as prices retreat from the strong levels of the past couple of years. Exports for fiscal year 2004 are forecast at \$12.8 billion, up substantially from last year's \$11.9 billion.

Outlook for Livestock, Poultry and Dairy

Reduced supplies of red meat and nearly stable production of poultry and milk combined with increasing demand led to higher livestock and milk prices in 2003. The livestock sector was poised for another boom year in 2004, as red meat production continued its cyclical decline and milk production continued to lag. While the discovery in Washington of BSE in late December has severely reduced beef exports and outbreaks of Avian Influenza have lowered poultry exports, livestock prices continue to remain well above 2 year ago levels and market fundamentals generally remain quite strong. Higher feed costs could also lower returns in 2004, especially if feed grain and soybean yields fall below trend.

Beef supplies became progressively tighter throughout 2003 and markets were forced to adjust to these tight supplies by rationing product. Production for the year was down about 3 percent, with fourth-quarter production down 12 percent. Beef prices rose through mid-October and sharply higher prices encouraged cattle feeders to market cattle ahead of schedule. Fewer of these lighter weight animals graded Choice and Prime. Monthly fed cattle prices peaked in October at \$105.50 per cwt, up nearly 62 percent from a year earlier. Over the entire year, the price of choice

steers averaged a record \$84.69 per cwt in 2003, compared with \$67.04 per cwt one year earlier.

Strong demand for meat protein by consumers; the improving global economy; the improving restaurant and hotel business, which uses higher-valued meat cuts such as Choice beef; and Japan's consumer recovery after its BSE issues, combined with a steadily declining U.S. cattle inventory, all pointed toward another year of record-high cattle prices in 2004. With the finding of BSE and subsequent loss in beef exports, which are currently projected to decline by 83 percent in 2004, more beef will have to be consumed in the U.S. market, and that means a decline in prices must occur to absorb the higher domestic supplies. USDA has reduced its 2004 fed cattle price projection from \$87.50 per cwt before BSE to its current forecast of \$76.50 per cwt, down 13 percent. Despite the projected drop, fed cattle prices would still be the second highest on record.

The fed cattle price forecast assumes that the countries that have bans on the importation of U.S. beef will continue to do so throughout 2004. This is an assumption for forecast purposes and reflects the current policies of importing countries, which could change over the coming months. Mexico recently announced they are lifting the ban on boneless U.S. beef from animals under 30 months and, over the next several months, additional restrictions could be lifted allowing for increased exports that would lend further support to cattle prices in 2004.

In 2003, pork production increased 1.6 percent to a record 20 billion pounds. Hog imports from Canada climbed to more than 7.4 million head last year, up 30 percent from a year earlier. Two-thirds of these imported hogs were feeder pigs destined for finishing operations in the Midwest. Despite the increase in pork supplies, the price of slaughter hogs averaged \$39.45 per cwt in 2003, up from \$34.92 in 2002, as tight supplies of beef boosted the demand for pork.

Pork production is expected to reach a record 20.3 billion pounds in 2004, an increase of 1.3 percent. During the first quarter, hog prices averaged about 20 percent above a year ago, while pork production ran 3 percent ahead of last year. Consumer interest in high protein diets, relatively high prices for substitute animal proteins, and strong Asian demand for U.S. pork products are the major factors contributing to the increase in hog prices. For the entire year, the price of slaughter hogs is forecast to average about \$1 per cwt higher than last year.

In 2004, U.S. pork exports are forecast to increase 6 percent to 1.8 billion pounds, which follows nearly a 7 percent increase in 2003. Major factors supporting the increase in pork exports are the lower valued U.S. dollar, global economic growth, and disease-related foreign market closures to beef and poultry.

In 2003, broiler production increased 1.6 percent to 32.7 billion pounds. The production increase reflected higher average weight at slaughter as total broiler slaughter declined slightly. Relatively small growth in broiler production, higher prices for competing meat products and an improving domestic economy pushed broiler prices well above year-earlier levels. In 2003, whole-bird broiler prices averaged 62 cents per pound, up from 55.6 cents per pound in 2002.

Strong United States demand for chicken is expected to lead to record high broiler prices in 2004, despite a 3.6-percent increase in production and little growth in exports. In 2003, broiler exports grew 2.6 percent and were expected to grow 7 percent in 2004 prior to the outbreaks of Avian Influenza in Delaware, New Jersey, Pennsylvania, Texas and Maryland. These outbreaks led several countries to restrict the importation of all U.S. poultry, causing USDA to lower its poultry export forecast. It is likely that the countries currently banning all U.S. poultry shipments will eventually allow exports of U.S. poultry from selected States, provided there are no further outbreaks. The timetable for this regionalization process will vary from country to country. For example, Mexico recently announced that it would allow broiler shipments from selected States.

In 2003, milk production increased by just 0.1 percent, as cow numbers fell by 0.6 percent and milk production per cow rose by 0.8 percent. Factors contributing to the sluggish growth in milk production per cow included low milk prices relative to concentrate feed prices, tight supplies of good quality hay, an unusually large share of first-calf heifers, and somewhat conservative use of recombinant bovine somatotropin (rBST). Low milk prices, especially during the first half of 2003, probably made producers leery of using rBST on below-average producing cows.

Milk cow numbers declined rapidly during the last three quarters of 2003. During the first quarter, the number of milk cows averaged 0.3 percent above a year earlier but averaged 1.4 percent below a year earlier during the final three quarters of 2003. Tightening milk supplies caused milk prices to average \$13.80 per cwt during the second half of 2003, compared with \$11.22 per cwt during the first half of 2003. For the entire year, the all-milk price averaged \$12.51 per cwt in 2003, up from \$12.19 per cwt in 2002.

The Commodity Credit Corporation (CCC) continues to purchase large quantities of nonfat dry milk under the price support program, and during most of 2003, made payments to producers under the Milk Income Loss Contract (MILC) program. In 2003, the CCC purchased 670 million pounds of nonfat dry milk, down slightly from the 680 million pounds purchased last year. In 2003, the payment rate under the MILC program averaged \$1.09 per cwt.

Milk production is expected to be about unchanged in 2004, as cow numbers continue to decline and the expansion in milk production per cow continues to be below trend. Monsanto has announced that it will accept no new rBST customers in 2004 and that established users will be allowed only half their normal purchases. Stagnant production combined with stronger demand for dairy products is expected to lead to much higher milk prices in 2004. The all-milk price is projected to average \$14.30 per cwt in 2004, which would be the fifth highest on record. Still, USDA will probably again purchase in excess of 500 million pounds of nonfat dry milk, as that market continues in surplus.

Outlook for Farm Income

For major commodities, the current USDA published forecasts for the 2003/2004 marketing year for crops and the 2004 calendar year for livestock are all well above the previous 5-year average farm prices. The only commodity showing a decline is hogs.

With trend production and a continuing close balance between supply and demand in most crop markets, we forecast the value of crop production will be record high in 2004. Also, despite the adverse effects of BSE and Avian Influenza on U.S. beef and poultry exports, the value of livestock and poultry production is expected to exceed \$100 billion for only the third time in history. The drop in cattle and calf receipts, somewhat higher production expenses and lower government payments will reduce farm income from 2003's record high of \$63 billion in 2002. Net cash farm income is forecast at about \$56 billion, down 11 percent from 2003. However, this income level would be the same as the average of the past two years.

An indicator of the underlying fundamental strength of commodity markets is farm income excluding government payments. In 2000, net cash farm income excluding government payments hit a cyclical low of \$34 billion. This year, net cash farm income excluding government payments, is forecast at over \$45 billion, up 35 percent since 2000. As markets have strengthened, payments based on prices have declined, so that more of net cash income is now coming from market sales. Government payments in 2004 are forecast at \$10.3 billion, down from more than \$17 billion in 2003, and the lowest level since 1997.

Farm production expenses are expected to register another gain in 2004. In 2003, total farm production expenses increased \$11 billion to \$204 billion. Higher prices for feed and feeder livestock accounted for about one-third and higher prices for energy-related inputs comprised about 40 percent of the increase in production expenses in 2003. In 2004, total production expenses are forecast to reach a record \$207.5 billion, as prices of a variety of farm inputs are projected to register gains.

The reduction in earnings from farm sources will have a small effect across the majority of households that operate residential and intermediate size farms, as their incomes are derived mostly off the farm. The incomes of households that run commercial-size operations will be lower in 2004, yet their average incomes will likely remain well above the average incomes of other farm households and all U.S. households.

With another sound income year in prospect, farmland values may rise 3.5 percent in 2004, compared with 4 percent annual gains in the 1990s and 5 percent in recent years. This increase would continue the improvement in the farm sector balance sheet that we saw in 2003. While this is a positive economic picture for U.S. production agriculture in 2004, risks to the outlook include potential consequences of continued production growth in Brazil and other emerging competitors, tight oil supplies and high prices for energy-related inputs, the closure of export markets due to animal diseases and, as always, the weather here and abroad.

That completes my statement, and I will be happy to respond to any questions.

Farm Economic Indicators

Commodity Prices	Unit	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04F
Wheat	\$/bu	2.65	2.48	2.62	2.78	3.56	3.35
Corn	\$/bu	1.94	1.82	1.85	1.97	2.32	2.45
Soybeans	\$/bu	4.93	4.63	4.54	4.38	5.53	7.35
Rice	\$/cwt	8.89	5.93	5.61	4.25	4.49	7.60
Cotton	cents/lb	60.20	45.00	49.8	29.8	44.5	62.8 1/
		1999	2000	2001	2002	2003	2004F
Hogs	\$/cwt	34.00	44.70	45.81	34.92	38.45	39.88
Steers	\$/cwt	65.56	69.65	72.71	67.04	84.69	76.65
Broilers	cents/lb	58.10	56.20	59.10	55.60	62.00	70.60
Milk	\$/cwt	14.38	12.40	14.97	12.11	12.51	14.30
Gasoline 2/	\$/gallon	1.18	1.53	1.47	1.39	1.60	1.70
Diesel 2/	\$/gallon	1.12	1.49	1.40	1.32	1.51	1.53
Natural gas (w/ld) 2/	\$/K cu. ft.	2.19	3.70	4.02	2.95	4.98	5.04
Electricity 2/	\$/kwh	8.16	8.24	8.48	8.62	8.45	8.68
Ag. Trade (Bil. \$)	FY98	FY99	FY00	FY01	FY02	FY03	FY04F
Total exports	53.6	49.1	50.7	52.7	53.3	56.2	59.0
Asia	19.7	18.5	19.7	20.1	19.4	21.6	22.1
Canada	7.0	7.0	7.5	8.0	8.6	9.1	9.9
Mexico	6.0	5.7	6.3	7.3	7.1	7.7	7.7
Total imports	36.8	37.3	38.9	39.0	41.0	45.7	49.5
Farm Income (Bil. \$)	1998	1999	2000	2001	2002	2003	2004F
Cash receipts	196.8	187.6	192.0	199.8	192.9	212.4	215.0
Gov't payments	12.4	21.5	22.9	20.7	11.0	17.4	10.3
Gross cash income	222.5	224.0	228.6	235.3	218.4	244.9	240.9
Cash expenses	165.5	166.6	172.1	176.1	170.2	181.9	185.0
Net cash income	57.0	57.5	56.5	59.2	44.1	63.0	55.9

F=forecast.

1/ August through March average.

2/ Source: Energy Information Administration, Short Term Energy Outlook, March 9, 2004.

Senator BENNETT. Thank you very much. Dr. Penn.

STATEMENT OF J.B. PENN

Dr. PENN. Thank you, Mr. Chairman.

It is a pleasure to be with you again this year and to present the budget for the Farm and Foreign Agricultural Services mission area of the Department. If you will recall, this mission area is com-

prised of the Farm Service Agency, the Risk Management Agency, and the Foreign Agricultural Service.

I understand that you have already had an opportunity to review my prepared statement, so I will be very brief in my opening remarks.

Senator BENNETT. All of the prepared statements will be printed in the record.

Dr. PENN. Thank you.

Let me begin by mentioning the role of the Farm and Foreign Ag Services mission area within the entire Department. Our agencies provide a broad array of services that are the foundation for USDA's efforts to ensure the continued economic health and vitality of American agriculture. During the past year, the FFAS agencies continued to be heavily involved in these activities. We continued implementation of the far-reaching and complex 2002 Farm Bill and the supplemental emergency disaster assistance that was included in the 2003 Omnibus Appropriations Act.

We maintained our strong commitment to keeping the Federal Crop Insurance Program a vital component of the overall safety net for our Nation's farmers and ranchers. The Risk Management Agency is currently renegotiating the Standard Reinsurance Agreement for delivering the risk management products through private companies. At the same time, we have actively supported the very ambitious trade agenda that will reduce trade barriers and open new markets overseas, and we have expanded our efforts to keep existing markets open.

For the past three and a half months, we have been working very hard to reopen the markets that were closed due to the BSE and avian influenza incidents. The budget proposals that we are discussing today fully support continuation of these activities.

FARM SERVICE AGENCY

I would first turn to the Farm Service Agency. This is our key agency for delivering farm assistance. This agency is located in about 2,400 offices throughout the country, and it is the one that farmers and ranchers deal with most frequently. The budget that we are proposing places a priority on maintaining FSA's ability to provide efficient, responsive services to our producers. It provides \$1.3 billion for FSA salaries and expenses, which will support about 6,000 Federal staff years and approximately 10,300 county non-Federal staff years. The budget also provides an additional 100 Federal staff years to improve service to farm credit borrowers in our service centers.

Implementing new technology is absolutely critical to our continued efficiency gains and to providing increasingly better services in the future. This includes new automation tools and the geospatial information system, GIS. The budget for the Office of the Chief Information Officer includes an \$18 million increase that will provide for essential investments in the capability of FSA and the other service center agencies to improve services.

RISK MANAGEMENT AGENCY

Turning now to the Risk Management Agency, the Federal Crop Insurance Program plays a very key role in helping producers man-

age their risk. The 2005 budget requests an appropriation of such sums as may be necessary for the mandatory costs of the program, and this will provide the necessary resources to meet program expenses at whatever level of coverage producers choose to purchase.

The budget provides \$92 million for RMA salaries and expenses. That is an increase of \$21 million over 2004, and this net increase includes additional funding for information technology, increased staff years to improve monitoring of the insurance companies, and pay costs. About \$16 million of the \$21 million increase is for new information technology for RMA. The core information technology systems that RMA now uses are over 15 years old, and that is very ancient by IT standards. Over that time, the size and scope of the crop insurance program has increased dramatically, dramatically placing incredible strain on this aging system. So about \$7 million of this increase will provide for the development of a new IT system, and \$9 million will be for IT infrastructure improvements.

FOREIGN AGRICULTURAL SERVICE

And finally, Mr. Chairman, turning to the Foreign Agricultural Service and our international activities, the importance of trade for American agriculture cannot be overstated, as Dr. Collins indicated in his remarks. If we are to ensure continued income growth for our producers, we must expand market opportunities overseas.

Now, our budget proposals provide a program level of \$148 million for FAS activities in 2005. That is an increase of \$12 million over 2004. These increases include funding to meet higher overseas operating costs and improved telecommunications systems at FAS overseas offices. And as we have noted before, FAS carries out its activities through a network of 80 overseas offices and the headquarters here in Washington.

Recent significant declines in the value of the dollar coupled with overseas inflation and rising wage rates have led to sharply higher costs that must be accommodated if FAS is to maintain its overseas presence. That presence is vital for FAS to represent the interests of American agriculture on a global basis and implement the Department's trade promotion programs effectively.

Funding is also included for an FAS global computing environment initiative to modernize the agency's information technology systems. There is an urgent need for this additional funding. Our current systems are outdated; they have proven to be outdated, and they are inhibiting the ability of the agency to communicate effectively between Washington and the foreign posts.

Also, this ancient system does not allow participation in the new e-government initiatives with other U.S. trade agencies that are designed to provide more efficient services to the public and help bolster our trade expansion efforts. So this proposed initiative would allow FAS to modernize its IT systems and improve its services to agricultural producers, exporters, and the various market development organizations.

And I want to mention in closing, Mr. Chairman, that the United States continues to be a leader in global food aid efforts. We provide over one half of all of the food assistance that is provided in the world. That commitment is demonstrated by the fact that Pub-

lic Law 480 program, the Food for Peace program, will observe its 50th anniversary in July of this year.

Now, our 2005 budget proposal supports a program level of over \$1.5 billion for U.S. foreign food assistance activities. This includes \$1.3 billion for Public Law 480 credit and donation programs. The newest of the food assistance activities is the McGovern-Dole International Food for Education and Child Nutrition Program. This program was successfully implemented in 2003. We had projects in 21 countries that fed 2.3 million women and children. The budget provides for a request of \$75 million for the program, which is an increase of 50 percent over 2004.

PREPARED STATEMENTS

So in closing, Mr. Chairman, I would note that we think that these are very modest and very positive budget proposals that ensure we can continue to provide service to our producers. We appreciate the support of this Committee for our mission area in the past, and we look forward to working with you in the future on behalf of the agricultural sector.

Thank you, sir.

[The statements follow:]

PREPARED STATEMENT OF J.B. PENN

Mr. Chairman and Members of the Committee, I am pleased to appear before you this afternoon to present the 2005 budget and program proposals for the Farm and Foreign Agricultural Services (FFAS) mission area of the Department of Agriculture (USDA). The FFAS mission area is comprised of three agencies: the Farm Service Agency; Risk Management Agency; and Foreign Agricultural Service.

Statements by the Administrators of the FFAS agencies, which provide details on their budget and program proposals for 2005, have already been submitted to the Committee. My statement will summarize those proposals, after which I will be pleased to respond to any questions you may have.

Mr. Chairman, one of the five primary goals in the Department's strategic plan is to "enhance economic opportunities for American agricultural producers." The programs and services of the FFAS mission area are at the heart of the Department's efforts to achieve that goal. 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. They continued to implement the far reaching and complex Farm Security and Rural Investment Act of 2002 (2002 Farm Bill), and they implemented 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 2004 will be a critical year for negotiations aimed at further reducing trade barriers and opening new markets overseas, as well as reestablishing export markets following the recent incidents of bovine spongiform encephalopathy (BSE) and avian influenza.

The 2005 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 operations of the domestic commodity and income support, conservation, trade, and related programs provided by the 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 over \$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 key agency for delivering farm assistance. It is the agency that the majority of farmers and ranchers interact with most frequently. Producers rely on FSA to access farm programs such as direct and countercyclical payments, commodity marketing assistance loans, loan deficiency payments, farm ownership and operating loans, disaster assistance, and certain conservation programs such as the Conservation Reserve Program (CRP). Because FSA is the primary delivery agency for most of the major farm assistance programs, the budget places a priority on maintaining and enhancing FSA's ability to provide efficient, responsive services to our producers.

Farm Program Delivery

The 2002 Farm Bill required the FSA to undertake a massive task of implementing a complex set of new farm programs within a short time period. FSA has successfully put these programs in place in less than 2 years since the Bill was enacted. Nearly two million producers were signed up quickly under the new direct and countercyclical payments program. Several billion dollars of direct and countercyclical payments have been paid out; a new Milk Income Loss Contract program was implemented and over \$1.8 billion has been paid so far to eligible producers; and the peanut program has been radically transformed and \$1.2 billion of peanut quota buyout payments have been made. At the same time as these and other new programs were being implemented, FSA successfully programmed over \$3 billion in disaster assistance required by the Agricultural Assistance Act of 2003. These programs and improving markets combined to provide the Nation's farmers with a record level of net cash income in 2003.

The massive workload associated with implementing these programs over the past 2 years is now moderating. As a consequence, FSA has begun to reduce the number of temporary, non-Federal county office staff years from the roughly 3,000 staff years in 2003, to about 1,000 staff years provided for in the 2005 budget. The proposed 2005 level for FSA salaries and expenses of \$1.3 billion will support about 6,000 Federal staff years and nearly 10,300 county non-Federal staff years, including the 1,000 temporary staff years. Permanent non-Federal staffing will remain near the levels of 2003 and 2004 to accommodate the essential ongoing workload of the agency. The budget also will provide an additional 100 Federal staff years to improve service to farm credit borrowers in our Service Centers.

High priority is being placed on enhancing services to FSA's clientele by improving agency operations and expanding diversity of the customer base and staff. Improvements in operations based on new automation tools and Geospatial Information Systems (GIS) are coming on line and promise increasingly better services in the future. The budget for the Office of the Chief Information Office includes an \$18 million increase for Service Center Modernization that will provide for essential investments in the capability for FSA and the other Service Center agencies to improve services to producers.

FSA has already utilized newly modernized systems for a recent sign-up for the CRP to reduce costs and improve timeliness. Work is underway to continue modernization improvements in other program areas, including farm loan servicing.

Conservation

The 2002 Farm Bill provided for significant growth in the Department's conservation programs. The CRP, which is funded by the Commodity Credit Corporation (CCC) and administered by FSA, was among the programs that expanded. A general sign-up in 2003 added nearly 2 million acres to the CRP. Also, 430,000 acres were added under continuous and Farmable Wetlands Program (FWP) sign-ups.

The 2005 budget assumes a general sign-up in 2004 of about 800,000 acres, and none in 2005. In addition, about 450,000 acres are projected to be enrolled under continuous sign-up and the Conservation Reserve Enhancement Program (CREP) in each of 2004 and 2005. The FWP is estimated to be expanded by about 50,000 acres in each of 2004 and 2005. In total, CRP is projected to increase gradually from 34.1 million acres at the end of 2003 to 39.2 million acres by 2008.

Commodity Credit Corporation

Domestic farm commodity price and income support programs are financed through the CCC, a Government corporation for which FSA provides operating personnel. The CCC also provides funding for conservation programs including the CRP and certain programs administered by the Natural Resources Conservation Service. In addition, CCC funds many of the export programs administered by the Foreign Agricultural Service.

CCC net expenditures were \$17.4 billion in 2003. This level is expected to decline to an estimated \$14.8 billion in 2004, and then increase slightly to \$15.0 billion in 2005. However, these estimates are sensitive to changing supply and demand conditions for the supported farm commodities and may change as we move forward.

Annual 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 this preceding year.

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 2005, 70 percent of direct farm ownership loans are reserved for beginning farmers, and 20 percent are reserved for socially disadvantaged borrowers, who may also be beginning farmers.

The 2005 budget includes funding for about \$937 million in direct loans and \$2.9 billion in guarantees. In recent years, the Department has used its authority to shift funding from guaranteed operating loans to meet excess demand in the direct loan programs. The levels requested for 2005 reflect those shifts and are expected to reflect actual program demand more accurately. The overall increase in loan levels is reflective of generally stable to lower subsidy rates for the farm loan programs, which make those programs less expensive to operate. We believe the proposed loan levels will be sufficient to meet the demand in 2005.

The 2005 budget maintains funding of \$2 million for the Indian Land Acquisition program. For the Boll Weevil Eradication loan program, the budget requests \$60 million, a reduction of \$40 million from 2004. This reduction is due to the successful completion of eradication efforts in several areas. The amount requested is expected to provide full funding for those eradication programs operating in 2005. For emergency disaster loans, the budget requests \$25 million. No additional funding was requested for emergency loans in 2004 due to carryover funding from 2003. About \$191 million is currently available for use in 2004, and a portion of that is likely to carry over into 2005. The combined request and anticipated carryover are expected to provide sufficient credit in 2005 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 contained in the Department's Food and Agricultural Policy report of 2001 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 2003, the crop insurance program provided about \$41 billion in protection on over 218 million acres, which is about one million acres more than were insured in 2002. Our current projection is that indemnity payments to producers on their 2003 crops will be about \$3.3 billion which is about \$800 million less than in 2002.

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 2005 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 2003.

The 2005 budget requests an appropriation of "such sums as may be 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. For salaries and expenses of the Risk Management Agency (RMA), \$92 million in discretionary spending is proposed, an increase of \$21 million above the 2004 level of \$71 million. This net increase includes additional funding for information technology (IT), increased staff years to improve monitoring of the insurance companies, and pay costs.

Nearly every RMA function or activity is in some part dependent on IT. All of their databases, internal controls, payments to producers and companies are tied to IT. All of RMA's rates, prices, products, training and financial activity also depend on this technology.

Because RMA core IT systems are 15 years old, they no longer meet the minimum requirements mandated by the Department for security, architecture, and e-Government initiatives. In addition, ARPA funds that were earmarked for data mining and other compliance activities will be depleted at the end of this fiscal year, and there are no alternative funding sources available.

ARPA mandated and funded a substantial increase in the number and reach of risk management tools for America's producers and the RMA is meeting the challenge. Approximately 80 new risk management tools are in various stages of development and deployment. However, RMA's ability to maintain the integrity and effectiveness of the critical systems that support the growing portfolio of risk management tools that serve America's agricultural producers is being threatened due to an aging IT system. Unless the situation is corrected, RMA will be required to make some difficult resource choices that will unavoidably and negatively affect its ability to support safe and effective development, deployment and regulation of these important risk management tools.

Several major changes have also occurred over that time in the way producers protect their operations from losses. In 1994, there were no plans of insurance which offered protection against changes in market prices. Today, over 50 percent of the covered acreage has revenue protection, and nearly 62 percent of the premium collected is for revenue based protection. In addition, ARPA authorized the development of insurance products to protect livestock. Because livestock production occurs year-round, these products must be priced and sold in a different manner than traditional crop insurance. The advent of new types of insurance, not contemplated when the IT system was designed, has placed tremendous strain on the aging system.

ARPA also instituted new data reconciliation, data mining and other anti-fraud, waste and abuse activities that require the data to be used in a variety of new ways. The current IT system was not designed to handle these types of data operations. Consequently, the data must be stored in multiple databases which increases data storage costs and processing times and increases the risk of data errors.

The development of the new IT system will result in some additional up-front costs to the Government. Until the new system is fully operational, we will be required to finance both the developmental costs as well as the increasingly expensive maintenance costs of the legacy system. However, once the new system is operational, the legacy system will be eliminated and a substantial reduction in maintenance costs is projected.

Finally, I would note that this budget for the RMA includes a request for 30 additional staff years. The additional staff will provide needed support in employing advanced technology-based methods to detect and prosecute fraud, waste and abuse; following up on referrals from FSA, OIG and the public; making recommendations for formal fraud investigations to OIG; and supporting OIG and U.S. Attorneys' offices on fraud cases. They also will address outstanding OIG and GAO recommendations to improve oversight and internal controls over insurance providers; monitor and manage contractual agreements and partnerships with the public and private business sectors; and support the review and evaluation by the FCIC Board of Directors of the increasing number of new private product submissions received each year. All of these activities result in savings to the program far in excess of their cost through enhanced program oversight and avoidance, detection and remediation of program fraud, waste and abuse.

FOREIGN AGRICULTURAL SERVICE

Trade is critically important for American agriculture, and the Department's work to expand overseas markets and promote trade is one the primary means we have to enhance economic opportunities for our farmers and ranchers. With gains in productive capacity continuing to outpace growth in demand here at home, the economic growth and future prosperity of America's farmers and ranchers will depend heavily upon our continued success in reducing trade barriers and expanding exports.

The Department's efforts to expand trade are carried out on multiple fronts. At the center of these activities is the negotiation of trade agreements that will reduce barriers and improve access to overseas markets. We continue our efforts to reach a new agreement through the World Trade Organization (WTO) that will provide for further, significant liberalization of global agricultural trade. Although the

Cancun Ministerial was a missed opportunity, the benefits of a successful negotiation for all trading partners remain clear and, on that basis, we continue our efforts to advance the negotiating process. Negotiations on agriculture resumed last month, and we are hopeful that a Ministerial meeting to set the stage for a conclusion to the negotiations can be held by the end of this year. Our objectives for the negotiations remain the elimination of export subsidies, improvement in market access through substantial reductions in tariffs, and reduction in trade-distorting domestic support.

Regional and bilateral trade agreements also provide an important avenue for opening new markets, and the Department is an important participant in the ambitious agenda that has been established for negotiating such agreements. Recently, the United States concluded successful negotiations for a Central American Free Trade Area that will create new opportunities in this nearby and growing market of over 35 million consumers. Negotiations also have been concluded recently with Australia and Morocco. Other negotiations currently underway will establish the Free Trade Area of the Americas and an agreement with the Southern African Customs Union. Negotiations expected to begin later this year will involve the Andean countries, as well as bilateral agreements with Bahrain, Panama, and Thailand.

While these important efforts to negotiate market-opening agreements move forward, we also are increasing our activities to monitor compliance with existing agreements and ensure that U.S. trade rights are protected. During the past year, we have worked to solve a significant number of trade problems, including China's implementation of its WTO accession commitments on tariff-rate quota administration and export subsidy obligations, and Mexico's implementation of the provisions of the North American Free Trade Agreement.

At the same time, we are addressing other technical barriers to trade that arise because the adoption of non-science based standards and resistance to the adoption of new technologies, such as biotechnology. In this regard, we were encouraged by China's announcement in February that it had completed its regulatory review and issued permanent safety certificates for Roundup Ready soybeans, as well as for two corn and two cotton products. This is extremely positive news as China is now the leading foreign customer for U.S. soybeans and cotton.

At present, we are confronted with the challenge of reopening foreign markets that have been closed due to the discovery of the one case of BSE and the recent outbreaks of avian influenza in the United States. We understand the critical importance of reopening these markets as soon as possible, and we have committed, and will continue to commit, the resources and energy necessary to resolve these situations and resume normal trade. With that as our goal, we were very pleased with last month's announcement by Mexico of the reopening of their border to U.S. beef products.

FAS Salaries and Expenses

The Foreign Agricultural Service (FAS) is the lead agency for the Department's international activities and is at the forefront of our efforts to expand and preserve overseas markets. Through its network of 80 overseas offices and its headquarters staff here in Washington, FAS carries out a wide variety of activities that contribute to the goal of expanding overseas market opportunities.

Our budget proposals provide a program level of \$148 million for FAS activities in 2005. This is an increase above the 2004 level of nearly \$12 million and is designed to ensure the agency's continued ability to conduct its activities effectively and provide important services to U.S. agriculture.

The proposed increase includes funding to meet higher overseas operating costs and improve telecommunications systems at FAS' overseas offices. FAS is unique as a USDA agency because a sizeable component of the agency's operational costs are vulnerable to macroeconomic developments beyond its control. Recent significant declines in the value of the dollar, coupled with overseas inflation and rising wage rates, have led to sharply higher costs that must be accommodated if FAS is to maintain its overseas presence. That presence is critical for FAS to represent the interests of American agriculture on a global basis, for its continued reporting and analysis of agricultural developments around the world, and for effective implementation of USDA's trade promotion and market development programs.

Funding also is included for an FAS Global Computing Environment initiative to modernize the agency's information technology systems and applications. There is an urgent need for additional funding because the current systems are outdated, have proven to be unreliable, and are inhibiting our ability to communicate effectively between Washington, D.C. and foreign posts. They also do not allow participation in e-Government initiatives with other U.S. trade agencies that are designed to provide more efficient services to the public and help bolster U.S. trade expansion

efforts. The proposed initiative will allow FAS to modernize and restructure its IT systems, and improve the services it provides to U.S. agricultural producers, exporters, and market development organizations.

Finally, the budget also provides increased funding for FAS to meet the higher pay costs in 2005.

Export Promotion and Market Development Programs

FAS administers the Department's export promotion and market development programs which play a key role in our efforts to assist American producers and exporters to take advantage of new market opportunities, including those created through market-opening trade agreements.

The largest of these programs are the CCC export credit guarantees, which help to ensure that credit is available to finance commercial exports of U.S. agricultural products. As overseas markets for U.S. agricultural products continue to improve, that improvement will be reflected in export sales facilitated under the guarantee programs. For 2005, the budget projects a program level of \$4.5 billion for the guarantee programs, an increase of just over \$250 million above the current estimate for 2004.

For the Department's market development programs, including the Market Access Program and Foreign Market Development Cooperator Program, the budget provides funding of \$173 million, unchanged from this year's level. The budget also includes \$53 million for the Dairy Export Incentive Program and \$28 million for the Export Enhancement Program.

Trade Adjustment Assistance for Farmers

For the newly implemented Trade Adjustment Assistance (TAA) for Farmers Program, the budget includes a program level of \$90 million, as authorized by the Trade Act of 2002. The TAA program provides assistance to producers of raw agricultural commodities who have suffered lower prices due to import competition, and to fisherman who compete with imported aquaculture producers. In order to qualify for assistance, the price received by producers of a specified commodity during the most recent marketing year must be less than 80 percent of the national average price during the previous 5 marketing years. Also, a determination must be made that increases in imports of like or competitive products "contributed importantly" to the decline in prices.

Since the program was implemented last August, 12 petitions for assistance have been approved involving five different products—wild blueberries, salmon, shrimp, catfish, and lychee fruit. Once a petition is approved, producers have 90 days to apply for benefits. Eligible producers receive technical assistance and cash benefits of up to \$10,000 per producer. We expect to begin making the first payments under the program within the next several months once the producer application periods have closed.

International Food Assistance

The efficiency and productivity of our producers allows the United States to be a leader in global food aid efforts, and the United States continues to provide over one-half of the world food assistance. The commitment of the United States to these activities is demonstrated by the fact that the Public Law 480 program, our primary vehicle for providing food assistance overseas, will observe its 50th anniversary in July of this year.

The 2005 budget supports a program level of over \$1.5 billion for U.S. foreign food assistance activities. This includes \$1.3 billion for the Public Law 480 Title I credit and Title II donation programs, which is expected to support the export of 3.2 million metric tons of commodity assistance.

The newest of our food assistance activities is the McGovern-Dole International Food for Education and Child Nutrition Program, which was authorized in the 2002 Farm Bill. FAS successfully implemented the program in 2003, and projects were approved in 21 countries where nearly 2.3 million women and children will benefit. Beginning in 2004, the Farm Bill requires the McGovern-Dole program to be funded through discretionary appropriations, and the 2004 Omnibus Appropriations Act provides a program level of \$50 million for the program. The 2005 budget requests that program funding be increased by 50 percent to \$75 million.

In addition, the budget includes an estimated program level of \$149 million for the CCC-funded Food for Progress program. This is expected to support 400,000 metric tons of assistance consistent the authorizing statute. The budget also assumes that donations of nonfat dry milk with continue under the authority of section 416(b) of the Agricultural Act of 1949. The total value of the commodity assistance and associated costs is projected to be \$147 million.

That concludes my statement, Mr. Chairman. I would be pleased to answer any questions that you and other Members of the Committee may have. Thank you.

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 2005 budget for the Farm Service Agency (FSA). Since we met last year, I am pleased to report that FSA successfully completed its implementation of the most complicated farm bill ever—the Farm Security and Rural Investment Act of 2002 (Farm Bill)—as well as the 2003 ad hoc disaster bill—the Disaster Assistance Act of 2003 (Disaster Bill). We signed up nearly 2 million producers in one of the most complex yet quickly implemented signups ever conducted and also began and completed the multi-faceted and extremely complicated Disaster Bill. In total, we have paid out over \$19 billion—\$11.1 billion in direct and countercyclical payments, over \$1 billion in benefits to the livestock industry, over \$1.8 billion in Milk Income Loss Contract payments, \$1.2 billion in peanut quota buyout payments, and \$2.4 billion in disaster assistance. These and other programs contributed significantly to record farm income in 2003.

For the first time since 1997, FSA is not absorbed in simultaneously implementing multiple provisions of either ad hoc disaster legislation or a new farm bill, and our employees deserve considerable recognition for a job well done. As we look forward to fiscal year 2005 and beyond, we are taking stock and directing our attention to enhancing customer service. We have begun a number of projects and initiatives designed to achieve substantial and systemic improvements that will position us for more rapid implementation of the next farm bill or any ad hoc provisions that might come our way. Our fiscal year 2005 budget request supports these initiatives. Before discussing specifics of the budget, however, I would like to briefly highlight some of the efforts we already have under way which will be bolstered by our fiscal year 2005 request.

With the ultimate goal of better serving our customers, FSA is focusing on four areas, all coupled with the President's Management Agenda: Budget and Performance Integration, eGovernment, Human Capital, and improving Financial Performance.

Budget and Performance Integration

FSA is overhauling its existing 5-year Strategic Plan to create a much more effective tool for telling our story—the results FSA will deliver to the American public. The new plan will be used to guide the way we carry out our mission. The plan will better support and link to our budget in how we identify and justify the financial, personnel, and other resources necessary to best deliver our programs and measure results. For the fiscal year 2005 Budget process, we worked with OMB to identify four of FSA's programs—Commodity Credit Corporation (CCC) Direct Payments, CCC Marketing Loans, Guaranteed Farm Loans, and Bioenergy—to take part in OMB's Program Assessment Rating Tool (PART) evaluation process. On a rating scale ranging from a lowest of "Ineffective" to the highest of "Effective," the PART reviews rated CCC Marketing Loans and Guaranteed Farm Loan programs as "Moderately Effective" and our CCC Direct Payments and Bioenergy programs as "Adequate." These ratings indicate that we have to improve our integration of budget and performance to better demonstrate results. For example, the guaranteed farm loan PART evaluation found that while the program serves a clear need, improvements in performance measurement are needed to more fully understand program impact and the effectiveness of targeted assistance. As a result, FSA is conducting a performance-focused review of its loan portfolio, which could lead to development of additional measures of efficiency and effectiveness.

To make FSA a more results-focused and customer-driven agency, we are refining our key goals designed to improve agency mission effectiveness; identifying workable strategies for accomplishing the goals; and establishing quantifiable measures, so we can effectively and convincingly gauge our progress. Through a process that started last fall, we expect by this summer to have a new 5-year Strategic Plan with a set of credible measures that will be used to support and justify FSA's fiscal year 2006 Budget and beyond.

eGovernment

Most of the FSA information technology systems used to implement the Farm Bill and Disaster Bill are COBOL-based and date back to the 1980's, and some of the processes we used date back as many as 40 or 50 years. Through several years of effort, FSA has already begun migrating these legacy systems under the Service Center Common Computing Environment initiative. For example, our Geospatial In-

formation System (GIS) initiative is progressing well. Currently, we have about 50 percent of counties digitized and expect to have the entire Nation completed in fiscal year 2005. GIS technology will be the cornerstone of all future FSA system architecture, which I will speak to in a moment. Also, last year, we completely redesigned the way we conducted the Conservation Reserve Program general signup held in May and June. By applying new automation tools, utilizing GIS tools where available, and linking with Natural Resources Conservation Service databases, we were able to reduce:

- signup-related technical assistance needs for an estimated savings of \$11.2 million.
- the number of Environmental Benefits Index data entries by 90 percent and the time spent on each offer by 60–70 percent. In offices with GIS, additional time was saved by outlining eligible acreage boundaries and calculating acreage by soil map unit symbol. The calculation of field boundaries saved producers approximately \$160 thousand in measurement service fees.
- the error rate and validation and cleanup processes by about 80 percent.
- the time between the end of signup and the completion of data for offer acceptance decision making by about 30 percent, from 10 weeks to 7 weeks.

Last fall, we also purchased a new Farm Business Plan (FBP) that will completely change the way we interact with our credit customers, analyze and evaluate farm loan requests, and provide farm business planning and credit risk analysis for our farmers and ranchers. This new system, which will significantly improve our overall ability to provide improved customer service for our most needy customers, will be phased in Nationwide over the course of the spring and summer and will require a major training effort that begins the first week in April.

As we continue to migrate all of our legacy systems, we are undergoing a self-evaluation and are engaged in a range of business process reengineering (BPR) initiatives to improve the way we operate in the 21st century, using GIS as the cornerstone. Throughout the agency, program managers are examining innovative ways to improve their processes and reduce duplication of effort through automation, web-based systems, and collaboration.

While BPR generally revolves around automation improvements, we are looking at processes. The Internet has created great opportunities to identify better ways to deliver services on-line, giving our farmers and ranchers more time to be in the field and less time in our Service Center offices. For example, our Electronic Loan Deficiency Payment (LDP) process will allow producers to apply for LDP's on-line from their home or place of business and receive their payments through electronic funds transfer. This year, FSA is conducting a top-to-bottom review of all of its business processes to ensure the services we deliver are the most effective and customer-centered, utilizing today's technology.

Financial Management

In fiscal year 2003, CCC received, for the second year in a row, an unqualified audit opinion on its financial statements. We continue to improve our financial performance by developing system improvements and establishing controls that will not only maintain the clean opinion, but also resolve management control weaknesses identified through the annual financial audit process and other internal and external reviews. We are also aggressively addressing erroneous payments to ensure controls are in place to improve the financial integrity of all of FSA's program delivery and payment processes.

Human Capital

Last year we aligned our human capital plan to support our strategic plan and the accomplishment of our programmatic goals. One of the major tasks included a basic analysis of our workforce. That analysis revealed that over the next 5 years, we are facing the potential of losing 34 percent of our workforce—a little over 5,100 employees, many in leadership positions—due to retirements alone. Targeted investments and corrective measures must be implemented in the coming years to replace the skills, talents, and historical knowledge of departing employees. The results of our workforce analysis now drive the major human capital initiatives under way in leadership development, talent management, and performance management.

For leadership development, we have implemented several management training programs and are developing others, including leadership succession programs. To ensure that our current and future employees have the right talent or skills, especially in mission critical occupations, we have re-tooled existing training programs and have begun to develop programs to sustain a better learning environment. In terms of managing talent, our new 5-year recruitment strategy calls for annual plans that target specific occupations, improvements in hiring processes and flexi-

bilities, and steps to become an employer of choice. And, to ensure a results-driven performance workforce, we have launched a performance culture initiative to address specific areas where our managers can more effectively manage people and drive continuous improvement. In addition, we have begun aligning management performance plans to the agency's mission, goals and outcomes. This effort will cascade into the workforce over time. We are also enhancing our efforts to hold employees accountable for results and differentiate among levels of performance to improve overall program delivery.

In conjunction with our Human Capital Plan, FSA is committed to equal employment opportunity in our workforce. Where minorities are underrepresented among our ranks, FSA is engaging in some aggressive initiatives to address this deficiency. We are utilizing regional recruitment teams that will:

- capitalize on our recruitment flexibilities by ensuring that managers are well versed in appointment authorities such as the Career Intern Program and the Student Career Experience Program.
- locate a diversity of quality candidates by working with institutions of higher education that serve minority populations; the National Society for Minorities in Agriculture and Natural Resources and Related Sciences (MANRRS), which is dedicated to educating minorities about career opportunities in agriculture; and various minority professional organizations representing more experienced workers to fill higher level positions.
- advertise career opportunities through magazines, news publications, and websites targeted to the relevant minority audiences.

Achieving a workforce that reflects the population it serves is not only the right thing to do in principle, it will improve FSA's reputation and foster an increased sense of trust that will enhance customer relations.

Civil Rights and Outreach

Equal access to agency programs is fundamental to customer service. Where problems of disparate treatment exist, our civil rights staff is working to meet the issue head on. We have conducted reviews in 11 States that had not been reviewed in the last few years. In eight of those States a corrective action plan is in place to address the problems discovered. We are continuing to monitor the remaining three, and we are determined to hold senior management in those States accountable for providing the leadership needed to eliminate problems of discrimination. FSA remains dedicated to ensuring that all employees, regardless of level, are held accountable for superior customer service, effective communications, and providing all participants equal access to all FSA programs.

We have established an Office of Minority and Socially Disadvantaged Farmer Assistance to work with minority and socially disadvantaged farmers who have concerns and questions about loan applications they have filed in their Service Centers. Through a national toll-free telephone help line, we answer producer inquiries about loan programs and other FSA programs.

To rectify instances where certain producer populations are underserved, our outreach staff is working to increase participation of minorities in FSA programs. The staff utilizes a network of State outreach coordinators and works in conjunction with community-based organizations, non-profit groups, educational institutions that serve minorities, and USDA's Cooperative State Research, Education, and Extension Service to reach small farm operators in local communities.

Some of our activities for 2004 include continued participation in the highly successful American Indian Credit Outreach Initiative, refining our translation of FSA program forms into Spanish, and reaching out to underserved groups by participating in conferences such as the NAACP National Convention, the Hmong National Conference, the Asian Pacific American Federal Career Advancement Summit, and the National Hispanic Farmers and Ranchers Conference.

BUDGET REQUESTS

Turning now to the specifics of the 2005 Budget, I would like to highlight our proposals for the commodity and conservation programs funded by the Commodity Credit Corporation the (CCC); 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, upland

cotton and extra long staple cotton, rice, tobacco, milk and milk products, honey, peanuts, pulse crops, sugar, wool and mohair are facilitated primarily 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 2004, \$1.7 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. In addition, CCC funds many of the export programs administered by the Foreign Agricultural Service.

Program Outlays

The fiscal year 2005 budget estimates largely reflect supply and demand assumptions for the 2004 crop, based on November 2003 data. CCC net expenditures for fiscal year 2005 are estimated at \$15.0 billion, up about \$0.2 billion from \$14.8 billion in fiscal year 2004.

This small net increase in projected expenditures is attributable to increases for the counter-cyclical and loan deficiency payment programs, as well as the Non-insured Assistance Program and CRP, all of which are mostly offset by decreases in other programs.

Reimbursement for Realized Losses

CCC is authorized to replenish its borrowing authority, as needed, through annual appropriations up-to-the amount of realized losses recorded in CCC's financial statements at the end of the preceding fiscal year. For fiscal year 2003 losses, CCC was reimbursed \$22.9 billion.

Conservation Reserve Program

The Conservation Reserve Program (CRP), administered by FSA, is currently USDA's largest conservation/environmental program. It is designed to cost-effectively assist farm owners and operators in conserving and improving soil, water, air, and wildlife resources by converting highly erodible and other environmentally sensitive acreage, normally devoted to the production of agricultural commodities, 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 enrollment under this program from 36.4 million acres up to 39.2 million acres.

The 2003 general signup I mentioned earlier brought nearly 2 million acres into the CRP. Also in 2003, under continuous and Farmable Wetlands Program (FWP) signups, a combined total of 430,000 acres was enrolled. We issued incentive payments totaling approximately \$104 million under continuous signup, Conservation Reserve Enhancement Program (CREP), and FWP under the incentives program that began in May 2000 to boost participation.

The fiscal year 2005 budget assumes general signups in fiscal years 2004 and 2006 to enroll approximately 800,000 acres and 2.5 million acres, respectively. No general signup is expected in 2005. However, in each of fiscal years 2004 and 2005, we anticipate enrolling 450,000 acres under continuous signup and the CREP. About 50,000 acres are estimated to be enrolled in the FWP in fiscal years 2004 and 2005.

Overall, CRP enrollment is assumed to gradually increase from 34.1 million acres at the end of fiscal year 2003 to 39.2 million acres by fiscal year 2008, and to remain at 39.2 million acres through fiscal year 2014, maintaining a reserve sufficient to provide for enrollment of 4.2 million acres in continuous signup and CREP.

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 2005 Budget proposes a total program level of about \$3.8 billion. Of this total, approximately \$0.9 billion is requested for direct loans and nearly \$2.9 billion for guaranteed loans offered in cooperation with private lenders. These levels should be sufficient to provide adequate funding for our most needy farmers and ranchers throughout the year.

For direct farm ownership loans we are requesting a loan level of \$200 million. The proposed program level would enable FSA to extend credit to about 1,700 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. Also, 70 percent of direct farm ownership loans are reserved for beginning farmers, and historically about 35 percent are made at a reduced interest rate to limited resource borrowers, who may also be beginning farmers. Recently, however, the reduced-rate provisions have not been utilized since regular interest rates are lower than the reduced rates provided by law. 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 2005, we are requesting a loan level of \$1.4 billion. This program level will provide about 4,800 farmers the opportunity to acquire their own farm or to preserve an existing one. One critical use of guaranteed farm ownership loans is to allow real estate equity to be used to restructure short-term debt into more favorable long-term rates. For guaranteed farm operating loans we propose an fiscal year 2005 program level of approximately \$1.5 billion to assist over 8,000 producers in financing their farming operations. This program enables private lenders to extend credit to farm customers who otherwise would not qualify for commercial loans and ultimately be forced to seek direct loans from FSA.

We are particularly proud of all of our loan programs. As a matter of fact, since fiscal year 2000, our direct and guaranteed loans to minorities and women have increased every year. And in fiscal year 2003, there was an increase in direct loans to each minority group and we set a record for guaranteed farm ownership loans.

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, our budget proposes program levels of \$25 million 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 to deal with disputes involving a variety of agricultural issues including distressed farm loans, wetland determinations, conservation compliance, pesticides, and others. 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. Authority for State Mediation Grants expires at the end of fiscal year 2005. The Department plans to propose extending the program through fiscal year 2010.

For fiscal year 2004, grants have been issued to 30 States. With the requested \$4 million for fiscal year 2005, we anticipate that between 30 and 33 States will receive mediation grants.

Emergency Conservation Program

Since it is impossible to predict natural disasters, it is difficult to forecast an appropriate funding level for the Emergency Conservation Program. No funding was provided for the program in 2002 or 2003; however, it continued to operate throughout the two fiscal years using unobligated funds carried forward together with recoveries of unused funds previously allocated to the States.

For fiscal year 2004, the Consolidated Appropriations Act provides \$11.9 million for use in southern California only. Emergency cost-sharing for the nationwide program has continued into 2004 through recoveries from the States. As of March 26, we have issued allocations totaling about \$8.1 million. No other funding is currently available to provide assistance nationally to producers who have suffered losses due to natural disasters. Unfunded pending requests from producers for damage from ice storms, drought, tornadoes, hurricane and other natural disasters total about \$63.5 million. The fiscal year 2005 President's Budget does not request funding for this program.

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 other sources, such as litigation. As of March 26, we have paid fiscal year 2004 DIP claims totaling \$309,000 in 12 States.

The fiscal year 2005 appropriation request of \$100 thousand, together with unobligated carryover funds expected to be available at the end of fiscal year 2004, would

cover a higher than normal, but not catastrophic, level of claims. Extended through 2007 by the 2002 Farm Bill, DIP is a potentially important element in the financial safety net for dairy producers in the event of a serious contamination incident.

Tree Assistance Program

The Tree Assistance Program (TAP) provides financial assistance to qualifying orchardists to replace eligible trees, bushes, and vines damaged by natural disasters.

No TAP outlays were made during fiscal year 2003. The fiscal year 1998 program expired at the end of fiscal year 2003, and all unobligated funds were returned to Treasury. The fiscal year 1999 program will expire at the end of fiscal year 2004. The Consolidated Appropriations Act, 2004, provides \$12.4 million in appropriated funding for southern California. Separate legislative provisions have also made available CCC funding of \$5 million for New York and \$9.7 million for Michigan. No funding is requested for fiscal year 2005.

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 2005 Budget requests \$1.3 billion from appropriated sources including credit reform transfers. The request reflects decreases in non-Federal county staff-years and operating expenses, as well as increases in pay-related costs to sustain essential program delivery.

The fiscal year 2005 request reflects a ceiling of 6,017 Federal staff years and 10,284 non-Federal staff years. Temporary non-Federal county staff years will be reduced to 1,000—from the fiscal year 2004 level of 2,067—due to completion of initial farm bill implementation and disaster activities. Permanent non-Federal county staff years are estimated to remain at the 2004 level.

Federal staff years will increase by 100 to enhance farm loan servicing in the field. The additional staff will be assigned to high volume county offices throughout the country. We anticipate that the additional staff will bring about decreased loan-processing times, improve servicing of existing loans, and help avert increases in direct loan delinquency and loss rates. The additional employees will also help meet the needs of minority applicants, who often require considerable technical assistance from FSA staff to complete financial documents and formulate business plans. The resources to furnish this assistance are critical in supporting FSA's outreach effort.

Before closing I would like to note that support of FSA's modernization effort is provided through the Department's Common Computing Environment account. Funding made available to FSA under this account will provide needed telecommunications improvements and permit us to continue implementation of the GIS, which is so crucial to rapid and accurate program delivery.

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 2005. Our budget request reflects several initiatives needed to ensure FAS' continued ability to accomplish its mission and provide service to U.S. agriculture.

Last year, FAS had much to celebrate—its 50th anniversary as an agency, implementation of the new McGovern-Dole International Food for Education and Child Nutrition Program, the Secretary's successful Ministerial Conference and Expo on Agricultural Science and Technology, a recovery in U.S. agricultural exports, and the conclusion of negotiations on a historic free trade agreement (FTA) with Central American countries. This year, FAS also has much to highlight—a near record export forecast, the 50th anniversary of Public Law 480, the conclusion of negotiations for free trade agreements with Australia and Morocco, and the anticipated conclusion of negotiations for a Free Trade Area of the Americas (FTAA) and FTAs with the Dominican Republic and five Southern African countries.

These events demonstrate FAS' commitment to fulfilling its mission of expanding and maintaining export opportunities for U.S. agricultural, fish, and forest products and helping to alleviate world hunger and food insecurity. The agency's mission is

critical to U.S. farmers as our agriculture sector is twice as dependent on exports as the rest of the U.S. economy.

Last fiscal year, U.S. agricultural exports reached \$56.2 billion, an increase of nearly \$3 billion over 2002. USDA predicts near-record U.S. agricultural exports of \$59 billion in fiscal year 2004, more than 5 percent above exports in 2003 and nearly equal to the record \$59.8 billion set in fiscal year 1996. The Western Hemisphere remains the largest regional market for U.S. agricultural products, with exports projected at \$22.6 billion. Canada is now the largest U.S. agricultural export market, with sales to Canada forecast at \$9.9 billion. Exports of corn, wheat, soybeans, and horticultural products are expected to increase over fiscal year 2003.

While the anticipated recovery in exports is good news for U.S. farmers and exporters, the U.S. beef and cattle industry lost export markets in late 2003 since a single case of Bovine Spongiform Encephalopathy (BSE) or mad cow disease was discovered in Washington state. More than 70 U.S. trade partners closed their markets to U.S. beef, cattle, sheep, and goats, and other products. Since late December, FAS has worked tirelessly to inform our trade partners about the steps we are taking to investigate the situation and the additional safeguards we have implemented. We have been successful in keeping a portion of the Canadian and Philippine markets open to U.S. beef and had productive discussions with Mexican officials, as evidenced by Mexico reopening its market to U.S. beef products earlier this month. We are working with our Canadian and Mexican counterparts to enhance and coordinate a consistent North American response to the animal health and trade issues that BSE raises. We have dispatched high-level officials and technical teams from USDA and the Food and Drug Administration to Japan, South Korea, Hong Kong, and the Philippines and have hosted technical teams from Japan and Mexico here. We will continue such efforts to exchange information in the hope of eventually resuming trade.

Here in Washington and at U.S. embassies abroad FAS staff continues to inform foreign governments of actions taken and to reassure them of the safety of our beef. Our efforts to restore our foreign markets continue to be our top priority, and we urge our trading partners to resume trade based on sound scientific principles.

An additional wrinkle was added to the U.S. broiler export outlook when an outbreak of Low Pathogenic Avian Influenza (LPAI) was reported in several U.S. States in early February, followed by the confirmation of a Highly Pathogenic Avian Influenza (HPAI) case in Texas on February 23. U.S. trading partners immediately imposed bans on imports of U.S. chicken and turkey meat. The HPAI case was the first one in the United States in 20 years and it may keep us out of some of our larger markets for several months because this version of the disease is recognized internationally as highly contagious and import restrictions may be valid as long as they are limited to the state of Texas.

FAS Program Activities

Last year, we continued to use our long-standing export programs vigorously and have implemented new initiatives mandated in the Farm Security and Rural Investment Act of 2002 (2002 Farm Act).

The 2002 Farm Act established the Technical Assistance for Specialty Crops program and authorizes \$2 million in Commodity Credit Corporation (CCC) funds for each fiscal year from 2002 to 2007. Last year, we allocated \$2 million to 19 entities for projects to help address unique barriers that prohibit or threaten the export of U.S. specialty crops.

The Farm Act also increased funding for the Market Access Program. For fiscal year 2003, we allocated \$110 million to 65 trade organizations to promote their products overseas. The Farm Act also increased funds for the Foreign Market Development Program, and FAS approved marketing plans totaling \$38.0 million for 23 trade organizations for fiscal year 2003.

The Emerging Markets Program is authorized at \$10 million each year and provides funds for technical assistance activities that will increase market access for U.S. commodities and products in emerging markets. A total of 75 projects were approved for fiscal year 2003. 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 more than \$1.7 million in fiscal year 2003 to 21 organizations under this program.

The GSM-102 short-term export credit guarantee program facilitated sales of more than \$2.5 billion in U.S. agricultural products last year to 12 countries and five regions. At the same time, U.S. exporters continue to discover the benefits of the Supplier Credit Guarantee Program. We issued \$670 million in credit guaran-

tees under this program in 2003, a more than 33-percent increase over last year, demonstrating increased awareness of the usefulness of this program.

With the aid of the Dairy Export Incentive Program, U.S. exporters sold more than 86,000 tons of dairy products in fiscal year 2003. The CCC awarded more than \$31 million in bonuses to help U.S. dairy exporters meet prevailing world prices and develop foreign markets, primarily in Asia and Latin America.

The 2002 Trade Act established a new program, which is being administered by FAS—Trade Adjustment Assistance (TAA) for Farmers. Under this program, USDA provides technical assistance and cash benefits to eligible U.S. producers of agricultural commodities if increased imports have contributed to a specific price decline over five preceding market years. Last fiscal year, we got the program up and running and began accepting petitions for evaluation of eligibility for the program. Trade Adjustment Assistance petitions for 12 producer groups have been approved: catfish producers in 18 states; shrimp producers in Alabama, Arizona, Florida (the 2nd Florida petition), Georgia, North Carolina, South Carolina, and Texas; wild blueberry producers in Maine; salmon fishermen in Alaska and Washington; and fresh lychee producers in Florida.

On the trade policy front, we are working to open, expand, and maintain markets for U.S. agriculture. We are actively pursuing what U.S. Trade Representative (USTR) Robert Zoellick has called the competition for liberalization by seeking trade agreements in multilateral, regional, and bilateral contexts.

Although the outcome of the World Trade Organization (WTO) negotiations in Cancun last September was a lost opportunity, the United States has not given up its efforts to achieve an international agreement that will liberalize agricultural trade. The United States and many other countries remain committed to eliminating trade distorting subsidies and tariffs, but we must do so together. The Cancun meetings resulted in a text that establishes a good basis for continuing negotiations. We will continue to work with all players, including countries that raised objections in Cancun, to seek common ground.

In the meantime, we are pressing ahead with efforts to reach regional and bilateral trade agreements.

In September, the President signed legislation to implement FTAs with Chile and Singapore. In December, we concluded negotiations on a historic and comprehensive Central American Free Trade Agreement (CAFTA) with El Salvador, Honduras, Guatemala, and Nicaragua. This agreement will strip away barriers to trade, eliminate tariffs, open markets, and promote investment, economic growth, and opportunity. Costa Rica joined CAFTA in January.

While pursuing new negotiations, we have begun to see the benefits of earlier agreements. For example, on January 1, 2004, the United States, Canada, and Mexico celebrated the tenth anniversary of the implementation of the North American Free Trade Agreement (NAFTA). This groundbreaking agreement made North America the world's largest free trade area. The success of the agreement for agriculture has been quite remarkable. Since 1994, Canada and Mexico have been our two top agricultural growth markets in the world—by a wide margin. Exports to Canada rose by about \$3.1 billion over those years, while sales to Mexico rose about \$2.7 billion. U.S. exports to the rest of the world rose by only \$1.1 billion. In 2002, U.S. consumer-oriented products made up the lion's share of all U.S. agricultural exports to Canada (70 percent) and Mexico (39 percent). Demand in both Canada and Mexico continues to look promising. Real economic growth in Canada is projected at roughly 3 to 3.5 percent a year over the next 10 years, while the Mexican economy is expected to grow by 4 to 4.5 percent a year. As incomes grow, food demand will likely follow, making NAFTA beneficial to U.S. agricultural exporters for years to come.

As with all trade agreements, however, progress is not always straightforward. FAS monitors and enforces trade agreements to ensure that the benefits gained through long, hard negotiations are realized. Last year, our monitoring of the Uruguay Round Agreement on Agriculture and the Sanitary and Phytosanitary Agreement preserved an estimated \$1.6 billion in U.S. trade. We continue to work to ensure that China adheres to its WTO accession commitments to change its tariff-rate quota system. In 2003, China purchased U.S. cotton and soybean oil exports of \$330 million and \$48 million, respectively. We also worked to help win a WTO case against Japan's unscientific import restrictions on U.S. apples, thus saving a potential \$30-million market; and are working to preserve almost \$400 million in U.S. exports of animal by-products to the European Union (EU).

In addition, we helped resolve Russia's technical issues related to poultry plant inspections, thus saving a market worth more than \$300 million and restored access for U.S. dry beans to Mexico, resulting in the resumption of trade valued at \$60 million last year.

July 10, 2004, marks the 50th anniversary of Public Law (Public Law) 480, the Agricultural Trade Development and Assistance Act of 1954. This landmark program is the U.S. Government's primary vehicle to meet humanitarian food needs; it also helps to spur economic and agricultural growth in developing countries, leading to expanded trade.

Last year, we used this program to ship commodities from the United States to needy people around the world. Under numerous programs, FAS programmed nearly 575,000 metric tons of food assistance in fiscal year 2003 under Public Law 480, Title I credit agreements and Title I—funded Food for Progress donations. These products, valued at \$122 million, went to 15 countries. The U.S. Agency for International Development (USAID), which manages the Title II program of Public Law 480, provided about 3.7 million metric tons (grain equivalent basis) of food to needy people.

Also last year, FAS launched the McGovern-Dole International Food for Education and Child Nutrition Program allowing us to build on the success of the Global Food for Education (GFE) pilot program, which began in fiscal year 2001. It is designed to both encourage education and deliver food to improve nutrition for preschoolers, school children, mothers, and infants in impoverished regions. The 2002 Farm Act authorized the program through fiscal year 2007, providing \$100 million in CCC funding for fiscal year 2003. Under fiscal year 2003 programming, Food for Education donations were announced for 21 countries, totaling 131,000 metric tons valued at about \$42 million.

In addition to these food assistance programs, last year FAS employees were deployed to Afghanistan and Iraq to help rebuild those countries' agricultural sectors. The reconstruction challenges in these two countries are enormous, the security and logistical challenges tremendous, and the obstacles to progress great. However, we are committed, along with USAID, the Department of State (DOS), and the Department of Defense, to do all that we can in the reconstruction effort.

In Afghanistan, we provided technical guidance to help establish an Afghan Conservation Corps. This corps will provide jobs to thousands of unemployed Afghans, putting them to work to grow and plant trees, collect and conserve water, and stop soil erosion. FAS led the Department's assistance efforts for the corps, sending three technical teams on short-term assignments last year. In addition, FAS placed three USDA staff employees in provincial reconstruction teams, with the goal of placing a total of eight, to work in rural agricultural areas rehabilitating Afghanistan's agricultural sector.

In Iraq, USDA is playing a key role in the United States' overall efforts to create a democratic, market driven economy. With DOS and USAID, USDA is assessing food needs and providing expertise on restoring water, agriculture, forestry, and rangelands. Rebuilding Iraq's agricultural infrastructure continues to be a major priority. To that end, USDA continues to work on the revitalization of Iraq's agriculture ministry and is working with other U.S. Government agencies on reconstruction and development priorities, looking forward to commercial trade with Iraq. In recognition of Iraq's many needs, FAS sent a U.S. agricultural officer there in February 2004 to work as a senior advisor for food trade issues in the Ministry of Trade. This comes at a critical time, when Iraq begins to take more responsibility for its important agricultural and trade programs.

Last year, the United States committed a total of \$478 million for food assistance to Iraq, shipping a total of 255,320 tons of U.S. commodities including wheat, flour, rice, soybean oil, nonfat dry milk, and pulses (Great Northern beans, chickpeas, and black-eyed peas) under Public Law 480, Title II and Section 416(b) of the Agricultural Act of 1949.

Another example of our continuing efforts to help countries help themselves was Secretary Veneman's historic Ministerial Conference and Expo on Agricultural Science and Technology last June. The conference focused on how science and technology and a supportive policy environment can drive agricultural productivity and economic growth to alleviate world hunger and poverty.

About 1,000 participants attended including 119 ministers of agriculture, science and technology, health, environment, and commerce. It was one of the largest, most diverse gatherings of decision-makers from around the world to address global hunger. One-hundred seventeen countries were represented. Other attendees came from the private sector, academia, research institutes, foundations, and non-governmental and international organizations.

The Ministerial provided an extraordinary opportunity for dialogue, knowledge sharing, and the creation of partnerships. It sparked tremendous enthusiasm among ministers and other developing-country representatives for science and technology to deliver solutions.

Given the tremendous energy the event generated, many ministers from developing countries have agreed to partner with USDA to keep the momentum going in finding technology- and policy-based solutions to global food insecurity. For example, ministers from Africa and Latin America offered to host follow-up conferences for their regions. A Central American regional conference will be held in Costa Rica in May in partnership with the Inter-American Institute for Cooperation on Agriculture (IICA). A regional conference for West Africa will take place this summer in Ouagadougou, Burkina Faso. Other conferences and follow-up activities are planned throughout the coming years.

As we work to organize and conduct follow-up activities, we are building invaluable relationships with developing countries that will help us work together in the future to resolve trade disputes and prepare developing countries for global trade. Our longstanding training program, the Cochran Fellowship Program was used to introduce 853 Cochran Fellows from 82 countries to U.S. products and policies in 2003. 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.

During Secretary Veneman's visit to Afghanistan in November, she announced the first Cochran Fellowship Program with Afghanistan to provide short-term, U.S.-based training for eight Afghan women to study agricultural finance. They will learn about business plans, financial management, farmers' cooperatives, and micro-credit programs to promote food security and income-generating small businesses.

We also collaborated with a diverse group of U.S. institutions in research partnerships with more than 50 countries to promote food security and trade. These research and exchange activities made practical use of biotechnology and other scientific techniques to help solve critical problems affecting food, agriculture, fisheries, forestry, and the environment. Activities also were conducted to evaluate the food, nutritional, and water needs of vulnerable populations in rural and urban areas to help expand the livelihoods of small and limited-resource farmers, ranchers, and communities.

In the end, the technical assistance that we provide will help build the institutions needed for developing countries to attract investment and grow their economies. When 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 multilateral, regional, and bilateral trade negotiations on agriculture. Although getting the WTO negotiations restarted and on a positive path will not be easy, we must resume the long journey toward worldwide multilateral trade liberalization.

The Doha Round will not likely meet its deadline of having an agreement completed by January 2005. However, all countries have much to gain from successful reform of the international trading system, and we must continue our efforts to resolve the issues that stalled the talks in Cancun.

In January, Ambassador Zoellick sent a letter to his counterparts in the WTO suggesting a "common sense" approach to advance the negotiations in 2004. Ambassador Zoellick recommended that the negotiations focus on core market access topics of agriculture, goods, and services.

In the area of agriculture, the letter suggests that WTO members agree to eliminate export subsidies by a date certain, agree to substantially decrease and harmonize levels of trade-distorting domestic support, and provide a substantial increase in market access opportunities. The letter notes that the United States stands by its 2002 proposal to eliminate all trade distorting subsidies and barriers to market access.

To hammer home the points he made in his letter, Ambassador Zoellick traveled extensively at the end of February, meeting with more than 30 countries in Asia, Africa, and Europe. He also attended the Cairns Group meeting, which gave him a good opportunity to talk with many Latin American countries. In addition, Secretary Veneman had a very fruitful meeting with EU Commissioner Franz Fischler

during which she pressed for the resumption of the Doha Agenda talks. The response to Ambassador Zoellick's proposal has been very positive, and most countries appear to be genuinely interested in moving the negotiations forward. Serious, substantive discussions will resume in Geneva next week. We are optimistic that we will have a framework in place by July and possibly a Ministerial conference by the end of the year.

In addition, we will continue to press ahead with our efforts to reach regional and bilateral trade agreements. During the last year, we implemented FTAs with Chile and Singapore and concluded negotiations with Central America. Earlier this year, we concluded free trade talks with Australia and Morocco. We also hope to bring the Dominican Republic into the CAFTA agreement, and we will continue to work towards establishing an FTA with the Southern African Customs Union—which includes the countries of Botswana, Lesotho, Namibia, South Africa, and Swaziland. We have recently launched negotiations with Bahrain and will soon begin discussions with Panama, Colombia, and Peru.

Another major trade initiative is the FTAA. Launched in 1998, these negotiations could establish a free trade zone, covering 800 million people in 34 countries that stretch from the Arctic Circle to Tierra del Fuego. These negotiations have proven to be quite challenging because of the large number of participants, each with its own interests and external relationships. An important breakthrough was made at the Miami Ministerial meeting in November at which trade ministers established a new framework that will allow countries with greater ambition for trade liberalization to pursue those goals with like-minded partners within the FTAA, while ensuring that all participants will be covered by a common set of rights and obligations. Concluding these negotiations on schedule will be a challenge, but it can be done as long as we all remain committed to regional integration as a tool to stimulate economic growth in the hemisphere.

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.

The effort to keep markets open in the face of unscientific or artificial trade barriers is inherent in the FAS mission. This is perhaps our most important task, yet it is the least 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 Washington 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. FAS' overseas officers work continuously to prevent trade problems from occurring or to resolve them as soon as they crop up.

Every year, these activities preserve millions of dollars in trade that potentially could have 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 priority this year is reopening our major export markets for U.S. beef and poultry exports. As a result of the single BSE case in Washington state, most U.S. export markets have banned our cattle, beef, and beef product exports, including rendered products, pet foods, and cattle genetics. At the same time, most U.S. export markets have banned or partially banned U.S. poultry and poultry exports because of outbreaks of LPAI.

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 forum to ensure countries adopt science-based policies in this area.

To focus our efforts, FAS formed a new office last year to work with a myriad of public and private, domestic and international organizations on a broad array of biotech issues. Activities this year include working to ensure that the Cartagena Protocol on Biosafety does not disrupt grain trade; participating in the third annual Asia Pacific Economic Cooperation policy dialogue on biotechnology; working with USTR on the U.S. case against the EU's moratorium on biotech products; and a host of other issues and activities too long to mention.

As you see, we will be working on many fronts to continue to improve export opportunities for the American food and agriculture sector, but we cannot do it alone.

Strengthening Market Development Partnerships and Programs

The challenges we face in multilateral, regional, and bilateral trade negotiations make it imperative that we work closely with our foreign market development cooperators to strengthen our partnership and keep the lines of communication open. This will help us become an even more potent force in improving the competitive position of U.S. agriculture in the global marketplace.

We will continue to use our export assistance programs—Emerging Markets Program, Market Access Program, Quality Samples Program, Technical Assistance for Specialty Crops program, and Foreign Market Development Cooperator Program—to open and maintain export opportunities for U.S. farmers and exporters.

We are working on a Global Broad-Based Initiative (GBI) to better utilize our marketing resources. GBI will allow FAS cooperator groups to address a broad range of issues that may be regional in scope. Under the GBI process, proposals for program funding from cooperator groups in concert with input from our overseas posts will address key priorities, such as market access and unfair competition; biotechnology, sanitary and phytosanitary issues, and food safety; best growth markets; high-value products; capacity building; and food security and trade financing.

Proposals that cut across multiple product or industry lines—as well as multiple markets—will have greater impact than those that focus on one product or one market. Under GBI, FAS and cooperators have a unique opportunity to address common strategic challenges and opportunities.

We will continue to encourage U.S. exporters to develop and refine their marketing strategies, look to new market opportunities, and fully use all the FAS tools at their disposal.

Building Trade Capacity

Hand-in-hand with our negotiating efforts are our activities 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 USTR and USAID 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. We must address the concerns of developing countries, a requirement made evident in Cancun. Without their support, there will be no new multilateral agreement.

FAS provides technical expertise to enhance developing countries' abilities to engage in two-way trade. FAS recruits expertise from USDA agencies, universities, and the private sector. We have been particularly active in providing information about science-based animal and plant health and food safety rules and systems. We also are working with countries to help them build information systems that provide accurate agricultural production, trade, and price data. Providing technical advice on cold storage, handling, and transportation systems facilitates two-way trade in high-value, perishable foods. By helping countries understand the advantages of using efficient biotechnology tools, we help lower costs and improve the quality of farm products.

Throughout the year, we will use all our available tools—the Cochran Fellowship Program, the Emerging Markets Program, and our involvement in international organizations such as IICA—to educate and assist countries seeking to reform and improve their economies so they can participate in the world marketplace.

Ensuring World Food Security

During the past 2 years, the U.S. contribution of global food aid has reached about 60 percent of total world aid, and we remain committed to these efforts that address world food insecurity and help to alleviate hunger, malnutrition, and poverty.

During 2004, we will be working closely with the World Food Program and our private voluntary organization partners to ensure that the new McGovern-Dole International Food for Education and Child Nutrition program builds on the success achieved by the Global Food for Education Initiative. USDA will donate approximately 66,000 metric tons of commodities to provide nutritious school meals to school and pre-school children, as well as nutritional assistance to mothers and infants. In addition, we estimate that the United States will be able to distribute about 3.8 million metric tons of commodities through Public Law 480, Food for Progress, and other programs in fiscal year 2004.

But we know food aid is not the only tool to achieve world food security. Developing countries must strengthen their agricultural policies and institutions and increase their investments in agricultural productivity if they are to find their way

out of the seemingly endless cycle of hunger, poverty, and economic stagnation. Agricultural science and technology transfer and extension along with supportive policy and regulatory frameworks are critical.

Budget Request

Mr. Chairman, our fiscal year 2005 budget proposes a funding level of \$147.6 million for FAS and 1,005 staff years. This represents an increase of \$11.9 million above the fiscal year 2004 level and supports several initiatives needed to ensure the agency's continued ability to conduct its activities and provide services to U.S. agriculture.

The budget proposes an increase of \$4.8 million for support of FAS overseas offices. The FAS network of 80 overseas offices covering over 130 countries is vulnerable to the vagaries of macro-economic events that are beyond the agency's control. The significantly weakened U.S. dollar and higher International Cooperative Administrative Support Services (ICASS) payments to DOS have caused overseas operating costs to increase sharply. Specifically, these increases include:

- \$2.0 million to replenish the Buying Power Maintenance Account (BPMA). FAS has the authority to carry over up to \$2.0 million in exchange rate gains from current year appropriations in a BPMA to offset future exchange rate losses. The account was fully funded at the end of fiscal year 2002, but was depleted by the end of fiscal year 2003 due to the weakness of the dollar. Continued weakness of the dollar implies that future exchange rate gains are unlikely.
- \$1.76 million to fund higher payments to DOS. DOS provides overseas administrative support for U.S. foreign affairs agencies through ICASS. FAS has no administrative staff overseas, and thus relies entirely on DOS/ICASS for this support. Based on current cost growth trends, we are estimating that our ICASS assessment will increase by about 10 percent or \$1,104,000. Additionally, for security reasons, and as a precondition to moving into the new embassy in Beijing, all agencies are required to purchase new furniture through DOS. DOS has assessed individual agency charges on a per-capita basis; the FAS assessment is \$655,000.
- \$581,000 to fund mandatory costs of participating in the Capital Security Cost Sharing Program. Beginning in fiscal year 2005, DOS will implement a program through which all agencies with an overseas presence in U.S. diplomatic facilities will pay a proportionate share for accelerated construction of new, secure, safe, and functional diplomatic facilities. These costs will be allocated annually based on the number of authorized positions. This plan is designed to generate a total of \$17.5 billion to fund 150 new facilities over a 14-year period. The FAS assessment starts at \$3.6 million in fiscal year 2005; however, \$3 million of this amount will be offset through a credit for overseas rental costs currently incurred by FAS. The FAS assessment is estimated to increase annually in roughly \$3-million increments until fiscal year 2009, at which time the annual assessed level will total an estimated \$15 million. This level is assumed to remain constant for the following 9 years.
- \$490,000 for the costs of overseas telecommunications improvements. This increase will allow for the upgrade from 9.6 KBPS to 128 KBPS on the State Department's Diplomatic Telecommunications Service (DTS) communication lines where DTS is the only option.

A crosscutting departmental priority is expanding our eGov capability. Secretary Veneman recently announced that USDA would focus on eGovernment initiatives this year. This multi-faceted initiative will change the way we in FAS communicate with each other, with the rest of government, and most importantly, with the customers we serve here and around the world. In this regard, the budget proposes an increase of \$5.3 million to implement an FAS Global Computing Environment initiative. The 4-year initiative will modernize FAS information technology systems and applications to ensure compliance with eGovernment objectives and standards for Federal agencies. Under the Global Computing Environment initiative, FAS will modernize existing systems, restructure its agricultural production and trade databases, and improve the timeliness and efficiency of its reporting systems. The FAS information technology system is aging and in danger of failing. As examples:

- Of the 35 servers currently providing e-mail and network services for FAS, 25 are 5 or more years old, operating well beyond their normal life cycle.
- Over 2/3's of FAS desktop PC's (about 900) are already 5-years old and are only running at one-third the current industry standard operating speed. (800 mh vs. 2.4 gh)
- More than half of the agency's mission-critical information systems—which are of highest interest to USDA customers—are more than 7 years old.

Our goal is to improve the services provided to U.S. agricultural producers and exporters by electronically sharing information, providing FAS program interfaces in real time, with no delays, and in easy to manipulate formats.

As our information systems are modernized, FAS will move aggressively to integrate its information systems with those in Federal and State agencies involved in similar lines of business, i.e., international commerce and trade, international development, trade-capacity building, food aid, trade negotiations, and participation in international organizations.

This will include integration with other USDA agencies through USDA.gov, which will provide the Department's customers with the ability to customize the information they receive from the Department through a personalized web portal. FAS will also need to integrate with DOS' information management system for communications within U.S. embassies and between embassies and Washington. This will give USDA officials access to internal government communications and policy papers on relevant issues such as agricultural trade, food aid, and biotechnology.

Finally, the budget includes an increase of \$1.8 million to cover higher personnel compensation costs associated with the anticipated fiscal year 2005 pay raise and efforts to recognize employee performance. Pay cost increases are non-discretionary and must be funded. Absorption of these costs in fiscal year 2005 would primarily come from reductions in agency personnel levels, which would significantly affect FAS' ability to contribute to USDA's strategic goal of enhancing economic opportunities for agricultural producers.

Export Programs

Mr. Chairman, the fiscal year 2005 budget includes over \$6 billion for programs administered by FAS that are designed to promote U.S. agricultural exports, develop long-term markets overseas, and foster economic growth in developing countries.

Export Credit Guarantee Programs

The budget includes a projected overall program level of \$4.5 billion for export credit guarantees in fiscal year 2005.

Under these programs, the 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:

- \$3.4 billion for the GSM-102 short-term guarantees;
- \$5.0 million for the GSM-103 intermediate-term guarantees;
- \$1.1 billion for Supplier Credit guarantees, and
- \$10.0 million for Facility Financing guarantees.

Market Development Programs

Funded by CCC, FAS administers a number of programs that promote the development, maintenance, and expansion of commercial export markets for U.S. agricultural commodities and products. For fiscal year 2005, the CCC estimates include a total of \$173.0 million for the market development programs, unchanged from fiscal year 2004 these include:

- \$125.0 million for the Market Access Program;
- \$34.5 million for the Foreign Market Development Cooperator Program;
- \$10.0 million for the Emerging Markets Program;
- \$2.5 million for the Quality Samples Program; and
- \$2.0 million for the Technical Assistance for Specialty Crops Program.

International Food Assistance

The fiscal year 2005 budget continues the worldwide leadership of the United States in providing international food aid. The fiscal year 2005 request for foreign food assistance totals more than \$1.5 billion including \$1.3 billion for Public Law 480 to provide approximately 3.2 million metric tons of commodity assistance. For Title I, the budget provides for a program level of \$123.0 million, which will support approximately 500,000 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 2.7 million metric tons of commodity donations

- \$149 million for CCC-funded Food for Progress. This level is expected to meet the minimum level of 400,000 metric tons established in the 2002 Farm Bill;
- \$147 million for Section 416(b) donations. Under this authority, surplus commodities that are acquired by CCC in the normal course of its domestic support operations are available for donation. For fiscal year 2005, current CCC baseline estimates project the availability of surplus nonfat dry milk that can be made available for programming under section 416(b) authority; and

—\$75.0 million for the McGovern-Dole International Food for Education and Child Nutrition Program. This represents an increase of \$25 million over the fiscal year 2004 appropriation and will assist an estimated 1.9 million participants.

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 2005 budget assumes a continuation of EEP at the fiscal year 2004 level. However, the 2002 Farm Bill does include the maximum annual EEP program level of \$478.0 million allowable under Uruguay Round commitments that could be utilized should market conditions warrant.
- \$53 million for the Dairy Export Incentive Program (DEIP), \$31 million above the current fiscal year 2004 estimate of \$22 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.

Trade Adjustment Assistance for Farmers

Under the Trade Act of 2002, the TAA authorizes USDA to make payments up to \$90.0 million annually to eligible producer groups when the current year's price of an eligible agricultural commodity is less than 80 percent of the national average price for the 5 marketing years preceding the most recent marketing year, and the Secretary determines that imports have contributed importantly to the decline in price. As of the beginning of March, petitions from eight producer groups had been certified as eligible for TAA and an additional 10 petitions were under review to determine eligibility. Payments under the program will begin later this year once the benefit application period has closed.

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, I am pleased to present the fiscal year 2005 budget for the Risk Management Agency (RMA). RMA continues to make rapid progress in meeting its legislative mandates to provide an actuarially sound crop insurance program to America's agricultural producers. Crop insurance is USDA's principal means of helping farmers survive a crop loss. In 2005, the program is expected to provide producers with more than \$42 billion in protection on approximately 220 million acres through about 1.2 million policies.

To improve service to our customers and stakeholders, in 2003, we began an evaluation of crop insurance business processes to integrate performance and create higher productivity, and to achieve key performance goals. To hear first-hand the challenges affecting producers in the crop insurance program, we have conducted listening sessions with producers and grower groups throughout the United States; over 26 listening sessions have been held to date. It is no coincidence that the top concerns expressed by our customers and stakeholders have become the foundation of our key performance objectives in support of the Agency's mission. These objectives are: (1) Provide widely available and effective risk management solutions; (2) Provide a fair and effective delivery system; (3) Ensure customers and stakeholders are well-informed; (4) Maintain program integrity; and (5) Provide excellent service.

To effectively address the concerns and challenges within the crop insurance program, RMA's total fiscal year 2005 budget request is \$3.09 billion. The funding level proposed for the Federal Crop Insurance Corporation (FCIC) Fund is \$3,000,443,000 and for the Administrative and Operating Expenses, the request is \$91,582,000.

FCIC Fund

The fiscal year 2005 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 requirements is based on USDA's latest projections of planted acreage and expected market prices. The budget request includes \$2.1 billion for Premium Subsidy, \$782.4 million for Delivery Expenses, and \$77.3 million for mandated Agricultural Risk Protection Act of 2000 (ARPA) activities.

Administrative and Operating Expenses (A&O)

RMA's fiscal year 2005 request of \$91.6 million for Administrative and Operating Expenses represents an increase of about \$20.6 million from fiscal year 2004. This budget supports increases for information technology (IT) initiatives of \$15.5 million.

These IT funds are targeted toward the infrastructure improvements and enhancement of the corporate operating systems necessary to support growth in the program as new products are developed and existing products are improved and offered for sale. Due to the rapid growth in the program, it has been difficult to maintain adequate funding for RMA's information technology system. The Agency's IT infrastructure supports the crop insurance program's business operations at the national and local levels, provides risk management products to producers nationwide and is the basis for payments to private companies reinsured by the FCIC. RMA is using system and database designs originally developed in 1994. There have been few hardware and software upgrades and business process analysis and re-engineering of the entire business delivery system are needed to support current and future program growth. The IT systems do not meet the minimum requirements mandated by the USDA Office of the Chief Information Officer due to advanced age and architecture. Without adequate funding of the IT requirements, the Agency will not be able to safely sustain additional changes required by new product development or changes in existing products. Future program expansion will increase the risk of system failure and possible inability to handle day-to-day processing of applications and indemnity payments.

Also, included in the total request is \$1.0 million to expand the monitoring and evaluation of reinsured companies. RMA is requesting funds to establish a systematic process of monitoring, evaluating, and auditing, on an annual basis, the performance of the product delivery system. These funds will be used to support insurance company expense audits, performance management audits and reinsurance portfolio evaluations to ensure internal and management controls are a basic part of reinsured companies' business operations.

To support an increase of 30 staff years, \$3.0 million is requested to raise RMA's employment ceiling from 568 to 598. Funding for additional staff years is necessary to strengthen the safety net for agricultural producers through sound risk management programs. The fiscal year 2005 budget request includes five additional staff years for the Research and Development Offices, to provide necessary support to evaluate, monitor and manage contractual agreements and partnerships with public and private business sectors. The additional staff years will aid in the review and evaluation of the increasing number of new private product submissions received by the Agency each year. They will also provide oversight of privately contracted product development needed to fulfill ARPA mandates that RMA provide risk management tools for producers of specialty crops, livestock, forage pasture, hay and other underserved commodities, areas and producers.

To support the increased workload for the Compliance function, a request for 15 staff years is included. The additional staff years will provide the Compliance function the necessary support to address outstanding OIG and GAO recommendations to improve oversight and internal controls over insurance providers. In response to several OIG audit reports, RMA needs to establish a systematic process of auditing insurance providers to detect and correct vulnerabilities to proactively prevent improper payment of indemnities. RMA's studies suggest that additional resources in this area would provide a minimum of \$4 in reduced fraud cost for every dollar spent. The additional staffing will provide the necessary oversight to ensure taxpayers' funds are expended as intended.

In addition, 10 staff years are requested for the Insurance Services Offices, to implement good farming practice determinations, and to adequately evaluate claims based on questionable farming practices. ARPA requires RMA to establish a process to reconsider determinations of goods farming practices. The Regional Offices of Insurance Services are in a unique position by virtue of their education in production agriculture, agronomy and related fields, and knowledge of local crops and growing conditions to effectively carry out the important function of determining good farming practices. RMA data indicate that approved insurance providers rarely assess uninsured causes of loss against a producer for failure to follow good farming practices. With approved insurance providers operating in an environment of risk sharing, there is a tremendous need for support and incentives for tightening loss adjustment, particularly in the good farming practices area to ensure that payments for losses is consistent with the requirements of Federal Crop Insurance Act. For example in crop year 2002, of approximately 1.25 million policies earning premium, about .03 percent were assessed uninsured causes of loss. This small percentage appears to be inconsistent with data uncovered through various oversight activities.

Based on 2002 indemnities of over \$4 billion, if RMA determinations and reconsiderations of good farming practices had prevented only 3 percent of indemnities from being paid improperly, the resulting savings would be an estimated \$121 million.

Lastly, an increase of \$1.1 million is requested for pay cost. These funds are necessary to maintain required staffing to carry out RMA's mission and mandated requirements.

The fiscal year 2005 budget request supports the President's Management Initiatives and is aligned with the Agency's five performance objectives.

Provide Widely Available and Effective Risk Management Solutions.—The FCIC Board of Directors (Board) will continue its work to maintain an aggressive agenda focused on addressing producer's 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.

The Board is focusing on the overall FCIC portfolio of insurance products, with new strategies to provide the greatest amount of protection. We are actively working with the private sector to find new and better ways to provide risk protection for forage, rangeland, and pasture and to address the long term production declines that result from extended drought in many areas. Priority also is directed towards identifying opportunities to expand participation in current crop insurance programs in areas with below average participation.

In addition, many of the new product development contracts, authorized by Section 508(h) of the Federal Crop Insurance Act, are coming to fruition. The Board will review these private product submissions and decide on the appropriateness of pilot testing the products.

Beginning February of 2002, RMA initiated a series of listening sessions throughout the United States to gather market feedback on issues and concerns that affect the agricultural community. From this initiative, 26 listening sessions have been organized by the Regional Offices in various locations. The focus of the meetings was to obtain feedback from farmers on what is working well in our program, factors that impact product acceptance and market penetration, what program issues need to be addressed, and whether products were meeting the needs of the agricultural sector. To gather the widest possible representation, we focused on inviting the various regional Grower Associations and agricultural interest groups, both private and governmental. The feedback from the listening sessions identified a broad theme of issues such as requests to expand products such as Adjusted Gross Revenue (AGR/AGR-Lite) and Crop Revenue Coverage (CRC), simplify prevent planting regulations, and extend crop dates. In addition, irrigation issues and the knowledge and training of insurance agents were topics of discussion.

RMA is already engaged in working toward solutions to resolve many of the issues identified at these listening sessions and, is evaluating the feasibility of many others with the legal limitations and parameters established in statute to operating an actuarially sound insurance program. In addition, the FCIC Board of Directors commissioned a Product Portfolio Review to assist in evaluating and developing a strategic product development plan. Our initial plan growing out of that review focuses on identifying and pursuing opportunities to more comprehensively provide risk coverage and other risk management solutions for producers, regions, commodities and risks. It gives priority to the development of new insurance products and other risk management solutions to fill identified gaps, including coverage for livestock, forage, rangeland, long-term drought and specialty crops; and simplifies and improves the effectiveness of revenue and other insurance products that will meet the needs of the agriculture sector.

Provide a Fair and Effective Delivery System.—RMA relies on private sector insurance companies to deliver and service risk management tools to producers. The financial agreement that compensates insurers for their service and established standards for performance is the Standard Reinsurance Agreement (SRA). The current agreement has been in effect since 1998 and needs to be updated to reflect the changing nature and scope of the program as well as recent development of the delivery system.

ARPA gave RMA the authority to renegotiate the current SRA once during the 2001 through 2005 reinsurance years. On December 31, 2003, RMA provided the required notice of cancellation of the current agreement effective July 1, 2004 and its intent to renegotiate the agreement for the 2005 reinsurance year, which begins on July 1, 2004. On December 30, 2003, RMA issued the draft of the proposed SRA to insurance providers. The first round of negotiations with insurance providers has been completed. A range of issues was identified and a second draft of the SRA addressing those issues is near completion for review and negotiation with the compa-

nies. We are working with all insurers to have a new and equitable SRA in place by the 2005 reinsurance year.

Through this private sector delivery system, in crop year 2003, RMA provided approximately \$41 billion of protection to farmers, and expects indemnity payments for crop year losses of approximately \$3.3 billion. The participation rate for major program crops was approximately 82 percent. An important part of the delivery system is having effective and useable products. RMA continues to efficiently evaluate risk management products, review and approve private sector products to be reinsured by the FCIC, to promote new risk management strategies, and ensure effective delivery of these products to agricultural producers. RMA's education, outreach, and non-insurance risk management assistance initiatives, delivered through the public and private sector organizations, further contribute to the producer's ability, skill and willingness to access and effectively use RMA's growing portfolio of risk management tools to protect their financial stability.

Under the Agricultural Management Assistance Program (AMA), Section 524(b) of the Federal Crop Insurance Act, financial assistance is authorized for producers in 15 "Targeted" States. Under this authority, and in response to the need to improve crop insurance delivery and acceptance in these States, for fiscal year 2003 RMA offered a cost-share program for producers purchasing AGR, AGR-Lite, and spring policies with sales closing dates on or after February 21, 2003. The States in which this program was offered were: Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New York, New Jersey, Nevada, Pennsylvania, Rhode Island, Utah, Vermont, West Virginia, and Wyoming. The primary goal of the program was to enable producers to buy-up to higher levels of insurance coverage, and to provide an incentive for new producers to purchase insurance. To meet this objective, RMA paid a portion of the producer premium remaining after the normal USDA subsidy was applied. Moreover, to encourage buy-up, RMA paid a higher percentage of this premium for higher levels of coverage. USDA has received many positive letters from producers, producer groups and insurance agents in many States who are pleased with the program. RMA recently announced the availability of financial assistance for crop year 2004 spring crops for the same States, consistent with new statutory requirements for the application of these funds.

In early 2004, RMA approved Occidental Fire & Casualty (OFC) and its Managing General Agent, Crop1 to sell and service crop insurance under a premium reduction plan as allowed by Federal statute, and in accordance with standards and procedures established and approved by the FCIC Board. The States for which OFC was approved are: Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, Texas (State approval pending), and Wisconsin. OFC is required to offer Premium Discount Plan (PDP) on FCIC insurance covering all crops in these States. Farmers who purchase crop insurance under OFC's Premium Discount Plan (PDP) will receive a discount on their portion of the insurance premium of up to 10 percent or more depending on the level of coverage they purchase. The discount (equal to 3.5 percent of the total unsubsidized premium) results from OFC passing along the cost savings generated by its cost efficient approach to delivering crop insurance.

We continue to work with the private sector to improve producers' ease of access to and awareness of risk management products; increase the emphasis on improving service coverage for underserved producers and regions; and expand the ability to reach underserved producers, areas and commodities through traditional channels and developing technologies.

Ensure Customers and Stakeholders are Well-Informed.—RMA has implemented an extensive national outreach and education program, including several initiatives to increase awareness and service to small and limited resource farmers and ranchers and other underserved groups and areas.

In 2003, RMA sponsored the second national outreach conference titled: Survival Strategies for Small and Limited Resource Farmers and Ranchers, in San Diego, California. Public and private professionals, who provide agricultural services to underserved groups, were the targeted audience. Over 300 professionals representing 45 States, 22 universities and three foreign countries convened at this conference to share ideas and develop strategies to benefit the underserved communities. During 2004, regional and local workshops will be customized in several regions to deliver proven survival strategies directly to producers. RMA is also partnering with community-based organizations, 1890, 1994, 1862 land grant colleges and universities, and Hispanic Serving Institutions (HSIs) to provide program technical assistance and risk management education on managing farming risks associated with the many legal, production, marketing, human resources and labor aspects of farm operation. RMA funded 49 outreach projects in fiscal year 2003 totaling \$4 million

to provide outreach and assistance to women, small and limited resource farmers and ranchers.

During fiscal year 2003, our education program focused on underserved States, specialty crop producers, and grants through the Cooperative State Research, Education, and Extension Service. RMA Regional Offices held 833 outreach and educational meetings during 2003, which attracted 42,020 participants.

In June 2003, RMA announced a Request for Applications for two programs. The first was to establish cooperative education agreements in States that have been historically underserved with respect to crop insurance. As a result of this announcement, 15 cooperative agreements were established totaling \$4.5 million. These agreements were executed with State departments of agriculture, universities, and non-profit organizations to deliver crop insurance education to producers in Connecticut, Delaware, Maine, Pennsylvania, Rhode Island, Maryland, Massachusetts, Nevada, New Hampshire, New Jersey, New York, Utah, Vermont, West Virginia, and Wyoming. Specifically, these cooperative agreements will: expand the amount of risk management information available; promote risk management education opportunities; inform agribusiness leaders of increased emphasis on risk management; and deliver training on risk management to producers with an emphasis on reaching small farms.

The second program was for commodity partnership agreements to reach producers of specialty crops. A total of 35 commodity partnership agreements were established at a cost of \$4.6 million. These agreements were executed with State departments of agriculture, universities, grower groups, and non-profit organizations in Alabama, Arizona, Arkansas, California, Colorado, Florida, Georgia, Hawaii, Idaho, Illinois, Indiana, Kansas, Kentucky, Louisiana, Michigan, Minnesota, Mississippi, Missouri, Montana, Multi-state Area 1 (NV, UT, WY), Multi-state Area 2 (ME, NH, VT, CT, RI, MA, NY), Multi-state Area 3 (PA, NJ, DE, MD, WV), Nebraska, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, South Carolina, South Dakota, Tennessee, Texas, Virginia, Washington, and Wisconsin. These agreements will reach specialty crop producers with broad risk management education. In addition, efforts were continued with the Future Farmers of America organization to educate and encourage youths' participation in agriculture.

Maintain Program Integrity.—Our Compliance function workload has increased substantially due to the expansion of the Crop Insurance Program and the implementation of ARPA. In order to deal with the increased referral activity and to fulfill the responsibilities of data reconciliation with Farm Service Agency (FSA), RMA has sought to manage the increase in workload by emphasizing the use of data mining, remote sensing, Geospatial Information technologies and other computer-based resources. During the 12-month period from January 2002 through December 2002, RMA projects more than \$125 million was saved by deterring or preventing potentially fraudulent claims through data mining and other related activities. Similar savings were realized for 2003 as we expanded data mining capabilities.

In 2004, we continue to develop data management and integration tools to effectively evaluate, track, and improve program compliance, integrity and to reduce the potential for erroneous payments. The need for the authority to regulate certain insurance provider business activities associated with the Federal Crop Insurance Program and the ability to perform timely and effective reviews of insurance providers became apparent in 2002 with the failure of the American Growers Insurance Company. The fiscal year 2005 budget request includes \$1.0 million for monitoring and evaluating the reinsured companies. Improving RMA's ability to monitor the reinsured companies will provide the means to perform the necessary analysis and pursue any needed corrective actions to reduce the likelihood and cost of future failures.

Recent progress in the Compliance area has been concentrated on the mission-critical tasks of evaluating and improving new processes established to prevent and deter waste, fraud and abuses. In addition, extensive progress has been made in building and adapting RMA's compliance investigation caseload reporting, tracking, and feedback systems to meet the requirements that were mandated by ARPA. RMA, the FSA, the Office of Inspector General, U.S. Attorneys' offices throughout the Nation, and the insurance providers continue to work together to improve program compliance and integrity of the Federal crop insurance program by: fine tuning the RMA/FSA data reconciliation and matching process; evaluating and amending the procedures for referring potential crop insurance errors or abuse between FSA and RMA; creating an anti-fraud and distance learning training package to complete the requirements of ARPA; and detecting, prosecuting and sanctioning perpetrators of crop insurance fraud. We also have dedicated additional efforts to integrating data mining analysis into all Agency functions to assist in proactive preemption of fraud through effective underwriting and product design; exploring ways to

expedite increasing sanctions requests; and establishing a fraud investigation case management and issue tracking system.

During fiscal year 2003, RMA published ARPA mandated revisions to the Common Crop Insurance Policy, also known as the Basic Provisions. RMA proposed many changes to the Basic Provisions, including changes mandated by ARPA or requested by OIG, as well as changes related to program integrity and administrative issues. Due to the large number of comments received, and in order to implement the changes mandated by ARPA for the 2004 crop year, RMA chose to implement the proposed changes in two separate regulations.

The first final rule was published in the Federal Register on June 25, 2003. It contained all of the proposed changes mandated by ARPA and a change requested by OIG for an earlier notice of loss for prevented planting.

RMA is finalizing the second final rule that addresses all of the proposed changes that were not contained in the first final rule. RMA expects publication of this final rule in time to implement for the 2005 crop year, provided all departmental and other necessary concurrences can be obtained.

American Growers Insurance Corporation

In addition to accomplishing APRA mandated compliance regulations, RMA has maintained program integrity despite the fallout of the largest policy issuing company in the Federal crop insurance program. On November 22, 2002, L. Tim Wagner, Director of the Nebraska Department of Insurance, placed American Growers Insurance Company under supervision by issuing an Order of Supervision and List of Requirements to Abate Supervision and Notice of Hearing. RMA immediately, thereafter, entered into a memorandum of understanding with the State of Nebraska to insure that the interests of the government and the policyholders were protected.

Senior RMA officials were placed on site with the State appointed rehabilitator to keep focus on the priorities. Despite an enormous claims caseload caused by the drought of 2002, the policyholders were paid in a timely manner. Only a handful of claims are pending, which is typical at this juncture for any operating company. The policies of American Growers (Am Ag) were also successfully transferred to other reinsured companies ensuring that coverage remained in force for the 2003 crop year. This seamless transfer has provided confidence to all our customers, within the Federal crop insurance program, that their interest will be protected.

And, I am happy to say, the interests of the taxpayers also have been protected. RMA's onsite presence and supervision of the claims processing has resulted in cost avoidance of several millions dollars. RMA continues to work with the State of Nebraska to bring finality to our work on Am Ag.

Provide Excellent Service.—RMA continues to pursue initiatives to make higher levels of crop insurance protection more affordable and useful to producers, provide better protection to farmers experiencing multi-year losses, expand risk management education opportunities, fund and oversee development of new risk management products and improve program integrity.

RMA's product portfolio includes coverage for 362 different commodities in over 3,060 counties covering all 50 States, and Puerto Rico. RMA will conduct regular market assessments to establish a baseline for customer satisfaction and to measure progress in achieving key elements of customer service to ensure the needs of our customers are being addressed. Also, we plan to address the needs and changes to products, programs and processes to improve service to customers as identified from our listening sessions and RMA's product portfolio evaluation.

PROGRAM HIGHLIGHTS

Now, I would like to conclude with an update on some of our key products and initiatives:

Livestock Insurance Plans

The FCIC approved two pilot insurance programs for Iowa swine producers to protect them from declines in hog prices. The new programs, which began in 2002, were authorized under the provisions of Section 132 of the Agricultural Risk Protection Act of 2000 (ARPA). Until ARPA, federally backed insurance plans providing livestock protection were prohibited by law. The livestock insurance programs provide livestock producers with risk management tools for reducing their price risks. Livestock revenue represents about one-half of the total farm cash receipts.

The two programs approved are: The Livestock Gross Margin (LGM) pilot, submitted by Iowa Agricultural Insurance Innovations, and the Livestock Risk Protection (LRP) pilot for Swine submitted by the American Agri-Business Insurance Company. The LGM pilot provides coverage to swine producers from price risks for 6

months and up to 15,000 hogs per period. The product 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, and depends on the coverage level selected by the producer. Coverage levels range from 85–100 percent.

The LRP pilot protects producers against a decline in hog prices. Swine can be insured for 90, 120, 150, or 180 days, and 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 continuously throughout the year. The LRP policy protects producers against declining hog prices if the price index specified in the policy drops below the producer's selected coverage price. Coverage levels range from approximately 70–95 percent of the daily hog prices. LRP Swine and LGM Swine have been available to producers for over a year and have protected over 60,000 head of swine in Iowa. Both products are available from private insurance agents. The length of the pilot programs will be determined by farmer participation, and the financial performance of the programs. In crop year 2003, the FCIC Board did not approve any requests for expansion of the LRP Swine. Consideration for expansion is deferred until testing is completed and the program demonstrates that the premium rates are actuarially sufficient, the interests of the producers are protected, and that there are no adverse effects on program integrity.

LRP was expanded to fed and feeder cattle for the 2003 crop year. LRP Fed Cattle protects producers in Illinois, Iowa, and Nebraska. LRP Feeder Cattle protects producers in Colorado, Iowa, Kansas, Nebraska, Nevada, Oklahoma, South Dakota, Texas, Utah and Wyoming. Both products use similar methodology to LRP Swine and protect producers against a decline in cattle prices.

Livestock Risk Program (LRP) and Livestock Gross Margin (LGM) Suspensions

Upon the discovery of Bovine Spongiform Encephalopathy (BSE) in the State of Washington, RMA determined it was prudent to suspend the sales of LRP cattle policies to new policyholders. When originally developed, the LRP premium structure was based on the relatively stable futures market prices, which existed prior to the discovery of BSE in Washington State. However, the discovery of BSE destabilized the futures market resulting in large price swings and increased the probability that a producer would receive an indemnity. The crop insurance program is statutorily required to operate on an actuarially sound basis. The volatility present in the market after the discovery of BSE caused the product to no longer be actuarially sound. Current policyholders are not affected by the suspension of sales. The FCIC Board believes RMA acted quickly and responsibly to protect the integrity of the crop insurance program. At present, RMA is actively evaluating the rating structure and other design components of the program that may be affected by the BSE development. Sales will be restored when it is determined by the FCIC Board that the LRP is operating an actuarially sound manner and will serve the best interests of the producers.

On December 17, 2003, the FCIC Board discontinued new sales of the LGM Swine. The Board determined LGM Swine presented excess risk for the FCIC. Coverage price is determined two weeks prior to sales closing. Because LGM coverage prices are determined using the Chicago Mercantile Exchange and the Chicago Board of Trade, insureds may speculate as price on either exchange drops (hogs) or rises (corn and soybeans meal) and purchase LGM; RMA refers to this phenomena as stale pricing. While this strategy is sound, (buy low, sell high) for speculative purposes, LGM is a risk management tool and reinsured by FCIC; this strategy is not appropriate for insurance purposes. As directed by the Board, RMA will work with the submitter of the LGM to address the concerns regarding the program for subsequent insurance periods. Current policyholders of this plan of insurance are not affected by the discontinuance.

Forage and Rangeland

We recently solicited private sector participation in proposing and developing new products and changes to existing products and programs involving pasture, rangeland, forage and hay that are vital to livestock producers. The agency is providing \$3 million in funding for these projects, and may provide more depending on the number and quality of submissions that meet program objectives.

Declining Yield

For most FCIC insurance plans, an individual insured's yield guarantee (approved actual production history (APH) yield) is principally based on a simple average of 4 to 10 years of actual yields. Producers and others have argued that insureds are underserved when guarantees decline following successive years of poor growing conditions. The reduction in guarantee adversely affects the viability of future crop

insurance coverage and discourages continued participation in the program. RMA's goal is to contract for: (1) research and development of new and innovative approaches to mitigating declines in yield guarantees following successive years of low yield, or provide improvements to existing procedures; and/or (2) research and development of new and innovative procedures for determination of approved APH yields. Through this approach, RMA will seek proposals for new or modified approaches to establishing approved APH yields that are less subject to decreases during successive years of low yields as compared to current procedures; and that are equitable across insureds with differing average yields; and broadly applicable to all crops and regions; affordable to insureds; feasible and cost-effective for RMA and reinsured companies; and is actuarially sound.

Extend Drought Coverage

RMA is constantly evaluating the impact of consecutive years of drought or other natural disasters on declining yields, which affect available coverage, on producers in those States affected. RMA has held meetings in drought stricken States to explain RMA policy and has published a fact sheet regarding prevented planting provisions in FCIC insurance policies and to assist producers, insurance agents, and reinsured companies in understanding how that coverage addresses some of the challenges of drought. Prevented planting coverage is generally straightforward on its face, but it becomes very complex when applied to specific planting situations. RMA has sought producer and insurer input on this issue in a series of prevented planting forums held in 2003. Recommendations from these sessions are being evaluated for possible inclusion in a proposed rule that will make constructive changes in the program. RMA is also preparing to seek private sector assistance in evaluating possible product modifications or new products to address declining yield experience caused by extended drought.

Adjusted Gross Revenue-Lite

The FCIC approved the Adjusted Gross Revenue-Lite (AGR-Lite) insurance plan in late 2002 and began sales for 2003. This product was also submitted to FCIC through Section 508(h) of the Act and was authorized by ARPA. AGR-Lite is available in most of Pennsylvania and covers whole farm revenue up to \$100,000, including revenue from animals and animal products. AGR-Lite covers the adjusted gross revenue from the whole farm based on 5 years of tax forms and a farm plan. AGR-Lite was expanded for the 2004 crop year to include selected counties of Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Rhode Island, Vermont, and West Virginia. Program changes were approved that will increase participation, qualify producers for higher coverage levels, increase insurable adjusted gross revenues, and allow for expansion of farms, beginning with the 2004 crop year.

Pilot Programs

Currently, RMA has 31 pilot programs. The pilot programs are: Adjusted Gross Revenue (AGR/AGR-Lite), Apple Pilot Quality Option, avocado APH, avocado revenue, avocado/mango tree, cabbage, cherry, citrus dollar (navel oranges only), Coverage Enhancement Option, crambe, cultivated clams, cultivated wild rice, Florida fruit trees, forage seed, fresh market snap beans, Income Protection Plan of Insurance (IP), livestock (swine) gross margin, livestock risk protection (swine/cattle), mint, mustard, Onion Pilot Stage Removal Option, pecans, processing chile peppers, processing cucumbers, rangeland GRP, raspberry/blackberry, strawberries, sweet potatoes, and winter squash/pumpkins.

The FCIC Board of Directors approved the expansion of the millet pilot program and conversion from a pilot program to permanent status for the 2003 crop year. The Board also approved expansion of the pecan-revenue pilot program to be offered in eighty-two counties for the 2003 crop year and subsequently approved the program to permanent status for the 2004 crop year. Additionally, the Board approved conversion of the blueberry pilot program to permanent status effective beginning the 2004 crop year.

Revenue Insurance

Revenue insurance programs include Group Revenue Insurance Policy (GRIP), Adjusted Gross Revenue (AGR), Crop Revenue Coverage (CRC), Revenue Assurance (RA), and Income Protection (IP). Under CRC, RA, and IP revenue insurance programs, indemnities are triggered by low revenues for an individual producer (caused either by low yields, or low prices, or both). Under AGR, indemnities are triggered by low revenue for an entire farm's operations, based on the producer's Schedule F Federal tax forms. Under GRIP contracts, indemnity payments are triggered by low county-wide crop revenues. Two of these alternatives, CRC and RA, allow producers

the option of insuring separate areas of land either under separate insurance contracts or under the same insurance contract. Each of these alternate contracts requires that producers establish an approved Actual Production History (APH) yield for the crop to be insured.

Effective for the 2003 crop year, changes to CRC and RA-High Price Option (HPO) rating methodologies were implemented for corn and soybeans to respond to dissimilar rates being charged for similar coverage protection. RMA is currently evaluating the feasibility of merging CRC, RA and IP into a master product with several options. This will reduce market confusion over these separate but similar products and should significantly reduce administrative costs associated with their sales, service and administration.

Research and Development

During fiscal year 2003, over \$24 million was obligated and approximately 45 contracts and partnership agreements were awarded to further program goals for expanding and improving risk management opportunities for producers. Examples include a contract to review RMA's product portfolio, fifteen research and development partnership agreements such as Organic Price Index, development of a Forage and Rangeland Decision Support System and a number of other program research, development, and evaluation projects to expand and improve the risk management tools for American producers.

CONCLUSION

RMA provides agricultural producers with the opportunity to achieve financial stability through effective risk management tools. RMA strives to foster, at reasonable cost, an environment of financial stability, safety, and confidence, enabling the American agricultural producer to manage the perils associated with nature and markets. The private sector crop insurance industry markets, delivers, and services many USDA risk management products. RMA also provides the educational opportunities to help producers choose and employ effective risk management tools. RMA works with the Farm Service Agency, Commodity Futures Trading commission, and other private and public organizations to provide producers with an effective safety net.

I ask that you approve this budget to enable RMA to continue providing 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, sir. Mr. Rey.

STATEMENT OF MARK REY

Mr. REY. Good afternoon, Mr. Chairman.

Our prepared statement for the record highlights our funding request for fiscal year 2005, and in the interest of time, I will not go into great detail except to assure you that we are continuing to work diligently in accountability and results measurement for the funds provided by Congress. I am proud of the strong efforts that NRCS continues to make their programs more accessible to farmers, ranchers and the general public.

CONSERVATION SECURITY PROGRAM

What I would like to do in the short time available today is focus my remarks on our continuing efforts to implement the Conservation Security Program as provided for in the fiscal year 2004 budget and as requested in the fiscal year 2005 request. The Department is moving forward aggressively to implement the program, and we are enthusiastic about the prospects of the Conservation Security Program and look forward to making it available in farms and ranches across America.

The proposed rule was published for public comment on January 2, 2004, with a comment period that closed in the beginning of

March. The response from the public was extraordinary, with 14,010 comments plus one seed order and a misdirected check responding to a fundraising request from a group that was opposing the regulation. You will be happy to know that the seed order was returned, and the check was forwarded to the appropriate party.

Mr. REY. In addition to the comments we received, the agency conducted 10 national listening sessions around the country and many individual sessions in States on the proposed rule. Our staff has worked diligently to assemble the docket of comments and assure that each comment will receive fair consideration and review. We have made the comments available for public viewing and copying down in the Department of Agriculture. And while we are not in a position today to debate the contents of the proposed rule, I would like to put the contents of the proposed rule in a broad perspective in terms of our approach and rationale in discussing three areas which were highlighted in the comments that we received.

The first is the budgetary aspects of the CSP program. When the President signed the 2002 Farm Bill into law, the Conservation Security Program was estimated to cost \$2 billion over 10 years. Just as a matter of perspective, this would be 400 times the amount originally authorized for the Wildlife Habitat Incentive Program and 571 times greater than the original funding for the Farm and Ranch Lands Protection Program.

So as envisioned, it was a significant program. Congress has seen fit to amend the program three times since signing of the Farm Bill in the last 21 months; that would be an amendment on the average of every 7 months, making program implementation a somewhat difficult task as some of the direction was changed as we went. Under the most recent revised law, the Congress expected an expenditure of less than \$7 billion on the program over a 10-year period, with a cap of only \$41.4 million for fiscal year 2004.

Through the work of the NRCS, we have been able to design the program in a way that provides funding obligations in a fashion similar to the way that the Conservation Reserve Program obligations are structured. For example, the President's budget request of \$209 million for CSP in fiscal year 2005 will represent about a \$2 billion total in funding provided for farmers and ranchers as the contracts signed in 2005 play out. If unchanged by either us or the Congress, the proposed CSP would provide more than \$13 billion in CSP assistance to farmers and ranchers over 7 years, which is an amount greater than proponents of an open-ended program have been discussing.

A WATERSHED APPROACH TO CSP

A second area of considerable discussion in the public comments is our proposed approach to focusing on priority watersheds. Even though we have been able to maximize funding obligations, the dollars available will not even begin to satiate the immediate demand for the program. There is a potential applicant pool of 700,000 producers to sign up for CSP. The CSP statute, the Farm Bill language, prohibits ranking applications but would instead mandate that all applicants be accepted into the program and potentially receive a payment.

Given the \$41 million available for this fiscal year, and of course, unknown amounts for fiscal year 2005 and beyond, we have proposed a program that is flexible enough to match funding available for any given fiscal year by making the program available in watersheds and emphasizing enrollment categories. Our approach also deals with the constraint placed in statute on technical assistance at a maximum of 15 percent of the expended CSP funding.

It is clear that we have proposed the best course of action in designing a staged program that can be expanded based upon available funding, and what you see in the map before you is a map of all of the watershed units in the United States. As the program is drafted now, it will start in the first year by identifying priority watersheds, the criteria for which will be published for public review shortly.

If and as funding expands, more watersheds can be made available, and using the watershed-based approach, the program could be theoretically expanded to the entirety of the land area of the United States. So it is a staged program that can be made into—is intended to be made into—a national program commensurate with whatever funding support that this Congress and subsequent Congresses provide.

CSP BASE PAYMENT

A third area which enjoyed considerable discussion in the comments regards the way the CSP base payment is structured under the proposed rule. In order to ensure defensible environmental results for the program, we have proposed placing increased emphasis on increased conservation. That is to say those farmers and ranchers who agree to do more, get more in the way of financial support from the program.

It is our goal to design a program that is easy to understand for farmers, ranchers and those implementing the program. We also want to make sure that the program produces demonstrable conservation results that will show the American taxpayer the value of good conservation on working agricultural lands so that this program can be expanded and developed into the base program to affect working conservation in the future.

PREPARED STATEMENTS

As I mentioned, our next step is to undertake a thorough review and consideration of comments from the public. It will be this input that assists us in finalizing the program design. The task will be massive, but we have dedicated appropriate staff expertise to tackle the job. Our goal is to publish a final rule with a sign-up period occurring in fiscal year 2004. USDA is ready to deliver the program to the public and begin to see results.

We consider CSP to be a brand new day for conservation policy. With that, I would be happy to respond to your questions at the appropriate time.

[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 2005 budget and program proposals for the Natural

Resources Conservation Service (NRCS) of the Department of Agriculture (USDA). I am grateful to the Chairman and members of this body for its ongoing support of private lands conservation and the protection of soil, water, and other natural resources.

Performance and Results

Mr. Chairman, before I highlight our funding request for fiscal year 2005, let me assure you that we are continuing to work diligently in accountability and results measurement for the funds provided by Congress. I am proud of the strong efforts that NRCS has made on performance and making NRCS more accessible to farmers, ranchers and the general public. I believe we are offering value and accountability to both American taxpayers and to Congress. Our performance management system was recently featured in two publications that focus on government management and accountability.

In past testimony before this Subcommittee, I have discussed the excellent score that NRCS received in a measure of customer satisfaction for conservation assistance. This year, I am proud to report that NRCS was ranked as one of the best places to work in the Federal Government, including the highest score for a natural resource agency. The scores in the report were derived from the Office of Personnel Management's government-wide 2002 Federal Human Capital Survey. Also, this year we have worked hard on the Program Assessment Rating Tool (PART) to evaluate and improve our performance measures with a focus on outcomes and results. As we move forward this fiscal year, and into fiscal year 2005, we will continue to improve operations and accountability systems so that we may best serve our customers and protect and improve natural resources.

As you know, the NRCS is proposing a reorganization to improve its operational, technology support, and resource assessment functions to strengthen our ability to help America's farmers and ranchers reach their conservation goals and offer them the latest science-based technologies. We look forward to continue working with you to move forward with implementation.

Looking Ahead

The 2002 Farm Bill contained many new conservation programs designed to protect and enhance the environment. The Department continues to focus efforts on implementing the conservation programs in the Farm Bill. The 2005 President's 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 levels.

The 2005 budget request for NRCS includes \$908 million in appropriated funding, and \$1.86 billion in mandatory CCC funding for the Farm Bill conservation programs, including \$1 billion for the Environmental Quality Incentives Program. The appropriation request includes \$604 million for Conservation Technical Assistance, the base program that supports the Department's conservation partnership with State and local entities and the conservation planning needed to successfully implement farm bill programs.

The 2005 budget for NRCS will also enable the agency to maintain support for important ongoing activities such as addressing the problems associated with runoff from animal feeding operations and providing specialized technical assistance to land users on grazing lands.

Another element in the NRCS account structure is a Farm Bill Technical Assistance Account that will fund all technical assistance costs associated with the implementation of two Farm Bill conservation programs—the Conservation Reserve Program and the Wetlands Reserve Program. In 2005, this new appropriation account is requested at \$92 million.

Technical Assistance

Technical assistance funding for conservation programs has been the subject of ongoing discussion for several years and a topic of interest to this Subcommittee. We appreciate Congress taking steps to deal with the long-standing problem of technical assistance for Farm Bill conservation programs in the Consolidated Appropriations Act, 2003. The long term solution to the technical assistance issue is proposed in fiscal year 2005 with the establishment of a new Farm Bill Technical Assistance account for CRP and WRP and dedicating resources for this purpose. This will allow the agency to provide more financial assistance to farmers and ranchers in the other mandatory farm bill programs.

Conservation Operations (CO).—The 2005 budget proposes \$710 million for CO which includes \$582 million for Conservation Technical Assistance (CTA) and \$21.5 million for technical assistance targeted specifically for the Grazing Lands Conservation Initiative. 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 enable NRCS to maintain funding for ongoing high priority work.

Mr. Chairman, I believe that NRCS can continue and build upon this level of excellence, if they are provided the support and the resources as provided in the President's budget request.

Given the challenges presented in the Farm Bill, I suggest the following highest priority areas of emphasis:

- Provide adequate support for Conservation Reserve and Wetlands Reserve programs implementation through a separate Technical Assistance discretionary account.
- Further leverage assistance through our conservation partners and the new Technical Service Provider system. These new sources of technical assistance will complement our existing delivery system.
- Provide the support in the President's budget for Conservation Operations, with an emphasis on developing technical tools and streamlining efforts to gain efficiencies where possible.

Conservation Security Program

Mr. Chairman, I also want to take a few moments to highlight our work on the Conservation Security Program (CSP). A keystone of the 2002 Farm Bill conservation title, the CSP has the potential to revolutionize the way we approach conservation assistance. We have been working hard to design a program that is farmer friendly, provides demonstrable environmental benefits, and matches the funding available to operate the program.

There has been a lot of discussion here on Capitol Hill, and around farm production and conservation organizations about the amount of resources available for the program. Needless to say, this has been a moving target for those of us attempting to develop a program under ever-changing funding scenarios. At the time the President signed the Conservation Security Program into law, there was a Congressional Budget Office (CBO) estimate of \$2 billion over ten years attached to the CSP. As such, our Department began implementation discussions with that funding figure in mind.

Subsequently, the Omnibus Appropriations Act of 2003 (Public Law 108-7) transformed the CSP into a capped entitlement at \$3.773 billion over a 10-year period between fiscal year 2003-2013. This change in statute led to further revisions of the CBO score. Most recently, the Omnibus Appropriations Bill for fiscal year 2004 (Public Law 108-199) contains language that once again has impacted the funding authority for the Conservation Security Program. The fiscal year 2004 Omnibus removed the \$3.773 Billion funding limitation for the program over 10 years, while establishing funding for the CSP at \$41.443 million for fiscal year 2004.

Another challenge that the Department faced was how to implement CSP with a statutory cap on the amount NRCS could spend to pay for technical assistance. Language in the 2002 Farm Bill limits technical assistance spending to 15 percent. This statutory cap on technical assistance has driven NRCS to develop innovative information technology tools and technical assistance management techniques to help the agency implement CSP as widely, efficiently, and effectively as possible.

We have attempted to meet these challenges in the CSP proposed rule, by designing a program that is flexible enough to match whatever funding that Congress might approve for the program. The President's budget request will provide assistance to a large number of producers across the country. The budget's proposal of \$209 million represents the amount of assistance the Department will provide in one year to approximately 15,000 producers on millions of acres of crop and grazing land. We are proud of what we are accomplishing, and are looking forward to making CSP available to producers this year.

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 2005 request reflects sound policy and provides stability to the vital mission of conservation on private lands. The budget request reflects sound business management practices and the best way to utilize valuable conservation dollars as we look forward to the future.

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 2005 budget request.

Last year, I focused much of my remarks on implementation of the Farm Bill and the challenges that we faced in carrying out that legislation. I am very proud of the performance of our agency in getting the work done. To date, NRCS has published rules for nine major programs, with the Conservation Security Program proposed rule comment period recently completed and the receipt of over 12,000 letters we are currently analyzing. In addition, we have three new rules soon to be released as well.

We challenged NRCS staff throughout the Nation in fiscal year 2003. And when the year drew to a close it was clear that our field staff had answered the call. Roughly \$2.3 billion in discretionary and mandatory conservation dollars successfully reached farmers, ranchers and other customers. This represents a half-billion dollar increase over last year. In turn, the streamlining and efficiencies NRCS has gained meant that even more conservation funding could be utilized for financial assistance to producers. But beyond the successes measured in terms of funds, the work NRCS completed this year will have a lasting impact on the nation's land, water, and air resources for generations to come. Along with the Farm Service Agency, NRCS successfully deployed the Grassland Reserve Program, with more than \$1.7 billion in potential projects offered up by producers. All of these milestones were realized while the agency was developing and utilizing a nationwide cadre of technical service providers, and continuing to strive toward even greater efficiencies and organizational improvements. NRCS staff has worked tirelessly to meet the demands and opportunities presented by the Farm Bill legislation and we are proud of their accomplishments.

These accomplishments have also come within the context of the challenges that we face on funding for technical assistance. As you are aware, the current situation has necessitated that we utilize funding from various Farm Bill program accounts to support other conservation programs including the Wetlands Reserve Program and Conservation Reserve Program. The President's budget request proposes to address that issue by establishing a discretionary account for technical assistance for CRP and WRP.

Our focus remains to provide excellent service to our customers, and I am very proud of what we accomplished. Last year, NRCS and our partners:

- Provided technical assistance on over 32.5 million acres of working farm and ranch land to reduce erosion, sedimentation and nutrient runoff, enhance water quality, restore and create wetlands, and improve and establish wildlife habitat;
- Developed and applied more than 8,000 comprehensive nutrient management plans;
- Served nearly 3.8 million customers around the country;
- Completed or updated soil survey mapping on 22.5 million acres;
- Logged over a million hours of Earth Team volunteer time for the second year in a row;
- Executed over 30,000 Environmental Quality Incentives Program contracts with more than \$483 million in financial assistance provided to producers;
- Funded more than 500 easements in the Farm and Ranch Lands Protection Program, protecting 119,000 acres of prime farmland;
- Funded over 2,100 Wildlife Habitat Incentives Program contracts; and,
- Helped land managers create, restore or enhance 334,000 acres of wetlands;
- Helped local sponsors complete construction of 60 flood protection structures.

Mr. Chairman, I also want to take a moment to highlight important work in Western states that NRCS has undertaken surrounding to the Sage Grouse habitat and population. NRCS is actively reviewing the 11 primary habitat states (WA, CA, UT, CO, ND, SD, OR, NV, ID, WY, and MT). Private lands comprise 30 percent of the total acreage where existing habitat populations occur and this agency plays a critical role in the conservation of existing habitat through the Farm and Ranchland Protection, Wildlife Habitat Incentives Program (WHIP) and the Environmental Quality Incentives Program (EQIP) Program (FRPP) as well as our general conservation technical assistance. NRCS staff are currently reviewing all existing projects that have a primary or secondary benefit to sage grouse as well as quantifying the total acres and total dollars in support of this species. Some states are also giving more program focus for sage grouse projects under the EQIP program and the NRCS state technical committee.

As we move forward in fiscal year 2005, there are many challenges and opportunities ahead, with NRCS playing a central role in meeting the Administration's con-

servation objectives. We will look to you to build upon the fine accomplishments achieved this year to reach an even brighter future.

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 and private technical service providers to supply the technical assistance needed to plan and oversee the installation of conservation practices. I am proud to report that, as of the beginning of February 2004, NRCS has over 1,500 individuals certified as TSPs, with 1,100 more individuals pending. In terms of businesses, NRCS has certified 130, with over 200 more applications in process. In fiscal year 2003, NRCS set aside \$20 million for utilization of TSPs, with that funding quickly utilized across the nation. For fiscal year 2004, we are goaling a figure of \$40 million for TSPs. We are excited about the prospect of TSP expertise continuing to complement our ongoing work.

Streamlining and Cost Savings

In 2003, NRCS devoted considerable effort to streamline our operations, becoming leaner and more efficient in delivering our core work. Last year, NRCS:

- Updated nearly 70 conservation technical standards;
- Deployed the NRCS Electronic Field Office Technical Guide;
- Streamlined program delivery, resulting in reduced costs without compromising quality;
- Worked closely with FSA to implement Conservation Reserve Program technical assistance cost savings that resulted in an additional \$38 million in allocations to Environmental Quality Incentives Program, Wildlife Habitat Incentives Program, Grassland Reserve Program and the Wetlands Reserve Program;
- Developed new software called PROTRACTS to speed up and keep up with the processing of the large increase in farm bill program contracts to allow more time and dollars to be directed toward planning and applying conservation on the land; and
- Transitioned from an offset to a direct charge method of accounting to be better able to identify and control costs.

In 2005, we will continue working on many fronts. We will continue streamlining and getting more efficient in working with our partners as well.

DISCRETIONARY FUNDING

The President's fiscal year 2005 Budget request for NRCS reflects our ever-changing environment by providing resources for the ongoing mission of NRCS and ensuring that new opportunities can be realized.

Conservation Operations

The President's fiscal year 2005 Budget request for Conservation Operations proposes a funding level of \$710 million which includes \$604 million for Conservation Technical Assistance (CTA). The CTA budget will enable NRCS to maintain funding for ongoing high priority work.

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 provide funding for the Grazing Land Conservation Initiative (GLCI) at \$21.5 million in 2005 which is included in the \$604 million for CTA. The GLCI is a private coalition of producer groups and environmental organizations that supports voluntary technical assistance to private grazing land owners 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 plans to conserve and use their resources. Conservation Operations supports the site-specific technical assistance NRCS provides to individual landowners to help them develop and implement plans that are tailored to their individual goals. It also includes developing and implementing the technology and standards that are used by everyone managing private lands natural resources. 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.

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 our accomplishments and costs.

Farm Bill Technical Assistance

As I described earlier in my statement, technical assistance funding for farm bill programs continues to be a challenge as we look ahead to fiscal year 2005. 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. The 2005 Budget proposes to establish a Farm Bill Technical Assistance (FBTA) account at a level of \$92 million and would provide technical assistance funding for two of the 2002 Farm Bill conservation programs, the Conservation Reserve Program and the Wetlands Reserve Program.

This new account will be used to develop contracts, 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 a technical assistance account for these two programs will also increase the financial assistance dollars available to carry out other Farm Bill programs.

Watershed and Flood Prevention Operations.—The 2005 Budget proposes funding for the Public Law 566 Watershed Program, 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 to their successful implementation. The fiscal year 2005 budget proposes \$40,173,000 for this program.

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 2005 Budget requests \$5.1 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 dam safety. The budget proposes \$10.1 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 resource conservation. NRCS also helps coordinate available Federal, State, and local programs that blend natural resource use with local economic and social values. The 2005 Budget proposes a level of \$50.7 million which will support the 375 RC&D areas now authorized.

FARM BILL AUTHORIZED PROGRAMS

Environmental Quality Incentives Program (EQIP).—The purpose of EQIP is to provide flexible technical and financial assistance to landowners that face serious natural resources 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. At the end of January 2003, we published revised resource concerns and 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. The budget proposes a level of \$1 billion for EQIP. Mr. Chairman, I would also note that NRCS recently announced nearly \$20 million in EQIP assistance to support salinity control in the Colorado River Basin.

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 enrollment cap to 2,275,000 acres. In fiscal year 2003, the administration apportioned a total of 213,280 acres for the year. The fiscal year 2005 Budget request estimates that about 200,000 acres will be enrolled in 2005, an appropriate level to keep us on schedule to meet the total acreage authorization provided in the Farm Bill.

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. The fiscal year 2005 Budget proposes funding GRP at \$84 million.

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. While NRCS is currently in the rule making process, this program will round out the portfolio of conservation programs. The fiscal year 2005 Budget proposes funding the CSP at \$209.4 million and would enroll nearly 12,000 contracts. Although the cap of 15 percent on technical assistance funding established in statute continues to be a serious obstacle, through the hard work of the Administration in designing a flexible program, the President's budget request of \$209 million will result in nearly \$1.7 billion in obligations.

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 habitats that will support upland wildlife, wetland wildlife, threatened and endangered species, fisheries, and other types of wildlife. The budget proposes a funding level for WHIP of \$60 million.

Farm and Ranch Lands 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 budget proposes a level of \$125 million for FRPP in fiscal year 2005.

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, State and local agencies, and other valuable partners continue to make immeasurable contributions to the conservation movement. In fiscal year 2003, these organizations contributed over \$1 billion to NRCS programs. It is this partnership at the local level that makes a real difference to farmers and ranchers. And 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. 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 very much. Mr. Gonzalez.

STATEMENT OF GILBERT G. GONZALEZ

Mr. GONZALEZ. Good afternoon, Mr. Chairman.

Mr. Chairman, thank you for the opportunity to come before you to discuss the fiscal year 2005 appropriation for Rural Development. I would like to submit for the record my written testimony and share a few highlights and indicate my focus on helping individuals, families and organizations within rural communities.

We are all aware of the priorities of the war on terror, homeland security, and deficit reduction. I am committed to leveraging the

precious USDA Rural Development assets to create economic opportunity and improve the quality of life of rural America. Since the beginning of the Bush Administration, USDA Rural Development has provided over \$37 billion in investment financing and has assisted with the creation or saving of over 500,000 jobs. We have expanded our investment from \$9.6 billion in 2000 to \$13 billion this past year.

USDA Rural Development is one of the few Federal agencies that can essentially build a rural community from the ground up through its investment in infrastructure, housing and business programs. However, that is not always enough. I want to leverage the resources that you have provided to work with all agencies, organizations and the private sector in an effort to bring more economic opportunity to rural America.

RURAL DEVELOPMENT ACCOMPLISHMENTS

I have implemented a major marketing effort to improve customer service while expanding our outreach to underserved and qualified individuals and organizations. I am putting especial emphasis on our efforts to increase minority participation in all of our programs. We talk a lot about numbers, but Rural Development is really about people: people who want to find better jobs, people who want better schools and hospitals, people who want to own a home and give their sons and daughters that first room of their own.

I had the opportunity last April to meet with Matt and Riley Reed of Payson, Utah. They had been married 2 years and had one little girl with another baby on the way and no hope for qualifying for a home loan for several years. Matt was an electrician with little construction experience. Under the direction of a construction supervisor, the Reed family started building their own home in September of 2000. They moved into their new house in June of 2001.

Imagine the pride these families must have felt when they walked into their home for the very first time. We are pleased to announce that the number of contracts offered under the self-help program almost doubled from 2002 to 2004.

Through our utility programs, we invested nearly \$18 billion in the past 3 years for technology, water, wastewater treatment, and electric infrastructure through loans and grants. These investments have benefitted 2.7 million people in rural areas, providing nearly 2,000 rural educational facilities with expanded access to telecommunications technologies and over 800 health care institutions with enhanced medical care.

We have helped numerous rural communities through value-added grant awards. One interesting project is the United Wisconsin Grain Producers, which received a \$450,000 grant for working capital startup costs for a 40 million gallon annual capacity corn ethanol production facility to be built in Freesden, Wisconsin.

In total, there were 184 value-added grants, totaling nearly \$29 million, helping stimulate economic opportunity and create jobs in rural America. In support of these local investment efforts, I am working towards the implementation of two key business programs: The Rural Business Investment Program and the Low Documentation Business and Industry Guarantee Program. Both will bring

much-needed capital to rural communities to support the development of small businesses and to support the President's efforts to create jobs across rural areas.

These two programs, along with our ongoing efforts to support value-added agriculture and the development of renewable energy will increase the opportunities for communities to thrive and to compete domestically and globally.

PREPARED STATEMENTS

In summary, I would like to thank the members of this Subcommittee and you, Mr. Chairman, for the continued support to USDA Rural Development and the many important programs that we administer.

Mr. Chairman, that concludes my remarks.
[The statements follow:]

PREPARED STATEMENT OF GILBERT G. GONZALES

Mr. Chairman, Members of the Committee, it is a pleasure to present to you the President's fiscal year 2005 Budget request for USDA, Rural Development.

This is my first opportunity to appear before you as Acting Under Secretary of Agriculture for Rural Development. I am honored to serve in this position, and to have the opportunity to work with you to carry out Rural Development's fundamental mission to increase economic opportunity and improve the quality of life in rural America.

Everyday, we bring people and resources together.

As Secretary Veneman recently testified, a primary component in USDA's efforts to better serve rural Americans is through greater customer service and efficiency in the delivery of our programs. At Rural Development we are seeking to accomplish these objectives through better marketing of our programs to qualified applicants and through developing a consistent structure of operation that lends itself to better customer service and improved outreach.

I believe that given the opportunity, Americans will create strength through investments in their own economic future. And I believe it is our role at Rural Development to support these efforts in ways that will maximize the benefits of rural economies.

With the assistance of this subcommittee, the Bush Administration has established a proud legacy of accomplishments in rural areas.

The Bush Administration has committed over \$37 billion in rural development investments in the last 3 years to support rural Americans' pursuit of economic opportunities and an improved quality of life.

Rural Development delivers over 40 different loan, loan guarantee, and grant programs enhancing business development, cooperative development, housing, community facilities, water supply, waste disposal, electric power, and telecommunications, including distance learning and telemedicine. Rural Development staff also provide technical assistance to rural families, and business and community leaders to ensure the success of those projects. In addition to loan-making responsibilities, Rural Development is responsible for the servicing and collection of a loan portfolio that exceeds \$86 billion.

Rural Development is the only Federal organization that can essentially build a town from the ground up through investments in infrastructure, homeownership and job creation through business development programs. We help rural Americans achieve their part of the American Dream.

To further support these efforts, we are working to build a collaborative group of Federal agencies that will act to strategically put Federal resources in place to serve as a catalyst for private investment. Partners in this effort include: Rural Development; Housing and Urban Development (HUD); the Small Business Administration; the Economic Development Administration; and the National Credit Union Association. In addition, we are working to increase the ability of faith-based organizations that partner with Rural Development to also support rural communities and their economic development efforts.

Successful economic development in rural areas is driven by local strategies where communities take ownership and focus on developing leadership, technology, entrepreneurship, and higher education opportunities.

This new direction of collaborative effort follows the model the President established with the successful minority homeownership initiative he unveiled 2 years ago. This initiative is yielding tangible positive results and creating achievements we all take pride in.

RESPONSIBILITIES

Rural Development provides rural individuals, communities, businesses, associations, and other organizations with financial and technical assistance needed to increase economic opportunities and improve the quality of life in rural America. This financial and technical assistance may be provided solely by Rural Development or in collaboration with other public and private organizations promoting development in rural areas.

VISION

To achieve our dual mission of creating greater economic opportunities and improving the quality of life for rural citizens, we understand the need to structure the delivery of Rural Development programs so that those who are most qualified receive investment assistance. Reaching maximum efficiency and utilization also requires that Rural Development do a better job of outreach and education on the programs that are available. Last year, during our testimony before this Committee, we stated that the marketing of Rural Development programs is a critical component in better serving rural areas. Today, we have embarked upon an aggressive outreach and marketing effort focused on the programs receiving appropriations rather than on the names of individual agencies receiving the appropriations. This effort is a key priority and we believe it will help ensure greater utilization of program investment dollars by those who are most qualified.

Over the last 3 years (fiscal year 2001-fiscal year 2003) with your assistance Rural Development has delivered over \$37 billion in loans and grants to rural Americans. Through this infusion of infrastructure investment and local area income stimulus, many rural areas are primed to attract an increase in private sector investment. We expect to see these Federal investments returned many times over in the form of new private ventures, with their associated multiplier effects on household incomes and local quality of life.

Other primary goals include:

Homeownership.—The bedrock of this Administration's commitment to rural America is homeownership and you are key to fulfilling this commitment. A safe, secure home is the foundation for the family unit and owning a home is the oldest and best form of building equity. I am proud of the fact that Rural Development has invested over \$10.2 billion in the last 3 years in single family housing, which supports the President's minority homeownership goal.

Entrepreneurship.—I believe there are two key economic drivers for building competitiveness in rural communities. One is our ability to grasp and utilize the power of technology. The Internet, and the technology that has flowed from it, has resulted in the free flow of capital and easy access to knowledge across borders. It has made it possible for competition to develop and build production and value-added systems. The second economic driver is supporting the growth of small businesses in rural communities.

That is why we are focusing our energies on implementing a new low-documentation Business & Industry guarantee loan program, implementing the Rural Business Investment Program, underwriting broadband loans, and employing other new economic development tools to make the most of these key economic drivers.

RURAL DEVELOPMENT BUDGET REQUEST

The President's commitment to rural America remains strong, and our request will support a total program level of \$11.6 billion in loans and grants. This program level is very close to the fiscal year 2004 budget request, in spite of elevated priorities in other areas and the increased interest costs of our credit programs.

I will now discuss the requests for specific Rural Development programs.

RURAL UTILITY PROGRAMS

Through the Rural Utilities Service, USDA Rural Development provides financing for electric, telecommunications, and water and waste disposal services that are essential for economic development in rural areas. The utilities program requests a total loan level of \$4.9 billion, which is comprised of \$2.6 billion for electric loan programs, \$495 million for rural telecommunication loans, \$25 million for Distance Learning and Telemedicine grants, \$331 million in loans for broadband trans-

mission, over \$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.

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. The fiscal year 2005 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. With the broadband program, we are building on over \$2 billion in mandatory and discretionary loan funding that was provided over the last 2 years. To date, approximately 90 applications totaling \$1.1 billion have been received and are in the review pipeline. Of those received, \$134 million in loans have been approved. Due to the uniqueness of this new program, from evaluating the pricing mechanism and ever-advancing technology component, to the ongoing subsidy debate associated with the prerequisite level of equity requirements, and the built-in commercial nature of the lending competition associated with this program, review of the applications has not been as swift as we would have hoped. However, we do believe that careful deliberation of these elements is required if we are to ensure the credit worthiness and soundness of the loans we make, especially since many of these companies are start-ups. This Administration is firmly committed to developing rural technology infrastructure and we are working hard to meet the expectations of the Congress and the public. For fiscal year 2005, we are requesting \$9.9 million in discretionary budget authority, which will sustain an additional \$331 million of loans. This level of funding, coupled with the remaining balances from prior years, will provide ample support for the continued expansion of broadband services in rural areas.

Second, we are able to support the funding of water and wastewater infrastructure through heavier reliance on loans rather than grants due to more affordable interest rates which allow rural communities to assume a greater portion of the infrastructure debt.

RURAL BUSINESS-COOPERATIVE PROGRAMS

Since 2001, USDA Rural Development has provided over \$3.3 billion for rural business development in the form of loans, grants and technical assistance.

The Rural Development business and cooperative program budget request for fiscal year 2005 is about \$738 million, the bulk of which is comprised of \$600 million for the Business & Industry loan guarantee program.

As I stated earlier in my testimony, creating economic opportunities is a primary pillar supporting the Rural Development mission. One of my priorities, which I have personally been working to implement, is the Rural Business Investment Program, authorized in the 2002 Farm Bill. This program is being developed in partnership with the Small Business Administration and is critical to economic growth in rural areas. Further, we are working to create a low-documentation version of the business and industry guarantee loan program that has less reliance on paperwork and more flexibility in providing smaller loan amounts to help more smaller businesses access much needed capital.

We are requesting \$40 million for the Rural Business Enterprise Grant program, \$3 million for the Rural Business Opportunity Grant program, over \$34 million for the Intermediary Relending Program, \$25 million for Rural Economic Development loans, \$5.5 million for Rural Cooperative Development grants, \$10.8 million in discretionary budget authority for renewable energy loans and grants, and \$15.5 million of discretionary funding for the Value-Added grant program.

The \$10.8 million of discretionary budget authority for renewable energy loans and grants 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. The allocation of this budget authority among direct loans, guaranteed loans, and grants is not determined at this time. Once the subsidy rates for the loan programs are finalized we will determine the distribution of loans and grants. This is important for rural communities and our country's ability to rely less on imported energy. I am committed to this program and the benefits it holds for America.

Rural Development has administered the value-added grant program since its inception as a pilot in fiscal year 2001. Over that time, we have concentrated on improving outreach to assist in stimulating the most effective projects, and improving the application review process to ensure an empirically based, evenhanded review. We instituted a contract effort with highly educated and experienced academicians to make certain the scoring was unbiased. Geographic dispersion was not included as an evaluation criterion. However, I am concerned that the distribution of the latest awards does not reflect the breadth of innovative talent that I know is spread across rural America. I am instituting a review of our outreach and technical assistance provisions, to determine if improvements are needed in Rural Development's assistance to potential applicants. I have also initiated a review of project results. We would like to identify the characteristics of successful projects, and what benefits are accruing to rural areas.

As we stated during our testimony last year, one of our top priorities is to review the current cooperative service delivery structure. I am committed to completing this review and ensuring that we have a program that not only meets the current cooperative needs, but also focuses on helping new generations of cooperatives develop structures that will increase bottom lined profitability and allow them to be more competitive in domestic and global markets.

RURAL HOUSING PROGRAMS

The budget request for USDA Rural Development's housing programs totals \$5.3 billion in loan and grant funds. This funding commitment will improve housing conditions in rural areas, and continue to promote homeownership opportunities for minority populations. In support of the President's homeownership initiative, Rural Development's goal is to increase minority participation in housing programs by 10 percent over the next few years.

The request for single-family direct and guaranteed homeownership loans exceeds \$3.8 billion, which will assist almost 42,800 households, who are unable to obtain credit elsewhere.

The housing program 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 maintains Rural Development's commitment to focus on repair, rehabilitation, and preservation of multi-family housing projects. We have placed a very high priority on completing review and development of a comprehensive strategy for delivering this important program. I am committed to seeing this review completed as quickly as possible. Additionally, we are working to complete the promulgation of revised multi-family housing regulations that we believe will increase program efficiency. We are proposing a multi-family housing request of \$60 million for direct loans, \$100 million for guaranteed loans, \$42 million for farm labor housing loans, \$17 million for farm labor housing grants, and \$592 million in rental assistance. Rural Development has an existing multi-family housing portfolio of \$12 billion that includes 17,800 projects. Many of these projects are 20 years old or older, and face rehabilitation needs. In the face of the demands for repair/rehabilitation and preservation of existing projects, and our ongoing study of program alternatives, we are deferring requesting new construction funding this year. I would add, however, that we are working with the secondary market to increase utilization of the guaranteed loan program, for which the Administration has requested \$100 million for new construction needs.

This budget sustains the farm labor-housing program at an aggregate level of \$59 million—\$42 million of loans and \$17 million of grants. Maintaining this level is necessary to support agriculture's need for dependable labor to harvest the abundance produced by rural farms, and provide housing to the poorest housed workers of any sector in the economy.

Rental Assistance 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 and the elderly, with annual incomes averaging about \$8,000). The budget includes \$592 million for Rental Assistance, which will be delivered through 4-year agreements. This level of funding will provide rental assistance to over 42,000 households, most of which would be used for renewing expiring contracts in existing projects. With the fiscal year 2004 reduction in contract term to 4 years, the appropriations act allows Rural Development to utilize unliquidated balances at the end of that contract term for many other eligible multi-family housing purposes. For the history of this program, unliquidated balances remained with the contract, and continued to be expended on that contract

until exhausted. This budget reflects a return to that arrangement. We are concerned that providing this extra program flexibility to Rural Development may, in fact, reduce the confidence of future Section 515 participants that necessary Rental Assistance will be provided in the future.

The Community Facilities request totals \$527 million, including \$300 million for direct loans, \$210 million for guaranteed loans, and \$17 million for grants. A portion of the direct loan program will be directed to homeland security health and safety issues in rural areas. 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. We intend to target \$100 million to homeland security uses, such as first responders.

ADMINISTRATIVE EXPENSES

Delivering these programs to the remote, isolated, and low-income areas of rural America requires administrative expenses sufficient to the task. From fiscal year 1996 through fiscal year 2003 Rural Development's annual delivered program level increased by 89 percent. Over that same period Rural Development's Salaries and Expenses appropriation increased only 16 percent. Rural Development has the staff and the dispersed distribution mechanism to reach the ambitious program targets outlined above, but adequate administrative support must be made available.

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. Limited S&E funding could jeopardize our ability to provide adequate underwriting and loan servicing to safeguard the public's interests.

For 2005, the budget proposes a total of \$665.6 million for Rural Development S&E, or an increase of \$38.9 million over fiscal year 2004. Of this increase, \$11.6 million will fund pay costs and related expenses; and \$13 million is for increasing Departmental charges (Greenbook and Working Capital Fund increases) and funding to continue to support the move of St. Louis staff to the Goodfellow facility. An additional \$14 million will support Information Technology (IT) needs, including data warehousing, continued expansion and upgrading of systems supporting the multi-family housing program, enhancement of the Rural Utilities Loan Servicing system to meet rural utilities program needs, e-Gov requirements, and IT security needs.

Mr. Chairman and 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

Mr. Chairman, Members of the Subcommittee, thank you for the opportunity to present the President's fiscal year 2005 budget for the USDA Rural Development, rural utilities program. We appreciate the work and support you and other members of this subcommittee have provided for a strong, dependable infrastructure in the rural United States.

All aspects of a rural society are work together to make a strong Nation. Safe, affordable, modern utility infrastructure is an investment in economic competitiveness and serves as a fundamental building block of economic development. Changes in the landscape of rural America, along with developments in technology, and changes in the market structure are combined with an aging utility infrastructure. These changes are occurring in the electric, telecommunications, and water sectors. Without the help of USDA Rural Development rural utilities program, rural citizens face monumental challenges in participating in today's economy and improving their quality of life.

The \$42 billion rural utilities program loan portfolio includes investments in approximately 2,000 electric and telecommunications systems and 7,500 small community and rural water and waste disposal systems serving rural communities. This local and Federal partnership is an ongoing success story. Eighty percent of the Nation's landmass continues to be rural, encompassing 25 percent of the population. In a recovering economy, this infrastructure investment spurs economic growth, creates jobs, and improves the quality of life in rural America.

ELECTRIC PROGRAM

The rural utilities program budget proposes \$5 million in budget authority (BA) to support a program level of \$2.6 billion. This includes \$3.6 million in BA for a hardship program level of \$120 million, over \$1 million in BA for a \$100 million program level for direct municipal rates loans, \$700 million program level for the direct Treasury rate loans, \$60 thousand BA for \$100 million program level for guaranteed electric loans, and \$1.6 billion for Federal Financing Bank (FFB) direct loans. The Treasury loans are made at the cost of money to the Federal Government; therefore the FFB loans do not require BA. Because Congress has provided very generous loan levels over the past 3 years, we have been able to eliminate most of the backlog in loan applications; and we feel the President's budget level will meet the demand during fiscal year 2005.

To meet the demands of economic growth across our Nation, the need for transmission lines to deliver electric power where it is needed is placing new demands on cooperatives providing transmission service. To protect the quality of our environment while meeting growing power generation needs, the costs of maintaining and building power generation capacity is ever growing. We are seeing requests for large loan generation loans for the first time in almost 15 years.

ADVANCED TELECOMMUNICATIONS IN RURAL AMERICA

No aspect of the rural utilities infrastructure faces more changes than the area of telecommunications. Congress, with the leadership of this Committee, has shown great confidence in the rural utilities program Telecommunications Program's ability to empower rural America with the most modern telecommunication tools to participate in today's global, digital economy. Job growth, economic development, and continued quality of life in rural America is directly tied to access to today's high-speed telecommunications.

I would like to take this opportunity to tell you where we stand with our Broadband Program in terms of (1) program delivery; (2) our drive to balance fiduciary responsibility with mission delivery; (3) our expertise in administering a very complex lending program; and (4) the administration's continued support for the deployment of Nation-wide broadband service.

The Broadband loan program is distinctive from all other lending programs within the agency's portfolio. Nearly half of the applicants are "start-up" companies with little, if any, history of doing business in this industry. In addition, two distinctly different characteristics are at play—competition (rather than a monopolistic environment) and multi-state businesses (rather than a single cooperative or independent company serving a single rural community). Very few of the applications are designed to serve a single rural community or even a small grouping of geographically close rural communities. Most are applications requesting to serve 50, 75, or in excess of 100 rural communities in multiple states. In these multiple community applications, the vast majority of the communities already have broadband service available in some of the proposed service area; in some instances, from more than one provider. Therefore, to determine financial feasibility, the agency must determine what portion, if any, of a competitive market the applicant will be able to penetrate. As you can imagine, these factors contribute to increased review and processing efforts.

I am pleased to report that, as of today, the agency has made 12 loans totaling \$134 million which will serve 215 communities with more than 670,000 rural citizens. The agency has also completed its review of every application received in this program. It should be noted that nearly 70 percent of those applications were received within a one-month timeframe between mid-July and mid-August of 2003.

Our country is facing challenging domestic spending decisions. In order to balance fiduciary responsibility with mission delivery, USDA is focusing on "quality loans" that produce exponential benefits through reduced subsidy rates and greater lending levels and that strengthen not only rural economies, but our national economy and its role in the global economic system. A failed business plan translates not only into loss of taxpayer investment, but deprives millions of citizens living in rural communities of the technology needed to attract new businesses, create jobs, and deliver quality education and health care services.

Building on USDA's experience and local presence in serving rural communities, we bring a unique lending expertise that includes the tools necessary to examine, and provide solutions for, the financial and the technical challenges facing entities dedicated to serving rural America. This model has resulted in a lending agency with unprecedented success in our other programs and we are dedicated to bringing that same level of success to this program.

From the beginning, the President has recognized the importance of broadband technology to our rural communities. The President stated, “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.” The Bush Administration has been unwavering in its support for this and other programs that will revitalize and strengthen our rural communities.

Let me assure you that we are on track, we remain focused, and we will complete our mission. We must continue to balance fiduciary responsibility with mission delivery everyday. Our unique lending expertise—the marriage of financial and technical analysis—helps to maximize the success rate of borrowers’ business models. And we will strive to do our part for rural America in fulfilling the President’s promise of bringing broadband service to millions of citizens. Making bad loans helps no one, making successful loans helps everyone.

TELECOMMUNICATIONS BUDGET

This year’s budget proposes approximately \$35 million in budget authority for an overall broadband and distance learning and telemedicine telecommunications program level of \$356 million. The fiscal year 2005 budget proposes a broadband loan program level of approximately \$331 million. This level of funding, coupled with the remaining balances from prior years, will provide ample support for the continued expansion of broadband services in rural areas. Included in the broadband loans request is approximately \$36 million in direct 4 percent loans, \$255 million in direct Treasury Rate Loans, and \$40 million in guaranteed loans.

In the regular telecommunications program, the fiscal year 2005 budget proposes a program level of \$495 million. Included is \$145 million in direct 5 percent loans, \$250 million in direct treasury rate Loans, and \$100 million in Federal Financing Bank (FFB) direct loans guaranteed by the rural utilities program. All of this is driven by \$100 thousand in budget authority.

The budget also reflects the Administration’s commitment to privatize the Rural Telephone Bank and does not request any budget authority or loan level for fiscal year 2005.

Distance learning and telemedicine (DLT) technologies are having a profound impact on the lives of rural residents by assisting rural schools and learning centers in taking advantage of the information age and enabling rural hospitals and health care centers to have access to quality medical services only found in large hospitals. The distance learning and telemedicine program pulls together the best of Federal assistance and local leadership.

The DLT grants are budgeted at \$25 million, the same as Congress appropriated for fiscal year 2004. The Budget proposes to zero out the loan program, simply because loan repayment is out of reach for most applicants, which are schools and hospitals. Even with increased marketing efforts over the past 2 years, less than \$21 million in loans were made in fiscal year 2003.

WATER AND ENVIRONMENTAL PROGRAMS

The water and environmental programs provide two of the most basic of infrastructure needs for rural citizens which are clean, safe, and affordable drinking water and ecologically sound waste disposal. The Centers for Disease Control and Prevention in Atlanta, Georgia, reports there are still over 1,000 deaths each year from water borne diseases.

The budget request seeks approximately \$439 million in budget authority for a program level of \$1.4 billion in water and waste disposal loans and grants. The program consists of \$90 million in budget authority to support \$1 billion in direct loans and \$75 million in loan guarantees and nearly \$346 million in water and waste disposal grants. In addition, the budget requests \$3.5 million in solid waste management grants.

SUMMARY

Rural utility infrastructure programs are interwoven in the fabric of USDA Rural Development programs. They are utilized to provide clean and safe water; modernize communications; create reliable electric power so that businesses can develop and homes can have lighting and heating, as well as open up access to information from the rest of the world.

PREPARED STATEMENT OF ARTHUR A. GARCIA, ADMINISTRATOR, RURAL HOUSING SERVICE

Mr. Chairman and Members of the Committee, thank you for the opportunity to testify on the proposed fiscal year 2005 budget for the USDA Rural Development, rural housing program. As an integral part of Rural Development, rural housing program assists rural communities in many fundamental ways. We provide a variety of both single and multi-family housing options to residents of rural communities. We also help to fund medical facilities, local government buildings, childcare centers, and other essential community facilities.

Rural Development programs are delivered through a network of 47 state offices and approximately 800 local offices. In addition, approximately 2,000 guaranteed lenders participate in the guaranteed single-family housing (SFH) program.

The proposed budget for rural housing program in fiscal year 2005 supports a program level of approximately \$5.3 billion in loans, grants and technical assistance. The fiscal year 2005 budget for the rural housing program maintains the Administration's strong commitment to addressing the needs of rural America, including the needs of minority homeownership. We believe that our efforts, combined with the best of both the nonprofit and private sectors, will ensure that this budget makes a tremendous difference in rural communities. Let me share with you how we plan to continue improving the lives of rural residents under the President's fiscal year 2005 budget proposal for our rural housing programs.

SINGLE FAMILY HOUSING PROGRAMS

The single-family homeownership programs provide several opportunities for rural Americans with very low-to moderate-incomes to obtain homes of their own. Of the \$3.8 billion in program level requested for the SFH programs in fiscal year 2005, \$2.5 billion will be available as loan guarantees of private sector loans. An additional \$225 million in loan guarantees will be used to refinance more affordable loans for rural families.

The 2005 budget reflects an increase in the fee on new SFH guaranteed loans from 1.5 to 1.75 percent. To offset this increase, the proposed legislation will not only allow the loan amount to exceed 100 percent of approved value by the amount of the fee. This proposal will help ensure that families with limited resources are not prevented from participating in the program.

Our commitment to serving those most in need in rural areas through our direct homeownership program remains strong. The fiscal year 2005 budget includes \$1.1 billion in loans to create housing opportunities for low and very low-income families.

SELF-HELP TECHNICAL ASSISTANCE AND OTHER SINGLE FAMILY HOUSING PROGRAMS

The fiscal year 2005 proposed budget requests \$76.7 million in budget authority to make over \$120 million in program level funding available to assist up to 12,000 families with incomes below 50 percent of the area median income. This includes \$35 million in program level for home repair loan funds for 5,800 very low-income families and \$31.5 million for grants to assist approximately 6,000 elderly homeowners. The fiscal year 2005 proposed budget for SFH programs also includes \$34 million to support the Section 523 mutual and self-help technical assistance grant program, \$5 million in loan level for each of two site loan programs, and \$10 million in loan level for sales of acquired properties, and \$1 million for supervisory and technical assistance grants.

MULTI-FAMILY HOUSING PROGRAMS

The Multi-Family Housing (MFH) budget preserves Rural Development's commitment to maintaining the availability of affordable housing for the many rural Americans who rent their homes.

With a total request of \$822.5 million program level, of this amount \$592 million would be used for rental assistance payments. The majority of these funds will be used to renew more than 42,000 4-year RA contracts. Most of the remainder will be used to provide new rental assistance contract for farm labor housing programs. We estimate using \$60 million for MFH direct loans to provide much needed repairs or rehabilitation to approximately 3,400 units of the 17,800 rental properties in the portfolio. These apartments provide decent, safe, sanitary, and affordable residences for more than 450,000 tenant households.

The budget request will fund \$100 million in guaranteed loans that may be used for new construction. In addition, the request funds \$42 million in loans and \$17 million in grants for the Section 514/516 Farm Labor Housing program, \$1.5 million in loans for MFH credit sales, and \$10 million for housing preservation grants.

Under the President's fiscal year 2005 budget, MFH guarantee loans will enable 2,500 rental units to be built. In the farm labor-housing program, about 3,000 units will be built or repaired. Both programs provide year-round homes to migrant and farm workers.

COMMUNITY PROGRAMS

The Community Facilities budget will enable rural housing program to provide essential community facilities, such as educational facilities, fire, rescue and public safety facilities, health care facilities, and childcare centers in rural areas and towns of up to 20,000 in population. The total requested program level of \$527 million includes \$300 million for direct loans, \$210 million for loan guarantees, and \$17 million for grants.

In fiscal year 2003, we assisted 83 communities by investing over \$66 million in educational and cultural facilities, over \$54 million in public safety facilities in 359 rural communities, and over \$162 million in health care facilities in 124 rural communities. Funding for these types of facilities totaled \$282 million. The remaining balance was used for other essential community facilities.

In partnership with local governments, state governments, and Federally-recognized Indian Tribes, the fiscal year 2005 Community Facilities budget will support more than 375 new or improved public safety facilities, 140 new and improved health care facilities, and approximately 100 new and improved educational facilities.

PROGRAM HIGHLIGHTS & INITIATIVES

I am pleased to provide you with an update on several highlights from our major programs, as well as key initiatives being undertaken.

SINGLE FAMILY HOUSING UPDATE

SECTION 523 MUTUAL AND SELF-HELP HOUSING

Funding for our mutual and self-help housing technical assistance (TA) program increased significantly in the 1990s from \$13 million per year to \$35 million per year. I am proud to report that fiscal year 2003 was the best year ever for our mutual and self-help housing program. A total of \$40 million was awarded in contracts and two-year grants to conduct self-help housing programs or assist sponsor groups.

The demand for TA funding continues to grow rapidly. There were 46 "pre-development" grants awarded in fiscal year 2002-03, including many first-time sponsors and groups in states with no self-help housing programs. Pre-development funds may be used for market analysis, determining feasibility of potential sites and applicants, and as seed money to develop a full-fledged application. Groups in the pre-development phase typically need 6 to 12 months before they are ready to apply for full funding. We expect a considerable portion of these groups to seek full funding in fiscal year 2005.

SECTION 502 GUARANTEED PROGRAM

Demand for our section 502 guaranteed program continues to be strong based upon:

- Aggressive outreach and customer service by Rural Development staff;
- Growing recognition and acceptance of the program by the mortgage industry as an outstanding loan product for lower income rural families. The program requires no down payment and no monthly mortgage insurance premiums;
- Historic low interest rates, which coupled with a Rural Development guarantee, have helped moderate income families achieve homeownership;
- Rural Development's commitment to reducing barriers to homeownership, especially for lower-income and minority families;
- Redirecting low-income families who can afford current low interest rates from our Direct homeownership program to our Guaranteed program;
- The Secretary's Five-Star Commitment to increase homeownership, including minority homeownership.

We developed an Automated Underwriting System (AUS), which will allow lenders to input customer application data and determine immediately whether the Agency will issue a commitment. This system should be fully operational by next summer.

Our Centralized Servicing Center in St. Louis, Missouri will soon begin centralizing loss claims submitted by lenders under our guarantee SFH program. This process is currently being done in State Offices. Centralization will improve efficiency, consistency, and provide better management data to program officials.

USDA'S FIVE STAR COMMITMENT TO INCREASE MINORITY HOMEOWNERSHIP

The rural housing program is committed to increasing homeownership for all Americans, including minorities. Approximately 13 percent of rural America is comprised of minorities. We are pleased to report that over 20 percent of our housing resources reach minority families. Several of our programs, most notably our mutual and self-help housing program, serve over 50 percent minorities. In response to the President's minority homeownership goals, USDA is committed to increasing its success. In October 2002, USDA issued a Five Star Commitment to expand homeownership opportunities for all Americans. We believe this plan will also expand minority homeownership by 10 percent by 2010. Our Five Star Commitment includes the following:

- Doubling the number of self-help participants by 2010;
 - Increasing participation by minority lenders through outreach;
 - Lowering fees to reduce barriers to minority homeownership;
 - Promoting credit counseling and homeownership education; and
 - Monitoring lending activities to expand minority homeownership opportunities.
- Since announcing the Five-Star Commitment, USDA has:
- Awarded a total of \$40 million in self-help housing grants in fiscal year 2003, which was the best year ever for the program. Demand for funding continues to grow. There were 46 "pre-development" grants awarded in fiscal year 2002–2003, including many first-time sponsors and groups in states with no self-help programs.
 - Entered into a memorandum of agreement with the Federal Deposit Insurance Corporation (FDIC) to promote and utilize their "Money Smart" training program. FDIC assisted us by providing training to all of our State Offices on delivery of this valuable financial literacy program.
 - Lowered the fee for the guaranteed SFH loan program from 2 percent to 1.5 percent for purchase loans and 0.5 percent for refinance transactions. This change, coupled with record low interest rates, has increased demand for the program. Although the Administration's fiscal year 2005 budget proposes a small increase in the fee (25 basis points), this is coupled with proposed legislation that will allow the Agency to include the entire fee in the loan. This small increase (less than \$500 per loan) will help reduce government outlays and the accompanying legislative proposal ensures that families will not be adversely impacted.
 - Obtained commitment from Rural Development State Offices to increase the number of American homeowners, including minority homeowners, served through our direct and guaranteed programs. All states have developed individual plans to increase homeownership levels for all Americans, including minority homeownership, and to expand the availability of the self-help program. We met our overall objectives for fiscal year 2003 and are on target for fiscal year 2004.

MULTI-FAMILY UPDATE

COMPREHENSIVE PROGRAM ASSESSMENT

We are addressing concerns about our aging portfolio of multi-family housing properties through a Comprehensive Program Assessment (CPA). The CPA was designed to evaluate the multi-family housing programs from several perspectives, including program delivery, organizational structure, effectiveness of programs and alternative financing tools, and a comprehensive analysis of the Section 515 properties in our portfolio.

We selected a statistically random sample of properties from the portfolio (333 of 17,800 or about 2 percent) and they are being evaluated for:

- Assessment of a property's physical condition;
- Assessment of a property's financial health;
- Assessment of a property's position in the real estate rental market;
- Determination of continuing need for this rental housing;
- Assessment of needed capital improvements and cost;
- Assessment of future capital reserves needs;
- Analysis of prepayment potential and;
- Analysis of prepayment incentive costs to retain properties and use restrictions.

From this assessment and analysis, we will develop a model to apply to all portfolio properties. It will tell us the cost of capital needs, the current funds available in reserve accounts, and where revitalization efforts should be concentrated.

The CPA review is on schedule. All sample properties were inspected last year. We expect a report on the physical and market analyses by this spring.

The CPA is also evaluating the organizational structure of the MFH division and determining better ways of delivering our loan programs. Through discussions with stakeholders and HUD, the CPA will determine the best organizational method to address prepayment issues. The evaluations are being done by our contractor, ICF Consulting, in concert with Rural Development senior management and our MFH Advisory Board, consisting of National and State Office staff. As the comprehensive program assessment concludes, we will present results and recommendations to the Subcommittee.

RENTAL ASSISTANCE

During the past year, the Agency undertook an initiative to automate the forecasting of the cost of renewals of Rental Assistance (RA) contracts. This automated system uses actual operating and rental data from each MFH property that receives RA and predicts the cost of RA needed for these very low and low-income tenants. The automation initiative started in March 2003 and is currently being tested. We expect the forecasting tool to be available by March of fiscal year 2004.

In other efforts to improve internal controls, we plan to add several staff members to the RA program and to develop an internal operating manual. This month, the Department will undertake a Management Control Review of the Section 521 Rental Assistance program, which entails auditing the performance of State Offices in program and funds delivery, and in compliance with program and National Office policy requirements.

We will continue our efforts to more efficiently deliver RA. Last year, we reported on outstanding unliquidated obligations from prior years' RA contracts. The majority of the unliquidated obligations come from RA contracts entered into between 1978 and 1982. These contracts were vastly overestimated at the time by a methodology that incorporated the lowest social security payment, a 25 percent tenant contribution (since increased to 30 percent), and double-digit inflation. Additionally, over 50 percent of these contracts are concentrated in areas that continue to experience low rents, low tenant incomes, and out migration of the population. These factors combined to yield an extremely low rate of RA usage. In the end, the funds for those contracts between 1978 and 1982 have lasted much longer than originally planned. The funds remain in the form of unliquidated obligations on our books, and will continue to be drawn on until they have been exhausted. For those units, this alleviates having to renew the contract until they have exhausted all funds.

The removal of the 20-year time frame for projections coupled with an improved and automated forecasting methodology over the last 4–5 years has contributed to better accuracy in providing just the right amount of RA to last through the term of the contract. We believe that only a very small amount of the fiscal year 2005 funds, if any, will last longer than 4 years. Administratively, continuation of the original purpose of these funds is the most efficient way to handle any of these small and unanticipated surpluses.

Concerning the unliquidated obligations for the old 20-year contracts, last year, the House Financial Services Committee—Oversight and Investigations Subcommittee asked us to investigate using these outstanding balances. When a rental assistance agreement is terminated because the project owner no longer needs units that are receiving RA or by means of a loan payoff or foreclosure, the unexpended funds are applied to other units in the MFH program. However, our Office of the General Counsel has advised that we do not have the authority to recapture obligated, but unexpended RA funds associated with a still active RA agreement. Even if we had that specific authority, there would be substantial litigative risks that affected project owners would be able to successfully bring breach of contract action against rural housing program under the agreement and the ability to use these funds would be the same as if the funds were appropriated from the General Fund.

PROPOSED RULE 3560

Proposed Rule 3560 consolidates 13 regulations and a number of administrative notices affecting Sections 514, 515, 516, and 521 MFH programs. RHS received 3,000 comments on the proposed rule. We have completed our review and consideration of these comments and are working on drafting the final rule.

SECTION 538 GUARANTEED RURAL RENTAL HOUSING PROGRAM

Currently, the Section 538 Loan Guarantee Program has 16 properties containing 1,111 units that are built and occupied. There are 26 properties containing 1,345 units under construction and another 65 properties containing 3,610 units with the funds obligated. Also, there are applications representing 32 projects containing 2,569 units awaiting approval.

In the built and occupied units, the average monthly rent is \$481. This translates to a median income of about 17 percent of area median income. We also have Section 8 vouchers in about 10 percent of the units to serve low and very-low income residents.

This program can be combined with several other funding sources, such as, Low Income Housing Tax Credits; HOME; and Federal Home Loan Bank Affordable Housing Program funds to provide affordable housing to rural residents presently not assisted.

MFH AUTOMATION INITIATIVES

In addition to the automation of RA forecasting, rural housing program has continued to improve its management information systems. The Agency is developing a data warehouse for both its SFH and MFH loans, which will dramatically improve our reporting capabilities. The data warehouse is now functional and continues to be populated with data from several existing databases.

Phase 4 of the Multi-Family Information System (MFIS), scheduled for implementation in May 2004, will provide for electronic debiting and crediting of borrowers' accounts, thereby eliminating funds handling in area offices. Phase 4 will also provide the public with a website to locate all the MFH properties, with pictures, property information, contact information, and links to property or management company websites.

Another automation improvement is the Management Agent Interactive Network Connection, which allows property managers to transmit tenant and property data to RHS via the Internet. This data goes directly into the MFIS database and the data warehouse. This web-based system is now being used voluntarily, and is scheduled to become mandatory this summer with the publication of the MFH Final Rule 3560.

PREPAYMENT

The efforts to preserve the Section 515 multifamily portfolio are a top priority of the rural housing program. These efforts are needed because of the increasing age of the portfolio and the need for existing owners to seek viable exit strategies. However, exceptional efforts are needed by existing owners, potential purchasers, non-rural housing program housing financiers, and rural housing program to make these efforts work. At stake is an irreplaceable affordable housing option in rural America that addresses a critical need for rural residents with few housing alternatives.

Owners wishing to sell their Section 515 properties or their ownership interests in a borrower entity may do so at any time. If the property is sold to another owner who will keep their project in the program, we may make resources available or agree to allow third-party resources to be used to compensate the seller for its equity and make repairs to the buildings. If the owner seeks to sell the property to another owner outside the section 515 program, we offer incentives to the owners to stay in the program or provide a 100 percent equity loan to sell it to a non-profit or public body.

Key factors that affect many owners when selling their property is the effect of exit taxes and expectations for equity. We continue to work with owners to develop realistic exit strategies within the limited resources available to affordable housing providers.

In our efforts to preserve the portfolio, a "revitalization tool kit" is being developed that will enable us to offer several alternatives to rural housing program borrowers in financing, debt write-off and subordination, third party financing, and transfer approvals. Rural housing program is currently working to accelerate the loan approval process at the state level by reducing the number of exceptions and waivers, and streamlining the overall transfer approval process.

We are continuing to work with lenders and nonprofits to leverage our subsidy dollars to the maximum extent. For example, we partnered with Fannie Mae to preserve a 44-unit apartment complex in Saranac Lake, NY by subordinating our debt. We eliminated underwriting duplication and established processes going forward that would permit acceptance of underwriting, appraisals, inspections, and reserve account requirements between partners. This is our first joint effort and it will establish a precedent that we intend to use with other partners in preserving the portfolio.

We continue to work with industry partners to develop options for the preservation of the portfolio. Completion of the comprehensive program assessment and implementation of recommendations to improve program efficiency will enable us to better utilize existing resources such as Fannie Mae, HUD, the Federal Home Loan Bank Board, and others.

RURAL PARTNERS

In our programming for fiscal year 2005, we are stretching the rural housing programs' resources and its ability to serve the housing needs of rural America through increased cooperation with the Department of Housing and Urban Development (HUD) and other partners. We are committed to working with these partners to leverage resources for rural communities. For example, we expect to adopt HUD's TOTAL scorecard for single-family loans. This cooperation between USDA and HUD will save time and money in system development.

In our multi-family housing program, HUD has been extremely helpful in sharing data on their own rural portfolio. We were able to access this information to use in developing comparable properties to those in our section 515 portfolio for our comprehensive property assessment. Additionally, we have approximately 1,700 properties with a rural housing program mortgage and project-based Section 8 from HUD. On these properties, we have an established agreement with HUD that the rural housing program will review and approve operating budgets and rent increases. This eliminates duplicative work and ensures better consistency. In addition, last June USDA and HUD entered into a Memorandum of Agreement committing our mutual efforts and resources to improving the quality of life in the Southwest Border Region. USDA and HUD have also formed an Interagency Task Force that now includes other federal agencies to better direct limited resources to the region, address jurisdictional issues, and further enhance our collaborative efforts.

CONCLUSION

Mr. Chairman and members of the Committee, we thank you for your support, and 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.

We recognize that we 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. We will continue to reach out to and partner with lenders, the many 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.

 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 2005 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 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 budget requests \$738 million for Rural Business-Cooperative Service programs.

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. We endeavor to enhance the quality of life for rural Americans by encouraging the use of cooperatively owned business as a self-help tool in the marketplace. Our programs of research, technical assistance, education and information, statistics, and assistance in starting new cooperatives are designed to establish viable business entities that help individual farm operators and other rural residents retain access to markets and sources of supplies and services in a sector that is becoming rapidly vertically coordinated and industrialized. Cooperatives are a means for helping to ensure that rural people are treated more fairly in the marketplace by providing structural strength in dealings with buyers and suppliers.

Some of our State Office technical assistance efforts involve non-agricultural cooperative development. For example, in Wisconsin, our cooperative development spe-

cialist was instrumental in developing an effective home health-care cooperative called Cooperative Care. Cooperative Care is a group of home and personal care providers in rural Wisconsin that joined forces with county officials, community leaders, a Federal agency, a technical college, and a community action agency. Together they organized a worker-owned cooperative where the members have a voice and share profits. This program addresses growing concerns about the care of elderly and disabled individuals and provides an efficient alternative to nursing home care.

RURAL COOPERATIVE DEVELOPMENT GRANT PROGRAM

For the Rural Cooperative Development Grant (RCDG) Program, the fiscal year 2005 budget requests \$21 million. Of this amount, up to \$1.5 million would be used for projects focusing on assistance to small, minority producers through their cooperative businesses. This program, along with our other Rural Cooperative Development grants, complements our 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.

One example is the Family Farm Opportunity Center in Missouri. The Center has helped form, through feasibility and market analysis, the Gateway Beef Cooperative, the Southwest Missouri Natural Dairy, and the Osage Independent Pork Producers. Several other cooperatives are receiving assistance from the Center, most involving the processing and marketing of value-added agricultural products. Among others, the Center targets Missouri counties with the highest percentage of poverty and unemployment.

We are requesting \$500,000 for cooperative research agreements to encourage research on critical issues vital to the development and sustainability of cooperatives as a means of improving the quality of life in America's rural communities. These will address the need for a solid information base on which to render judgments on critical cooperative operational and organizational issues, such as alternative ways of sourcing equity capital from within and outside the cooperative.

The Farm Bill formalized the value-added grant program. Over the past 3 years, 478 grants have been awarded for approximately \$86 million. This program has four components including Value-Added Producer Grants (VAPG), Agriculture Innovation Centers (AIC), Agricultural Marketing Resource Center (AgMRC), and university 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.

For fiscal year 2005, the budget requests \$15.5 million for the value-added grant program. This amount will provide funding for the VAPG and the AgMRC. Funding is not needed in fiscal year 2005 for the AIC program or university research on the impact of value-added projects.

One example of a successful VAPG venture is the Pacific Coast Producers cooperative of Lodi, California. This cooperative used grant funds to pay for the production and marketing of single-serving fruit bowls under the private labels of U.S. retailers. Initially, the cooperative produced single-serving fruit bowls for a national food company under that company's label. The company canceled the contract and began purchasing these items from a foreign company. Pacific Coast Producers viewed this lost contract as an opportunity to capture the emerging market in private label fruit bowls. They have since shipped fruit bowls to 40 customers under 32 different store brands. Those 40 customers have ordered 2 million cases using over 70 tons of fruit. The cooperative has plans to add at least 10 more retail chains to its customer list over the next year.

Another example is Missouri Food and Fiber (MOFF), the first new generation Identity-Preserved (IP) marketing cooperative organized across an entire State. MOFF delivers the highest quality soybeans, rice, corn, wheat, grain sorghum, and cotton to worldwide locations. It specializes in identifying the customer's product needs, matching input seed stock with premium growing environments and managing the IP product during planting, growing, harvesting, storing, transporting, processing, and distributing to the customer's global locations. While MOFF has been extremely successful in the premium IP business, the farmer-owned company is seeking entrance into one of the world's most exclusive and profitable agricultural markets: super-premium, identity-preserved, food-grade tofu beans for the Asian market. MOFF recently received a grant award of approximately \$82,000 from USDA Rural Development that will allow it to enter this lucrative market.

BUSINESS AND INDUSTRY GUARANTEED LOAN PROGRAM

For the Business and Industry (B&I) Program, the fiscal year 2005 budget includes \$30.2 million in budget authority to support \$600 million in guaranteed loans. We estimate that the funding requested for fiscal year 2005 would create or save about 15,020 jobs and provide financial assistance to 367 businesses. We anticipate continued strong demand for this program.

The B&I 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 or existing cooperative established for value-added processing.

I would like to share a story to illustrate how this program, partnering with a local lender, allowed a locally owned and operated ethanol producing business in rural Wisconsin to expand, providing security for 35 existing jobs and creating 4 new jobs. ACE Ethanol, LLC received a \$10 million B&I Loan guarantee that was used in conjunction with other funding to refinance existing debt and expand the capacity of the ethanol plant to 30 million gallons per year. This expanded plant will purchase 1.5 million bushels of corn from the local market and in effect increase the price of local corn by \$0.20 per bushel. This plant provides an alternate market for the corn that historically has been marketed for the declining livestock operations.

INTERMEDIARY RELENDING PROGRAM

The fiscal year 2005 budget also includes \$15.9 million in budget authority to support \$34.2 million in loans under the Intermediary Relending Program (IRP). We estimate the proposed level of funding will create or save about 26,175 jobs over the 30-year loan term.

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 success story from rural Louisiana. The Coordinating and Development Corporation (CDC) of Shreveport, Louisiana was awarded a \$750,000 IRP Loan. Rural Development funds were used to recapitalize a revolving loan fund to be administered by CDC. CDC is a non-profit, private corporation that was organized in 1954 to administer a wide range of Federal, State, and loan development programs and initiatives. CDC's coverage area includes Bienville, Bossier, Caddo, Claiborne, DeSoto, Lincoln, Natchitoches, Red River, Sabine, and Webster Parishes in northeast Louisiana as well as peripheral counties in northeast Texas and southwest Arkansas. CDC's coverage area includes a special emphasis parish (Lincoln Parish) in the Lower Mississippi Delta Development Initiative and Persistent Poverty Area (Claiborne, DeSoto, Lincoln, Natchitoches, Red River, and Sabine Parishes). In addition, businesses and residents in this area experienced devastating agriculture losses due to Hurricane Isadore and Hurricane Lili in September and October of 2002.

As a result of Rural Development funding, CDC was able to provide low-interest loan funds to area businesses—in turn growing, sustaining, and expanding businesses throughout their coverage area. Because of Rural Development funding, CDC was able to provide critical financial resources to area businesses resulting in 26 jobs created and 205 jobs saved.

RURAL BUSINESS ENTERPRISE GRANT PROGRAM

For the Rural Business Enterprise Grant (RBEG) program, the fiscal year 2005 budget includes \$40 million. We anticipate that this level of funding will create or save about 17,200 jobs and impact over 7,900 businesses. The demand for this grant program continues to be strong. The purpose of this program is to assist small and emerging businesses. It is estimated that for each dollar of investment of an RBEG, another \$2.40 in private capital is generated.

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. I would like to share with you an example of how these funds are being used to support small and emerging business opportunities in rural Idaho. A \$59,752 RBEG was awarded to the NEZ Perce Tribe in Lapwai to fund a study on the feasibility of oil seed production as a substantial alternate crop for farming operations in North Central Idaho. Farmers in this highly productive dryland-farming region have demonstrated the land's capacity to grow a range of oil seed crops. The study will determine if it would be feasible to produce and process these crops

into value added products such as bio-diesel, meal, edible oil, etc. If the results of this study are favorable, this would provide stabilization to the regions farming operations while creating employment opportunities.

RURAL ECONOMIC DEVELOPMENT LOAN AND GRANT PROGRAMS

The fiscal year 2005 budget includes \$25 million in Rural Economic Development Loans (REDL) and \$4 million in Rural Economic Development Grants (REDG). 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 and grants to intermediaries, who invest the funds locally. In fiscal year 2003, each dollar invested through these programs attracted an estimated \$6.00 in other capital.

The return on our equity investment in rural America is strong. Two examples demonstrate the impact of REDL and REDG. In Missouri, the REDG program has been utilized by the Intercounty Electric Cooperative to provide improved health care and fire protection to rural residents by using a \$200,000 REDG grant to provide a portion of the financial assistance needed by the Salem Memorial District Hospital to relocate and expand the emergency room and the Raymondville Fire Department to construct a new fire station. In Iowa, the REDL program assisted business development by enabling the Franklin County Rural Electric Cooperative to utilize a \$450,000 loan to assist with financing the construction of a \$3.2 million industrial facility in the Hampton Air Industrial Park, which was in turn leased to Northern Pipe Products. As a result of this business locating in the facility, there have been 11 jobs initially created with a potential for a total of 50 jobs.

RURAL BUSINESS OPPORTUNITY GRANT PROGRAM

The fiscal year 2005 budget includes \$3 million for Rural Business Opportunity Grants (RBOG) to provide much-needed technical assistance and capacity building in rural areas. The demand for this program continues to grow. We anticipate that this level of funding will create or staff over 8,500 jobs and impact 730 businesses. 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. The following is an example of how this grant program has been utilized to assist the Qglala Oyate Woitanacan Tribe in South Dakota with sustainable economic development on the reservation. The tribe used a \$39,000 grant to provide technical assistance and training for tribal business development and planning activities identified in the Tribe's comprehensive strategic plan. The project goal is to start five businesses and create 15 job opportunities on the reservation.

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 2005 budget proposes \$10.8 million in discretionary funds. 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. In addition, we anticipate that 15,000 households will be served, and 156 million-kilowatt hours of energy will be generated, while greenhouse gasses will be reduced by 39,000 metric tons. The following is an example of how this program was utilized in fiscal year 2003 to support renewable energy development in rural Illinois. The Illinois Rural Electric Cooperative was awarded a \$438,544 renewable energy grant to construct a 1.65-megawatt wind turbine in rural Pike County. The energy that will be generated from this wind turbine, once constructed and operational, will be distributed to the cooperative members as part of the overall electric power supply to a six county area in west central Illinois served by the cooperative.

Mr. Chairman, and Members of the Subcommittee, this concludes my testimony for the Rural Development fiscal year 2005 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, sir. Dr. Jen.

STATEMENT OF JOSEPH J. JEN

Dr. JEN. Mr. Chairman, thank you for the opportunity to testify before you about important research efforts at the USDA.

GENOMIC SCIENCE

I, too, have submitted written testimony for the record. Due to the limited time here, I will discuss briefly two areas of research: genomics and obesity prevention. Genomic science is the core of 21st Century biology. From the DNA sequencing of genomes to the functional genomic research to translation of genome research to applied biotechnology, genomic science holds the key to agriculture and food research now and for the next several decades.

Genomic science has the potential to provide food to alleviate world hunger, to practice environmentally-friendly production, to create new, nutritious foods, to eliminate animal and plant disease and to conserve the limited resources on Earth, the water, air and land.

I am happy to report that USDA has been very successful in leveraging limited funds to advance genomic research. For example, we launched the DNA sequencing of the bovine genome last December. USDA contributed \$11 million toward a total cost of a \$53 million project. USDA's contribution would not have been possible without your generous support of the fiscal year 2003 National Research Initiative funding. We hope that you will continue to support more funding for genomic science and the NRI. In particular, we need funding for bioinformatics research, which includes interpreting the results of genomic science data.

OBESITY PREVENTION

Obesity is now epidemic in our nation. USDA would like to be the leader of the Federal agencies in conducting obesity prevention research. We have asked for a modest increase in research funds for the six ARS human nutrition centers in the Presidential fiscal year 2005 budget. We will apply part of the NRI increases in the CSREES budget toward obesity prevention research as well. Most importantly, we are asking for \$8.7 million, Mr. Chairman, for ERS to establish a consumer consumption database. This database is essential for us to understand consumer behavior toward eating and consumption.

Obesity prevention must be handled through integrated programs that involve medical, nutritional, and physical activity research, as well as behavioral science research. However, until we are able to have quality behavioral science research to complement the other fields of research, obesity prevention is unlikely to be successful.

PREPARED STATEMENTS

Lastly, investment in agriculture and food research not only solves problems we face today, but it also builds the groundwork

for solutions to problems our children, our grandchildren and our great-grandchildren will face in the future.

Thank you for your attention, sir.

[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 2005 budgets for the Research, Education, and Economics (REE) mission area agencies of the USDA. I have with me today Deputy Under Secretary Brown, Acting Administrator of the Agricultural Research Service (ARS) Knippling, Administrator of the Cooperative State Research, Education, and Extension Service (CSREES) Hefferan, Administrator of the Economic Research Service (ERS) Offutt, Administrator of the National Agricultural Statistics Service (NASS) Bosecker and Office of Budget and Program Analysis Director Dewhurst. Each Administrator has submitted written testimony for the record.

First of all, I appreciate the support received from Congress in our appropriations for fiscal year 2004. With the continuation of a tight domestic, non-homeland security budget, the President's fiscal year 2005 budget proposes \$2.403 billion for the four REE agencies, about \$66 million less than the level appropriated in fiscal year 2004. However, the agency budgets include important and valuable increases in Food and Agriculture Defense, Bovine Spongiform Encephalopathy or BSE related activities and Better Nutrition for a Healthy US, all strategic target areas within the entire Department.

The budget that we are discussing today obviously relates to requested funds for the four agencies in the REE. In reality, the REE budget is a reflection of the Department budget. An important role for the REE agencies is to provide the science-based information and technology needed by the Department's regulatory and action agencies. To meet this mission, the REE agencies' programs are very broad and numerous. REE is the only mission area that contributes to all five goals and 17 objectives of the USDA strategic plan.

We take our role as the science provider for policy and regulatory decisions very seriously and are proactive in making sure our research agendas are responsive to the needs of fellow agencies. For example, ARS has an annual meeting with Food Safety and Inspection Service (FSIS) to jointly identify research needs and set priorities. ARS and NASS are cooperating with the Natural Resources Conservation Service (NRCS) in an ambitious program to evaluate the effect of the conservation programs in the 2002 Farm Bill. CSREES is working closely with the Animal and Plant Health Inspection Service (APHIS) in developing a national diagnostic laboratory network. ERS routinely provides economic analyses for the Foreign Agricultural Service (FAS) and the Chief Economist, among others, and plays a major role in the analysis of our nutrition assistance programs and policies. The Risk Management Agency (RMA) and the Farm Service Agency (FSA) use NASS statistics heavily. The net effect is that the REE agency budgets not only influence the size and shape of our research, education, and statistical programs, but also our capacity to serve the rest of the Department. The public is calling on the government to provide the scientific evidence in decision-making and science-based solutions for specific production, nutrition, security, and environmental challenges. Secretary Veneman and other USDA officials repeatedly used REE-generated information to guide USDA policy decisions.

It is no news to this subcommittee that the success of the American food and agricultural system over many decades has been built on agricultural research and technology. Numerous studies have found that the return on investment in agriculture research is high. Whether measured in productivity, competitive strength in global markets, use of environmentally sustainable production practices, or new science-based food safety technology, research and development underpins essentially all advances in the food and agriculture system. High quality, relevant research cannot guarantee a successful, competitive food and agricultural business. Natural events, markets conditions, and resistance to the adoption of new technologies can be barriers to the translation of new knowledge and technology into sector gains. At the same time, in the absence of such research, the food and agricultural sector runs the risk of losing its competitive edge in global markets.

As scientific opportunities continue to expand and the agricultural and food system becomes even more scientifically and technologically dependent, the reliance on research to stay competitive is likely to be even greater. The advance of molecular biology and resulting remarkable manner in which plants and animals can be modified to enhance their nutritional value, resistance to disease, or ability to grow in

adverse conditions hold amazing possibilities in the near future. In fact, we are already benefiting from such advances with Bt corn and cotton. But advances like these do not happen overnight. Studies show there is a lag of as much as 15 years for the payoffs from research to reach the marketplace. Wonderful advances are coming out of the research and development pipelines today, from programs in universities and colleges across the country and within USDA and other Federal laboratories. Often they are the product of investments started several years, if not decades ago. We must keep up our investment in agriculture now, so our children and grandchildren will benefit years from now. I hope you keep this fact in mind as you appropriate research funds budgets for this and future years.

The REE agency fiscal year 2005 budgets include long-term investments, as well as others that will yield a return in the immediate or near future. Before turning to the specific agency budgets, I would like to highlight three programs.

The Food and Agriculture Defense Initiative.—The fiscal year 2005 budget provides a funding increase of \$201 million for ARS and \$27 million for CSREES to participate in this interagency Food and Agriculture Defense Initiative, focused on strengthening the Federal Government's capacity to identify and characterize bioterrorist attacks. These increases represent investments that would result in strengthened homeland security.

Under the Food Defense component of the initiative, ARS will conduct research to develop tests that rapidly detect and accurately identify pathogens, toxins and metal contaminants in foods. The actual tests should be available for adoption by APHIS and other agencies within a short time.

The Animal Defense component includes \$178 million for ARS to complete the largest facility construction project in USDA history, the modernization of the National Centers for Animal Health in Ames, Iowa by October 2007. This consolidated ARS/APHIS facility, including biosecurity level or BSL-2, BSL-3, and BSL-3 Ag space, will house and support an integrated, multidisciplinary scientific capability, combining animal disease research with the development of diagnostic tools and vaccines. It will produce benefits immediately by replacing inefficient and obsolete facilities.

Other agricultural defense funds for ARS would support research on controlling exotic and emerging diseases and a new National Plant Disease Recovery System that would develop the capacity to help the agriculture sector recover from catastrophic outbreaks of plant diseases, whether naturally occurring or intentionally introduced.

Working cooperatively with APHIS, the budget provides CSREES \$30 million, which is an increase of \$22 million from last year's appropriation, to maintain and enhance the recently established, unified Federal-State network of public agricultural institutions that serves as a backup to APHIS diagnostic laboratories. The initiative also includes \$5 million in CSREES' Higher Education Program for a new competitive program that would promote the training of food system defense professionals who will be critical national assets in the years to come.

BSE Related Activities.—As you know, USDA is responding aggressively to the recent detection of BSE in a cow in Washington State. REE agencies and the knowledge and technology resulting from past research were important to the Department in its actions to deal with the positive BSE test results. ARS also supported APHIS in running several back-up tests to confirm the diagnosis, to validate that the tissue sample was bovine, and to establish the parentage of the index animal. Looking forward, the budget provides ARS an increase of \$1 million over last year's appropriation to discover genetic resistance to BSE that could be bred into cattle and other livestock.

Better Nutrition for a Healthier US.—One need only read almost any newspaper in almost any week to be reminded of the epidemic of obesity in this Nation. The causes are many and complex, such as a reduction in physical exercise, greater reliance on the convenience of fast food and restaurants, and consumption of more calories. The consequences of obesity and overweight are well documented in the higher incidence of weight-associated diseases, greater health care costs, and billions of dollars in lost productivity. What is less clear is how to help individuals and families gain and maintain healthy weights with the right balance of nutritious diets and exercise. As a Nation, we spend billions of dollars on diets with little sustained success.

USDA and its research agencies have a valuable role in addressing the obesity challenge. As part of the Department initiative, Better Nutrition for a Healthier US, and the White House "Healthier US" Initiative, the fiscal year 2005 budget proposes increases for ARS, CSREES, and ERS to address this major national health problem and associated issues. The increases will focus principally on gaining a better under-

standing of the factors influencing food consumption patterns and developing effective and culturally appropriate diet strategies and interventions.

An ARS increase of \$5 million will support research on the benefits of self-selected healthy diets in achieving healthy weight and preventing obesity as input to developing and evaluating culturally relevant behavioral strategies to promote healthy diets. The CSREES budget provides an increase of \$7 million in the NRI to gain a better understanding of the factors influencing obesity and their interaction, including how they vary by gender, race, age, ethnicity and socioeconomic characteristics. Issues relating to the nutrition value of functional foods will also be addressed. Funding for the Expanded Food and Nutrition Education Program is also provided in the CSREES budget to increase the number of low-income individuals participating in this program, one that has a very impressive track record in achieving sustained, positive changes in behavior related to food and diets.

The President's budget proposes \$8.7 million for ERS to establish a new consumer information system designed to gain a better understanding of our increasingly consumer-driven food and agricultural system. An important component of the new system will be a survey on individuals' knowledge and attitudes about healthy diets and how those factors are associated with the quality of their diet and their health status. In collaboration with the Department of Health and Human Services and ARS, the survey will be conducted as part of the National Health and Nutrition Examination Survey or NHANES.

Other survey data and analysis in the proposed information system will be used to identify, track and gain a better understanding of changes in food supply and consumption patterns, valuable input for making policy decisions in the food, consumer and health arenas. While the Department has a robust data system on the production agricultural system, far less is available for understanding the linkages between the farm gate and the consumer. The data and the analysis will be valuable to production agriculture and the processing industry in their adjustment to the growing emphasis on health and nutrition in the consumer-driven food and agricultural system of today.

Before turning to the agency budgets, I would like to express my appreciation for your past support of genomics research. This research continues to be critical to our overall research portfolio, providing the base knowledge on which much of our problem solving research is built. The future of agriculture is in genomics and related fields such as proteomics and functional genomics. Sequencing the genome of important agricultural plants and animals and learning about the functions of different genes hold the promise of a whole new generation of agricultural and food products that are nutritionally enhanced, disease resistant, higher yield, less dependent on fertilizers and herbicides and facilitate better use of land. Genetic research is also central to the development of rapid diagnostic tests, such as the one used by APHIS to identify avian influenza and exotic Newcastle disease. Genomics is a prime example of research that takes years to carry out and realize many of the benefits, but we are well on the way.

USDA has once again been very successful in leveraging our limited genomics research funds with funds from other Federal agencies, the private sector, State government, and foreign partners. Funding for the sequencing of the first large domestic animal, the bovine genome, was secured, with USDA providing \$11 million of the total \$53 million. The USDA contribution would not be possible without your generous appropriations for the NRI. The actual sequencing began at Baylor University last December. This revolutionary research project will be completed in 18 months. The resulting genome sequence will give animal science researchers new tools for decades to come. USDA also continues to work with the National Science Foundation on the National Plant Genome Initiative and the Microbial Genomics Project.

Both the ARS and CSREES proposed budgets include increases in their genomics programs. The President's fiscal year 2005 budget proposes increases of \$12 million in ARS and \$9 million in the NRI of CSREES.

REE AGENCY FISCAL YEAR 2005 BUDGETS

I would now like to turn briefly to the budgets of the four REE agencies.

Agricultural Research Service.—The Agricultural Research Service fiscal year 2005 budget requests approximately \$1.2 billion, or slightly more than in fiscal year 2004. Within this total \$988 million is proposed for research and information programs, approximately \$100 million less than in fiscal year 2004. A total of \$178 million for buildings and facilities is devoted entirely to the modernization of the ARS/APHIS facilities at Ames.

The ARS budget proposes increases for high priority program initiatives of national and regional importance. In order to accommodate these high priority increases, including homeland security, the budget proposes redirection or termination of approximately \$169 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 those of the broader producer and processor community.

In addition to the increases previously described, the ARS budget proposes increases for climate change, invasive species research, and for the Abraham Lincoln National Agricultural Library (NAL). Independent of cause, agriculture is vulnerable to changes in climate, such as rising temperatures, changing amounts of precipitation, increased variability in weather, and increases in the frequency and intensity of extreme weather events. While agriculture is vulnerable to these environmental changes, it also offers significant opportunities to mitigate the increase in greenhouse gases in the atmosphere. An increase of \$5.2 million in the President's budget for climate change will support research providing information on balancing carbon storage, emissions, and agricultural productivity in different agricultural systems across the Nation.

Invasive species, including weeds, insects and pathogens, are responsible for losses in agricultural productivity, environmental quality and biodiversity. An ARS increase of \$5 million will support research to develop new target specific bio-intensive approaches to control invasive weeds, such as purple loosestrife, and insects, such as the Asian longhorn beetle. The increase will also support research for developing highly specific, potent, and inexpensive synthetic agents for controlling the red invasive fire ant and the southern cattle tick.

In the age of digital information, the NAL is providing national leadership through the development of the National Digital Library of Agriculture that will deliver pertinent agriculture-related information and knowledge to the American agricultural community. The requested increase of \$2 million will enhance NAL's ability to offer integrated services for accessing, managing, and preserving agricultural information through the application of advanced network technologies.

Advances in information technology, including the ability to share information instantaneously, are enabling agencies such as ARS to gain significant efficiencies and collaborative power in conducting research programs and projects. However, these advances have also made ARS more vulnerable to cyber security attacks. The safety of sensitive research information from unauthorized intruders is critical to the agency's research program. The fiscal year 2005 budget proposes \$1.5 million to strengthen ARS' cyber security program.

Cooperative State Research, Education, and Extension Service.—The President's fiscal year 2005 budget provides just over \$1 billion for the Cooperative State Research, Education, and Extension Service. Compared to fiscal year 2004, the budget includes an increase of \$62 million in on-going programs and the elimination of \$166 million in Congressional add-ons and project terminations. The Administration's request places a strong emphasis on increases in the REE mission area for Food and Agriculture Defense and peer-reviewed competitive grants. 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.

As described above, the budget provides an increase of \$16 million for genomics and nutrition research under the NRI, CSREES' flagship competitive research program. The NRI continues to be a very valuable avenue for supporting cutting-edge research conducted by the finest scientists across the country. In addition to the increases in the NRI and the higher education program under the Food and Agriculture Defense Initiative, the budget calls for an increase of \$1.6 million in the CSREES Graduate Fellowship Grant Program. Despite recent gains in support of minority-serving institutions and programs encouraging diversity in higher education and the work force, the Nation faces chronic challenges in promoting human capital development that enables all citizens to realize their educational potential and promise of contributing to the food and agricultural system. The proposed increase will allow CSREES to further expand the number of fellowships offered at the Master of Science level essential for recruiting minority graduate students.

Economic Research Service.—The Economic Research Service is provided \$80 million in the President's fiscal year 2005 budget. As the Department's principal intra-

mural 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.

The Consumer Data Information System described above and supported with an increase of \$8.7 million will provide the Department, for the first time ever, the data and analytical capacity to understand the quickly evolving consumer driven food and agricultural system. Knowledge about the dynamics of the system and its relationship to consumer behavior is critical for producers and processors to continue to compete effectively in domestic and global markets and for policymakers to identify and develop strategies addressing nutrition and obesity issues at different stages of the food system chain.

National Agricultural Statistics Service.—The National Agricultural Statistics Service budget requests \$138 million, an increase of \$10 million over fiscal year 2004. NASS' comprehensive, reliable, and timely data are critical for policy decisions and stable agricultural markets, and to ensure a level playing field for all users of agricultural statistics. The budget includes a decrease of \$2.6 million for the Census of Agriculture, due to the cyclical basis of the Census. Preliminary results from the 2002 census were released early last month. Final results will be released in June.

The budget provides \$7 million for continuing a multiyear initiative begun in fiscal year 2004 to restore and modernize NASS' core estimates program to meet data users' needs with an improved level of precision. A second increase of \$2.5 million will incrementally improve statistically defensible survey precision for small area statistics that are widely used by USDA agencies, such as RMA for indemnity calculations. An additional \$.8 million increase will allow NASS to support Presidential, Departmental, and agency eGovernment initiatives.

SUMMARY

In summary, I want to reiterate that, given an overall very tight but sensible fiscal year 2005 budget, the REE budget reflects a continuing commitment to investment in agricultural research, economics, statistics, education, and extension. It also reflects an understanding that research and education are critical for solving both the problems agriculture and its producers and consumers are facing today, as well as emerging problems and opportunities of the 21st century. With continued strong investment, we will be ready to meet future problems and take advantage of new opportunities presented by cutting-edge science. 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 2005. The President's fiscal year 2005 budget request for ARS is \$1.166 billion. This represents a net increase of \$20 million from the fiscal year 2004 funding level. Within that total, there is a net reduction of \$95 million for research projects and a net increase of \$115 million for buildings and facilities. The fiscal year 2005 budget includes increases for new and expanded program initiatives and pay and operational costs. The fiscal year 2005 budget also proposes \$178 million to finance the completion of the building and modernization of USDA's National Centers for Animal Health in Ames, Iowa.

The proposed initiatives include research to maintain a viable U.S. food and fiber system and strengthen the Nation's Food and Agriculture Defense in the fight against terrorism. The budget proposes an increase of \$23.4 million in support of the Food and Agriculture Defense Initiative for research in food safety, and exotic and emerging diseases of animals and plants, and initiates a National Plant Disease Recovery System. The President's budget also includes increased funding of \$34.7 million for: animal and plant genomics; genetic resources; invasive species affecting livestock and crops; obesity prevention; climate change; information technology cyber security; and a National Digital Library for Agriculture.

PROPOSED PROGRAM INITIATIVES

Food Safety (\$14,375,000).—ARS research will assist other Federal agencies in providing the technical means to ensure that our food supply is safe for American consumers. Research will focus on the reduction of hazards, both introduced and naturally occurring toxicants in food and feed, including pathogenic bacteria, viruses and parasites, chemical contaminants, mycotoxins produced by fungi growing on

plants, and naturally occurring toxins produced by plants. ARS will work with other USDA/Federal agencies to implement a comprehensive Food and Agriculture Defense Initiative.

Exotic and Emerging Diseases of Animals and Plants (\$10,722,000).—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 and animal management systems all provide opportunities for the emergence or reemergence and spread of animal and plant diseases. Porcine Reproductive Respiratory Syndrome (PRRS) in swine and virulent forms of Marek's Disease virus in chickens are two examples of diseases that have suddenly emerged. West Nile Virus and Monkey Pox are examples of exotic diseases which have been introduced from other countries. The methods for detecting, preventing, and suppressing animal and plant diseases, whether emergent, exotic, or intentionally introduced, are similar. ARS will use the proposed increase to develop vaccines for high priority threats, such as Foot and Mouth Disease, West Nile Virus, Rift Valley Fever, and Equine Encephalopathy, that could devastate the Nation's livestock. In addition, flexible and responsive surveillance systems that maximize rapid detection, and better methods to prevent and control plant and animal pathogens will be developed and tested. Of the proposed \$10.722 million increase, \$7.7 million will finance part of USDA's Homeland Security efforts.

Genomics (\$12,000,000).—Genetic improvements have been largely responsible for the productivity and quality of America's crops and livestock. Additional research is now needed to exploit the inherent potential in genomes. With the proposed increase, ARS will identify and characterize genes that influence important traits in plants (e.g., plant growth, disease resistance, and stress tolerance) and in animals (e.g., reproduction, feed efficiency, and well-being). ARS will also characterize available germplasm for traits of economic and behavioral importance in cattle, swine, and poultry (e.g., Marek's Disease Virus in poultry).

Genetic Resources (4,000,000).—The prosperity of U.S. agriculture depends on the preservation of plant and animal germplasm collections. The current support of the germplasm program is inadequate to maintain animal and plant germplasm that is threatened or to prevent the loss of genetic diversity. With the availability of new genomic tools, genetic diversity is extremely valuable for improving plant and animal productivity and other important traits. ARS will use the proposed increase to collect, catalog, and preserve selected germplasm of cattle, swine, poultry, and fish. Also, it will collect, identify, characterize, and incorporate plant germplasm into centralized genebanks, and evaluate it for useful qualities (e.g., disease resistance). In addition, official insect and microbial germplasm repositories will be established.

National Plant Disease Recovery System (\$6,000,000).—In case of a national emergency involving a disease outbreak in a major economically important crop, a National Plant Disease Recovery System will provide the infrastructure and technology for recovery. With the proposed increase, ARS will establish and coordinate a network of the technology capabilities within Federal, State, and private sector organizations to prevent, slow, or stop the spread of a high consequence pathogen with resistant seed varieties and other pest control measures. This network will utilize the genetic resources contained in the U.S. National Plant Germplasm System which is administered by ARS. The proposed increase will also be used to identify and develop new sources of genetic resistance in crops to important disease pathogens.

Invasive Species Affecting Animals and Plants (\$5,000,000).—Invasive weeds, insects, and other pests cost the Nation over \$137 billion per year. Weeds, including leafy spurge, melaleuca, salt cedar, water hyacinth, purple loosestrife, and jointed goat grass, infest over 100 million acres in the United States. They reduce crop yields by approximately 12 percent and forage yields by 20 percent. The red invasive fire ant, whose venom can kill young animals, has steadily spread through all the Gulf States and is now reported in Southern California and New Mexico. The southern cattle tick and the disease it causes, once eradicated from the Nation, may invade the United States from Northern Mexico. The tick has become increasingly resistant to insecticides and there is no vaccine for the disease it carries. With the proposed increase, ARS will target its research on the southern cattle tick (by identifying the genes responsible for pesticide resistance) and the fire ant (by studying its genomics and developing more effective pesticides and pathogens). In addition, ARS will develop systematics for weeds and arthropods, and develop biologically-based integrated pest management components for pests.

Obesity Prevention (\$5,000,000).—Obesity is the Nation's fastest growing public health problem, which is affecting every segment of the American population. Obesity contributes to many diseases, such as heart disease, cancer, and diabetes, resulting in hundreds of thousands of deaths, as well as hundreds of billions of dollars

in health care costs each year. The deterioration of American dietary habits has occurred with the increased consumption of low cost, convenient, fast foods that are typically nutrient diluted. ARS will use the proposed increase to assess the benefits from long-term consumption of self-selected "healthy" diets to prevent obesity. Also, ARS will develop and evaluate culturally relevant behavioral strategies that promote the selection of healthy foods.

Climate Change (\$5,189,000).—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. Specifically, ARS will: conduct interdisciplinary research leading to technologies and practices for sustaining or enhancing food and fiber production and carbon sequestration by agricultural systems exposed to multiple environmental and management conditions; expand the existing network of ARS sites conducting measurements of greenhouse gas fluxes between the atmosphere and the land; and identify ways to decrease methane emissions associated with livestock.

National Digital Library for Agriculture (\$2,000,000).—ARS will use the proposed increase to enhance the National Agricultural Library's (NAL) ability to offer integrated services for assessing, managing, and preserving agricultural information through the application of advanced network technologies. The volume, quality, and timeliness of information available to NAL's customers will be increased. In 2001, a "Blue Ribbon Panel" concluded that NAL needed increased resources to take advantage of technological innovations.

Information Technology Cyber Security (\$1,507,000).—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 increasingly exposed to an unprecedented level of risk. Of particular importance is the safety of pathogenic, genomic, and other sensitive research information from being acquired or destroyed by unauthorized intruders through unprotected or undetected cyber links. ARS will use the proposed increase to increase the number of cyber security officers, and to implement cyber security management plans and strategies.

PROPOSED OPERATING INCREASES

In addition to the proposed program initiatives, ARS' budget provides funding to cover costs associated with pay raises and employee performance. These funds, \$13,188,000 for pay costs and \$1,013,000 for employee performance, are critically needed to avoid erosion of the agency's base resources. Absorption of these costs would reduce the number of scientists and staff who are essential for conducting viable research programs critical to the Nation's security.

PROPOSED PROGRAM DECREASES

The President's budget for fiscal year 2005 addresses a number of national needs and priorities. Protecting the Nation's food and agricultural systems against terrorist attacks is a major concern. In order to finance these high priority initiatives related to Homeland Security and the Food and Agriculture Defense Initiative, the funding for important but lesser priority research must be reduced. Growing Federal deficits also dictate the need to generate savings by termination of unrequested research projects.

The fiscal year 2005 budget proposes \$169,472,000 in program reductions. This entire amount represents unrequested research projects added in fiscal years 2001, 2002, 2003 and 2004. The savings achieved will be redirected to finance the higher priority research initiatives related to Homeland Security and the Food and Agriculture Defense Initiative, and to reduce overall Federal spending.

PROPOSED INCREASE FOR BUILDINGS AND FACILITIES

The fiscal year 2005 budget recommends \$178,000,000 for the ARS Buildings and Facilities account. In accordance with a previously documented and accepted master plan, the entire amount will be used to complete the modernization of the National Centers for Animal Health in Ames, Iowa. This \$460 million construction project is

already well underway. The program of work being carried out in the current inadequate facilities is internationally recognized for preventing and controlling animal diseases, and protecting the Nation's food supply and public health. The new facility is critical to supporting and sustaining the Administration's Homeland Security and Food and Agriculture Defense Initiative.

The new facility combines ARS' National Animal Disease Center with two Animal and Plant Health Inspection Service facilities: the National Veterinary Services Laboratory and the Center for Veterinary Biologics. The new facility will provide an integrated, multidisciplinary scientific capability, combining animal disease research with the development of diagnostic tools and vaccines.

Mr. Chairman, this concludes my statement. I will be happy to respond to 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 2005 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 2005 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, higher education, and related international activities. In addition, CSREES implements grants for organizations to better reach and assist disadvantaged farmers in accessing programs of USDA. These partnerships result in a breadth of expertise that is ready to deliver solutions to problems facing U.S. agriculture today.

The broad portfolio of CSREES supports scientific discovery from idea to application. Formula and other base funds leverage dollars from other sources, provide the start-up funds needed for investigators to establish research programs and build the capacity to compete successfully in competitive programs, and allow for rapid responses to emerging problems. Competitively funded research from the National Research Initiative (NRI) supports individual investigators undertaking basic research aimed at generating new knowledge and supports integrated programs and activities focused on solutions to short- and intermediate-term problems. Research-based guidance is delivered through the Cooperative Extension System's educational efforts. Because these efforts occur primarily at universities, a very broad range of expertise is available to address increasing complex problems, and the research process contributes to an environment that prepares students to meet the ongoing needs of agriculture, the environment, human health and well-being, and communities. Funding for outreach and assistance for socially disadvantaged farmers encourages and assists those farmers by providing technical assistance and education for fuller participation in all USDA programs.

The fiscal year 2005 CSREES budget request aligns funding and performance with the USDA strategic goals. CSREES manages its many budget elements in support of research, education, extension, and outreach programs as part of a cohesive whole supporting all five of the Department's strategic goals. Distinct performance criteria, including strategic objectives and key outcomes with identified annual targets, are defined for each program or activity. As part of an integrated budget and performance process, periodic portfolio reviews by external experts to monitor overall program progress, suggest alternative approaches, and propose management improvements are planned. Although the overall budget supports the breadth of USDA's goals and objectives, the funding increase requested in the CSREES fiscal year 2005 budget proposal emphasizes USDA Strategic Goal 3: Enhance Protection and Safety of the Nation's Agriculture and Food Supply, and Strategic Goal 4: Improve the Nation's Nutrition and Health.

In continuing and expanding our efforts for agricultural security and in support of the President's Food and Agriculture Defense Initiative, 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 network is comprised of 13 State animal diagnostic laboratories and 6 plant diagnostic laboratories, dispersed strategically around the country. These 19 key laboratories are developing a two-way, secure communications network with other university

and State Department of Agriculture diagnostic laboratories throughout their respective regions. The diagnostic laboratories are responsible for identifying, containing, and minimizing the impact of exotic and domestic pests and pathogens that are of concern to the security of our food and agricultural production systems. The budget proposal requests an increase of \$22 million for a total of \$30 million to maintain the national diagnostic laboratory network and increase the number of State plant diagnostic laboratories linked with the National Agricultural Pest Information System. The network will continue its link with the Extension Disaster Education Network (EDEN) to disseminate information to producers and professionals at the county level, and to expand these activities to provide more current and timely educational resources.

As a benefit of the research and education information gained through the Animal and Plant Diagnostic networks in conjunction with dissemination efforts of EDEN, an influx of new knowledge will be used to fill gaps in addressing agrosecurity issues, and to educate students in increasing their risk assessment and mitigation skills in order to help manage large scale animal and plant disease outbreaks. CSREES proposes \$5 million for the Agrosecurity Education Program that will support educational and professional development for personnel in securing the Nation's agricultural and food supply. The program will develop and promote curricula for undergraduate and graduate level higher education programs that support the protection of animals, plants, and public health. The program also is designed to support cross disciplinary degree programs that combine training in food sciences, agricultural sciences, medicine, veterinary medicine, epidemiology, microbiology, chemistry, engineering, and mathematics (statistical modeling) to prepare food system defense professionals.

CSREES continues to provide new opportunities for discoveries and advances in knowledge through our programs such as the NRI and Integrated Research, Education, and Extension Competitive Grants. Funding for agricultural research, particularly for competitive or basic science programs, has lagged dramatically behind funding for other disciplines. The fiscal year 2005 budget request of \$180 million for the NRI reflects the same underlying policy objectives of fiscal year 2004, 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. Expanded partnerships with other Federal agencies on research topics of mutual interest will be possible. For example, we may be able to expand working relationships with the National Institutes of Health and others on animal genomics. Current cooperation on the Bovine Genome Sequencing program will contribute to a working draft sequence (approximately 6-fold sequence coverage) of 90 percent of the bovine genome. Sequencing the bovine genome provides the gateway to studies of gene function and improved methods of selection of animals based on genotype. This knowledge will then be used to increase the efficiency and profitability of animal production systems by enhancing animal health and the quality and safety of food production. The goal of the NRI participation in the program is to assure the generation of high quality sequence data, that the assembly of the sequence reads into contiguous sequences, the annotation, and the deposition of all information into a publicly accessible, pre-existing database.

We also will continue our partnership with the National Science Foundation on the Microbial Genome Sequencing program. The program supports high-throughput sequencing of the genomes of microorganisms that are of fundamental biological interest, and are important to the national interest, the productivity and sustainability of agriculture and forestry, or the safety and quality of the Nation's food supply. The fiscal year 2005 budget requests an increase of \$9 million in the NRI to support genomics research. Support of animal genomics will increase fundamental knowledge of the composition, organization, and function of the genome and increase the ability to genetically improve the productivity, efficiency, and quality of agriculturally important animals, including horses and aquaculture species. Research also will contribute to reducing adverse environmental changes, preserving genetic diversity of wild stock, addressing new and re-emerging disease and pest threats, and providing new and renewable products to meet consumer needs.

According to the President's Health and Fitness Initiative, Healthier US, too many Americans are overweight, have poor dietary habits, and do not exercise enough. Five chronic diseases associated with obesity—heart disease, cancer, stroke, chronic obstructive pulmonary disease (e.g. bronchitis, emphysema, asthma), and diabetes—account for more than two-thirds of all deaths in the United States. In addition to claiming more than 1.7 million American lives each year, these diseases hinder daily living for more than one out of every ten Americans, or 25 million people. More than 100 million Americans live with chronic disease, and millions of new cases are diagnosed each year. Healthier US concluded that the health of Americans

would improve with modest but regular better eating habits and physical activity. Under the NRI, an increase of \$7 million in NRI funding is proposed in fiscal year 2005 to address nutrition, food choices, and the growing obesity epidemic. Research will focus specifically on investigating underlying causes of obesity, including physiological, environmental, cultural, social, and biological factors; factors controlling the onset of obesity; determining differences in obesity groups defined by race, age, gender, etc.; and developing and evaluating the weight loss potential of functional foods.

Also within the fiscal year 2005 budget request is a proposed increase of \$6 million for the Expanded Food and Nutrition Education Program (EFNEP). This would restore funding to approximately the fiscal year 2003 funding level. The EFNEP program reaches predominantly minority low-income youth and families with nutrition education that leads to sustainable behavior changes. EFNEP works with various partners in providing its services, which include collaborating with the National Institute of Health on the 5-A-Day program promoting increased consumption of fruits and vegetables, and the Centers for Disease Control and Prevention on their VERBtm program sharing curriculum material directed at teaching young people about the importance of nutrition and physical activity. Increased funding also will allow EFNEP to move forward with efforts to add a physical activity focus to help combat the rising problem of obesity in children and adults.

CSREES continues to expand diversity and opportunity with activities under 1890 base and educational programs, and 1994 and Hispanic-Serving Institutions educational programs. Funding for our 1890 base programs provides a stable level of support for the 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 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 program development rapidly delivers new technologies into the hands of all citizens, helping them solve problems important to their lives.

CSREES also will more effectively reach underserved communities through sustained support for the Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers Program (OASDFR). CSREES will award competitive multi-year projects to support outreach to disadvantaged farmers and ranchers. Funds 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.

Sustained support through our base programs, including formula funding for research and extension, 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 and other base programs provide discretionary resources that foster regional and national joint planning, encourage multi-State planning and program execution, and minimize duplication of efforts. Formula and other base 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 the 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. For example, leveraging funds from the Hatch Act with other sources, researchers at Ohio State University are continuing work with bacteriocins, naturally occurring substances in foods that inhibit pathogens. The researchers found that a type of "good" bacteria in milk makes a bacteriocin that appears to inhibit *E. coli* and *Salmonella*. The researchers are working with a food packaging company to infuse bacteriocins into packaging material, making containers with a built-in, natural way to help keep food safe.

The higher education programs contribute to the development of human capacity and respond to the need for a highly trained cadre of quality scientists, engineers, managers, and technical specialists in the food and fiber system. The fiscal year 2005 budget provides a \$1.6 million increase in the Food and Agricultural Sciences National Needs Graduate Fellowship program. This program will prepare graduates to deal with emerging challenges in such areas as agricultural biosecurity to ensure the safety and security of our agriculture and food supply, new issues in natural resources, and human health and nutrition including problems related to obesity, such as diabetes, cardiovascular health, and osteoporosis. The International Science

and Education Grants program (ISEP) will support the land-grant community and other campuses in their efforts to prepare students and help American agriculture to maintain our global competitiveness 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.

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 may not be national. The scope of the NRI, and the Integrated Research, Education, and Extension Competitive Grants is broad enough to provide a peer-reviewed forum for seeking and assessing much of the work funded through earmarks. For example in the past 4 years, CSREES supported research in animal identification and/or animal tracking under earmarked projects which fit within the scope of the NRI. In addition, earmarked projects for human nutrition are within the program areas of the NRI, and earmarked food safety projects can be supported through the CSREES Integrated Food Safety program. In order to ensure the highest quality research for these national needs within available funding, the fiscal year 2005 budget has therefore proposed to eliminate earmarked projects.

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, higher education, and outreach and assistance 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 2005 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 2005 is \$80 million, which includes increases for one initiative and pay costs. The agency is requesting an \$8.7 million increase to develop an integrated and comprehensive data and analysis framework of the food system beyond the farm-gate to provide a basis for understanding, monitoring, tracking, and identifying changes in food supply, consumer behavior and reactions, and consumption patterns.

ERS CONTRIBUTIONS TO MISSION AREA GOALS

ERS supports the five USDA strategic goals to: (1) enhance economic opportunities for agricultural producers; (2) support increased economic opportunities and improved quality of life in rural America; (3) enhance protection and safety of the Nation's agriculture and food supply; (4) improve the Nation's nutrition and health; and (5) protect and enhance the Nation's natural resource base and environment.

Goal 1: Enhanced Economic Opportunities for Agricultural Producers

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 *International Evidence on Food Consumption Patterns* released in October 2003, that analyze forces shaping the demand for food in global markets, in this case in rapidly growing developing countries, and *The Structure of Global Markets for Meat* released in September 2003, that analyze the economic forces behind the emergence of specialized trade patterns and new food marketing chains.

ERS will continue to work closely with the World Agricultural Outlook Board (WAOB) and USDA agencies to provide short- and long-term projections of United States and world agricultural production, consumption, and trade. In 2004, several initiatives will increase the accessibility, timeliness and breadth of the data and analysis. We are creating dynamic web 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 timelier 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 market information system 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. In 2003, ERS organized workshops on global markets for high-value foods, such as meat, processed cereals, fruits, vegetables 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 was released in 2003. These activities enhance our analytic understanding of these fundamental market relationships and continue to improve the analytical base for USDA's foreign market analysis and projections activity.

New appropriations received in 2004 allow ERS to explore in greater depth the market for organic products and other commodities and foods that are differentiated in the marketplace by virtue of how or where they are produced. This form of product differentiation accommodates consumers' preferences (or producers' beliefs about consumers' preferences) for products that guarantee that particular production practices are (or are not) undertaken, or that are assured to be produced in particular countries or regions. In 2004, we plan to document the evolution, structure and function of differentiated product markets, and derive the implications of alternative extents, forms, and timing of government intervention in markets for products that embody production process or location characteristics.

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 food markets research focuses on enhancing knowledge and understanding of food prices, both their objective measurement and how they are set by firms at different stages of the food system, and of the performance of the food system to most efficiently supply consumers' needs.

ERS research examined whether produce markets' retail consolidation, technological change in production and marketing, and changing consumer demand have altered the traditional market relationships between producers, wholesalers, and retailers. As the market for retail food has changed over time, so has the dynamics of market competition. ERS has begun to use micro-level household and store scanner data to measure the impact of changing store formats on food prices to focus on the changing environment and how these changes could impact our view of how customers make economic decisions in retail food stores. ERS research continues on understanding why food prices change over time and forecasting how they will change in the future. ERS research on the linkage of food and agriculture to the general economy in terms of employment and income provides a statistical foundation for describing both the changing nature of the Food and Fiber System and the economy-wide effects of agriculture.

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. Hog production, highlighted in *Economic and Structural Relationships in U.S. Hog Production* released in February 2003, 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 2004. 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 new *Family Farm Report—Structural and Financial Characteristics of U.S. Farms*, which will be published in 2004, 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. Among the studies mandated by this Act is the report *Characteristics and Production Costs for Dairy Operations* to be released in 2004. This report examines how production costs vary among dairy producers and will indicate possible reasons for the cost variation of different commodities.

In addition, ERS will continue to work closely with the Foreign Agricultural Service (FAS) and the Office of the U.S. Trade Representative to ensure that ongoing negotiations on the Doha Development Agenda under the auspices of the World Trade Organization (WTO) and regional trade agreements are successful and advantageous for U.S. agriculture. In the negotiations, the United States 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 2003, 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.

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. Updating an initial report of organic production statistics in 2001 is the report *U.S. Organic Farming in 2001: Adoption of Certified Systems*, released in April 2003.

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). An ERS report, *Size and Distribution of Market Benefits From Adopting Biotech Crops*, released in November 2003, estimated the size and distribution of benefits to consumers and the agricultural sector from adopting *Bacillus thuringiensis* (Bt) cotton, herbicide-tolerant cotton, and herbicide-tolerant soybeans in 1997. A more comprehensive study of seed industry changes was reported in *The Seed Industry in U.S. Agriculture*, released in February 2004, which examined the composition of United States and international seed markets, regulations affecting agricultural seeds, the structure and evolution of the seed industry, and trends in private and public R&D in plant breeding. Particular emphasis was placed on seeds for the major field crops: corn, cotton, soybeans, and wheat.

In the publication *The Effect of Information on Consumer Demand for Biotech Foods: Evidence from Experimental Auctions*, released in March 2003, ERS 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 created in 2003 a classification system and on-line searchable database of agricultural biotechnology patents and licensing arrangements. This project identifies who generates the innovations, who controls the innovations and, to the extent possible, who has access to the innovations.

Data from the Agricultural Resource Management Survey (ARMS) underlie important estimates of farm income and well-being, and constitute an essential component in much of ERS' research. Reflecting the 2003 budget initiative, in 2003 the ARMS survey sample was expanded sufficiently to allow ERS, with the National Agricultural Statistics Service (NASS), to produce State level estimates for the largest fifteen States (as measured by value of farm output). Also in 2003, ERS collaborated with NASS to develop new survey instruments and data collection approaches that merge mail surveys with in-person surveys, thereby reducing respondent burden and improving the efficiency of data collection. In addition, ERS has developed a path breaking, web-based, secure ARMS data retrieval and summarization prototype tool that is attractive and easy to use despite the complex tasks it performs on this massive data set. When implemented in 2004, this system will retrieve ARMS data in formats customized to the customers' needs while assuring that sensitive data are not disclosed.

Goal 2: Support Increased Economic Opportunities and Improved Quality of Life in Rural America

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, educational improvements, 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. The rural development process is complex and sensitive to a wide range of factors that, to a large extent, are unique to each rural community. Nonetheless, ERS assesses general approaches to development to determine when, where, and under what circumstances rural development strategies will be most successful.

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. Data from the 2000 Census and other Federal information sources provide the most up-to-date information on the current conditions and trends affecting rural areas and provide the factual base for rural development program initiatives. In 2003, the agency continued its series of publications that report the most current indicators of social and economic conditions in rural areas for use in developing policies and programs to assist rural people and their communities. *Rural America at a Glance* and *Rural Education at a Glance*, designed for a policy audience, summarize the most current information on population and migration, labor and education, poverty, race and ethnicity, infrastructure, and rural development policy. The ERS website (www.ers.usda.gov) serves as a major repository of rural data, offering unique mapping utilities and comprehensive county-level data bases. In January 2004, ERS joined Cornell University in sponsoring a conference on "Population Change and Rural Society". This conference showcased an integrated set of demographic studies by leading social scientists that analyzed critical demographic trends from the 2000 Census and drew conclusions about their implications for economic and social life in rural America. The conference focused on the policy implications of changing demographic composition, economic restructuring, changing land use patterns, and ge-

ographic patterns of chronic disadvantage and emerging growth. This conference marked the first comprehensive look at rural America based on data from the 2000 Census.

ERS is at the forefront of analysis assessing the critical role of education in local, regional, and national economic development. Rural communities view increased educational investments as an important part of economic development, but are sensitive to the partial loss of their investment, in the form of youth outmigration to areas with better opportunities. ERS is partnering with land-grant universities in a research program designed to measure the relationship between education and economic outcomes, both for the individual worker and rural community, to help local communities better target their economic development and school improvement efforts.

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 the effectiveness of Federal programs to assist rural America. In 2003, ERS redesigned a county typology that maps out a geographic portrait of the rich diversity of rural America in ways that are meaningful for developing public policies and programs. ERS will now address how the economic, demographic, and policy themes identified in this typology translate into effective rural development strategies for enhancing rural economic opportunities and well being.

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. Through its research on the measurement and dimensions of rural poverty, ERS helps to better target and improve the effectiveness of Federal assistance programs. One ERS study, *Comparisons of Metropolitan-Nonmetropolitan Poverty During the 1990s*, documents the greater incidence of poverty in nonmetro relative to metro areas, but finds that metro-nonmetro differences in the depth and severity of poverty are less striking and more variable over time. These findings and differences in the characteristics of the metro and nonmetro poor, suggest that poverty-reduction policies will be most effective when tailored to specific local areas. A second ERS study, published in ERS' new magazine, *Amber Waves*, assessed the effect of major demographic, economic, and Federal policy changes on the magnitude and dimensions of poverty during the 1990s. Race and ethnicity, family structure, and the ability to work are critical determinants of poverty in rural areas. In 2004, ERS will publish findings from a study assessing the factors affecting geographic and racial/ethnic concentration of high poverty in rural areas. Characteristics such as education, employment, family structure, disability, and language proficiency differentiate these areas with poverty rates of over 20 percent.

The agency focuses research on the implications of changing racial/ethnic composition in rural areas. Hispanics were the fastest growing racial/ethnic group in rural America, and accounted for over 25 percent of the rural population growth during the 1990s. One ERS study on the impacts of Hispanic population growth on rural wages, found that the growth of Hispanics in rural areas has negatively affected the wages of local workers with a high school education and some college, due largely to changes in labor demand in specific industries. A second ERS study examined changing Hispanic settlement patterns over the last two decades, and found extensive Hispanic population dispersion into non-traditional Hispanic settlement regions. These patterns reduced residential separation at the national level between Hispanics and non-Hispanic Whites, but led to increased residential separation at the neighborhood level, especially in rapid-growth counties.

ERS conducts ongoing research on the impact and effectiveness of Federal programs in rural areas. For example, ERS assists USDA's Rural Development mission area in efforts to improve the delivery and effectiveness of rural development programs. In 2003, ERS worked with Rural Development staff to help design measurable performance indicators for their rural development programs. ERS also conducted analyses to help Rural Development staff assess the economic impacts of proposed changes in their rural business loan programs. In addition, in 2004, ERS will focus attention on the effects of Federal farm policy on rural areas and farm households by co-hosting a workshop with the National Center for Food and Agricultural Policy. This workshop will provide policymakers with a better understanding of the linkages between farm policy, farm households, and rural communities well in advance of the next farm bill.

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. A condensed version of the farm typology was an important fea-

ture in Secretary Veneman's statement of principles for farm policy, and it continues to inform debates about the incidence of farm profits and government payments. In 2003, ERS researchers developed a new department-wide definition of limited resource farms that will lead to a change in the farm typology in 2004.

Goal 3: Enhance Protection and Safety of the Nation's Agriculture and Food Supply

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; assessing industry incentives to enhance food safety through new technologies and supply chain linkages; evaluating regulatory options and change; and exploring linkages between food safety and international trade. 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.

ERS, in cooperation with Washington State University, completed the first post-HACCP national survey of meat and poultry slaughter and processing plants. The survey finds that implementing the 1994 Pathogen Reduction (PR)/HACCP rule raised costs about 1 percent, or about \$850 million for the industry. Survey results will allow companies to assess their own adaptation performance vis-a-vis the industry average. While larger than pre-regulation estimates of PR/HACCP costs, the estimated costs are still considerably smaller than expected benefits. Results showed plants with branded products, strong customer requirements, and export orientation made the largest post-PR/HACCP investments in new food safety management processes or technologies, indicating market forces are at work to raise food safety above regulatory requirements in some cases. In 2003, ERS completed a study that summarizes the survey results and made the survey questions and summary results available on the ERS website.

ERS has become well-known for its pioneering estimates of the societal costs associated with foodborne illnesses due to *E. coli* and other known pathogens. In Spring 2003, ERS launched its first interactive web-based data product, the foodborne illness cost calculator. The calculator allows users to choose a pathogen of interest, the number and severity of illnesses, and from among several alternative methodologies employed by economists for calculating societal costs.

In 2003, ERS researchers completed a project that developed an economic framework for analyzing linkages between food safety and international trade. The project produced an ERS report, *International Trade and Food Safety: Economic Theory and Cases Studies*, which explores global trends in food safety regulation and food safety-trade policies, and analyzes food safety and trade conflicts and resolutions in various commodity sectors.

In 2004, ERS will publish a study analyzing the private incentives for improving food safety in the U.S. Case studies include innovations the industry has developed and is using to produce safer beef, including new equipment, new testing technologies, and new management systems. Interviews with firms were used to determine the most significant factors contributing to the innovation. The collaborative and contractual relationships among firms in the meat, equipment, microbial testing, and restaurant industries are found to be key.

Recently, policymakers have begun weighing the usefulness of mandatory traceability to address issues ranging from food safety and bioterrorism to the consumer right to know, as well as to inform consumers about food attributes including country of origin, animal welfare, and biotech content. Industry interviews, backed by industry-level market studies, have been used to establish a description of the extent and type of traceability maintained by private sector firms. This information reveals that financial incentives are leading firms to develop a significant capability to trace. The findings indicate that mandatory traceability—possibly a one-size-fits-all regulation can be costly as firms already trace many product attributes. Further, other policies may be better targeted toward augmenting product differentiation or traceback for food safety.

In response to increased risks to the Nation's agriculture and food supply due to bio-terrorism, ERS embarked on an ambitious new project in July of 2002. Security Analysis System for U.S. Agriculture (SAS-USA) establishes a framework to systematically tie all food supply processes from farm production, food manufacturing, distribution of food products, to the food consumption in every region of the country. SAS-USA is capable of quickly distilling massive detailed regional information and

displaying the information visually in user-friendly formats. These capabilities mean that emergencies can be managed efficiently and expeditiously by assessing vulnerabilities and predicting outcomes. SAS-USA is truly unique, filling a niche that previously required weeks and months of data assembly, analysis, and interpretation. In 2004, ERS will: continue to integrate agriculture, food, and transportation data to make the system more realistic in simulations; connect the U.S. agricultural/food supply chain to imports and exports; and continue to develop scenarios based on animal and plant diseases and food contamination.

Goal 4: Improve the Nation's Nutrition and Health

ERS studies the relationships among the many factors that influence food choices and eating habits and their health outcomes. The roles of income, aging, race and ethnicity, household structure, knowledge of diet and health relationships, nutrition information and labeling, and economic incentives and policies that affect food prices and expenditures are of particular interest. Obesity—including understanding its costs to individuals and society, how income, diet and health knowledge affect obesity status, and considering private versus public roles in reducing obesity—is a priority for this Administration.

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 Federal food and nutrition assistance programs. In April 2003, ERS organized the first national workshop on the economics of obesity. The workshop brought together leading health economists in the Nation and was attended by researchers from Federal agencies such as the CDC, Council of Economic Advisers, the Food and Drug Administration (FDA), the Federal Trade Commission (FTC), and the National Cancer Institute (NCI). Topics encompassed nearly all of the cutting-edge health economics research on the causes and consequences of the rise in U.S. obesity. A conference report has been drafted and is being edited for publication in 2004. Additionally, in 2004 studies will be completed on the effects of snack and fat taxes on food choices and diet quality; the demand for fruits and vegetables by consumers from different income groups; the effectiveness of labeling foods consumed away from home; and the link between obesity and awareness of Federal nutrition information programs.

As part of our effort to improve the timeliness and quality of the Department's food consumption data, in 2003 ERS launched an interagency effort to develop a proposal for an external review of USDA's food consumption data needs and gaps. Enhancements to the food consumption data infrastructure are critical to understanding and addressing many market and policy issues in the Department. The interagency effort led to the funding of a review by the National Research Council's Committee on National Statistics. A panel of experts is being compiled, and the first stage of the data review will be a workshop to be held in spring 2004.

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 information needs of USDA, Congress, program managers, policy officials, clients, the research community, and the public at large. FANRP research is conducted through internal research at ERS and through a portfolio of external research. Through partnerships with other agencies and organizations, FANRP also enhances national surveys by adding a food and nutrition assistance dimension. FANRP's long-term research themes are dietary and nutritional outcomes, food program targeting and delivery, and program dynamics and administration.

ERS completed a Congressionally mandated study of USDA's Fruit and Vegetable Pilot Program (FVPP). Section 4305 of the 2002 Farm Act provided \$6 million to the FVPP for the 2002–2003 school year to improve fruit and vegetable consumption among the Nation's school children. The FVPP provided fresh and dried fruits and fresh vegetables free to children in 107 elementary and secondary schools—100 schools in 4 States (25 schools each in Indiana, Iowa, Michigan, and Ohio) and 7 schools in the Zuni Indian Tribal Organization (ITO) in New Mexico. The intent of the pilot was to determine the feasibility of such a program and its success as assessed by the students' interest in participating. The ERS monograph, *Evaluation of the USDA Fruit and Vegetable Pilot Program: Report to Congress (May 2003)*, provides an early review of the pilot.

Food pantries and emergency kitchens play an important role in feeding America's low-income and needy populations. During a typical month in 2001, food pantries served about 12.5 million people, and emergency kitchens served about 1.1 million people. These organizations are part of the Emergency Food Assistance System

(EFAS), a network run largely by private organizations with some Federal support. As part of the first comprehensive government study of EFAS, the ERS monograph, *The Emergency Food Assistance System—Findings From the Client Survey* (August, 2003), presents findings from a national study of EFAS clients who received emergency food assistance from selected food pantries and emergency kitchens.

ERS has continued to fund a national survey of food security and hunger, conducted by the Census Bureau as a supplement to the Current Population Survey (CPS). The survey is designed to measure whether U.S. households always have access to enough food to meet basic needs. ERS focuses its efforts on improving the measurement of food security, promoting the use of the CPS 18-item food security index, and contributing to a better understanding of the determinants and consequences of food insecurity in the United States. ERS released the annual report, *Household Food Insecurity in the United States, 2002*, that provides statistics on the food security of U.S. households, as well as on how much they spent for food and the extent to which food-insecure households participated in Federal and community food and nutrition assistance programs.

ERS delivered the Congressionally mandated study, *Assessment of WIC Cost-Containment Practices: A Final Report to Congress* in February, 2003. WIC State agencies adopt various cost-containment practices to reduce food costs, such as limiting food-item selection by 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.

CONSUMER DATA AND INFORMATION SYSTEM

The request for an increase of \$8,676,000 will fund the development of an integrated and comprehensive data and analysis framework of the post-farm food system to identify, understand and track changes in food supply and consumption patterns and to explore the relationship between consumers' knowledge and attitudes and their consumption patterns. The centerpieces of this framework are nationally representative consumer and retail surveys of food prices, retail sales, consumption and purchases of food for at home and away-from-home eating, as well as data on consumer behavior, reactions, attitudes, knowledge, and awareness. This information system will provide market surveillance and insights into price changes, market demand, and consumer reactions to unforeseen events and disruptions such as the recent discovery of Bovine Spongiform Encephalopathy (BSE). In addition, the data and analysis framework will provide intelligence on diets, knowledge and awareness levels, helping policymakers respond to current events, such as the rise in obesity and overweight, and their interactions with the U.S. food and agriculture system. Such understanding will provide a basis for ensuring that consumers enjoy a low-cost, safe, secure, and nutritious food supply, as well as enhancing their health and productivity, and enabling farmers to prosper with new ways of doing business in diverse and ever-changing food markets by identifying changing consumer demand.

The Consumer Data and Information System has four components providing intelligence across and within the food and agricultural complex. The first component, a Food Market Surveillance System, is an integrated set of surveys and supporting analysis concentrating on production and linkages in agriculture beyond the farm-gate. It would be the foundation of a research and monitoring program to: provide timely price, purchase, and sales data; identify food consumption patterns of consumers and how they change; provide consumers with improved information; quickly survey consumers about new issues or developments; and measure and identify strategies for managing food losses and waste. The second component, a new Rapid Consumer Response Module, would provide real-time information on consumer reactions to unforeseen events and disruptions, current market events, and government policies. This module would be integrated into several proprietary consumer data panels currently maintained by private vendors. The third component, a Flexible Consumer Behavior Survey Module (FCBSM), would complement data from the National Health and Nutrition Examination Survey (NHANES). The FCBSM would provide information needed to assess linkages between individuals' knowledge and attitudes about dietary guidance and food safety, their food-choice decisions, and their nutrient intakes. Combining the NHANES with this new module allows analysis of how individual attitudes and knowledge about healthful eating affect food choices, dietary status, and health outcomes. The last component is additional staff to ensure the successful design and implementation of the Consumer Data and Information System.

As a Nation, we face challenges to our health, safety, and food arising from rapid changes in technology, social structure, and a globalizing economy. The cumulative effect of these issues and others is to strain and erode a general understanding of the role food and diet plays in our society. USDA's ability to assure nutritious foods and respond to these issues is grounded on investments in the creation of knowledge.

Goal 5: Protect and Enhance the Nation's Natural Resource Base and Environment

In this area, ERS research and analytical efforts, in cooperation with the Natural Resources 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 farm income 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 programs in the Conservation Title. In addition, ERS provided extensive support to other USDA agencies in developing rules for implementation of 2002 conservation programs. ERS participated in Farm Service Agency (FSA) and NRCS working groups on the Conservation Reserve Program (CRP), the Environmental Quality Incentives Program (EQIP), 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, CSP and the third-party technical service provider rule. For instance, ERS participated in the EQIP Benefit-Cost Analysis Team and helped to prepare the NRCS report Environmental Quality Incentives Program: Benefit Cost Analysis released in May 2003. 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.

Since 1985, U.S. agricultural producers have been required to practice soil conservation on highly erodible cropland and conserve wetlands as a condition of farm program eligibility. Compliance mechanisms have been criticized, however, for low standards and lax enforcement. A report to be released in 2004, Environmental Compliance in U.S. Agricultural Policy: Past Performance and Future Potential, discusses the general characteristics of compliance mechanisms, their effectiveness in their current form, and the potential for expanding compliance to address nutrient runoff from crop production. This report will empirically assess the extent of erosion reduction that is likely to be the direct result of compliance. NRCS has indicated that the data and analysis developed for the report will be useful in carrying out the benefit-cost analysis of compliance that the agency has been ordered to undertake.

The Congressionally-mandated study, The Conservation Reserve Program's Economic and Social Impacts on Rural Counties, transmitted to Congress in January 2004, addresses a number of concerns about the unintended consequences of high levels of enrollment in the CRP. Long run trends in rural employment and population are influenced by a variety of characteristics, and some have argued that high levels of CRP enrollment exacerbate the declines suffered by many rural communities. However, the report finds no statistically significant evidence that high enrollments in the CRP have had a systematic, adverse effect on population or community services in rural counties across the country. High CRP enrollments were associated with a negative effect on jobs in the years immediately following program introduction, but this effect generally was short-lived as communities adjusted to changing demands and new economic opportunities. In addition, CRP has improved hunting and fishing opportunities in rural areas. Changing the way CRP participants are compensated can affect the productivity profile of enrolled soils, but these changes would be small and represent a necessary cost of enrolling environmentally sensitive land.

ERS researchers have actively assisted NRCS 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 proposed to the Total Maximum Daily Load (TMDL) provisions. Following up on the report Confined Animal Production and Manure Nutrients, published in 2001, is a new report, Manure Management for Water Quality: Costs of Land Applying Nutrients from Animal Feeding Operations, released in June 2003, which 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 meet-

ing 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.

As rising populations and incomes increase pressure on land and other resources around the world, agricultural productivity plays an increasingly important role in improving food supplies and food security. The report, *Linking Land Quality, Agricultural Productivity and Food Security*, released in June 2003, explores the extent to which land quality and land degradation affect agricultural productivity, how farmers respond to land degradation, and whether land degradation poses a threat to productivity growth and food security in developing regions and around the world.

In fiscal year 2003, ERS initiated the Program of Research on the Economics of Invasive Species Management (PREISM). PREISM promotes economic research and the development of decision support tools that have direct implications for USDA policies and programs for protection from, control/management of, regulation concerning, or trade policy relating to invasive species. Accomplishments in PREISM's first year included organizing the Economics of Invasive Species Workshop (May 12–13) and conducting a competitive grants and cooperative agreements program. The workshop brought together invasive species experts from the USDA and other Federal agencies, State governments, universities, industry, and non-governmental organizations to identify research priorities that would inform USDA invasive species policy and program decisions. The competitive grants and cooperative agreements program funded 12 research projects in the areas of bioeconomic modeling and risk assessment, trade and invasive species, and the economics of alternative approaches to managing invasive species. When completed, these projects will provide insights, information, and practical decision tools to help USDA policy makers deal with the uncertainties and risks associated with invasive species outbreaks, jointly account for biological and economic factors in prioritizing invasive species threats, allocate resources between exclusion and control activities, and evaluate new approaches to addressing invasive species threats (including insurance schemes and producer purchased bonds).

CUSTOMERS, PARTNERS, AND STAKEHOLDERS

The ultimate beneficiaries of ERS' 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: NASS 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 STATISTICS 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 2005 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, conducts 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 progression of American farms and ranches to make greater use of agricultural science and technology increases the need for more detailed informa-

tion. 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 at the same time reviewing priorities in order to consider emerging data needs. The Farm Security and Rural Investment Act of 2002 created the need for several new data series. For example, NASS designed a new survey in cooperation with the Natural Resources Conservation Service (NRCS) and the Farm Service Agency (FSA) to collect information on land management and conservation practices. This assessment will be used by NRCS and FSA to report annual progress on the Farm Bill conservation program implementation. Additionally, the Act introduced several other new agricultural data needs and reinforced the importance of existing data series to ensure the continuation of farm security and rural investments. For example, counter-cyclical payments are determined in part by market year average prices determined by NASS. Each \$0.01 change in the average corn price can result in a change of more than \$80 million in counter-cyclical payments. Similarly, large payment changes also apply for the other program crops. These are only a few specific data needs required by the Act, but they clearly highlight the importance of a strong, reliable agriculture statistics program.

The 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 was demonstrated by NASS, through its State-Federal cooperation, during the planning, collection, and preliminary release of the 2002 Census of Agriculture. Improved quality, an 88 percent response rate, and professional customer service through the use of a toll-free telephone 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 products produced in the United States are changing rapidly as producers continue to become more efficient. 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 fiscal year 2003, NASS issued the U.S. Broiler Industry Structure report. This report provided a summary of the changes in the structure of the U.S. broiler industry from 1934 to present.

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. For example, a special report titled *Corn, Soybeans, and Wheat Sold Through Marketing Contracts 2001 Summary* was released in February 2003. This report included information on marketing contracts at the United States and regional levels by Economic Sales Classes and by Farm Production Region and was developed to help identify changes in the structure of the Nation's grain and oilseed markets.

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 and can download any of these reports in a format easily accessible by standard

software. A summary of NASS and other USDA statistical data are 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 streamlines Federal agricultural data collection activities and has improved the efficiency, timeliness, and quality of the census data. Preliminary results of the 2002 Census of Agriculture were released on February 3, 2004. The preliminary release included selected demographic data at the National and State level and are available by request via CD-Rom, the NASS Website, or in paper copy. The final National, State, and county level data are scheduled to be released on June 3, 2004. The 2002 Puerto Rico Census of Agriculture was also released on February 3, 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 implemented statistical methodology to measure and adjust for the incompleteness of its list sampling frame. This allows for more complete coverage of farms traditionally difficult to identify during list building activities, mainly small and disadvantaged farm operations. 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. NASS is making considerable advancements in providing respondents the option of reporting via the Internet with the ultimate goal of giving the Nation's farmers and ranchers the opportunity to electronically respond to the 2007 Census of Agriculture.

The fiscal year 2004 budget included \$4.8 million for agricultural estimates restoration and modernization. These funds provided a much needed foundation for quality improvements in forecasts and estimates and are greatly appreciated. The 2004 funds are being used to improve the precision level from commodity surveys conducted by NASS. The majority of the funding is being allocated to increased sample sizes and the data collection activities of local interviewers throughout the Nation.

MAJOR ACTIVITIES OF THE NATIONAL AGRICULTURAL STATISTICS SERVICE (NASS)

The primary activity of NASS is to provide reliable data for decision making based on 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 65 percent of NASS's staff are located in the 46 field offices; 23 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. NASS data allows EPA to use actual chemical data from scientific surveys, 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 (ERS) 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 United States, 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. Through funding provided by this Committee in fiscal year 2003, data on the status of the farm economy will now be expanded to the State level for 15 major agricultural States.

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 148 special surveys in fiscal year 2003 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 Brazil, China, Ecuador, El Salvador, Ethiopia, Kazakhstan, Mexico, Russia, South Africa, and the Ukraine. In addition, NASS conducted training programs in the United States for 168 visitors representing 27 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 the Secretary of Agriculture's Advisory Committee on Agriculture Statistics, 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. As a result of these activities, the agency has made adjustments to its agricultural statistics program, published reports, and expanded electronic access capabilities to better meet the statistical needs of customers and stakeholders.

FISCAL YEAR 2005 PLANS

The fiscal year 2005 budget request is for \$137,594,000. This is a net increase of \$9,433,000 from fiscal year 2004.

The fiscal year 2005 request includes increases for the continuation of restoration and modernization of NASS's core survey and estimation program (\$7,045,000); improvement in the statistical integrity and standardization of the data collection and processing activities of the Locality Based Agricultural County Estimates/Small Area estimation program (\$2,500,000); collaborative Presidential and Departmental eGovernment initiatives (\$785,000); funding for increased pay costs (\$1,812,000) and funding to recognize employee performance (\$465,000). The request also includes a decrease due to the cyclical activities associated with the Census of Agriculture program (-\$3,174,000).

An increase of \$7,045,000 and 10 staff years are requested to fund phase II of the restoration and modernization of NASS's core survey and estimation program. This increase will be directed at continuing 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. Funding in fiscal year 2004 is primarily being used to restore sample sizes for greater statistical defensibility. These changes are designed to increase precision at the State and regional levels to promote the NASS goal for fiscal year 2004 of reaching precision target levels at least 60 percent of the time for major survey indications. The additional funding requested in fiscal year 2005 will allow continued improvements and provide the necessary resources to reach precision target levels an estimated 77 percent of time.

An increase of \$2,500,000 and 4 staff years are requested 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 survey precision for small area statistics. Proper follow-up data collection activities and redesign of survey systems will improve the critical 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. This affects premium levels paid by producers. The FSA 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 2002 Farm Bill. In addition, financial institutions, agriculture input suppliers, agricultural marketing firms, and transportation utilize county level data to make informed business decisions.

An increase of \$785,000 for collaborative eGovernment efforts is requested to support Presidential and Departmental eGovernment initiatives. Specifically, the funding will support NASS's share of the USDA Presidential initiatives, the continued development of the USDA Enterprise Architecture, and the USDA Enablers initiative. Without this funding, NASS's efforts to increase the percentage of questionnaires available via the Internet will be negatively impacted.

A net decrease of \$2,610,000 and 7 staff-years is requested for the Census of Agriculture. The Census of Agriculture budget request is for \$22,520,000. This includes a cyclical program cost decrease of \$3,174,000, partially offset by \$564,000 for employee compensation. The available funding includes monies to finalize analysis, summary, and dissemination of the 2002 Census of Agriculture. The reduction reflects the decrease in staffing and activity levels to be realized due to the cyclical nature of the 5-year census program and the postponement of the Census of Horticultural Specialties. Historically the Census of Horticultural Specialties has been conducted every 10 years, but due to the dynamic growth of this industry, NASS was planning to measure this component of agriculture every 5 years. Competing funding priorities have precluded this accelerated schedule. The annual program covering selected horticultural commodities will continue to be available.

This concludes my statement, Mr. Chairman. Thank you for the opportunity to submit this for the record.

Senator BENNETT. Thank you all for your testimony.

FACILITY FEASIBILITY STUDIES

Dr. Jen, in the Senate report that accompanied our bill last year and the narrative that accompanied the conference report, we both included direction to ARS to provide feasibility reports on various buildings and facilities projects. Took a little heat on that from some of my colleagues who said we want our building money right now without having to go through a feasibility report.

But the House and Senate Committees both agreed that funding requests for construction projects would not be considered until a feasibility study and forwarded to the Committee by March 1, and we requested that FAS prioritize these projects. To date, we have not received your reports. I do not think that that means that there are not going to be any ARS appropriations, but I would like to

know what the status of the preparation of these reports are and why they have not been forwarded to the Committee.

Dr. JEN. Mr. Chairman, it is my understanding that those feasibility study reports have been delivered already to the Committee members. Is that correct?

Senator BENNETT. They came up by courier last Friday? Okay; has the courier reached us?

Well, the report is in the mail.

I think we better find out where it is, because obviously, if we are going to act on that basis, we need the reports, so I assume you kept a copy.

Dr. JEN. We did. We will check on the courier.

Senator BENNETT. Send us another one.

Dr. JEN. Yes.

Senator BENNETT. And when the courier shows up, wherever he or she may have wandered, why, then, we will have two, but we would appreciate getting those as quickly as we possibly could.

Dr. JEN. We will make sure that you have them, Mr. Chairman.

CONGRESSIONAL ADD-ONS

Senator BENNETT. Okay; now, while I have you, let us concentrate on the impact on ARS. The fiscal year 2005 budget request assumes the termination of all additional funding provided by Congress during the last four appropriations cycles; that is, where the initiative came from the Congress. We are talking about \$170 million roughly. Setting aside for the moment the debate about whether members of Congress have a better idea of the needs of their particular areas than the Department does, let us concentrate on the impact on ARS.

If Congress were to agree to these terminations, we calculate 312 ARS scientists, researchers and support staff in 42 States would lose their jobs, which is roughly 3 percent of the total ARS staffing. That is not a huge amount of people unless you happen to be one of the 312, but that does not count the people that ARS is currently in the process of hiring with fiscal year 2004 monies, nor does it include the impact on cooperative agreements with the various universities.

I have been out and visited the universities and found the ARS to be probably the most popular single program at various agricultural schools, because of the synergy that they feel between their faculty and ARS people. When universities say we really do not know or care whether a researcher is an ARS type or a member of our faculty, the cooperation is so close.

So this would be a very serious reduction, and how would you plan to go about conducting a reduction in force of this size, and do you have any ideas what it would cost?

Dr. JEN. Mr. Chairman, I think I appreciate particularly your comments about the fact that ARS scientists are very well respected in the university campuses. In my travels, I have found it to be the same. Many universities would prefer that ARS scientists would never be relocated or change direction, and many of them wish ARS scientists would become university faculty members.

Senator BENNETT. Is that how we are going to do the RIF is get them all hired by the universities?

Dr. JEN. No, I do not believe so, sir. Some of them probably will have that opportunity. Other ARS scientists would be offered reassignment in funded vacant positions either at the location or at other ARS locations throughout the country.

We are under a very difficult budget situation. Personally, I recognize that this is a very difficult situation.

Senator BENNETT. Well, does that mean we no longer need to provide funding for diet, nutrition and obesity research at the Pennington Biomedical Research Center or Pierce's Disease research in California or Sudden Oak Disease research in Maryland? These are all projects that are terminated apparently because Congress thought of them rather than the Administration. Do we consider that these projects are now complete?

Dr. JEN. Yes and no, sir. Some of the projects are being carried out in more than one location, so some of the slack will be picked up by the other research locations.

ARS has over 1,100 projects. Some of the projects will have to be terminated after the job has been completed. However, if you allow researchers to determine when projects have been completed, they will never be done.

Senator BENNETT. I understand that.

Dr. JEN. And so, sometimes, you know we have to make that hard choice.

Senator BENNETT. I understand that. I would just hope, and it does not appear, that the controlling factor as to which projects get terminated and which ones do not is which ones came from the Congress and which ones did not. I would like to think maybe Congress knows a little bit about some of these things and has a role to play as to who gets funded and who does not. There is an uncertainty here if, in every instance, and your Administration is not the first, in every instance where they request termination of every Congressionally-originated project, Congress somehow finds the money to fund them anyway, but this is a year-to-year funding situation without the stability that comes elsewhere, and I would think it would have an unfortunate impact on the efficiency and continuity of some of these programs. Do you have any sense that the Congressionally-sponsored programs are, by definition, inferior to the others?

Dr. JEN. I do not believe so, sir. In fact, we make a very conscious effort to coordinate the projects that were initiated by Congress with the base programs.

Senator BENNETT. Well, we will look at this closely. I note that the budget requests termination of the diet research and obesity research program at Pennington Biomedical Research Center at ARS headquarters and then requests funding for an Administration initiative to do similar research at the same facility. I am not sure we are going to do that. We will have this discussion as we go forward, and I appreciate your candor and your sensitivity to this issue.

CONSERVATION SECURITY PROGRAM

Mr. Rey, you have estimated the cost for the CSP at \$13.4 billion. Did I get that number right?

Mr. REY. That would be our computation of the cost of the proposed rule projected forward through the life of the program. That is a theoretical estimate, obviously.

Senator BENNETT. That is a theoretical estimate.

Mr. REY. Right.

Senator BENNETT. All right; never mind. I had another name for it, but I will not put it on the record.

Mr. REY. Theoretical works better in a public hearing.

Senator BENNETT. Yes, yes; well, okay, if the program becomes an open-ended entitlement, as some have suggested, do you have any estimate of the cost?

Mr. REY. That is somewhat difficult to anticipate. I do not think anyone really knows what the total cost would be at that point. One of the limitations would be the limitation of a 15 percent cap on the use of technical assistance in delivering the program. That will limit how many NRCS employees and hours could be spent delivering it, because there are, as I said in my remarks, 700,000 farmers and ranchers that would be eligible.

So I think it is conceivable that there would be an excess of what we have projected the proposed rule forward to cost. But that would be hard to predict based on what we know today.

Senator BENNETT. All right. Senator Kohl has joined us, so I will stop in this round and turn it over to Senator Kohl, reserving the option of a second or third round.

Senator KOHL. Thank you, Senator Bennett.

DAIRY FORWARD CONTACTING

Dr. Collins, in 1999, Congress passed legislation to set up a dairy forward contracting pilot program, which is set to expire at the end of this year. Dairy forward contracting, as you know, allows buyers and sellers to voluntarily agree upon delivery of a specific amount of milk for a set price over a specified period. About 655 of Wisconsin's dairy farmers have participated in the pilot program. Many of them recommend making this voluntary program permanent because it gives them a new way to manage their risk.

Can you tell us the Administration's position on this program? Do they support legislation that would make the dairy forward contracting program permanent?

Dr. COLLINS. Senator Kohl, to answer that directly, I think I would have to see the legislation and get the Secretary's view on that. I would say that, however, we have looked at this program a couple of times. We did a mandated study of the program in 2001. We followed that up with a supplement to the report based on the experience of 2002. And in those cases we found that the forward contracting program worked perfectly fine. In 2001, producers actually were slightly worse off than they would have been had they not participated in forward contracting. In 2002, we found just the opposite, that producers were slightly better off than had they not participated in forward contracting.

The only issue that the Department has raised with respect to this is, while it sees no problem with continuing a forward contracting program for milk used for Class III and Class IV purposes, it has been concerned about legislative proposals that would allow forward contracting for milk used for Class I purposes. So that

would be the one reservation that I would raise on legislation on this issue.

REOPENING EXPORT MARKETS FOR BEEF AND POULTRY

Senator KOHL. All right. Secretary Penn, following the BSE discovery in Washington State last December, our beef export markets, as you know, were badly shaken. Similarly, we have seen problems with certain poultry export markets due to avian influenza. In both these cases, the problem originated in another country and was imported to the United States. Open markets are a two-way street. They allow our products to move in foreign commerce, but they also raise the possibility that we are importing serious problems.

Could you update us on what USDA is doing to reopen export markets for our beef and poultry products? And can you please comment on how we protect our export markets from problems which are themselves foreign in origin?

Dr. PENN. Well, thank you for the question, Senator. I think you characterized the situation very aptly. Since the discovery of this one cow on December 23rd in Washington State, and since early-year outbreaks of avian influenza on the east coast and the hi-path avian influenza case in Texas, we have seen our export markets summarily closed for beef and a large amount of our poultry products.

Before the BSE outbreak, we had anticipated exporting \$3.8 billion worth of beef and beef products this year, and we had anticipated our poultry products to be \$2.3 billion. Together, that is about 10 percent of the total amount of exports that we had forecast for the year.

So this is very important to us, and we have set about immediately trying to engage our customers, our trading partners, and to try to get the markets reopened.

In every case, we have tried to make sure that we do this on the basis of sound science, that is, that we try to make sure that we have taken all of the amelioration measures that are warranted, and then we have gone to great lengths to explain to our trading partners what we have done and why that ensures the safety of the product that we are trying to sell to them and the safety of the product for our own consumers.

We have provided a large amount of technical information to all of these markets. We have sent technical teams to several of these countries to more fully explain what we have done and why our products are safe. And in several cases, we have invited technical teams from various countries to come and review our procedures and visit our plants and facilities. This has certainly been the case with Japan and Mexico. We anticipate a technical team to come from Korea in the very near future.

Again, the international standards that govern trade in both of these products indicate that once certain measures have been taken, then it is okay for trade to resume. We think that we have taken all of the measures that are appropriate to take, all the measures that are based upon science, and we are now in the process of encouraging these countries to resume trade as quickly as possible.

I am pleased to say that in the case of Canada, much of that market for beef has reopened. In the case of Mexico, we have restored about 65 percent of what we were formerly exporting to Mexico. And in the case of poultry, we have managed to get most of the pipeline shipments—those shipments that were caught on the water between the export point and the delivery point moved into the country. And we have managed to get many of those markets to regionalize, to only ban products from States in which we have had actual outbreaks of avian influenza, rather than banning all exports from the United States.

So we are continuing to work diligently on this, and I hope that we get a substantial portion of these markets restored in the very near future.

Senator KOHL. You said at the outset of your statement that we were predicting exports of beef products—did you say three-point—

Dr. PENN. \$3.8 billion for beef.

Senator KOHL. And poultry at?

Dr. PENN. \$2.3 billion.

Senator KOHL. Yes. So what is your anticipation now for the year? Are you prepared to make some estimate?

Dr. PENN. I have not done a new rack-up in a while, but we think that for beef, out of the \$3.8 billion, we have about \$1 billion restored at the moment. We are hoping to get more of that restored, of course, with our big markets like Japan and Korea and Hong Kong, in the very near future.

For poultry, the situation is much better. I don't know the percentages, but of the \$2.3 billion, we now have trade flowing for a substantial part of that. We are not exporting from the State of Texas, where we had hi-path avian influenza, and a few other States. But we are doing much better for poultry than we are for beef at the current moment.

TRADE IMPLICATIONS OF GENETICALLY MODIFIED CROPS

Senator KOHL. Dr. Penn, given the fact that there has been a tremendous increase in U.S. production of genetically modified crops, and given the trade implications, do you think that we have allowed for too much production of biotech crops before we had the knowledge and the tools in hand to make sure contamination would not occur? If we have moved so quickly on biotech crops that we placed some of our export markets at risk, what steps are you taking to meet concerns of some countries that will not even accept those genetically modified crops as food aid?

Dr. PENN. Well, this question has a connection to the previous question, and that is, we are increasing our exports of agricultural products almost every year, and more and more of our agricultural products involve genetically modified products. These are products that have gone through the regulatory system in this country, and we think that we have got one of the best, strictest regulatory systems anywhere in the world.

We continue to insist that these trading rules must be based on solid scientific underpinnings, and there are international organizations that are involved more and more in helping to establish these trading rules—the OIE or the International Organization for Ani-

mal Products, the IPPC, which relates to plants, CODEX, which relates to food products—and I think more and more we are going to have to rely on these international standard-setting bodies to be the ones that govern rules for trading in various kinds of products.

Now, with respect to biotech products, as you correctly note, biotechnology in a very substantial way burst upon U.S. agriculture in 1996, sort of all of a sudden, with Roundup Ready soybeans. In our most recent crop report, the acreages for corn, cotton, and soybeans, the proportion of the acreage that is biotech has substantially increased: 46 percent of the corn acreage for the coming year, farmers are indicating, will be biotech, and about three-quarters of our soybean and cotton acreage will be biotech.

Now, these products have been approved by our regulatory authorities. They are as safe as other products. And we see no reason why there should be any restraint of trade in those products. We continue to have problems with some markets, most notably the European Union, of course, but we are continuing to try to educate and persuade in that case.

You mentioned specifically food aid. I think that is very, very unfortunate that we have people who are literally starving and who are being denied perfectly safe food simply because their authorities are insisting that for various reasons no genetically modified food aid be allowed.

Now, I am aware of the case, the most recent case in Angola that you mentioned, and our USDA authorities are working with the World Food Program and with the nongovernmental organizations that are supplying food in Angola. And we are trying to work around this problem because literally people's lives are at stake in this case. So we are trying to work through this, and then we are also trying to educate other countries about the safety of genetically modified food so that we don't have these kinds of disruptions of food aid in the future.

GEOSPATIAL INFORMATION SYSTEM

Senator KOHL. All right. Finally, Dr. Penn, in the Common Computing Environment account, there is a request for \$9 million for FSA to complete digital data maps for rural farm communities across the country. These maps are an important tool to the farmer and for the agency to effectively administer farm, conservation and disaster programs and also to provide critical information with animal or plant disease outbreaks.

It is my understanding that the data must be digitized and as a last step certified before this information can be of any use to the farmer or agency. In my own State of Wisconsin, not a single county has been certified.

Can you tell us how many of the 3,051 counties in the United States targeted by FSA have been digitized and certified? When do you expect to finish this work?

Dr. PENN. I cannot tell you that right now off the top of my head, but I will certainly be happy to get that information and we will provide it to you. We won't use Dr. Jen's courier.

We will try to make sure that we hand-carry that information so that you have it in a short period of time.

But I can say that this is, as you note, a very important step forward, being able to have these maps. They are important not only for FSA, but they have benefits for our colleagues in the natural resources conservation area and in the crop insurance area. It is very important that we complete this project, which is a multi-year task. We not only have money in the FSA budget, but there is also a request for support of the Geospatial Information System within the \$18 million increase in the budget of the Office of the Chief Information Officer for USDA, which funds our common computing environment. And we very desperately need to get that funding because our efficiency gains in the future very much depend on being able to implement a lot of this new technology. Our budget does not support additional numbers of people, so we really do need the new technology.

Senator KOHL. I do appreciate your willingness to supply a progress report on where we are.

Dr. PENN. We will do that.

[The information follows:]

GEOSPATIAL INFORMATION SYSTEM (GIS) PROGRESS

As of April 7, 2004, 1,767 counties have digitized common land units (CLU's) and 381 of these counties have been certified. Of the 72 counties in Wisconsin, 20 counties have digitized CLU's. While no counties in Wisconsin are currently certified, about 10 counties are planned for certification by the end of fiscal year 2004.

Approximately 2,100 to 2,200 counties should be digitized by the end of the fiscal year. At the current rate, we would expect to have as many as 700 to 800 counties certified by the end of the fiscal year.

Senator KOHL. Thank you so much, and thank you, Mr. Chairman.

Senator BENNETT. Thank you, sir.

Senator Harkin.

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

NATURAL RESOURCES AND ENVIRONMENT

First, I would like to start, if I could, with Under Secretary Rey. Mr. Rey, you are obviously the top official at the Department of Agriculture in the area of conservation and natural resources and environment. Dr. Penn sitting next to you there, he is the lead when it comes to commodities, like corn and wheat and beans and other products that are important to society.

Mr. Rey, your responsibilities, I believe, also involve products or commodities that farmers and ranchers produce and which are very important to society and for which society has said that it is willing to pay. Those products or commodities include, of course, clean water and air, productive soil, wildlife habitat, and so forth.

This idea of conservation and environmental benefits as commodities or products was part of our thinking in the Farm Bill. And as you know, it has further evolved, for example, when we envisioned carbon credit trading.

CSP PROPOSED RULE

So, Mr. Rey, with that in mind, I want to convey my thanks to the Secretary, to you, to Mr. Knight, for providing public access to the comments on the CSP proposed rule. Farmers, ranchers, and the general public have sent more than 14,000 comments, as I un-

derstand it, and I understand virtually all expressing disappointment in the proposed rule. I also know that you attended the listening session on the proposed rule in Des Moines in February, where over 250 people attended, again, which I understand most of whom opposed the proposed rule and everybody who spoke was against the proposed rule.

So I guess I would just start off by saying that I am sure you acknowledge that there is a very high level of interest in the CSP and that there is a widespread disagreement with the proposed rule and that these are serious and substantive concerns. And I would just ask, you know, again, for any comments you have on what I have just said and what is happening to the proposed rules and when we can expect to see a final rule.

Mr. REY. First of all, I don't disagree with your characterization of how the comments were transmitted to us. As I said before you arrived, I think many of the comments expressed concerns which we have an obligation to address in clarifying our intent about how the rule is drafted and how it will work in practice. Other comments are concerns that are going to drive changes to the proposed rule, and that is why we have comment periods, to get those kinds of comments.

We are trying to bring forward a final rule in time for there to be a CSP sign-up this year so that we can use the money that you and other Members of Congress appropriated in the fiscal year 2004 Agriculture and Related Agencies Appropriations bill. And I would be happy to share with the Committee for the record our current schedule, which we think will get us there in time to start a sign-up this year.

[The information follows:]

TIMELINE TO FIRST CSP SIGN-UP

Mid May	Complete analysis of the Public Comments on CSP proposed Rule
Mid June	Clear and Publish CSP Final Rule
Early July	Conduct First CSP Signup
End of July	Complete Signup
August	Begin enrolling CSP contracts
September	Complete full obligation of fiscal year 2004 CSP funding

Mr. REY. I won't repeat my summary of some of the basic concerns and where we think we can either clarify our intent to address those concerns or make some changes to address those concerns. But I will share them with your staff today and later as we move forward in the rulemaking process.

I will say that the Des Moines hearing was, I thought, a good one. I remarked to all of the assembled commentators that, because of their numbers, we had asked them to be very brief in their comments. And I told them that I was pleased that they were respectful of the time limits that we imposed on them, if not the regulatory proposal on which they were commenting. But we got a lot of good comments. I took somewhere in the neighborhood of eight or nine pages of notes from the session.

Senator HARKIN. I appreciate that, and I have heard from other States where you have had the forums, and I understand they were also well attended in other States and that the general consensus

was that most of the farmers were very upset, ranchers that came in were very upset with the proposed rules, thinking that it really was going to cut a lot of them out of the program. That seems to be the general consensus, at least as I have heard from the input that I got.

CSP FUNDING CAP

Now, again, in the proposed rule, USDA complains about the difficulties that come from running a program open to all producers but with a strict funding limit. The proposed rule says, "The greatest challenge was to design a new conservation entitlement program with a cap." Well, as we both know, CSP does not have a set funding limit starting October 1st of this year.

Mr. REY. Right. At the time that the rule—

Senator HARKIN. And you talked about that in your statement. I read that. I read that. But the President's budget proposes one.

Mr. REY. We propose a cap for fiscal year 2004 and—well, Congress provided one for 2004.

Senator HARKIN. Yes.

Mr. REY. We are proposing an amount of money for 2005.

Senator HARKIN. Well, do you see the irony that I have just—the irony that USDA is complaining about the difficulty of implementing a rule that is open to all with a cap, okay? But we took off the cap. Then the Administration turns around and requests a cap for next year.

Mr. REY. But I think the order of sequence was that the cap was taken off after our budget was sent forward. It was taken off in the Omnibus Appropriations Bill for fiscal year 2004.

Senator HARKIN. Well, that is true. That is true. I don't know the sequence of events, but that is true. It was taken off in the Omnibus Appropriation before the budget.

Mr. REY. So, I mean, I think that is an issue—

Senator HARKIN. So is the Administration requesting a change then in their budget proposal to reflect what we did?

Mr. REY. Well, I don't think we have to. That is now before you, and I assume that Congress will continue to give us clear direction.

FISCAL YEAR 2005 FUNDING REQUEST

Senator HARKIN. Well, I mean, the Administration could come back and say look, you know, we do not need a cap now since Congress has taken it off, that—what, \$205 million, I think it was, if I am not mistaken.

Mr. REY. \$209 million for fiscal year 2005.

Senator HARKIN. For next year, yes, right.

Mr. REY. I think the more useful thing for us to provide to the Congress at this juncture as you consider the 2005 bill is our best estimate of what the different program options would cost.

Senator HARKIN. So you are no longer requesting a cap?

Mr. REY. We are going to abide by whatever Congress eventually tells us to do, which we should do.

Senator HARKIN. Which we said no cap.

Mr. REY. Right.

Senator HARKIN. I appreciate that. So, again, to continue this, the full funding was restored, as you pointed out, in the Omnibus

Appropriations Bill. But the proposed CSP rule—I am getting back to that proposed rule again—would bar the vast majority of producers from participating.

I wanted to do an analogy of what it would be like if we took the commodity program, which is an uncapped entitlement program. And I said, What would be the equivalent? In Iowa, with the proposed rule, if we did this on the commodity program, it would be like USDA arbitrarily limiting commodity payments only to those Iowa farmers who produce more than 200 bushels an acre of corn and only if they live in one of 12 of our 99 counties chosen here in D.C. And, further, these farmers would receive no payments for their soybeans. To top it off, the payments would only be one-tenth of what is in the Farm Bill. And any farmer who does not qualify for the commodity program 1 year has to wait another 8 years to apply again.

So I am just saying, if we think about conservation as a commodity, compared to the commodity programs, and one for which society has said it is willing to pay, then it would seem that we need some kind of equivalency. We need to start looking at this a little bit differently than what we have in the past.

ACCESS TO CSP BY PRODUCERS

USDA says only 14,000 producers will get into CSP a year. Is that not your—you are looking at me quizzically. Did I misstate myself?

Mr. REY. No, that is—

Senator HARKIN. 14,000 a year. Again, in Iowa, with this percentage only 700 Iowa farmers out of 93,000 would get into the CSP a year.

Now, I have tried to figure that out, and I figure it would take about a little over 100 years for them to get into the program if that is what we are going to do. My point is it would not be acceptable for a commodity program to do that, and it should not be acceptable for this kind of commodity program.

TECHNICAL ASSISTANCE

Mr. REY. But, again, to talk about terms of equivalency, one of the key limitations to the rate of entry of the program is how we provide NRCS technical assistance to producers who want to come into the program. That 14,000-producer limit is as much a reflection of the cap on the use of technical assistance funding in implementing the program as it is anything else. And with the commodity programs, we do not have such a limit on how the agency brings people into the program. That is something we can obviously work on and fix.

Senator HARKIN. I heard about that, and I read it in your testimony, and I heard you mentioned it earlier, too, I think, in answer to a question here. I thought about that. And so I asked my staff, I said, What do we provide, what is the technical assistance under EQIP? I think it is 19 percent.

Mr. REY. Yes, it is a little higher.

Senator HARKIN. Nineteen, but I am told that it has been much less than 19 percent.

Mr. REY. In the past, we have had the latitude to use conservation assistance funds to provide part of the support for EQIP, which is something that we have separately argued about over the last couple of appropriations cycles.

Senator HARKIN. My staff informs me that it was capped at 19 percent in the past, the EQIP funding, my point being that if you can implement EQIP at that rate—I just want to take issue with you on the 15 percent being some kind of a problem for you. For the life of me, I do not understand that. I mean, 15 percent is, I think, a considerable amount of money to implement a program. And keep in mind, this is a program, albeit a new one, but relying upon a lot of things that you have already developed in the past, Bruce, and all of you. You have got these things. You know what they are. It is not like it is making something out of whole cloth. I mean, this is something that you have all done in the past.

So I cannot believe that a 15 percent limitation is any kind of a real onerous limit.

Mr. REY. Well, it is based on things that NRCS has done in the past.

Senator HARKIN. Sure.

Mr. REY. But it is clearly a new program that farmers are going to be facing for the first time, including, if the program works as Congress has intended, and we would like it to work, farmers that have not participated in some of the basic conservation programs like EQIP.

Last year, I am told that we used 24 percent, which was the level for technical services in EQIP. I think, for a new program, it is not a reasonable assumption to assume that you can do it for 10 percent less. Much of the cost of technical assistance that is going to be provided for a new program is not going to be things that NRCS does by itself in developing the program, but rather the time NRCS field agents spend with farmers explaining how a new program works, particularly farmers who have not participated in EQIP or any of the other basic conservation programs in the past. So this is a problem we can fix working together, but I think it is a problem.

TECHNICAL SERVICE PROVIDERS

Senator HARKIN. And we also provided, if I am not mistaken, and I am reaching back now, we also provided in the Farm Bill that in this regard I believe you can use people outside of NRCS for the technical—what is the word I am looking for?

Mr. REY. Technical service providers.

Senator HARKIN. Technical service providers can be used for that that also have this knowledge and can assist in doing that. So, again, I just have a hard time thinking that 15 percent is going to be a real onerous limitation on providing this because a lot of the practices that we are talking about are already being done by some farmers, not by others, but by some. So, therefore, since NRCS has got this history, they know the practices, it just does not seem to me to be a problem to transfer this over to others besides using the availability of outside people that we allowed you to use in the Farm Bill.

Mr. REY. The Technical Service Providers program is going to be instrumental in helping us deliver conservation programs, but that program itself has a ramp-up period to get technical service providers certified. And, moreover, they are going to be most useful in helping us apply specific conservation practices in existing programs. Now, that will help because that means that we can transfer some of our staff time out of EQIP, out of the Wetlands Reserve Program, out of the programs that are better established and use that time and effort to work on CSP, but that is going to be a ramp-up period as well.

I think this is an issue that we should continue to discuss. It is not going to be a problem in fiscal year 2004. We will begin to see the effect of the limitation on technical services in 2005 and beyond, and I think we will have time to adjust, if we need to.

But, at this point, I think I would say there is, if not the reality, then a high potential for a disconnect between the desire to bring as many producers into the program as quickly as possible and a limitation on how much NRSC staff time we can devote to going out and educating people about a new program and what their interests in it are and why they should be participants. That is a very resource-intensive process.

TIME LAG ON CSP IMPLEMENTATION AND RULEMAKING

Senator HARKIN. I appreciate that, and I have not—Mr. Chairman, I thank you for your indulgence—I have not been too hard on this in the past. I have worked with the Secretary and others. But when we passed the Farm Bill, we put in a 270-day requirement to get the rule out. That did not happen. Then, they said, “Well, we will get it out in a year.” That did not happen. And they said, well, they had a lot of other things to do. And I understand that. They had new commodity programs and everything like that. So I think we have been fairly indulgent on this.

We are now coming up on 2 years since the Farm Bill was passed—2 years—and not one farmer has been signed up in the CSP program. Now, you can understand why I am a little quizzical about the pace at which this is proceeding and whether or not—and I said this to the Secretary when she was here. Is there an attempt by some to kill the suborning—to kill it before it even gets off the ground?

Mr. REY. No such attempt.

Senator HARKIN. Well, it looks like that. I am just telling you. It is 2 years and not one farmer.

Mr. REY. Senator Harkin, you can usually explain most things by malfeasance rather than conspiracies. There is no conspiracy to do away with this program. It is a difficult program to implement. It is essential that we get it right because I believe we agree that it is the future of conservation on working lands. My testimony has said that. That is not a hollow commitment.

We are grateful for the Committee’s indulgence. You could do just one more thing to help us, and that is not help us again by changing it one more time between now and when we get the final program out.

Senator HARKIN. There are few things that I can assure you of. But because of what happened last year and the assurances I have

from the Chairman of the Appropriations Committee, it will not happen again until the Farm Bill is up.

Mr. REY. Excellent.

Senator HARKIN. Take it to the bank—as long as I am here. I mean, you know—

And as long as the Chairman is here. The Chairman has been very, very helpful on this, and I would not let this opportunity pass without thanking Chairman Bennett for his strong support of conservation programs, and I appreciate it very much.

Mr. Chairman, I spent all of my time on this. Are you going to have a second round?

Senator BENNETT. Well, I was going to, but I find most of the burning questions that I had Senator Kohl has asked. If you want to pursue another issue, we can do that.

Senator HARKIN. Just a little bit, I would appreciate it.

Senator BENNETT. Yes.

Senator HARKIN. Thank you, Mr. Chairman.

STANDARD REINSURANCE AGREEMENT

J.B., late last year, USDA cancelled the Standard Reinsurance Agreement—and I am sorry I am late. Has this been talked about? They cancelled the Standard Reinsurance Agreement with the crop insurance industry. I understand you are now in the process of negotiating a new one. I have heard a second draft of the SRA would impose \$40 million in cuts annually from the delivery system.

We have lost five companies in the last few years—five companies, the largest writer, American Growers, Fireman's Fund is now a reinsurer. Anyway, we have lost all of these companies. Two major reinsurers left the reinsurance market, and I understand there are a number of areas that are just served by only one company. So I am concerned about the proposed \$40-million cut and what will that do to any competition that we might even have left in the crop insurance industry.

Dr. PENN. Well, Senator Harkin, as you know, this is a process. It is a negotiation. And as you go through the negotiation, everybody makes their case, and everybody puts their most compelling arguments forward. And these are some of the arguments that are being put forward by some of the companies as we go through the negotiation.

Since the passage of ARPA in 2000, the risk management area or crop insurance area has changed substantially. We have had a large expansion in the crop insurance program. Last year we covered about 218 million acres. The liability insured was about \$40 billion. We have tremendously expanded the number of products that are available. There is continued expansion underway as the board reviews and approves new products, and the overall operating environment has changed.

So we thought it was prudent to review and renegotiate the insurance agreement. This is the agreement by which we deliver all of the services to the producers in this very unique public-private partnership. I mean, this is a public program that is delivered through the private sector. And we thought that it was time that we reviewed that contract, and we take account of all of these changes that have occurred.

As you said, it is a dynamic industry. There are companies that leave the industry. There are companies that come back into the industry. There are reinsurers that leave, reinsurers that come back. But we had one chance in the legislation and a 5-year period to revise this standard reinsurance agreement. This is the last opportunity that we had. So we thought we should do it.

RMA prepared a first draft to begin the process. And I have to say that first draft was pretty roundly criticized. We spent a lot of time with the companies, we listened to their concerns, and we have now prepared a second draft. That draft was made available last week to the companies, and they are beginning to review and to go through that now, and we are starting the process of having individual sessions with them to go through the second round.

We have proposed some \$40 million in savings. We think that we have a good basis for doing that, of course, or we would not have done it. Of course, it will be resisted. But there is more to it than just savings. There are some regulatory aspects of the agreement that we think need to be reviewed and revised, and a lot of the companies have said that they think it is good for the industry, that it is time that we try to achieve some new efficiencies, that we try to tighten up the possibilities for fraud, waste and abuse, and that we also try to give RMA a better opportunity to monitor the financial health of the companies.

As you said last year, the largest insurer in the business left the business, and the American taxpayer had to step up and sweep up after that—

Senator HARKIN. I know.

Dr. PENN [continuing]. It cost some \$35 million of taxpayer money to do that. And we think that, by rights, RMA ought to have a little more authority to anticipate that kind of situation and to avoid that happening in the future. So we have tried to make some changes in the SRA to account for that.

So we are in the middle of this process, and it is a negotiation. In a negotiation everybody wants to paint the situation in the most compelling way they can that would be to the greatest advantage to them. And so I think that is what you are hearing, but we are in the middle of a process. All we are asking now is to give us a little more time and let us work through this draft, and then we will come forward with a third, and we hope final, version of this.

RURAL BUSINESS INVESTMENT CORPORATION

Senator HARKIN. Thank you very much, Dr. Penn.

Two quick ones. Mr. Gonzalez, will you have the final rules out on the RBIC Program this summer, the Rural Business Investment Corporation?

Mr. GONZALEZ. Yes, Senator Harkin. We will have that application window open in the summer or at least the fall of 2004.

Senator HARKIN. Summer or early fall. How about summer?

Mr. GONZALEZ. Well, we are trying our hardest. We are looking at the fall of 2004 to have the application window for that program.

Senator HARKIN. So the first applications would be available this fall.

Mr. GONZALEZ. Yes, sir.

Senator HARKIN. Well, okay. I wish it was earlier.

Dr. Jen, are you working with HHS and with maybe FDA—well, that is in HHS—maybe NIH to revise the food pyramid? Is that underway now?

Dr. JEN. Senator Harkin, the USDA is responsible for the Food Guide Pyramid. It is Under Secretary Eric Bost's group, CNPP.

Senator BENNETT. We discussed that at the last hearing.

Dr. JEN. Yes, last week.

Senator HARKIN. What is that, Mr. Chairman?

Senator BENNETT. We discussed that at the last hearing with the other Under Secretary.

Senator HARKIN. It is being done.

Dr. JEN. Yes.

Senator BENNETT. Yes, we are monitoring that.

Senator HARKIN. Thank you, Mr. Chairman. I appreciate that. With that affirmation, I do not have any more questions.

Thank you, Mr. Chairman.

Senator BENNETT. Having gotten the attention of all of the fat doctors in the world—

I raised that a year ago, why we have to keep on top of it.

Senator HARKIN. So it is being—I mean, it is actually under review.

Senator BENNETT. Yes.

Senator HARKIN. That is good. Thank you.

Senator BENNETT. Are you through, sir?

Senator HARKIN. Yes, I am. Thank you.

SUPERCOMPUTER RESOURCES

Senator BENNETT. Dr. Jen, I have one last question. I was recently contacted about USDA's access to supercomputing resources, and I would appreciate it if you would furnish to the Committee information about the supercomputing resources that you currently have access to, I assume, in conjunction with universities, and how frequently you need this kind of power. And do you believe that you would benefit from a dedicated supercomputer facility?

If you can answer that quickly, why we can do that now or you can furnish it.

Dr. JEN. Genomic science research benefits from the use of supercomputers, particularly when the research moves from the DNA sequence, the nucleics, into the proteomics. Our need for analysis by supercomputers will increase in the future especially due to the extreme complexity of protein research.

Currently, some universities have supercomputers, but I think we will also work with Department of Energy. A dedicated facility probably would be desirable a few years down the line, especially considering the other research that USDA has. At this point I could not even think about it because the cost is not only the cost of the computer itself, but it also includes associated operation and maintenance costs. That would be something that would worry me because I have absolutely no idea how much it costs.

Senator BENNETT. Thank you very much. That is helpful.

Senator Kohl, do you have any last questions?

Senator KOHL. Just one. Mr. Gonzalez, in fiscal year 2003, Wisconsin had four applications for funding through the Section 525

Technical Assistance Account to provide homeownership education for people in rural areas.

Wisconsin has historically received funding for our good work in this area. In fiscal year 2003 funding, I understand the Administration selected priority States primarily within one region of the country, with justification that there was not enough funding to reach more applicants for other regions.

I included language in the fiscal year 2004 bill that increased funding, and provided limits any one State could receive under this account.

How will you ensure that States like Wisconsin receive a fair consideration for funds available this year?

Mr. GONZALEZ. Thank you, Senator Kohl.

In terms of the 525, there was a \$2-million grant amount that was allocated to that program for homeownership training and credit counseling. And we are closely following the conferees' report in terms of administering that program. There was a 10-percent cap to those 10 States in terms of providing that technical assistance, and we are looking at a NOFA being published May of 2004.

Senator KOHL. I appreciate your consideration.

Mr. GONZALEZ. Thank you, sir.

Senator KOHL. Thank you.

Senator BENNETT. Thank you. I do have one last question for Dr. Collins. You say the ag economy is booming, exports, consumption, industrial use, all the rest of it. Any chance that this can mean lowering of mandatory payments, mandatory support payments to help us out with the budget?

Dr. COLLINS. Sure, Mr. Chairman. I think that is exactly what is going to happen. When you say "mandatory payments," if you look at Commodity Credit Corporation expenditures on price support and related activities, in the year 2000, it hit an all-time record of \$32 billion. In 2003, it was down to about \$17.5 billion. In 2004, the President's fiscal year 2005 budget released in February estimated a spending level of about \$14.8 billion. I think that that number is more likely to come in closer to \$10 to \$11 billion rather than \$14.8, which is in the President's budget. That will be updated in the President's Mid-Session Review of the Budget that will be released in July.

Clearly, there are a couple of expenditure categories that do not change, such as direct payments, which are not a function of prices, and they are about \$5.5 billion a year.

And then there is also conservation spending, such as the CRP, which is about \$2 billion a year. Those things are not going to change, but the loan deficiency payments, the loan programs, the countercyclical payments all are coming down dramatically, including the milk income contract payment program as well. So, yes, I think we are looking at a several-billion dollar decline below the President's budget and a number that is probably about a third of what it was in the year 2000.

Senator BENNETT. I would like to find a way to get that into discretionary funds. I am not sure we can.

You have a last question?

Senator HARKIN. Let me just follow up on that because I think it is an interesting story. When we passed the Farm Bill in 2001—

I think that is right, 2001—we were given a budget to work with by the Budget Committee for 10 years for our programs. We stayed within that. We did not go beyond what was allotted to our Committee for our mandatory programs, and so we passed that.

In that estimate, there was an estimate for how much the outlays would be for 2002, 2003, 2004 or 2005, et cetera. And, Dr. Collins, you can correct me if I am wrong, but I believe, Mr. Chairman, that if you look at just the 2002, 2003, 2004 estimate, basically, since we kind of know what 2004 is going to be, that we have spent about \$15 billion less than what we were allotted; in other words, what the Budget Committee gave us to spend, we have spent about \$15 billion less; is that about correct?

Dr. COLLINS. I have not done that calculation, but I can tell you that what we are spending is tracking very closely to what we would have expected spending to be with an extension of the 1996 Farm Bill, that is, before you even added on the programs of the 2002 Farm Bill. So, yes, it is running below the spending levels that were projected in the spring of 2002 for the life of the 2002 Farm Bill.

Senator HARKIN. Well, my figures show about \$15 billion less, so I think agriculture has got a good story to tell there. Of course, I come back to things like the other commodity program, the Conservation Security Program, that when people start talking about capping and stuff, we have saved \$15 billion less than what we were allotted to spend. I think that is pretty darn good. Surely, we could get a couple of billion out of that or a billion-and-a-half at least to help on the conservation program. I just want to make that point. I think it is a good story.

Senator BENNETT. We may make an attempt at that. I am not sure whether we will get—

My comment is, repeating what I say in my role as Chairman of the Joint Economic Committee, I do not know various estimates about the economy. People ask me about it. Can we cut the deficit in half in 5 years? Will the Kerry numbers hold up? Are the Bush numbers accurate?

And I say the one thing I know about them is that they are all wrong.

They have always been proven wrong. Any attempt to make a forecast in an \$11 trillion economy that goes out much more than 6 months fits into the category that we decided not to use earlier as we were describing one of the other estimates. It is basically a guess, and it may be a very well-educated guess, but it is basically a guess. And I think this illustrates, also, we made the best guess we could, and then the economy behaved differently.

And for those who say, “Well, why can you not be more accurate?” I will use the phrase with which all politicians are very familiar, “The numbers are all within the margin of error.”

The difference between surplus and deficit on a \$2.7 trillion budget, when you move a couple of hundred billion either way, is within the margin of error that a pollster might use. And we get carried away with our rhetoric around here about we created this huge deficit or are we not wonderful, we have created this huge surplus. The economy has done what it has done, and we are kind of following along on the trail of that and hoping to take credit

when it is good, and hoping to point and assume blame when it is bad.

ADDITIONAL COMMITTEE QUESTIONS

But, apparently, this is the same kind of situation, and I am glad that this one was wrong on the right side of things instead of wrong on the other side of things.

Senator HARKIN. Mr. Chairman, it is just not pencil dust. Let us just be careful of that phrase.

[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

CONSUMER DATA AND INFORMATION SYSTEM INITIATIVE

Question. Dr. Jen, the Economic Research Service is looking for a significant increase in fiscal year 2005—\$9 million and 6 additional research staff. The majority of this increase and all of the new staff would be for the Consumer Data and Information System initiative. The components of this initiative are a food market surveillance system, a rapid consumer response module, and a flexible consumer behavior survey module. What exactly, do you hope to accomplish with these additional information-gathering capabilities?

Answer. Data and analysis from this initiative would provide a basis for understanding, monitoring, tracking, and identifying changes in food supply and consumption patterns. Without this increase in funding, many problems facing Americans will go unsolved. The data and analysis capability embodied in this forward-looking initiative will prove invaluable for policymakers in addressing issues ranging from obesity prevention to understanding market opportunities to food safety. Currently, large gaps exist in USDA's data and analysis system in the areas of consumer and industry behavior. Our Nation does not have timely consumer information upon which to base policy decisions and program actions. The centerpieces of this budget initiative are nationally representative consumer and retail surveys of food prices, retail sales, consumption and purchases of food for at-home and away-from-home eating, as well as data on consumer behavior, reactions, attitudes, knowledge, and awareness.

This information system will provide market surveillance and insights into price changes, market demand, and consumer reactions to unforeseen events and disruptions such as the recent discovery of bovine spongiform encephalopathy (BSE). In addition, the data and analysis framework will provide intelligence on the public's diets, knowledge and awareness levels helping policymakers respond to current events, such as the rise in obesity and overweight, especially in minority populations, and their interactions with the U.S. food and agriculture system.

In addition, as our country faces bio-terrorist threats, increased knowledge about American eating behavior and its implications for food markets are of heightened importance. Understanding, where food is eaten and purchased and the amounts of different foods consumed by various demographic groups is important for understanding how to best protect our food supply, for designing and implementing rapid and effective government responses to unforeseen food related events, and for the management of events after they have occurred.

The four components of the initiative in order of priority are:

- The Flexible Consumer Behavior Survey Module would complement data from the National Health and Nutrition Examination Survey (NHANES). This module provides information needed to assess linkages between individuals' knowledge and attitudes about dietary guidance and food safety, their food-choice decisions, and their nutrient intakes. Combining the NHANES with this new module allows analysis of how individual attitudes and knowledge and healthful eating affect food choices, dietary status, and health outcomes. Cost: \$3 million.
- The Rapid Consumer Response Module would provide real-time information on consumer reactions to unforeseen events and disruptions, current market events, and government policies. This module would be integrated into several proprietary consumer data panels currently maintained by private vendors. Consumer reactions would be linked to actual food purchases, sales, consumption, and price information. For example, the module could be executed to gath-

er information on consumer reactions to food safety problems and issues. Cost: \$1 million.

—The Food Market Surveillance System would consist of an integrated set of surveys and supporting analysis concentrating on linkages in the food and agriculture system. This system would be the foundation of a research and monitoring program designed to: provide timely price, purchase, and sales data; identify food consumption patterns of consumers and how these change as people age, households change, new products are introduced, and new information is acquired; identify and develop consistent strategies for consumers to adopt the Dietary Guidelines for Americans; better understand the market dynamics of food safety and other consumer health issues; and understand links between foods, physical activity and health outcomes. Cost: \$4.176 million.

—Funding is needed to support 6 additional staff to ensure the successful design and implementation of the initiative. Cost: \$500,000.

Question. Is this a one-time expenditure, or are you envisioning continuing this level of funding in fiscal year 2006 and later?

Answer. I envision that this level of funding will continue in fiscal year 2006 and beyond. This data system is a continuous, real time surveillance, tracking, and research vehicle whose demand will only grow over time as it becomes completely integrated into USDA operations.

AGRICULTURAL ESTIMATES RESTORATION

Question. The National Agricultural Statistics Service is requesting a healthy increase in fiscal year 2005—almost \$9.5 million and 14 new staff. Of this amount, \$7 million and 10 new staff would go to the Agricultural Estimates Restoration and Modernization project. This is on top of \$4.8 million provided in fiscal year 2004 for this purpose. Why is this additional funding necessary?

Answer. Escalating survey expenses, unfunded pay costs, and declining response rates have forced adjustments to many of the Agency's survey and estimates programs, reducing the quality of survey data on which NASS estimates are based. The consequences of poor estimates can involve millions of dollars. For example, inaccurate crop and livestock forecasts may result in unstable market conditions for producers and consumers resulting in large price fluctuations. Funds are needed to increase area frame survey sample sizes to meet precision targets for major estimates from the base survey conducted in June, improve non-response follow-up for specialty commodities, increase sample sizes for surveys to measure coverage error, and increase list sample sizes to further improve commodity yield forecasts and production estimates. The fiscal year 2005 request will allow for continued progress in these areas, in addition to supporting adequate resources necessary to process, analyze, and disseminate vital statistical data.

Question. Do you expect to request additional funds in fiscal year 2006?

Answer. At the present time, we do not know what will be reflected in the fiscal year 2006 budget request.

HORTICULTURAL SPECIALTIES

Question. The National Agricultural Statistics Service is responsible for conducting the Census of Horticultural Specialties every 5 years. The fiscal year 2005 budget recommends that this program be delayed and, as a result, reduces the NASS budget by \$3 million and the staffing by 6 staff years (FTE). When was the last Census of Horticultural Specialties conducted?

Answer. The 1998 Census of Horticultural Specialties was conducted following the 1997 Census of Agriculture. This Census of Horticultural Specialties is completed on a 10 year schedule.

Question. Why was the decision made to delay this next Census?

Answer. The Census of Horticultural Specialties has traditionally been conducted every 10 years. Due to the dynamic growth of this industry, NASS was planning, pending available funding, to measure this component of agriculture every 5 years. Due to the tight budget constraints placed on all discretionary Federal spending, difficult decisions were necessary to maximize use of the available funds for improving and modernizing our base agricultural statistics, which are indispensable to the entire agricultural sector. The annual program covering selected horticultural commodities will continue to be available.

Question. Who benefits from these updated statistics? How will they get their information absent this Census?

Answer. The information provided by NASS surveys and the Census of Agriculture help to ensure an orderly flow of goods and services among agriculture's producing, processing, and marketing sectors. Many segments of the horticulture sector

utilize NASS census data to make informed business decisions at the local level. Additionally, policymakers use NASS data in assessing the impact of potential legislation. In the absence of the Census of Horticultural Specialities, the NASS annual program provides information for selected horticultural commodities at the State level.

The annual statistics program includes several reports on the production, value, and chemical usage for nursery and floriculture crops. Three main reports constitute the annual program. The Floriculture Crops Annual Summary is released each April and includes production, price, and wholesale value for growers having \$100,000 or more in sales in 36 selected States. It also includes the number of growers and growing area for growers with \$10,000 or more in sales. This report can be accessed via the Internet at <http://usda.mannlib.cornell.edu/reports/nassr/other/zfc-bb/>. The Nursery Crops Summary is conducted periodically in tandem with the Agricultural Chemical Usage—Nursery and Floriculture Summary. The Nursery Crops Summary includes gross sales and the number of trees/plants sold for 17 selected States and growers having \$100,000 or more in sales. It also includes area in production and the number of growers and workers for operations having \$10,000 or more in annual gross sales. The next summary will be released on July 26, 2004 and will be available at <http://usda.mannlib.cornell.edu/reports/nassr/other/nursery/index.html>. The Agricultural Chemical Usage—Nursery and Floriculture Summary is scheduled for release on September 15, 2004. This summary includes chemicals used (by active ingredient) and to what crop the chemicals were applied, the amount of chemicals applied, the method of application, who made the application, and the pest management practices used on operations for six selected States. Agricultural Chemical Usage Summaries are available at <http://www.usda.gov/nass/pubs/estindx1.htm#A>.

In addition to the annual program, the Census of Agriculture provides basic data on the area of nursery and floriculture crops grown, by crop, under protection or in the open, the total area irrigated, and an aggregate value of sales for nursery, greenhouse, floriculture, and sod. These data will be available in June 2004 at the National, State, and county level.

SMALL AREA ESTIMATION

Question. Dr. Jen, \$2.5 million and 4 new staff are requested by NASS for data acquisition for the Small Area Estimation Program. It is my understanding that this information is used by the Risk Management Agency and the Farm Service Agency. How will these USDA agencies benefit by this increased funding and staff?

Answer. The Risk Management Agency and the Farm Service Agency are two of the major users of the NASS small area estimates. Due to the dynamic growth of the agricultural insurance programs and the farm bill utilization of these estimates, both agencies rely heavily on the precision of county level estimates produced by NASS. Due to limited funding, current estimates are derived through a survey process that does not allow for full implementation of the probability design that produces statistically defensible survey precision. This funding will be used to allow follow-up data collection activities to support the probability design in an initial one-third of the U.S. counties. Therefore, users of NASS small area statistics will be able to accurately define the statistical precision of each estimate.

Question. What additional data will be acquired?

Answer. This funding will allow the initial implementation of follow-up data collection activities necessary to calculate statistically defensible survey precision for the current program. The county estimates program continues to grow in scope and importance for Federally administered farm programs, thus increasing the need for defensible survey precision.

Question. What is the impact on these agencies if these funds are not provided?

Answer. These agencies will be forced to continue to administer Federal farm programs based on data which does not have a calculated level of precision. As the number of farm programs, and Federal outlays, which depend on these estimates continues to grow, the absolute level of precision must be known. Without a calculated level of precision, some payment decisions to farm operators may result in either an overpayment to farmers at the taxpayers expense or an underpayment to farmers who have a legitimate claim.

BSE TRADE RESTRICTIONS

Question. Last week Secretary Veneman sent Japan a proposal to break the impasse over BSE trade restrictions. The Japanese in turn sent a letter rejecting the proposal. In a joint statement released Thursday, Secretary Veneman and Trade Representative Zoellick expressed their disappointment in the Japanese response.

Would you care to comment on the current situation regarding Japan's trade restrictions on the import of U.S. beef?

Answer. The Department has been and remains in close contact with Japanese government officials. Immediately following USDA's announcement of the BSE case, senior USDA officials held talks with Japanese officials in Tokyo, Japan, on December 29 and January 23. A Japanese technical team visited USDA in Washington, D.C., and the BSE-incident command center in Yakima, Washington, during the period January 9–15. On March 23, the Agricultural Affairs Office, American Embassy in Tokyo, reported meetings with the Japanese Ministry of Health and Welfare (MHLW), Ministry of Agriculture, Fish and Food (MAFF), and the Food Safety Commission (FSC).

There is still a significant difference in our official positions regarding BSE testing and specified risk materials (SRM) removal. On March 29, Secretary Veneman sent a letter to Japanese Agriculture Minister Kamei proposing to have a World Animal Health Organization (OIE) technical experts panel meet before April 26 to discuss a definition of BSE and related testing methodologies as well as a common definition of SRM. On April 2, Japan rejected the proposal, reasoning that the United States first needed to reach a bilateral scientific understanding on BSE. USDA is planning another high-level visit to Japan to continue talks in late April. The United States exported over \$1.3 billion in beef to Japan in 2003, representing over 50 percent of Japan's total beef imports. The import ban has severely impacted Japan's market supplies and beef prices. Given Japan's need for beef imports and the importance of beef exports to Japan to the U.S. beef and cattle industry, we are hopeful that a solution can be found.

GENETICALLY MODIFIED FOOD

Question. A recent Wall Street Journal article states that last week Angola decided to ban imports of genetically modified grain, even though it will disrupt the country's food aid. In 2002, 13 member countries of the Southern African Development Community all balked at accepting genetically modified food aid. Last year 17 scientists from the same Development Community conducted a fact-finding mission and concluded that genetically modified foods posed no danger to people or animals. What is FAS doing to educate countries regarding genetically modified foods?

Answer. FAS is actively engaged in the interagency process to provide accurate information on the benefits and risks of agricultural biotechnology to food aid recipient countries. In the wake of the food crisis in southern Africa in the summer of 2002, USDA, the State Department, and the U.S. Agency for International Development committed to identifying food aid recipient countries where the issue of biotechnology could hamper relief efforts. Since being formed in the fall of 2002, this interagency group has also addressed new challenges to the delivery of food aid, including the entry into effect of the Cartagena Protocol on Biosafety in September 2003. This group has and will continue to work with foreign countries, international organizations and the private voluntary community to ensure that safe and wholesome U.S. food aid reaches those in need.

Issues related to biotechnology are both varied and complex, affecting every country to differing degrees. FAS attaches are often relied upon in their host countries to provide answers to questions regarding the benefits and risks of agricultural biotechnology. A high premium is thus placed on ensuring that FAS attaches are properly trained in all facets of agricultural biotechnology and that they receive updated information regarding political, scientific, and trade developments affecting biotechnology.

One of the most effective ways to encourage the acceptance and adoption of agricultural biotechnology around the world is to provide foreign regulators, policy makers, farmers, consumers, and members of the media with accurate information on agricultural biotechnology. FAS understands this and is heavily involved in developing exchange projects that showcase the U.S. regulatory system for agricultural biotechnology and allow foreigners to see firsthand how the technology is being used to benefit Americans. These programs are extremely effective in creating advocates for the technology at all levels of society, from farmers to high ranking government officials.

International standards play an integral role in the movement in international trade of agricultural products of all types, including those containing the products of biotechnology. FAS plays the critical role of representing U.S. interests in a number of international fora that promulgate standards affecting agricultural biotechnology. FAS works with interested stakeholders to develop and advance U.S. positions within CODEX, the Cartagena Protocol on Biosafety, the World Trade Organization, the Organization for Economic Cooperation and Development, and the Food

& Agriculture Organization, among others. Playing a prominent role in these international standards setting bodies is one of the many ways FAS encourages other countries to adopt science-based, transparent approaches to the regulation of agricultural biotechnology.

Question. Is USDA currently conducting any research on the effects of genetically modified foods?

Answer. The Agricultural Research Service (ARS) has identified three general areas for research on the effects of genetically engineered foods: environmental effects of crops, genetic effects from the introduction of new DNA into crop plants, and food safety/quality. The ARS research portfolio encompasses all three areas. Safety evaluations are currently focused on genetically engineered foods created by ARS research.

The most notable genetically engineered food currently undergoing scrutiny by ARS is a soybean genetically engineered to reduce allergic reactions by two-thirds. Soy is one of the "big eight" sources of food allergies, estimated to affect 6 to 8 percent of children and 1 to 2 percent of adults. The issue is especially important to vegetarians, for whom soy protein often serves as a staple of their diet. This example shows that genetically engineered foods can have highly beneficial effects, and they can in fact be less risky to human health than conventional foods.

The Cooperative State Research, Education, and Extension Service (CSREES) also manages a Biotechnology Risk Assessment Competitive Grants Program that supports research to examine the effects of genetically engineered crops. This program, funded by a 2 percent set-aside from all biotechnology research funding in USDA, is mandated to target only environmental risks.

IRAQ FOOD AID

Question. Last month it was reported that 110,000 metric tons of wheat is destined for export to Iraq. This is good news and will certainly be beneficial to the Iraqi people. Can you update the Committee on the current situation regarding food aid for Iraq?

Answer. There are no U.S. plans to provide additional food aid to Iraq this year. The renegotiated Oil for Food contracts and some additional World Food Program commercial tenders, using Iraqi funds, are expected to keep the pipeline sufficiently supplied into the summer. The Ministry of Trade, through the Iraqi Grain Board, is expected to take over commodity purchasing this spring and to buy commodities commercially for delivery during the remainder of the year. Additional food aid would simply displace the emerging commercial markets in Iraq.

FSA FARM LOAN PORTFOLIO

Question. Dr. Penn, in fiscal 2003 the delinquency rate for direct farm operating loans was 12.5 percent and the default rate was 4.7 percent. Fiscal 2003's delinquency and default rates are similar to past years even though last year was a good year for farm prices. Can you explain why this is?

Answer. FSA has made considerable progress during the past 5 years in reducing both delinquency and loss (default) rates. In fiscal year 1998, the direct farm operating loan program delinquency rate was 16.78 percent; at the end of fiscal year 2003, it was 12.5 percent. The loss rate in 1998 was 5.6 percent, and in 2003 was 4.7 percent.

A portion of the loss rate can be attributed to long-term indebtedness from the farm crisis period of the late 1980's and early 1990's that had never been written off the Agency's books. Some of these debts had been reduced to judgments, which were still uncollected. Other loans could not be finally written off because of litigation and other circumstances.

Implementation of the Debt Collection Improvement Act of 1996 in the past few years has resulted in more efficient and effective collection from the judgment accounts and delinquent debtors. This has allowed both greater recovery and final determination that some accounts are uncollectible, resulting in writing off of the latter debt, which had the effect of inflating losses during this period.

Question. Does USDA believe these rates are acceptable?

Answer. While the Agency would certainly like to see lower delinquency and default rates, the current numbers represent a vast improvement over historical rates. FSA will continue to make efforts to reduce these numbers. However, as the Government's "lender of last resort," FSA can lend only to farmers who cannot obtain commercial credit. Providing credit to those who do not meet standard lending criteria will inevitably result in higher default and delinquency rates than are experienced by commercial lenders.

Question. What specific actions are you taking to lower the delinquency and default rates?

Answer. FSA has purchased and begun implementation of an automated, web-based farm business planning system widely used by commercial farm lenders. The new system will permit FSA staff to easily identify borrowers who, as the result of economic or production issues, will likely have financial problems. FSA loan personnel will then be able to proactively work with them to avoid delinquencies or mitigate them before financial problems become insurmountable. It will also help staff work with applicants and borrowers to identify potential risks and formulate risk management strategies.

For those cases that do go into default, FSA and the Department of the Treasury continue to work together to enforce collection of delinquent debt through offset of Federal payments and salaries, income tax refunds, and a statutorily authorized portion of Social Security benefits, as well as other methods. In some cases, offset provides sufficient funds to cure the default, thereby reducing the delinquency rate.

Through the cross-servicing program, Treasury contracts with private collection agencies to locate and attempt collection from delinquent debtors. Where the borrowers have no assets or prospects from which collection can be made, those accounts can then be written off, further reducing the delinquency rate.

FSA also provides primary loan servicing to delinquent borrowers, through which their accounts can be restructured or written down to an amount they can repay, eliminating the default.

Question. What level of delinquency and default are you aiming for?

Answer. We aim for the lowest levels possible, given the type of customer we serve. FSA establishes goals for reduction of delinquency and loss rates, and has already exceeded those goals for the current year. Goals are revisited and adjusted each year, and the Agency will continue to make efforts to reduce these rates to the greatest degree possible.

Question. FSA is requesting a loan level of \$25 million for emergency disaster loans for fiscal year 2005. The default rate in fiscal 2002 was 20.3 percent and 11.5 percent in fiscal 2003. Based on historical data, we know there will be high loss rates on emergency loans. Do the benefits of these loans justify the high levels of loss?

Answer. This assistance is available only to borrowers who have suffered losses through natural disasters and cannot obtain credit from commercial lenders. As in the Operating Loan program, this means that losses will always exceed those experienced by commercial lenders. Further, loans made to recover from disasters carry inherent risks that do not apply to normal operating and ownership loans. However, this program does appear to be the best method of providing assistance to those who have suffered disaster losses, especially considering that the alternative—grants and other aid that does not have to be repaid—would increase the cost to the Federal Government.

Question. What specific actions are you taking to lower the default rate?

Answer. FSA has purchased and begun implementation of an automated, web-based farm business planning system widely used by commercial farm lenders. The new system will permit FSA staff to easily identify borrowers who, as the result of economic or production issues, will likely have financial problems. FSA loan personnel will then be able to proactively work with them to avoid delinquencies or mitigate them before financial problems become insurmountable. It will also help staff work with applicants and borrowers to identify potential risks and formulate risk management strategies.

For those cases that do go into default, FSA and the Department of the Treasury continue to work together to enforce collection of delinquent debt through offset of Federal payments and salaries, income tax refunds, and a statutorily authorized portion of Social Security benefits, as well as other methods. In some cases, offset provides sufficient funds to cure the default, thereby reducing the delinquency rate.

PERFORMANCE REVIEW

Question. Based on an OMB assessment, FSA is conducting a performance review of its loan portfolio. When will this review be complete?

Answer. The Program Effectiveness Study of the FSA direct loan portfolio will be complete by June 2005. Preliminary data is expected by August 1, 2004.

Question. What do you hope to learn from this review?

Answer. We expect to learn more about financial characteristics of program participants as a group and how those characteristics change during the time borrowers have debts with FSA; how many participants “graduate” to commercial credit and subsequently return to FSA for loans; the effectiveness of statutory assistance tar-

gets; potential improvements for administering the “credit elsewhere” requirement; and alternatives for reducing program subsidy rates.

Question. Will you please share the results of the review with this Subcommittee?

Answer. Yes, FSA will share the findings with the Subcommittee when the program effectiveness study is complete.

FARM LOAN STAFFING

Question. FSA is requesting 100 new staff years to administer its farm loan programs. In the FSA administrator’s testimony, he states that the new staff will “help avert increases in direct loan delinquency and loss rates.” Is that the best we can do—attempt to stop the rate of increases? Why won’t these staff contribute to decreasing the overall level of defaults and delinquencies?

Answer. The FTE request is intended to avert increases in loan delinquency and loss rates, and continue improvement in loan performance. FSA’s Farm Loan Program has an urgent need to establish a training “pipeline” of loan officers and technicians to replace large numbers of anticipated retirees, to maintain a cadre of experienced loan program delivery personnel. Adequate training for a loan officer takes at least 2 years. Inadequately trained staff cannot be efficient because they must learn as they work, and they make more and potentially more serious errors. Because FSA farm loan programs are complex, poorly or partially trained loan officers are prone to errors that create substantial program vulnerability and result in higher loss rates. Merely replacing retirees with new hires is ineffective in the short run and will adversely affect program performance in the long run.

Question. How was this level determined?

Answer. In determining the request, the agency took into account the fact that resources are limited and proposed an increase that, while not completely solving the trained loan officer “pipeline” problem, will be a major step in that direction.

Question. Does it not make sense to wait for the results of the performance review before creating 100 new positions?

Answer. No, these two issues are not directly related. The Program Effectiveness Study will provide data that will allow more informed policy decisions, and possibly result in administrative or policy adjustments to make the programs more effective. The FTE request is necessary to maintain a cadre of fully trained staff which will maintain and enhance current performance, protect the government’s financial interest in existing loans and guarantees, and help existing borrowers stay on the path to financial success.

Question. How do you know this is the agency’s most pressing need?

Answer. The Agency has a combined guaranteed and direct loan portfolio of nearly \$17 billion, annual loan and guarantee commitments approaching \$4 billion, and a commitment to assist nearly 120,000 borrowers. Farm loan programs make FSA the largest single farm lender in the country. Given the level of financial exposure and the anticipated scope of retirements of seasoned staff in the farm loan programs, the need for this additional staff is critical.

CROP INSURANCE

Question. The Risk Management Agency (RMA) is currently working to renegotiate the Standard Reinsurance Agreement (SRA). This agreement establishes the terms and conditions under which the Federal Government will provide subsidies and reinsurance on eligible crop insurance contracts. Can you provide the Committee with an update on the negotiation process and have you set a deadline for completion?

Answer. The Department announced on December 31, 2003 that the current standard reinsurance agreement would be renegotiated effective for the 2005 crop year. The first proposed reinsurance agreement was made publicly available at that time. Based on the advice of the Department of Justice, RMA established a process by which we renegotiate the agreement individually with each company and meet with each company in detailed negotiating sessions. Interested parties had until February 11, 2004 to provide written comments about the proposed agreement. RMA reviewed comments from insurance companies and interested parties to revise the first draft. On Tuesday, March 30, RMA announced the release of the second SRA proposal. RMA believes that the second draft demonstrates responsiveness to concerns raised by companies and interested parties. The proposed SRA will enhance the Federal crop insurance program by: encouraging greater availability and access to crop insurance for our nation’s farmers; providing a safe and reliable delivery system; and reducing fraud, waste, and abuse, while achieving a better balance of risk sharing and cost efficiencies for taxpayers.

As part of the process, RMA will meet with the insurance providers in individual negotiating sessions the last 2 weeks of April and will receive public comments until April 29. At that point RMA will evaluate the comments and negotiating session materials and develop another draft for discussion with the companies. There are several remaining issues of substance to resolve before a final draft may be completed. While it is the agency's desire to resolve them and complete the process before July 2004, given that this is a negotiation, RMA is not able to determine how long it will take to resolve issues to all parties' satisfaction. Prior SRA negotiations have taken well past July to conclude, but have not affected the continuing delivery of the program.

Question. The Administration's Budget request for the RMA includes an increase of over \$20 million to improve information technology. Within the increase, the Budget requests funding to monitor companies and improve current procedures to detect fraud and abuse. Can you explain how the department will monitor companies and improve detection of fraud and abuse?

Answer. The current systems are based on technology that is more than 20 years old. The information that is collected from the Insurance Companies is distributed to a collection of 100+ databases. Any subsequent updates or changes, received from the Insurance Companies, to this information overlays the original information. This architecture does not allow RMA to track changes in the submissions from the external entities.

As the data requirements of the current data structures change from year to year, new databases are created for each crop year. The prior years databases are problematic due to the intense effort needed to convert the historical information to formats that are consistent with the more recent years. This creates problems in data analyses when trying to use data from multiple crop years.

The requested increase in funds is directed at the establishment of a consistent enterprise architecture and enterprise data model. This would replace the 100+ databases with a single enterprise data model that would be consistent across the organization. This enterprise data model would allow data mining operations to be conducted without first converting the data to a consistent useable format.

By moving the data to a modern relational database system RMA will be able to track detailed changes that are made to the data that is received from the Insurance Companies. This will allow RMA to monitor the timing of the changes as they occur and identify those changes that could potentially be related to fraud and abuse.

ADVENTITIOUS PRESENCE

Question. The U.S. government's intent to implement a science-based policy with respect to adventitious presence (AP) was announced by the Office of Science and Technology Policy (OSTP) in August 2002 (Federal Register Notice 67 FR 50578). The seed, grain, and food industry continue to face the possibility of disruptions in trade due to uncertainty around low levels of biotech events in conventional and biotech products. Can you update the Committee on this situation and what actions USDA may take this year?

Answer. The biotechnology, food, and grain industries have all identified adventitious presence (AP) as a priority issue and development of an AP policy is a priority for APHIS as well. AP refers to the intermittent low-levels of biotechnology derived genes and gene products occurring in commerce as a result of the field testing of biotechnology crops. In August 2002, OSTP began coordinating a government-wide approach to AP, which involves updating APHIS field testing requirements and establishing early food safety assessments at the Environmental Protection Agency and the Food and Drug Administration. APHIS has participated in the Agricultural Biotechnology Working Group (ABWG) to develop an AP policy under the auspices of the White House and OSTP. APHIS is working as quickly as possible to establish an AP policy as part of its upcoming regulatory revisions.

RENTAL ASSISTANCE

Question. Mr. Gonzalez, GAO has recently assessed the Rural Housing Service's rental assistance program. I understand that USDA does not generally agree with GAO's conclusions. Does USDA agree with the idea that rental assistance contracts should last only as long as the life of the contract, that is, in our current situation, for 4 years?

Answer. RHS has worked diligently over the last 6-7 years to estimate rental assistance (RA) needs as closely as possible to the contract term. However, it is impossible to estimate the contracts exactly due to tenant turnover and market conditions in the last 2 years of the contract. Therefore, requiring a set term provides an addi-

tional burden to both the borrower and the Agency in the monitoring of these contracts. Within the last year, automated technology has made it possible for the Agency to drill down to a per-property basis to determine the most current usage rate of rental assistance. Development of an automated rental assistance forecasting tool, now completing the testing phase, will enable RHS to establish a more accurate per property cost of RA over the life of the contract.

Question. Do you believe that the fiscal 2005 request will be completely spent within 4 years (If not, why not?)

Answer. RHS believes that the fiscal 2005 request will be completely spent within 4 years.

MANAGEMENT CONTROL REVIEW

Question. Mr. Gonzalez, I understand that the rental assistance program will undergo a "Management Control Review" this month. Who will conduct this review?

Answer. The Financial Management Division of the Rural Development mission area oversees the conduct of all Management Control Reviews (MCRs) within RD done on all programs deemed assessable. This includes most loan and grant programs, including the Section 521 Rental Assistance Program. The review is performed by subject matter experts, generally 8–10 field staff who work in the particular program area, as well as Civil Rights personnel, who conduct their review from a perspective of fair housing regulations and civil rights compliance.

Question. Why did you choose to begin this review?

Answer. MCRs are generally done on a 5-year cycle. In this case, the last MCR done on the Section 521 program was in 1999 and is due again in 2004.

Question. What are the goals of this review?

Answer. The general goals of a MCR are to improve the accountability and effectiveness of USDA's programs and operations through the use of sound systems of internal and management controls. The specific objectives of the MCR on Section 521 assistance are to ensure:

- Priority of Rental Assistance (RA) applications properly processed in accordance with RD Instruction 1930–C Ex. E IV;
- That any denial of RA requested is in accordance with RD Instruction 1930–C Ex. E V C 4;
- Recordkeeping responsibilities are in accordance with RD Instruction 1930–C Ex. E VII & X;
- That borrower's administration of the RA program is in accordance with RD Instruction 1930–C Ex. E VIII;
- That assigning RA to tenants is in accordance with RD Instruction 1930–C Ex. E XI;
- Suspending or transferring existing RA is in accordance with RD Instruction 1930–C Ex. E. XV;
- That unused RA units are reviewed and transferred in accordance with RD Instruction 1930–C Ex. E XV B 5;
- That AMAS (the automated multifamily accounting system) is maintained to support the Rental Assistance program.

Question. Will you please share the results of the review with this subcommittee?

Answer. The MCR is expected to be completed this summer, and the report should be available by August 2004. RHS will provide the subcommittee with a copy of the report at that time.

COMPREHENSIVE PROGRAM ASSESSMENT

Question. Mr. Gonzalez, the Section 515 housing program is currently undergoing a "Comprehensive Program Assessment". When will the Comprehensive Program Assessment be complete?

Answer. Our target date for completion of the physical inspections and market analysis portions of the study is the summer of 2004.

Question. How much did this assessment cost?

Answer. The assessment cost is \$1.8 million

MULTIFAMILY HOUSING

Question. As part of this review, why did USDA choose to evaluate the organizational structure of the Multifamily Housing division?

Answer. The Section 515 Rural Rental Housing program has 17,314 properties in its portfolio as of April 2003. We have undertaken an effort to develop a comprehensive assessment of these properties. 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 de-

signed to provide an all-encompassing evaluation of the state of the portfolio. These objectives include:

- Assessment of property's physical condition,
- Assessment of property's financial health,
- Assessment of property's position in the real estate rental market,
- Determination of continuing need for this rental housing,
- Assessment of needed capital improvements and cost,
- Assessment of future capital reserve needs,
- Analysis of prepayment potential, and
- Analysis of prepayment incentive costs to retain properties/use restrictions.

The Department convened a Multifamily Advisory Group to oversee completion of the study, and ICF Consulting, Inc. was hired in September 2003 to undertake the study. At the completion of this study, we will be able to determine the long-term capital needs of the portfolio for budget purposes.

The study will make recommendations on needed modifications to the program delivery system to meet the long-term capital needs of the portfolio.

BROADBAND

Question. The Rural Broadband Program has received a great deal of interest from Congress, rural communities, and the broadband industry. Of particular interest is the status of many of the loan applications. Could you please provide us with an update on the loan program and some of the issues you are dealing with?

Answer. There are 40 loan applications pending totaling \$438.8 million; 14 loans have been approved totaling \$201.8 million; 20 loan applications totaling \$300.3 million have been returned as ineligible; and 17 loan applications totaling \$195.4 million have been returned as incomplete.

The Broadband loan program is distinctive from all other lending programs within the RUS portfolio. Broadband is currently viewed as a commodity that must be properly marketed and potential customers must be made aware of the benefits of broadband service if they are to spend their discretionary dollars on it. As such, it is difficult to predict what penetration rates will be today and in the future.

Nearly half of the applicants are "start-up" companies with little, if any, history of doing business in this industry. There are two distinctly different characteristics at play—competition (rather than a monopolistic environment) and multi-state businesses (rather than a single cooperative serving a single rural community).

Applications for the Broadband Program are different from those in the other RUS infrastructure programs. Very few of these applications are designed to serve a single rural community or even a small grouping of geographically close rural communities. Most are applications requesting to serve 50, 75, or in excess of 100 rural communities in multiple states.

Furthermore, the vast majority of the communities already have broadband service available in some of the proposed service area; in some instances, from more than one provider. To determine financial feasibility, RUS must determine what portion, if any, of a competitive market the applicant will be able to penetrate. As a result, working with each applicant is also uniquely time consuming.

Finally, many of the first applications submitted were assembled hastily to secure positions due to our first-in first-out review procedures. Valuable time was used helping applicants assemble complete loan application packages.

Based on this experience, RUS changed its review procedures to expedite reviews and has instituted new techniques to determine whether an application is complete and can be processed; is incomplete but can be completed with the submission of additional information; is incomplete and will require a significant amount of additional work and must, therefore, be returned; or is ineligible and must be returned.

QUESTIONS SUBMITTED BY SENATOR HERB KOHL

DAIRY FORWARD CONTRACTING

Question. Dr. Collins, in 1999, Congress passed legislation to set up a dairy forward contracting pilot program, which is set to expire at the end of this year. Dairy forward contracting allows buyers and sellers of milk to voluntarily agree upon delivery of a specific amount of milk for a set price over a specified period of time. About 655 of Wisconsin's 16,000 dairy farmers have participated in this pilot program. Many of them recommend making this voluntary program permanent because it gives them a new way to manage risk. What is the Administration's position on this program? Does the Administration support legislation that would make the dairy forward contracting program a permanent program?

Answer. The Consolidated Appropriations Act of 2000 required USDA to conduct a study to determine the impact of the Dairy Forward Pricing Pilot Program on milk prices paid to producers. Data from the mandated study indicates that the program can help stabilize the price dairy producers receive for their milk and thereby be a valuable risk management tool. For this reason, USDA does not oppose extending or making permanent the current Dairy Forward Pricing Pilot Program.

EXPORT MARKET PROBLEMS

Question. Following the BSE discovery in Washington State last December, our beef export markets were badly shaken. Similarly, we have seen problems with certain poultry export markets due to avian influenza. In both of these cases, the problem originated in another country and was imported to the U.S. Open markets are a two way street, they allow our products to move in foreign commerce, but they also raise the possibility that we are importing serious problems.

Please update us on what USDA is doing to reopen export markets for our beef and poultry products. Also, can you please comment on how we protect our export markets from problems which are, themselves, foreign in origin?

Answer. Re-opening foreign markets for U.S. beef and beef products is a top priority for USDA. As a result of USDA's efforts, Mexico and Canada, which are the second and fourth largest U.S. beef export markets, have opened their markets to selected U.S. beef, beef products, and ruminant by-products exports. Further, USDA is working very closely with NAFTA trading partners to harmonize animal health standards and regulations with regard to Bovine Spongiform Encephalopathy (BSE).

USDA continues to work closely with foreign trading partners to re-establish U.S. beef and beef product exports as quickly as possible. We are working with foreign officials at all levels to personally assure them of our robust safeguards and to indicate that trade can safely resume. The Animal and Plant Health Inspection Service (APHIS) was in constant contact with its counterparts providing them with updates on the BSE investigation, as well as new USDA regulatory policies imposed on BSE testing and specified risk material (SRM) removal. USDA continues to be engaged with foreign governments at the technical level responding to all of their questions and encouraging them to make trade decisions based on sound science.

With respect to poultry exports, USDA responded quickly and effectively to control the spread of Avian Influenza (AI) in the AI-affected states. Throughout this process, USDA officials were in constant contact with their foreign counterparts to provide timely information about the outbreaks and quarantine control measures. U.S. export markets accounting for 66 percent of total U.S. poultry meat export value continue to import U.S. poultry meat. In 2003, the export value of poultry meat to these markets was \$1.31 billion.

On April 1, the USDA Chief Veterinary Officer (CVO) announced the completion of the required surveillance and testing protocols per the World Animal Health Organization (OIE) guidelines. An official request from the CVO has been sent to major U.S. poultry export markets requesting the removal of all import bans on U.S. poultry and poultry product imports. The Department, at all levels, is diligently pursuing with its trading partners the lifting of all AI trade restrictions on products from the United States. By the summer of 2004 or earlier, the remaining countries imposing nationwide bans on U.S. poultry meat are expected to at least regionalize their import bans to those states affected by Low Pathogenic Avian Influenza (LPAI).

The U.S. Department of Agriculture takes protecting U.S. agriculture from animal and plant diseases very seriously. APHIS makes its regulatory decisions using a science-based evaluation. Before approving a product for import from a given country, a rigorous risk assessment is conducted to determine the risk associated with introducing a particular disease. Once approved, APHIS continues to monitor that country's animal health standards to ensure implementation is enforced. Because of these standards and controls, USDA can assure countries that imports of agricultural and food products from the United States are wholesome and fit for human consumption.

GENETICALLY MODIFIED CROPS

Question. USDA has pointed out the ever-increasing importance of biotechnology and its implications for U.S. agricultural trade. The more U.S. agricultural production includes elements of genetically modified (GM) materials, the more at risk our foreign markets become as long as there is a general reluctance throughout the world to accept such products.

Over the past several weeks, items appeared in the Washington Post and the New York Times reporting that genetically modified traits are appearing in traditional seed supplies with unknown consequences.

Secretary Penn, given the fact that there has been a tremendous increase in U.S. production of GM crops, and given the trade implications, do you think that we have allowed for too much production of biotech crops before we knew we had the knowledge and tools in hand to make sure contamination would not occur? In other words, have we moved so quickly on biotech crops that we have placed our exports markets at risk?

Answer. USDA's Prospective Plantings report, released on March 31, 2004, indicates that U.S. production of crops produced using modern biotechnology will continue to increase in 2004. However, U.S. farmers are not alone in their rapid adoption of this technology. According to the International Service for the Acquisition of Agri-biotech Applications, 2003 saw the 7th year of double-digit global growth in the production of biotech crops. Over 7 million farmers in 18 countries produce 167 million acres of crops enhanced through modern biotechnology. Farmers are increasingly using biotechnology for improved control of pests and weeds. In addition to these economic benefits, in some instances, farmers are realizing environmental benefits through increased use of no-till and reduced use of chemicals and fuel.

USDA will continue to work very hard to promote U.S. crops in overseas markets and is engaged on many levels to provide trading partners with accurate information regarding the benefits and risks associated with agricultural biotechnology.

Question. What steps are you taking to meet concerns of some countries that won't even accept GM crops as food aid?

Answer. FAS is actively engaged in the interagency process to provide accurate information on the benefits and risks of agricultural biotechnology to food aid recipient countries. In the wake of the food crisis in southern Africa in the summer of 2002, USDA, the State Department and the U.S. Agency for International Development committed to identifying food aid recipient countries where the issue of biotechnology could hamper relief efforts. Since being formed in the fall of 2002, this interagency group has also addressed new challenges to the delivery of food aid, including the entry into effect of the Cartagena Protocol on Biosafety. This group has and will continue to work with foreign countries, international organizations, and the private voluntary community to ensure that safe and wholesome U.S. food aid reaches those in need.

Issues related to biotechnology are both varied and complex, affecting every country to differing degrees. USDA's Foreign Agricultural Service (FAS) attaches are often relied upon in their host countries to provide answers to questions regarding the benefits and risks of agricultural biotechnology. A high premium is thus placed on ensuring that FAS attaches are properly trained in all facets of agricultural biotechnology and that they receive updated information regarding political, scientific, and trade developments affecting biotechnology.

One of the most effective ways to encourage the acceptance and adoption of agricultural biotechnology around the world is to provide foreign regulators, policy makers, farmers, consumers, and members of the media with accurate information on agricultural biotechnology. FAS understands this and is heavily involved in developing exchange projects that showcase the U.S. regulatory system for agricultural biotechnology and allow officials from other countries to see firsthand how the technology is being used to benefit Americans. These programs are extremely effective in creating advocates for the technology at all levels of society, from farmers to high-ranking government officials.

International standards play an integral role in the movement in international trade of agricultural products of all types, including those containing the products of biotechnology. FAS plays the critical role of representing U.S. interests in a number of international fora that promulgate standards affecting agricultural biotechnology. FAS works with interested stakeholders to develop and advance U.S. positions within CODEX, the Cartagena Protocol on Biosafety, the World Trade Organization, the Organization for Economic Cooperation and Development, and the Food & Agriculture Organization, among others. Playing a prominent role in these international standards setting bodies is one of the many ways FAS encourages other countries to adopt science-based, transparent approaches to the regulation of agricultural biotechnology.

SOUND SCIENCE

Question. I agree that these crops provide the opportunity for much improved food security throughout the world, and possibly, reduced pesticide use. But world-wide acceptance of these products will depend on world-wide acceptance of the science

used to establish their safety. This is true for plant science, this is true for animal science, this is true for all science.

Dr. Jen, would you please respond to the questions that have been raised regarding the use, or abuse, of science in the pursuit of certain policy objectives? What are you doing at USDA to ensure that the term "sound science" is a truly scientific term and not a political term?

Response. USDA is committed to an open and transparent regulatory process that reflects the latest science to protect America's agricultural and natural resources. One of the purposes of our Office of Risk Assessment and Cost Benefit Analysis is to review risk assessments for certain regulatory actions. As part of the regulatory process, risk assessments are also made available for comment and input from stakeholders, industry, and the general public. Further, in the area of biotechnology policy and regulations, we have requested input from the National Research Council of the National Academy of Sciences. On the question of BSE risks, we have requested analyses by Harvard Center for Risk Analysis. These examples illustrate that we attempt to find and use the best science based information available in a transparent process to help guide our decisions.

DOWNED ANIMAL RISK MANAGEMENT TOOLS

Question. Dr. Penn, it was recently announced that downed cattle will no longer be accepted for slaughter at plants destined for the food chain. Since that announcement, producers have pointed to their potential lost income as a result of this policy. Would you recommend that RMA develop a risk management tool to help these producers seek compensation for lost income resulting from this new policy, as crop producers have tools for similar losses?

Answer. Section 523(a)(2) of the Federal Crop Insurance Act (Act), states the Corporation shall not conduct any pilot program that provides insurance protection against a risk if insurance protection against the risk is generally available from private companies. It is my understanding there are a number of private insurance products in the market that cover livestock from injury or disease loss, which would prohibit the Federal Crop Insurance Corporation Board of Directors from approving such a product. However, if it is determined that insurance protection for downed cattle is not generally available, the Risk Management Agency could contract for a feasibility study to determine if an appropriate insurance product may be developed to protect against the risk of loss due to downed cattle.

FARM LOAN STAFFING

Question. Dr. Penn, you have requested an increase of \$7,395,000 for 100 new Federal permanent employees. Your justification indicated these new employees will prevent direct loan delinquency and loss rates from increasing and assist in loan processing and servicing. We also understand that FSA faces tremendous problems in the future related to large numbers of senior loan officers eligible for retirement. How will you allocate these resources, will it be used primarily to backfill senior loan officers in the field that retire?

Answer. The staff years would be deployed first to States with the highest attrition rates of loan officers and secondly to high loan volume offices.

Question. Will other factors, for example loan processing delays, servicing of large loan portfolios be considered?

Answer. Offices with larger portfolios and those that are experiencing difficulty in delivering farm loan programs due to lack of trained staff will be considered. It should be noted that new hires must complete a training program that can last up to 2 years, so the workload in these offices will not be immediately affected.

Question. Will racial, ethnic and gender diversity be considered when filling these positions in the field?

Answer. Certainly, there will be discussion about hiring employees who represent the States' underserved constituencies. The States are being encouraged to use outreach efforts to ensure that qualified diverse individuals are hired for these positions.

Question. The farm credit programs have remained relatively flat in the past few years. Isn't there a need to address retirement or work flow needs in other areas of FSA that are outside of the positions devoted to farm credit programs?

Answer. There are definitely attrition and workflow issues in other programs within FSA. However, the farm loan program area is unique in that adequate training for loan officers can take up to 2 years. Many of the other jobs in FSA have training programs that would allow the employee to be fully functional in their jobs much sooner. In the farm loan program area, retirees cannot be replaced with untrained new hires.

DIGITAL DATA MAPS

Question. In the Common Computing Environment account, there is a request for \$9,000,000 for FSA to complete digital data maps. In my home State of Wisconsin, not a single county has been certified and it is my understanding the only State that has every county certified is Minnesota. This has been an ongoing effort for several administrations. How many counties are certified, when do you expect to finish this work, and what has been spent to date by FSA to complete this effort?

Answer. As of April 7, 2004, 1,767 counties have digitized common land units (CLU's) and 381 of these counties have been certified. Of the 72 counties in Wisconsin, 20 counties have digitized CLU's. While only one county in Wisconsin is currently certified, certification is planned for about 10 counties by the end of fiscal year 2004.

Within current funding constraints, approximately 2,200 counties should be digitized by the end of the fiscal year. At the current rate, we would expect to have as many as 600 to 800 counties certified by the end of the fiscal year. Minnesota, Nebraska, Oregon, and Massachusetts are fully certified, and Kansas has 102 of 105 counties certified.

To date, USDA has spent about \$16,000,000 on contracts to digitize the Common Land Unit. The expectation is that all of the CLU will be completed except for some areas in Alaska and the territories by the end of fiscal year 2005. Not all of the \$9,000,000 in the current request is for the CLU. Most of this request is for annual expenses for obtaining compliance imagery (National Agricultural Imagery Program).

Question. What other Federal agencies have this capability, and can you use their information for your purposes?

Answer. Many other Federal agencies have GIS capability and the ability to digitize information, either directly or through contract support. However, the Common Land Unit is information collected and managed only by USDA. No other Federal Agency tracks this kind of information for private (non-Federal) land nationwide. U.S. Department of Interior, Bureau of Reclamation tracks similar information for watersheds in the Western United States and USDA has worked with them to share information. There are similarities between this information and information tracked by some State and local agencies, but there is no consistency across States and local areas and no single authoritative source for this information outside of the Farm Service Agency.

BROADBAND LOAN PROGRAM

Question. Secretary Gonzalez, please elaborate upon the RUS broadband loan program internal review process. Your response should detail the average timeframe for: (a) acknowledgement of an application by RUS; (b) the actual review of an application including review by the RUS senior loan review committee; (c) the preparation of recommendations to the Administrator; (d) the consideration of the recommendations by the Administrator; and (e) notification to the applicant regarding the final ruling upon an application including instances when any further action is requested of the applicant.

Answer. When an application is received, RUS performs an initial review for eligibility and completeness within 20 working days. When that review is complete, a letter is sent to the applicant detailing the results of the review: (1) the application is complete and will be processed; (2) the application is incomplete, including details needed for making the application complete; or (3) the application has been determined ineligible in accordance with program regulations. If the application is determined to be complete, upon assignment, the application should be processed within 60 days, including the following committee reviews. If the application is feasible and adequately secured, the loan is presented to the Assistant Administrator's Loan Committee (AALC) for recommendation. At a minimum, this committee meets twice a week or as necessary to review loans. Upon approval from the AALC, the loan is forwarded to the Senior Loan Committee (SLC) for review and recommendation. Again, at a minimum, this committee meets twice a week or as necessary to review loans. The Administrator participates as chair of the Senior Loan Committee. Upon final action from the SLC, applicants are immediately notified of the status of their application. If the SLC approval is conditional upon the applicant agreeing to complete further action, then the action is stated in the letter notifying the applicant of the status of the application.

Question. Please provide an accounting of the total number of applications that have been received, approved, returned, currently under review and not yet reviewed under the RUS broadband program. Please include detailed information about the corresponding loan levels for each category.

Answer.

(Dollars in millions)

Applications	Number	Amount
Received	93	\$1,157
Approved	18	216
Returned	40	538
Under review	34	386
Not yet reviewed	1	17

Question. When will the RUS announce the opening of the application process for funds appropriated in fiscal year 2004? What will be the deadline for submitting applications for fiscal year 2004 loans? What actions have been taken by RUS to ensure that potential RUS applicants submit complete and thorough applications?

Answer. The “application window” for fiscal year 2004 has been open since the beginning of the year, since mandatory funding from the previous year was carried forward to fiscal year 2004. There is no “deadline” for the submission of applications—applications are accepted year-round. On March 24, 2004, RUS published a Notice of Funds Availability that detailed the amount of funding available, including the mandatory funding and the fiscal year 2004 appropriation. The notice also detailed the amount of funding available by category (4 percent direct, direct cost-of-money, and guaranteed). The notice also sets forth the maximum and minimum loan levels as well as the definition of broadband service to be used for loans made this fiscal year.

To ensure timely loan processing, RUS has been diligent in reviewing and re-engineering its Broadband Program loan processing procedures in an effort to expedite loan processing. The agency has instituted new triaging techniques to more rapidly review applications upon submission to determine whether the application is complete and can be processed; is incomplete but can be completed with the submission of additional information; is incomplete and will require a significant amount of additional work and must, therefore, be returned; or is ineligible and must be returned. In addition, field personnel have been trained and instructed in working with potential applicant borrowers to facilitate the submission of completed applications.

Question. Please detail the overall number of applications that have been received by RUS under each of the various RUS Rural Broadband Access Loan and Loan Guarantee Programs loans: (1) direct cost of money loans; (2) direct 4 percent loans; (3) private lender guaranteed loans. How many applications have been approved under each category of loans?

Answer. The overall number of applications received by RUS under the requested categories follows: (1) Under the direct cost of money category, 92 applications totaling \$1,153 million. Of those, 18 totaling \$216 million have been approved. (2) Only one application has been received under the 4 percent direct program totaling \$4.2 million. This application has been approved. (3) No applications for private lender loan guarantees have been received.

Question. Please detail the current and planned allocation of your staffing resources among the various RUS administered programs including how many FTE’s are solely devoted to loan processing and servicing for the broadband loan program.

Answer. The RUS telecommunications program currently has a total of 128 assigned FTEs (including the broadband program), of which 113 positions are filled. This office is responsible for the telecommunication loan program, DLT, Broadband loans and grants and other programs like the weather radio grant program. No new FTEs have been added since receiving the broadband program and the Local to Local TV loan guarantee program.

A team of 14 headquarters individuals were initially assigned to the Broadband program. Under a recently approved reorganization plan, approximately 25 individuals will be assigned to it, pending filling vacancies which currently exist.

Question. Secretary Gonzalez, please provide the private contracts for services including the dollar amount and purpose that were provided in fiscal year 2003 and fiscal year 2004 to date. Please include carry-over funds from previous appropriations that have been placed in the FISERV and GOVWORKS accounts.

Answer. The information is provided for the record.

[The information follows:]

RBS—BUSINESS PROGRAMS

FISCAL YEAR	PERFORMING AGENCY	AMOUNT	PROJECT
2003	Mineral Management Service (GovWorks).	\$60,000	Enhancement to RBS Data Project.
2003	GSA/FEDSIM	97,000	Web-delivery of Moody's Financial Analyst software training.
2003	Farm Credit Administration	542,600	Assist redevelopment of the Busi- ness Programs Assessment Review process.
2003	GovWorks	30,000	Assist in development of regula- tions for Section 9006 of the Farm Bill.
2004	MACTEC (GovWorks)	25,712	Assist in development of regula- tions for special project for Under Secretary.
Total		755,312	

GUARANTEED SINGLE-FAMILY HOUSING PROGRAM

Question. Secretary Gonzales, the President's budget request for the Section 502 Guaranteed Single-Family housing program for fiscal year 2003 was below what your agency really needed. I have been told you face similar problems for fiscal year 2004. In fiscal year 2003, this Committee, at USDA's informal request, provided an additional \$900 million in loan authority. Now, we are told by concerned housing lenders that the President's request for fiscal year 2005 will once again fall short and you will be forced to shut this program down prior to the end of the fiscal year.

Since this program is highlighted as part of the President's Homeownership Initiative, why haven't you asked for a reasonable program level to carry you through this year? Will this program run out of money before the end of the year? If so, when?

Answer. The Agency is considering administrative measures to supplement its program level this fiscal year. Early this year, we discussed funding management options with the Office of Management and Budget and Senate and House staffs. We are in the process of approving and implementing some of the options we discussed, including a 25 basis point increase in the fee on guaranteed loans. Certain administrative transfers of funds are also being considered. These should alleviate any problems that might have arisen due to the demand for funds exceeding the amount of funds available in 2004.

Question. Will you ask this Committee again to increase this program during this current fiscal year or in fiscal year 2005 prior to the depletion of funds?

Answer. There are no plans to request an increase in the Guaranteed Loan Program funding during the current fiscal year and we do not anticipate requesting an increase to GLP funding during fiscal year 2005.

Question. The President's fiscal year 2005 budget request increases the origination fee from 1.5 percent to 1.75 percent. Additionally, I understand that you may consider raising this fee administratively to 2 percent during the current fiscal year to stretch your funding. In fiscal year 2003, the President's Housing Initiative at RHS entitled "Lowering Fees to Reduce Barriers to Minority Homeownership" reduced the fee for this program from 2 percent to 1.5 percent. What impact will reinstating what you previously considered a "barrier" have on borrowers?

Answer. The 25 basis point increase in the fee will be negligible for homebuyers. The increase of less than \$250 per loan will not be a barrier to homeownership. The resultant monthly payment increase will be about \$2, on average. Raising the fee will allow about 1,000 more families to be served this year than would have been possible otherwise.

Question. When you run out of funding before the end of the year, do you lose many rural lenders you have worked so hard to bring into the program? What will you do to keep these lenders in the program?

Answer. We are currently exploring the potential of transferring unused budget authority to the program.

SECTION 515 MULTI-FAMILY HOUSING PROGRAM

Question. Transfers of Sec. 515 properties typically require new financing from sources other than USDA—from banks, Low Income Housing Tax Credit equity investors and public agencies. RD typically does not give any indication prior to the

transfer itself that it will approve the resources and other items it must provide required for the transfer to work. Would the Department be able to provide formal binding commitments (with reasonable conditions for final approval and closing, as other lenders do) at a stage earlier in the transfer process in order to facilitate the approvals of other parties to transfer transactions?

Answer. The Department has tried to be sensitive to the timing requirements of our lending partners, while at the same time, performing the required due diligence for underwriting transfers and maintaining as much flexibility as possible. We have modified our proposed regulations and will soon issue an Administrative Notice (AN) designed to improve and streamline transfer processing. In addition, the Department has been actively working to develop methods to ease the transfer process. We are currently working with Fannie Mae and the Federal Home Loan Mortgage Corporation (FHLMC) to create a standardized process to accommodate transfers that involve multiple parties. This process, once completed, will remove duplication of effort for each agency and allow for work done by either Fannie Mae or FHLMC to be accepted by Rural Development and vice versa. Another step that has been taken by the Agency is the proposed transfer that will replace RD AN 3767 (1965–B). The new AN outlines standardized processing guidelines and a checklist for the transfer process. This will ensure that all transfers completed by Rural Development are consistent across the country. The Agency is attempting to utilize more creative and innovative approaches and is developing alternative tools to leverage other financing in our multifamily properties. Through these steps, we hope to expedite the transfer process.

Question. Under what conditions will Rural Development approve forgiveness of Section 515 debt? What has been RD's historical experience—under what circumstances and for what amounts has RD approved debt forgiveness and when has the Department not approved this? Is there national policy (regs, ANs) providing guidance? What are the constraints? Is debt forgiveness viewed as a tool to facilitate transfers of Sec. 515 properties?

Answer. Rural Development has approved forgiveness of debt in circumstances where the appraised value of the property no longer supports the debt and the borrower intends to make substantial improvements to the property to prevent loss of affordable housing. This has occurred when the property is being rehabilitated or when transfers are required due to administrative or legal actions. In these instances, no equity exchange is made. Historically, Rural Development has written off \$171,800,000 since inception of the housing loan programs. This represents 1,013 loans. This is 1.45 percent of the \$11.8 billion multifamily portfolio. Most recently, RD has received 5 debt forgiveness requests in the last 3 years: three of those were disapproved and two were approved. The National policy governing debt forgiveness is in regulation 7 CFR Ch. XVIII § 1956 Subpart B, which is provided for the record. Debt forgiveness is not viewed as a tool to facilitate transfers of Section 515 properties but rather a method by which to retain properties that would otherwise no longer be available because of severe deterioration, bankruptcy or foreclosure, or legal action against the borrower. [The information follows:] § 1956.54 Debt forgiveness. For the purposes of servicing Farm Loan Programs (FPL) loans, debt forgiveness is defined as a reduction or termination of a direct FPL loan in a manner that results in a loss to the Government. Included, but not limited to, are losses from a writedown or writeoff under subpart S of part 1951 of this chapter, debt settlement, after discharge under the provisions of the bankruptcy code, and associated with release of liability. Debt cancellation through conservation easements or contracts is not considered debt forgiveness for loan servicing purposes.

Question. Nonprofit owners of Sec. 515 properties are not permitted any distributions of project surplus cash as are for profit owners. What would be the Department's position on establishing a national policy allowing non profit owners a fee from surplus cash in order to cover the costs of asset management, accounting, compliance reporting and other obligations to government, lenders and investors which participate in the financing of transfer and rehabilitation of older properties? Currently, there is a mixture of state RD guidance in this area.

Answer. The proposed regulation 3560 included a provision for nonprofit borrowers to earn an asset management fee in lieu of a return to owner. This fee is intended to pay expenses directly attributable to ownership responsibilities. Many nonprofit borrowers also serve as the property management agent and, as such, are entitled to a management fee. In these identity of interest situations, we must ensure that duties as outlined in the management plan are appropriate to earn a management fee but are not also charged as an asset management fee. A final rule on the regulation is being developed.

RENTAL ASSISTANCE

Question. What do you do with rental assistance in projects that prepay? How is it distributed?

Answer. Rental assistance in properties that prepay their mortgage is returned to the State for distribution in accordance with Regulation 1930 Subpart C, Exhibit E, paragraph XV A 2.

Question. I understand that you have indicated there is not enough rental assistance for preservation efforts. Have you or will you consider unobligated transfers to this account similar to your activity in the last 2 years with the Section 502 guaranteed program? Isn't preservation a priority with this administration?

Answer. Preservation of the multifamily portfolio has been and continues to be a priority with this Administration; however, the Agency does not have the authority to convert other appropriated funds to rental assistance.

SECTION 502 SINGLE-FAMILY HOUSING PROGRAMS

Question. It has come to the Committee's attention that RHS has different policies for making section 502 direct and guarantee loans available under continuing resolutions. We understand that, in general, less money is made available for direct loans under continuing resolutions and that this policy has made it more difficult for builders to plan for and deliver houses for construction under the direct program. We understand that this is particularly a problem for self help housing.

Please describe for the Committee the differences between the policy for direct loans and guarantee loans, and the spending for the two programs under the fiscal year 2004 continuing resolutions. Also, please explain why RHS has different policies. Finally, please make recommendations to the Committee on ways in which section 502 direct loans could be administered during continuing resolutions so that delays in obligation of funds and construction may be minimized.

Answer. Priority is given to all Rural Development housing programs during periods covered during continuing resolutions (CR). However, there is a difference between our direct and guaranteed programs. In the direct program, since Rural Development controls the application process, we can notify applicants to not be actively signing contracts to purchase a home. In the guarantee program, Rural Development does not work directly with the homebuyer. These homebuyers work with real estate agents, builders, and over 2,000 private sector lending institutions that are unfamiliar with a lender not having available funding. When 502 guaranteed funds are not available, it is not just the consumer who is affected but also private sector lenders and the financial markets that are vital to the economy. Thus, while 502 direct loan customers are a priority, a higher priority during continuing resolutions is given to section 502 guaranteed customers, private sector lenders, and the secondary markets.

Realizing the realities of the annual appropriations process, the Agency does its best to manage its programs within the authorities available. We would be happy to work with the committee to come up with solutions to keep both programs operating through the CR process.

Question. 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; and
- Neighborhood quality—perception of poor quality in at least 2 out of 4 neighborhood conditions (crime, noise, inadequate public services, and litter/deteriorating housing).

How many units of housing will the Rural Housing Service finance with the budget authority requested in the fiscal year 2005 budget? How does this relate to the need?

Answer. USDA expects to finance approximately 11,900 units of Section 502 Single Family Housing through the Direct loan program and approximately 27,000 units through the Guaranteed program in fiscal year 2005.

Question. What is the dollar value of Section 502 direct loan applications on hand?

Answer. As of May 24, 2004, there is a backlog of demand totaling approximately \$3.3 billion.

Question. Last year, the Administration made much of the increase in homeownership spending and its priority for home ownership. Now, a year later, RHS

proposes to reduce section 502 loans by more than \$200 million. Is homeownership less important than last year?

Answer. For fiscal year 2005, an expectation of increasing interest rates causes the subsidy rate for the Direct Section 502 program to increase. Therefore, while we are dedicating slightly higher budget resources to the Direct program, the supportable program level is down. For fiscal year 2004, we were able to support a dramatic increase in the Direct loan program and we proposed a 30 percent increase in the program level. For fiscal year 2005, the proposed program level of \$1.1 billion is still higher than the fiscal year 2003 program level. Despite the budget constraints, we were also able to keep the Section 523 Mutual and Self-Help Technical Assistance program at level funding. The Administration is committed to increasing rural homeownership and in particular, meeting our minority homeownership goals. We plan to manage our resources responsibly and to maximize the results in order to meet our program goals.

SUBSIDY RATES

Question. I understand that the subsidy rate for rural housing loans has increased. What is the basis for the increase in subsidy costs? What are the elements of the subsidy cost calculations?

Answer. The subsidy rates for Federal loan programs are affected annually by changes in technical assumptions such as default rates, prepayments, or fees and also by the economic assumption of interest for the term of the loan. The technical assumptions for every program are updated annually to reflect the most recent year's performance. Additionally, new interest rates are set by OMB annually. The change in interest rates affects all Federal credit programs and is not unique to USDA. These changes are routine upward or downward changes that reflect the cost of borrowing by the Federal Government to finance its credit programs. I will provide for the record a more detailed summary of the changes by program.

[The information follows:]

The change in the subsidy rates for the following Rural Housing Service (RHS) programs is due primarily to the change in interest costs. Changes were also due to technical changes, but those changes were minimal.

Increased Subsidy Rate from 2004 to 2005:

- Section 504 Very Low-Income Housing Repair Loans;
- Section 515 Multi-Family Housing Loans; and
- Multi-Family Housing Credit Sales.

Decreased Subsidy Rate from 2004 to 2005:

- Section 502 Guaranteed Refinance Single Family Housing Loans

The change in the subsidy rate for the following RHS programs is due primarily to changes in technical assumptions such as defaults, fees, and prepayments. Changes were also due to the interest rate change, but that change did not account for the primary shift in cost.

Increased Subsidy Rate from 2004 to 2005:

- Direct Section 502 Single Family Housing Loans;
- Direct Section 514 Farm Labor Housing Loans; and
- Single Family Credit Sales of Acquired Property Loans.

Decreased Subsidy Rate from 2004 to 2005:

- Section 502 Guaranteed Single-Family Housing Purchase Loans;
- Section 538 Guaranteed Multi-Family Housing Loans;
- Section 524 Housing Site Development Loans; and
- Section 523 Self-Help Land Development Loans.

The Direct Section 502 Single Family Housing Loan program has a higher subsidy rate due to the increase in payment assistance.

The Direct Section 514 Farm Housing Loan program has a higher subsidy rate due to the increase in the net default component.

The Single Family Housing Credit Sales program has a higher subsidy rate due to the change in prepayments and the subsequent change in the unpaid principal balance.

The Section 502 Guaranteed Single Family Housing Purchase Loans program has a lower subsidy due to the increase in the upfront fee percentage from 1.50 percent in 2004 to 1.75 percent in 2005.

The decrease in the subsidy rate for the Guaranteed Section 538 Multi-Family Housing Loan program was the result of an increase in the annual fee percentage to 0.50 percent in 2005 and a slight increase in the percentage of program level receiving interest assistance.

Methodologies used for calculating defaults, recoveries, and scheduled collections changed for both the Section 524 Site Development and Section 523 Self-Help Devel-

opment programs. Program performance assumptions are based on historical program performance on a loan-by-loan basis. Prior to this, program assumptions were based on the historical trend of the total portfolio.

REPAIR AND REHABILITATION

Question. The budget requests \$60 million for rural rental housing. This amount does not include any funding for new construction. This is the third consecutive year that the Administration has not requested funds to finance new rental housing units. Does the Administration plan to seek new construction any time in the future?

Answer. Over 45 percent of the Section 515 portfolio is 20 years old. Many of our apartment complexes are in need of repair and rehabilitation. The average apartment complex has reached the age where major components such as roofs, cabinets, siding, and heating and cooling systems need to be replaced. Ensuring that our residents continue to be housed in decent, safe, and sanitary rental housing continues to be one of the Agency's top priorities and will be our focus in fiscal year 2005. We believe it is appropriate for the Agency to focus its efforts on maintaining the existing stock of housing.

Question. I understand that the Sec. 515 portfolio is aging and that close to 10,000 of the 17,000 developments across the country are more than 20 years old. Does RHS have an estimate of the overall dollar need for restoration of existing Section 515 developments?

Answer. We estimate that approximately 45 percent of the portfolio has been in operation for 20 years or more. We do not have an estimate of the overall dollar need for restoration of existing section 515 developments. However, below is the recent history and projections of requests and funding for rehabilitation loans.

REPAIR AND REHABILITATION LOANS

[In thousands of dollars]

Fiscal year	Requests	Funded	Not Funded
2000	128,900	54,900	74,000
2001	128,900	50,900	78,000
2002	139,500	49,000	90,500
2003	139,000	60,000	79,000
2004 (est.)	167,100	55,800	111,300
2005 (est.)	160,000	60,000	100,000
Total	863,400	330,600	532,800

Question. The Department has recently hired a consulting firm to assess the Section 515 portfolio. What is the status of that report? Can you share with the Committee any preliminary findings?

Answer. The fieldwork has been completed. The report will not be available until late this summer. At that time we would be more than willing to share the report and its recommendations with the Committee.

Question. In recent years, due to budget cuts RHS has offered little in the way of incentives for section 515 owners to maintain long-term use. This lack of funding has prompted both the courts and the Congress to consider the provision of the law that regulates section 515 and provides incentives. All section 515 tenants are low income—with an average annual income of approximately \$9,000—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 Agency is working with Fannie Mae, Freddie Mac, nonprofit organizations and public housing authorities to alleviate some of the demand for preservation incentives. These efforts are slow in providing relief because due diligence must be done to ensure that each participant maintains integrity to its authorizing statute, charter and/or by-laws. The Agency is working very closely with partners such as Fannie Mae and Freddie Mac to realize some preservation and rehabilitation deals yet this year.

PREPAYMENTS IN SECTION 515 PROGRAM

Question. If Congress, or the courts, lifted the restrictions in the 1987 Housing Act, what is your estimate of the number of units that would be lost and the number of households that are likely to be displaced?

Answer. It is difficult to project the number of borrowers who will prepay their mortgage. Considerations such as motivation, real estate market, and economic conditions all play a role in determining the likelihood of prepayment. While approximately 11,000 properties are eligible to prepay (mortgages made prior to 1989), our most recent prepayment history has been averaging about 100 properties a year or less than 1 percent of those eligible.

RENTAL ASSISTANCE PROGRAM

Question. The fiscal year 2004 Appropriations Conference Agreement and the fiscal year 2005 budget request reduce the total for rural rental assistance, by reducing term of contracts from 5 years to 4 years. What are the implications of this change for future budgets? What are the annual estimates of costs for the contracts expiring fiscal year 2004? Is the appropriation adequate to cover more than the 4-year period?

Answer. The objective of RD's estimation of rental assistance needs is to predict as closely as possible the exact amount of rental assistance needed at each property. However, predicting these costs is not an exact science, especially in recent years as property and health insurance, and benefits and utility costs have driven up property expenses and increased the rate of rental assistance usage. In theory, the 4-year contracts written in fiscal year 2004 should last 4 years, until fiscal year 2008. In reality, the rate at which contracts use rental assistance changes every month and their funds' exhaustion date changes as well. However, the impact of fixed terms on these contracts is that all fiscal year 2004 contracts, except those which exhaust funds prior to fiscal year 2008, will be renewed in fiscal year 2008. These fiscal year 2004 renewal contracts will be added to the expected number of renewals needed for contracts written prior to fiscal year 2004 and expected to expire in fiscal year 2008. Our estimate at this time is that all 40,754 fiscal year 2004 contracts will need renewals in fiscal year 2008 and 33,435 contracts written prior to fiscal year 2004 will need renewals in fiscal year 2008 for a total number of contracts requesting renewals in fiscal year 2008 of 74,189.

Question. The recent GAO Study "Standardization of Budget Estimation processes Needed for Rental Assistance Program" and testimony before the House of Representatives last year indicated that there is a large sum of unspent rental assistance funds in existing contracts. What is the status of these funds, how much is unspent? Have you or will you work with owners that have large unobligated rental assistance funds to voluntarily change existing contracts for preservation and other purposes?

Answer. The amount of unliquidated obligations on rental assistance contracts entered into between 1978 and 1999 was \$597,000,000 as of December 30, 2003. RHS does not have the authority to amend the current RA Agreements to allow rental assistance funds obligated for a project to be used for other purposes. Such a use of funds would be a violation of the legislation that appropriated the funds. To allow RHS to enter into such amendments, Congress would have to specifically authorize the expenditure of such funds for other purposes as the Congress would like to authorize.

Question. Secretary Gonzalez, in fiscal year 2003, my State of Wisconsin had four applications for funding through the Section 525 Technical Assistance Account to provide homeownership education for our rural residents. Wisconsin has historically received funding for our good work in this area. In the fiscal year 2003 selection process, I understand the Administration selected priority states primarily within one region of the country with the justification that there was not enough funding to reach more applicants for other regions of the nation. I included language in the fiscal year 2004 bill that doubled the account and provided limits any one state could receive under this account.

How will you ensure that states like Wisconsin will receive a fair playing field for consideration for the funds available this fiscal year?

Answer. A Notice of Funding Availability (NOFA) for the fiscal year 2004 funding will be published soon in the Federal Register, outlining the competitive application process. In accordance with our published regulations, priority must be given for funding to targeted states. To meet the requirements of our regulations, we intend to target up to half of the funds to 10 states, based on the 2000 Census, including: Texas, California, North Carolina, Georgia, Mississippi, Louisiana, Kentucky, Alabama, Florida and Pennsylvania. States may receive no more than one grant from target funds.

For remaining funds, a scoring system will favor programs serving rural counties with high rates of poverty and deficient housing, as well as those operating most efficiently. No grant may exceed \$100,000 (except multi-state or group programs, to

\$200,000). Funding to any state or territory will be limited to 10 percent of available funds.

We believe the proposed award method will meet the objectives of the TSA program by funding projects in the most needy areas and supporting the most effective programs throughout the nation. The language you suggested in the fiscal year 2004 Appropriations Bill will help further ensure that all states, including Wisconsin, have better access to funding.

COOPERATIVE SERVICES

Question. What is the number of full-time permanent positions in the field devoted to providing cooperative technical assistance for fiscal year 2002 through fiscal year 2005?

Answer. While only a couple of States currently have full-time staff providing technical assistance for cooperatives, 12 States have a staffer who works at least 50 percent of their time in Cooperative Services (CS) activities. The remaining States have individuals who perform a range of technical assistance, outreach, and CS administered grant program activities as a collateral duty.

Question. I understand you have a current analysis ongoing to review the cooperative service mission. Can you share your results to date?

Answer. We are in the early stages of a review of our Cooperative Services Program. We have assembled a review team, representing a diverse range of cooperative and rural perspectives, to take a comprehensive look at the role of CS, review of present activities and priority areas, resource history and allocation, and recommendations for pursuing cooperative strategies within the Rural Development portfolio. Scheduling for review activities is underway and we expect the review process and completion of the final report to take approximately 3 months. We will be happy to share results as they are completed by the review team.

QUESTIONS SUBMITTED BY SENATOR TOM HARKIN

CONSERVATION SECURITY PROGRAM

Question. Mr. Rey, the press has recently reported that USDA plans to spend \$13.4 billion on the Conservation Security Program (CSP) over the next ten years. I have also been told that other numbers attributed to USDA are out there. Most recently, you testified that USDA will spend \$13.4 billion on CSP for the life of the program, from fiscal 2004-fiscal 2007. I have looked at the cost information NRCS is distributing on CSP. According to the NRCS charts, USDA plans to spend only \$1.372 billion during the farm bill, not \$13.4 billion.

While I recognize the difference between obligations and actual spending, this question is strictly about how much USDA plans to spend.

Can you please confirm that the total spending for CSP during the farm bill time period are actually estimated by USDA to be \$1.372 billion, or approximately that amount?

Answer. The Administration's proposed funding approach for the Conservation Security Program is to fund only the annual payment for an active CSP contract plus the technical assistance out of each respective year's budget authority. This approach is similar to the funding approach for the Conservation Reserve Program, unlike all other USDA conservation programs where the total financial assistance for the life of a contract is obligated to the Federal budget in the first year. This approach will allow greater participation by farmers and ranchers in CSP at the proposed budget levels and represents a significant commitment and investment over the life of the contracts by USDA. The \$1.374 billion in budget authority through fiscal year 2007 will result in \$6.92 billion in estimated payments to farmers and ranchers over the life of their individual CSP contracts. The \$4.411 billion in baseline projections through 2010 will result in \$13.32 billion in estimated payments to farmers and ranchers over the life of their contracts. Keep in mind that this represents a theoretical estimate at this point in time based on certain program design assumptions that could change in the final rule. The current USDA baseline budget projections for CSP is submitted for the record.

[The information follows:]

(Dollars in millions)

Fiscal year	Budget Authority	Estimated Commitment for the CSP Contract Life to Farmers & Ranchers (Financial Assistance Only)
2004	41.4	430.6
2005	209.4	1,742.2
2006	457.4	2,579.2
2007	665.4	2,163.2
2008	873.4	2,163.2
2009	1,045.6	2,070.8
2010	1,118.5	2,173.7
Total fiscal year 2004–2007	1,373.6	6,915.2
Total fiscal year 2004–2010	4,411.1	13,322.9

FOREST SERVICE MANAGEMENT PLANS

Question. The Administration's proposed rule for National Forest System Land and Resource Management Planning would make substantial changes to the extent in which the public is involved in Forest Service management plans. Most importantly, the proposed rule would allow forest supervisors to categorically exclude new forest plans as well as plan amendments and changes from environmental analysis under NEPA.

The proposed rule would also make a significant change to existing rules by explicitly stating that agency-wide management policy and procedure relevant to planning and resource management should be issued through the Forest Service Directive system. This means that major management policy would be issued in Forest Service manuals, handbooks, or white papers which are subject to only very limited public review or comment and would not be subject to NEPA. I am aware that the Forest Service is currently looking at comments to the proposed rule and is in the process of drafting a new final rule.

Given that the overall goal of managing the National Forest System as stated in the proposed rule is "to sustain in perpetuity the productivity of the land and the multiple use of its renewable resources," and that multiple uses may involve many different types of public users, why has the Administration chose to limit public input for long term forest management plans?

Answer. The Forest Service has completed review of public comments on the December 6, 2002 proposed planning rule. The Agency is in the process of drafting the final rule. The proposed rule included National Forest Management Act (NFMA) requirements for public involvement, which were the same as for previous rules. The Department strongly supports active public participation and collaboration in planning.

Question. Since sustainable management is by definition a long-term goal, how do you expect members of the public to have input into the Forest Service's plans for sustainable management if entire forest plans can be categorically excluded from NEPA?

Answer. The Forest Service has completed review of public comments on the December 6, 2002 proposed planning rule. The Agency is in the process of drafting the final rule. The proposed rule included National Forest Management Act (NFMA) requirements for public involvement, which were the same as for previous rules. The Department strongly supports active public participation and collaboration in planning.

Question. Furthermore, by limiting public input into the establishment and revision of long-term management goals and objectives, won't this simply encourage members of the public to object to every project that appears to go against their particular interests, thus decreasing the efficiency of the Forest Service planning and increasing costs?

Answer. The Department strongly supports public involvement in planning. For the proposed 2002 rule, the Department used the input provided by the Committee of Scientists for the 2000 rule. The current rulemaking process has retained this Committee's recommendation for emphasis on public involvement, adaptive management, monitoring and evaluation, use of science, and sustainability. There are requirements for use of science in the proposed rule, and the final rule will also include science requirements.

Question. In addition, your proposed regulations were developed without the formal input of an independent Committee of Scientists, in contrast to the development of all previous versions of these regulations. You also proposed eliminating most requirements for independent scientific input into forest plans themselves, making the involvement of independent scientists optional on the part of the local forest manager.

Won't this approach lead to less scientifically based forest management and less credibility with the scientific community and the public in general? And won't it therefore lead to more controversy and difficulty in implementing forest plans? Most importantly, won't limiting scientific input increase the chance that poor management decisions will harm the forest resources we seek to maintain?

Answer. The Department strongly supports public involvement in planning. For the proposed 2002 rule, the Department used the input provided by the Committee of Scientists for the 2000 rule. The current rulemaking process has retained this Committee's recommendation for emphasis on public involvement, adaptive management, monitoring and evaluation, use of science, and sustainability. There are requirements for use of science in the proposed rule, and the final rule will also include science requirements. The planning rule will result in management based on science.

HIGH FRUCTOSE CORN SYRUP

Question. Last month, the Office of the Trade Representative announced that they would pursue a WTO case against the government of Mexico for its blatantly unfair imposition of a 20 percent tax on beverages using high fructose corn syrup (HFCS) that has kept U.S. HFCS exports out of its previously largest market for more than 2 years. Under WTO rules, parties to the dispute are supposed to undertake bilateral discussions to see if a formal dispute panel can be avoided.

I understand that representatives of the sweeteners sectors in both countries have also been engaged in negotiations to try to reach a resolution of this issue and also the issue of Mexican sugar exports to the United States. Do you think either of these sets of discussions will be successful in the next few months, and if they are not, will the U.S. government go ahead and request the formation of a WTO dispute resolution panel later this spring?

Answer. We are not optimistic about the bilateral discussions, since prior efforts to resolve the disagreements between Mexico and the United States involving trade in sugar, high fructose corn syrup, and corn have not been fruitful. We will only be able to evaluate the results of the private sector discussions once they are concluded. The U.S. government will request the formation of a WTO dispute resolution panel if that appears to be the best course of action once consultations have been exhausted.

PAYMENT LIMITATION

Question. The Commission on the Application of Payment Limitations for Agriculture recommended that more resources should be allocated for payment limit administration in USDA's Farm Service Agency (FSA) and Office of the Inspector General (OIG). The commission recognized the integrity and determination of FSA county office staff, but noted that more resources could augment current efforts to train staff on payment limits and monitor compliance. What efforts, if any, have you taken to implement this recommendation?

Answer. As part of FSA's initiative to improve the delivery of programs with the available county office staffing, the agency is re-engineering its business processes dealing with program eligibility and payment limitations. An important component of the re-engineering is the development of software to improve the efficiency and implementation of payment limitations and other related payment eligibility provisions. The first phase of the re-engineering, payment eligibility, will be piloted in the next few months and is anticipated to be deployed nationally in late fall 2004. This deployment will be followed next year with the rollout of the re-engineered payment limitation system, which includes many automated validations and decision points that will assist the County Committees in their person determinations. Training on the software and payment limitations will be held for the pilot counties in August. If piloting goes well, the national training will be held shortly thereafter.

Question. The Commission also recommended that FSA track all benefits through entities to individuals as required in section 1614 of the 2002 farm bill. Often program benefits are delivered indirectly through complex business arrangements or through marketing associations. To enable Congress to better understand the complexity of payment limitations, the 2002 farm bill included a requirement to track benefits—both direct and indirect—to individuals and entities:

“SEC. 1614. TRACKING OF BENEFITS.

“As soon as practicable after the date of enactment of this Act, the Secretary shall establish procedures to track the benefits provided, directly or indirectly, to individuals and entities under titles I and II and the amendments made by those titles.”

What steps have you taken to begin tracking commodity and conservation benefits as required by law?

Answer. The payment database is currently being revised to enable the tracking. The reporting capability will be completed no later than September 30, 2004.

SOYBEAN RUST

Question. Although Asian soybean rust has not yet arrived in the United States, its recent arrival in major soybean producing countries in South America has caught the attention of American soybean framers. Given the ability of the soybean rust spores to move on air currents, we know it is only a matter of time until the disease arrives on U.S. fields. One of the research activities that will be key to combating soybean rust over the long run will be the identification or development of soybean varieties that are resistant or tolerant to soybean rust, and incorporation of such traits into commercially available varieties.

Since there are restrictions from the Bioterrorism Act limiting work on viable rust spores to the Fort Detrick facility, will those hinder USDA's research effort, and what steps are you taking to relieve that constraint?

Answer. Soybean rust has been reported in numerous countries throughout the world including Australia, China, India, Taiwan, Philippines, and Thailand in the Eastern Hemisphere; Brazil, Argentina, Paraguay, Uruguay, Costa Rica, Columbia, and Puerto Rico in the Western Hemisphere; and in Zimbabwe and South Africa on the African continent.

ARS researchers at Fort Detrick are screening approximately 18,000 accessions of soybean varieties for soybean rust resistance. This material represents a worldwide collection of ancestral soybean that is maintained in the USDA Soybean Germplasm collection in Urbana, Illinois. In addition to these soybean lines, ARS scientists at Fort Detrick are screening 1,000 commercial soybean lines for broad spectrum soybean rust resistance using a mixture of four soybean rust strains with varying levels of virulence.

To relieve the constraints at Fort Detrick, international agreements are in place with cooperators in Brazil, China, Thailand, South Africa and Paraguay to evaluate soybean varieties currently grown in the United States for tolerance to soybean rust and to screen exotic soybean germplasm for resistance to soybean rust under field conditions. The international cooperations, now in their second year, will identify varieties that exhibit broad spectrum resistance.

ARS is also working with cooperators in South America to monitor and map the incidence of soybean rust outbreaks in South America. This information will be used to develop models to predict possible routes of entry into the United States.

NATIONAL RESEARCH INITIATIVE

Question. I am pleased to hear that the CSREES National Research Initiative, in response to language in the fiscal year 2004 appropriations bill, will soon be issuing a supplemental Request for Applications to solicit integrated research, education, and extension proposals that respond to the goals of the Initiative for Future Agriculture and Food Systems to enhance farm profitability, small and medium-size farm viability, and rural economic development. I commend you for this effort and would like to have two questions answered. It is my understanding that this will be more than a token effort, and will be at least in the range of \$5 million or more. First, I would like to know the projected funding level for this supplemental RFA?

Answer. The projected funding level for the supplemental RFA is \$5 million. These funds will primarily come from the fiscal year 2004 budget; however, part of the RFA may be funded by fiscal year 2005 funds, if necessary. All funds will be made available within calendar year 2004.

Question. Second, as we are already now half way through the fiscal year, I am wondering what the timeline is for the issuance of the RFA, the proposal deadline, the review process, and the ultimate grant awards?

Answer. Since passage of the Agriculture appropriation in February, we have been actively engaged in consulting with stakeholders and expert groups through a series of workshops to help shape the ideas in the RFA. The RFA is planned to be released in June 2004 with a September 2004 deadline. Following peer review of the applications in the Fall of 2004, it is anticipated that awards will be made no later than December 2004.

Question. Is the RFA imminent and what can you tell me about the timeline for the full grantmaking process?

Answer. The RFA is currently being prepared, having benefited from stakeholder input and internal discussions concerning this complex area of research. The RFA is planned for release in June 2004 with a September 2004 deadline for applications. Peer review of all applications will occur in the Fall of 2004, with awards being made by the end of calendar year 2004.

ORGANIC AGRICULTURE RESEARCH AND EXTENSION INITIATIVE

Question. As you know, the 2002 farm bill contains modest mandatory funding for a new Organic Agriculture Research and Extension Initiative. I am anxious to see this program get started, and I know many of my colleagues are also quite interested in this initiative. Can you tell me when the Request for Applications will be issued?

Answer. The Cooperative State Research, Education, and Extension Service—CSREES—published the Request for Applications for the Integrated Organic Program on our website on April 15, 2004, at <http://www.csrees.usda.gov/fo/fundview.cfm?fonum=1141>. The Request for Applications offers two program areas: the Organic Transitions Program and the Organic Agriculture Research and Extension Initiative. Together, the two programs will fund integrated research, education, and extension projects that address critical organic agriculture issues, priorities or problems. The deadline for applications for both program areas is June 10, 2004.

Question. Also, more broadly, can you tell me what plans ARS or CSREES has for expanding its research effort on organic production and marketing?

Answer. Since 2001, the Organic Transition Program has provided approximately \$3.9 million for competitive grants to fund the development and implementation of organic production practices and improve the competitiveness of organic producers.

In 2004, approximately \$1.9 million of funding for the Organic Transition Program will be combined with an additional \$3 million of mandatory funding provided by the 2002 Farm Bill for the Organic Agriculture Research and Extension Initiative (OAREI). The 2004 funding level for organic research, education and extension programs is \$4.9 million. As authorized by the 2002 Farm Bill, OAREI will provide a total of \$15 million through fiscal year 2008, \$3 million per year for 4 years, to fund studies that will help producers and processors grow and market certified organic food, feed, and fiber products.

ARS has been actively increasing its efforts to better serve organic producers over the last several years. Much of this research has been in cooperation with organic producers and organizations, particularly the Organic Farming Research Foundation (OFRF). In many instances research is conducted jointly with scientists at land grant universities including 1890 institutions. In addition, National Program Leaders from ARS and CSREES regularly discuss research on organic farming and sustainable agriculture at joint meetings such as those held by the USDA Sustainable Development Council, the Sustainable Agriculture Research and Education (SARE) Program and the informal USDA organic agriculture interest group. ARS and CSREES scientists and National Program Leaders also continue to participate with OFRF and organic producers in the Scientific Congress for Organic Agricultural Research (SCOAR) meetings and related activities to identify research priorities for organic agricultural.

ARS has assembled a database of its researchers that are doing or are interested in doing research on organic agriculture. More than 140 ARS scientists are doing research that could benefit organic producers. In addition ARS is doing research on many topics such as biological control, integrated pest management (IPM), weed control, and soil management that may fit well with organic farming practices. Organic growers, therefore, could reap benefits even though the research may not have originally been specifically directed towards organic systems. ARS is planning on holding a workshop later this year to improve its focus, interactions and coordination of its research on organic farming. Representatives from CSREES and OFRF will be invited.

A few examples of ARS research on organic production include the following. All of these examples are on systems that are certifiably organic under the new USDA organic standards.

- In Salinas, California ARS has a scientist dedicated solely to organic agriculture. Some of his research is studying how to best incorporate cover crops in organic systems for fertility and weed management. University of California researchers, extension agents and producers are all cooperating in this research.
- ARS scientists in Weslaco, Texas in cooperation with producers, organic organizations and university colleagues are researching a broad number of organic

systems including olive, melon, citrus and grain crop production systems. One unique aspect of this research is to determine if organically produced crops have higher levels of beneficial compounds.

- ARS researchers from Beltsville, Maryland and Wyndmoor, Pennsylvania are cooperating with the Rodale Institute in Pennsylvania to develop improved weed management and fertility using for example, mycorrhizae inoculation. Three of the five systems of the Beltsville Farming System Project are certifiably organic. This research receives input from a group of farmers, extension agents and university cooperators.
- Other Beltsville scientists are cooperating with farmers and others across the United States on organic practices. The system they have developed based on cover crops has been shown to be successful for a variety of crops from Maryland to Florida to California. Furthermore, it can eliminate the need for methyl bromide and plastic for those producers interested in transitioning into organic agriculture.
- ARS led research in Georgia in cooperation with university scientists and organic farmers is investigating insect and fertility management. Other significant research on organic systems is occurring in Iowa, Minnesota, Washington and Florida.

All these are examples of an expanded ARS effort to address the needs of organic producers and almost all have CSREES partners.

A proposed new effort involves ARS in cooperation with sustainable and organic organizations (e.g., Michael Fields Agriculture Institute, Practical Farmers of Iowa, Land Stewardship of Minnesota). We are organizing a cooperative project on how to better integrate forage and animal production in grain crop systems in the cornbelt. This planned project involves ARS units and sustainable and organic NGOs in Iowa, Wisconsin, Minnesota, North Dakota, South Dakota and Illinois and will include university researchers as well. The extent of this effort is dependent on obtaining increased funding.

RURAL BUSINESS INVESTMENT PROGRAM

Question. The 2002 Farm Bill established the Rural Business Investment Program in order to attract venture capital financing to businesses located in rural areas. It is the only Federal program of its kind to target rural areas for venture capital investments.

For decades, venture capital has helped develop industries of the new economy and is responsible for creating or maintaining as many as 12.5 million jobs and generating business revenues of as much as \$1.1 trillion. Most of these jobs, however, have been established in cities and states along the two coasts and not in the rural communities of America's heartland.

Congress authorized \$280 million of investment capital debentures for the Rural Business Investment Program however the Administration's proposal would sharply cut this program to \$60 million for fiscal year 2005.

I understand that USDA may release a program design in May so comments can be received. I think a stakeholder meeting would be highly advantageous if it can occur soon thereafter.

I believe the RBIP program should clearly use the New Markets Venture Capital Program debenture model. That is the type of debenture that Congress used in developing the program. That is how the cost was estimated. There are some rumors that the Department may act otherwise. Is the New Markets model type of debentures your plan for the program?

Answer. USDA is working with the Small Business Administration in developing regulations for this program, consistent with the statutory requirements. It is anticipated that a proposed rule will be published for public comment before the end of fiscal year 2004.

Sec. 384E of the statute authorizes the Secretary to guarantee debentures issued by a rural business investment company, including a provision for the use of discounted debentures.

As stated in the related Conference Report, Congress modeled RBIP after the Small Business Administration's Small Business Investment Company program, where considerable expertise in operating the program that provides capital for equity investments has been developed. The Managers noted that the RBIP grant provisions are similar to the New Markets Venture Capital program.

For the RBIP, the Small Business Administration has recommended the guarantee of either standard debentures or discounted debentures, pursuant to Sec. 384E.

Question. The President's budget limits the program to \$60 million in debentures for fiscal year 2005, equivalent to \$12 million in Budget Authority. And, the President's budget Appendix calls for an elimination of \$65 million in BA in fiscal year 2005. Is this elimination a proposal to end the program after 2005 or is it simply an accounting item? Does the Department believe that the RBIP program should continue for the long term?

Answer. The President's fiscal year 2005 budget proposal for this program does not discuss subsequent program years. However, Rural Development, in association with our program partner, the Small Business Administration, intends to design and implement a program that will produce measurable results, on behalf of America's rural entrepreneurs, for the long-term.

BROADBAND

Question. I appreciate your letter to mine concerning Broadband. As your statement indicated, this is a very important need, crucial for rural America.

I wanted to briefly raise a few points: (1) I think the next time the Department sends out a NOFA that it would be very useful to adopt a two-step process: preliminary applications that could be reviewed by RUS staff and for those applications that appeared to have viability, a second stage application that would be complete. I think a lot of small entities are putting a lot of funds into a complete application and that is limiting applications. (2) That the Department adjust its 20 percent cash rule to count ongoing receipts within this sum. I understand that the Department wants equity in place by applicants. But I think ongoing recurring revenue streams should be counted. I am not talking about speculative possible receipts, but mainly the monthly billings from existing customers. (3) We need to be careful to manage risk in this program. But, we should not become excessively risk adverse.

If these things are done, I believe we could see a considerable improvement and increase in applications. And, I would like to work with you on this important need. What will you do to address the points that I have outlined above?

Answer. The required components of a completed application, taken as a whole, form the basis for determining the viability of a project. Each is dependent upon the other to evaluate the technical and financial feasibility of a project. Before a project is undertaken, it is critical to determine if a market exists for the product and, if so, to what extent and what are potential customers willing to pay for that product. This market study provides the basis for a determination of potential revenue streams and the size and capability requirements of the system. To properly estimate the cost of the system, and, ultimately, the amount of the loan request, the system must be designed and quotes gotten from vendors. Operational expenses must be estimated to determine whether the project is sustainable from a financial perspective. Each of these aspects of a business plan is critical in the determination of viability. Therefore, it would be difficult to provide a potential applicant with a meaningful determination without each of these components.

It is important to note that RUS' field and headquarters staffs are available to assist potential applicants in developing a loan package. RUS has general field representatives (GFR) located throughout the country who will visit potential applicants, review their business plans, and assist them in developing a completed application. During this process, if a business plan does not appear viable, the GFR will be able to inform the applicant.

RUS' 20 percent credit support requirement is intended to improve the sustainability of a project by ensuring that it is not 100 percent debt financed. The credit support requirement may be satisfied with cash, cash equivalents, undepreciated assets that would otherwise be eligible for financing, licenses, and an unconditional letter of credit. An applicant must have, as part of the 20 percent requirement, cash equal to the first full year's operating expenses. RUS will waive this requirement for entities with 2 years of positive cash flow. RUS is a facilities-based lender and does not, therefore, lend for operating costs. As such, the applicant must have the ability to fund its operating expenses without RUS assistance. If an applicant is a start-up entity or is experiencing negative cash flow, the 1-year cash requirement ensures the entity's ability to sustain operations and to make principle and interest payments.

We agree that risk must be properly managed which entails assuming the appropriate amount of risk. RUS works very diligently to appropriately manage risk and its fiduciary responsibility to the American taxpayers with its mission of extending broadband service into the most remote, highest cost rural areas of our country. RUS recognizes that an appropriate amount of risk must be taken if we are to succeed in our mission. However, the meaningful deployment of broadband services can only be met by making quality loans that produce exponential benefits through re-

duced subsidy rates and greater lending levels. A failed business plan translates not only into the loss of taxpayer investments, but deprives millions of citizens living in rural communities of the technology needed to attract new businesses, create jobs, and deliver quality education and health care services.

CONCLUSIONS OF HEARINGS

Senator BENNETT. I know a politician who used that phrase and maybe regretted it, but I will be appropriately admonished.

Thank you all for your testimony and your attendance here today. And, again, than you for your service to the country in the various positions that you hold.

The hearing is recessed.

[Whereupon, at 5:03 p.m., Tuesday, April 7, 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 2005

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 2005 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 the concessional sales program under Title I of Public Law 480 at a baseline level that will ensure the continued viability of the program.

In recent years, funding appropriated for Title I has declined sharply. The direct appropriation to the Title I account in fiscal year 2003 was \$118 million. In fiscal year 2004, it declined to \$106 million. In the administration's fiscal year 2005 budget, the requested funding is just under \$90 million. According to the fiscal year 2005 USDA Budget Summary, these appropriated amounts supported a fiscal year 2003 program level of \$163 million in commodity and (separately funded) freight costs, and are expected to support a Title I program level (with an additional \$38 million in carryover funding) of \$197 million in fiscal year 2004. The administration's request for fiscal year 2005 establishes a program level of only \$123 million.

Mr. Chairman, our coalition has noted that funding for the Title I account in recent years increasingly has been used to support Food for Progress (FFP) grants. In fiscal year 2003, for example, Title I funding was used under FFP authority to ship 321,000 metric tons of commodities, with a value of \$62.4 million, to some 13 countries. While FFP is an essential component of our overall food aid system, the coalition nonetheless believes that the Foreign Agricultural Service (FAS) should make a determined effort to increase participation in the traditional Title I concessional sales program. As discussed more fully below, Title I has important policy objectives that are unique and deserving of sustained support.

In the statement that follows, our coalition recommends aggressive marketing of the Title I concessional sales program, higher funding levels for Title I, and sustained funding for other food aid programs that fulfill our humanitarian obligations and promote the long-term interests of recipient countries in becoming commercial customers.

¹The ad hoc coalition is composed of American Maritime Congress, American Soybean Association, International Organization of Masters, Mates & Pilots, Liberty Maritime Corporation, Marine Engineers' Beneficial Association, Maritime Institute for Research and Industrial Development, National Association of Wheat Growers, National Corn Growers Association, National Council of Farmer Cooperatives, Sealift, Inc., TECO Transport Corporation, Transportation Institute, USA Dry Pea & Lentil Council, USA Rice Federation, U.S. Wheat Associates, Inc., and Wheat Export Trade Education Committee.

GUIDING PRINCIPLES OF FOOD AID POLICY

Mr. Chairman, the coalition recognizes 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.
- Employing food assistance programs as stepping stones for economic growth and development.
- Employing food assistance programs to promote respect worldwide for American values and our economic system, thereby enhancing goodwill toward America among disadvantaged populations that may be breeding grounds for terrorism.

THE SHARP DECLINE IN OVERALL FOOD AID PROGRAM LEVELS

Mr. Chairman, the programs needed to implement these principles have enjoyed broad, bipartisan support for many decades. The strength of our commitment has made the United States the world's leading food aid supplier. In the process, American agriculture is bolstered as food aid recipients strengthen and stabilize their economies, ultimately proving to be valuable long term customers for U.S. products.

In recent years, however, food aid shipments have declined sharply. 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 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. In fiscal year 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 \$1.091 billion. In fiscal year 2003, FAS reports that 4.56 million tons were programmed for shipment, with a commodity value of \$1.288 billion.

While data for fiscal year 2004 are necessarily incomplete, the administration's budget estimates that food aid shipments under Public Law 480, Titles I and II, will decline to 3.4 million metric tons of grain equivalent, down from 4.3 million metric tons in fiscal year 2003. Unfortunately, as discussed below, the administration recommends further overall reductions in food assistance in fiscal year 2005.

THE ADMINISTRATION'S BUDGET FOR FISCAL YEAR 2005

The administration proposes Title I funding that would support a program level of only \$123 million. This is well below the appropriation for fiscal year 2003, which supported a program level of \$154.7 million and is even below the fiscal year 2004 appropriation, designed to support a program level of \$132 million. Our coalition regrets the continued erosion of the Title I program, and believes that funding should be restored to levels which will ensure the program's viability as a flexible and significant policy initiative.

The baseline for the Food for Peace Title II program has been increased from \$850 million in fiscal year 2002 (and prior years) to \$1.185 billion. The coalition supports this increase as an essential component of our donated food assistance to the most needy countries and regions in the world. 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 grant program carried out with CCC funding.

Under authority provided by Section 416(b) of the Agricultural Act of 1949, the administration states that surplus nonfat dry milk will be made available for donation in fiscal year 2005, with a commodity value and associated costs estimated at \$147 million. This represents another year of diminished reliance on the 416(b) program, which is CCC-funded. Finally, the administration has requested \$75 million for the McGovern-Dole International Food for Education and Child Nutrition Program (IFEP), an increase of 50 percent over the fiscal year 2004 level, but less than the \$100 million requested by a broad-based commodities coalition.

The administration's recommendations, taken together, would lead to further reductions in food aid. Because of the availability of supplemental and carryover funding in prior years, the food aid programmed under Public Law 480 reached 4.3 million metric tons in fiscal year 2003; it is estimated to decline to 3.4 million metric tons in the current fiscal year; and the fiscal year 2005 budget provides for only 3.2 million metric tons. Increases in IFEP and FFP will not offset the declines in the Public Law 480 and Section 416(b) programs.

RESTORATION OF OVERALL FOOD ASSISTANCE PROGRAM LEVELS

Mr. Chairman, the coalition recommends that food aid be restored over time to sustainable levels in the range of 4.0 million to 6.0 million metric tons of grain equivalent in each fiscal year. In fiscal year 2005, this would require an incremental increase in Title I baseline funding, enactment of the administration's request for Title II, an increase to \$100 million for the IFEP, and greater use of existing authorities of the Commodity Credit Corporation. The Title I program must be restored if the United States is to take full advantage of the unique potential of this historic initiative. The special features of Title I remain significant elements 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 sales 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 2005, the subsidy cost of the Title I program is established for the fiscal year at 86.42 percent. Thus, under the Title I program, Congress ensures the shipment of \$1.00 worth of U.S. agricultural products at an appropriated cost of about 86 cents. Moreover, Title I currently recovers more dollars for the U.S. Treasury in loan repayments than it expends in annual outlays.

—*Bridge to Economic Independence.*—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. Of the top 50 consumer nations of American agricultural products, 43 were once recipients of U.S. foreign aid in some form. The Title I program historically has been an essential component of our humanitarian food assistance program, and should be retained.

Unfortunately, Mr. Chairman, Title I concessional sales have been reduced to their lowest levels in half a century. According to the administration's budget, Title I loans in fiscal year 2003 generated only \$81 million in commodity sales; this amount will decline to an estimated \$38 million in fiscal year 2004. The fiscal year 2005 budget proposes only \$30 million in concessional commodity sales. The balance of Title I funding supports FFP grants. Our analysis of the fiscal year 2003 program shows that Title I-funded FFP shipments were made to Cambodia, Togo, Pakistan, Afghanistan, Bolivia, Eritrea, Ethiopia, Honduras, Kenya, Mongolia, Peru, Sri Lanka and Yemen. The total commodity value of these FFP grants, as stated above, was \$62.4 million. According to the administration's budget, the FAS plans to obligate \$93 million for Title I-funded FFP grants in fiscal year 2004, and another \$60 million from the account for FFP grants in fiscal year 2005.

Mr. Chairman, the potential demand for donated food will always exceed the supply. The coalition recognizes that recipient countries would prefer grants over concessional sales—even sales at extremely favorable terms. In order to ensure that the most desperate countries have sufficient donated food aid, the coalition recommends that FAS aggressively market the Title I concessional sales program to other countries that can afford the terms. Among the countries receiving Title I-funded FFP grants in fiscal year 2003, there are surely some who reasonably could afford to make the transition from grant assistance to concessional sales, using the direct loan authority of Title I.

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 enhance the potential for economic growth in recipient countries. Our recommendation is to increase over time annual food assistance at combined program levels of between 4.0 million and 6.0 million metric tons of grain equivalent. This can be accomplished, as in the past, with a blend of programs supported by direct appropriations and CCC program authorities.

The coalition recommends the following:

—Title I program levels should be increased in fiscal year 2005, and responsibly increased again in succeeding years, so that the unique advantages of the program, highlighted above, are not lost. The Senate Appropriations Committee should accompany such increased funding with strongly-worded report language

directing FAS to market the Title I program aggressively to those countries that reasonably can afford the terms.

—IFEP should be increased in fiscal year 2005 to the \$100 million level established by Congress for the fiscal year 2003 program. This action, together with full funding of the administration's Title II request, will help ensure that the United States fulfills its moral obligation to provide not less than one-half of the world's donated food aid.

—In committee report language, the Senate Appropriations Committee should direct the FAS to make greater use of existing CCC authorities to expand food aid to regions in critical need.

Mr. Chairman, the Title I program has been a bulwark of American food aid policy since the days of the Marshall Plan. It 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 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 AMERICAN FARM BUREAU FEDERATION

The American Farm Bureau Federation supports full funding for the Farm Security and Rural Investment Act of 2002 (FSRIA).

Unpredictable weather conditions and markets, uncertainties involved with international trade, and variable input costs can produce turbulent and difficult times for agriculture. The FSRIA helps American farmers and ranchers weather financial storms and it provides unprecedented funds for our nation's conservation needs. Changes in programs would be devastating not only to farmers and ranchers, but to the rural economy as well.

Full funding of 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.

Farm Bureau has selected the following four items as our priorities for funding in fiscal year 2005: (1) Programs key to protecting animal and plant health; (2) full funding and implementation of the Conservation Security Program; (3) programs key to the proper regulation of the Food Quality Protection Act and crop protection regulations; and (4) programs key to expanding and protecting markets for agricultural products.

PROGRAMS KEY TO PROTECTING ANIMAL AND PLANT HEALTH

The threat of bioterrorism and the discovery of Bovine Spongiform Encephalopathy (BSE) in the United States has prompted increased action by USDA and others to step up animal and pest disease surveillance and funding for critical programs such as animal identification. Farm Bureau places great priority on efforts to safeguard our food supply and requests increased resources be appropriated to APHIS and FSIS for these activities.

Farm Bureau supports the Administration's Food and Agriculture Defense Initiative of \$381 million. These funds will enhance food and agriculture defense by:

—Providing funds for completing the consolidated BSL-3 animal research and diagnostic laboratory at Ames, Iowa;

—Establishing a National Plant Disease Recovery System that will quickly coordinate with the seed industry to provide producers with resistant stock before the next planting season in the event of a natural or intentional catastrophic disease or pest outbreak; and

—Substantially enhancing the monitoring and surveillance of pests and diseases in plants and animals, including targeted national wildlife surveillance.

BSE.—Farm Bureau supports BSE-related funding proposed by USDA that calls for \$5 million for the Agricultural Research Service (ARS) to conduct advanced research and development of BSE testing technologies; \$17 million for the Animal and Plant Health Inspection Service (APHIS) to continue collecting 40,000 samples, including sampling at rendering plants and on farms; \$4 million for the Food Safety and Inspection Service (FSIS) to conduct monitoring and surveillance of compliance with the regulations regarding specified risk materials and advanced meat recovery;

and \$1 million for Grain Inspection, Packers and Stockyards Administration (GIPSA) to enable them to dispatch rapid response teams to markets experiencing BSE-related complaints regarding contracts or lack of prompt payment.

We do, however, have serious concerns about the Administration's proposal for \$33 million to help implement an animal identification system. For over 2 years, the industry has been working to develop the U.S. Animal Identification Plan (USAIP). USAIP estimates an ongoing cost of \$122 million per year to implement such a system. This is a far cry from a one-time \$33 million appropriation. Farmers and ranchers simply cannot afford to bear the brunt of the cost of this program, especially when most of the benefit will accrue to consumers. We strongly encourage the Committee to significantly increase funding for this critical program. Implementation of the program will not only add to our ability to trace a diseased animal back to the source but will also reassure the public and our trading partners of a safe food supply.

Soybean Rust (Phakopsora pachyrhizi).—Soybean Rust (SBR), a fungal disease that attacks the foliage of a soybean plant, is a potential threat to the United States. Only two fungicides are currently approved for use on soybean rust and manufacturers have indicated that there would not be enough chemical available to treat a nationwide outbreak. Soybean check-off and government-funded research activities are underway, however, approximately \$2.8 million additional funds are urgently needed.

Avian Influenza.—Avian flu is a respiratory virus spread among chickens by nasal and eye secretions and manure. Adequate funding for detection, control and eradication of low and high pathogen Avian Influenza is critical. Farm Bureau supports an additional \$12 million above the Administration's request for \$13 million (\$25 million total) to combat this deadly poultry disease. We support USDA's development of a high-containment facility to study this disease.

National Animal Health Emergency Management System.—Farm Bureau supports full funding for the National Animal Health Emergency Management System that was developed in cooperation with the states, industry and the veterinary profession. These funds will enhance APHIS's emergency preparedness and response capabilities to address emergency animal disease issues that threaten the U.S. food supply.

Food Animal Residue Avoidance Databank (FARAD).—Farm Bureau supports funding for FARAD. Adequate funding for FARAD will allow for continued, fair, immediate expert consultation to livestock owners and veterinarians in the event of accidental drug or toxin exposure to livestock or poultry.

Plant and Animal Health Monitoring, Pest Detection and Control.—Plant and animal health monitoring and surveillance are important programs. We support a \$48 million increase for improved plant pest detection, management of animal health emergencies and to increase the availability of animal vaccines. Expansion of Plant Protection and Quarantine (PPQ) personnel and facilities is necessary to protect U.S. agriculture from new and often-times virulent pest problems.

FULL FUNDING AND IMPLEMENTATION OF THE CONSERVATION SECURITY PROGRAM (CSP)

Prompt implementation of the Conservation Security Program (CSP) is critical. This program recognizes the costs associated with sound conservation practices and provides assistance to producers who have historically practiced good stewardship as well as provide incentives to those that who want to do more. The CSP must be implemented as authorized by FSRIA in order to achieve the program's full potential. All farmers and ranchers should have the opportunity to participate in CSP as intended by FSRIA. No restrictions or limitations should be placed on this important new conservation program.

Ongoing USDA conservation programs should be fully funded. No limitations should be placed on funding for the Environmental Quality Incentive Program (EQIP). EQIP is key to assisting agricultural producers in complying with environmental regulations and addressing important conservation issues. Maximum conservation technical assistance should be provided for both FSRIA conservation programs and for Conservation Operations to help landowners in planning for and the application of conservation treatments to control erosion and improve natural resources.

PROGRAMS KEY TO THE PROPER REGULATION OF THE FOOD QUALITY PROTECTION ACT AND CROP PROTECTION REGULATIONS

USDA must continue to work with EPA, agricultural producers, food processors and registrants to provide farm data required to ensure that agricultural interests are properly considered and fully represented in all pesticide registration, tolerance

reassessment re-registration, and registration review processes. In order to participate effectively in the process of ensuring that crop protection tools are safe and remain available to agriculture, USDA must have all the resources necessary to provide economic benefit, scientific analysis and usage information to EPA. To this end, funding should be maintained or increased to the following offices and programs:

Office of Pest Management Policy (OPMP).—OPMP has the primary responsibility for coordination of USDA's FQPA and crop protection obligations and interaction with EPA. Proper funding is vital for the review 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. The funding to OPMP should be designated under the Secretary of Agriculture's office, rather than as an add-on to the Agricultural Research Service 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 Integrated Pest Management (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 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 and Crop Protection Regulation.—Additional funding for proper regulation of pesticides 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).

PROGRAMS KEY TO EXPANDING AND PROTECTING MARKETS FOR AGRICULTURAL PRODUCTS

Creating new overseas markets and expanding existing markets is essential for a healthy agricultural economy. Continued funding of export development programs is fundamental to improving farm income. Farm Bureau recommends maximum funding of all export development programs consistent with our commitments under World Trade Organization (WTO) rules. USDA programs that protect U.S. agricultural exports from unfair trade barriers are also critical and should receive priority funding.

CODEX.—The U.S. CODEX office must have sufficient funding to adequately represent American interests in this important body that develops the international food safety standards used as guidance by the WTO. Increasingly CODEX focuses on issues such as biotechnology, traceability/product tracing, and acceptable farm practices. An ongoing international effort is being led by the European Union to place limits on our ability to produce food and fiber.

APHIS Biotech Regulatory Service (BRS).—Agricultural biotechnology is an extremely promising development and all reasonable efforts must be made to allow it to be realized. BRS plays an important role in overseeing the permit process for products of biotechnology. Funding and personnel are essential for ensuring public confidence and international acceptance of biotechnology products.

APHIS Trade Issues Resolution and Management. Full funding is needed for APHIS trade issues resolution and management. As Federal negotiators and U.S. industry try to open 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. Officials from other countries often attempt to refuse entry to American products under the guise of a technicality or flimsy suspicion. Only APHIS can respond effectively to 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 imports. It is essential that APHIS be positioned to swiftly and forcefully respond to such issues when and where they arise.

Export Development Programs.—We recommend fully funding all export development programs consistent with our commitments under the WTO. Farm Bureau supports General Sales Manager (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. The Market Access Program (MAP) and Foreign Market Development Program (FMD) are also worthwhile programs. The Foreign Agricultural Service (FAS) will require sufficient funding to expanded services to cover all existing and potential market posts.

Direct export subsidies of U.S. agricultural products are authorized through the Export Enhancement Program (EEP) to counter unfair trading practices of foreign countries. Farm Bureau supports the funding and use of this program in all countries, and for all commodities, where the United States faces unfair competition. The Dairy Export Incentive Programs (DEIP) allows U.S. dairy producers to compete with foreign nations that subsidize their commodity exports. The International Food for Education Program (IFEP) will be an effective platform for delivering severely needed food aid and educational assistance. Finally, the Public Law 480 programs serves as 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.

PREPARED STATEMENT OF THE AMERICAN HONEY PRODUCERS ASSOCIATION, INC.

I am Lyle Johnston of Rocky Ford, Colorado, President of the American Honey Producers Association. The American Honey Producers Association (“AHPA”) is a national organization of commercial beekeepers actively engaged in honey production throughout the country. I am here today to request your assistance in continuing to support full funding for honey bee research.

First, we wish to thank the Subcommittee for the strong support it has provided in the past for agricultural research activities on behalf of the beekeeping industry. For example, in the fiscal year 2003 cycle, the Subcommittee fully restored proposed cuts in honey bee research that would have resulted in the elimination of three Agricultural Research Service (“ARS”) laboratories that are indispensable to the survival of our industry. Such support has enabled the ARS to meet the critical needs of the industry. To continue this valuable research, the AHPA requests that for the fiscal year 2005 cycle Congress not only restore proposed rescissions of add-on funding from previous years for the two ARS Honey Bee Research Laboratories at Baton Rouge, Louisiana and Weslaco, Texas, but also approve specific funding increases proposed in the Administration’s budget both for honey bee genome research at the ARS laboratory in Baton Rouge (under the category of invasive species affecting plants), and for invasive honey bee pest control research at the ARS laboratory in Beltsville, Maryland. We also urge the Congress to maintain honey bee research funding at fiscal year 2004 levels for the ARS laboratory in Tucson, Arizona.

THE PRESIDENT’S BUDGET PROPOSAL

The American Honey Producers Association applauds the President’s fiscal year 2005 budget proposal for recommending funding increases for the Honey Bee Research Laboratories located at Baton Rouge, Louisiana, and Beltsville, Maryland, and also for proposing a continuation of funding at fiscal year 2004 levels for the Honey Bee Research Laboratory in Tucson, Arizona. However, we are concerned that the President’s budget also calls for significant funding decreases for the two Honey Bee Research Laboratories at Baton Rouge and at Weslaco. These cuts are proposed rescissions of funding increases included by Congress in previous appropriation cycles. Specifically, the Administration is suggesting \$397,000 in cuts for the Baton Rouge facility and \$249,000 in cuts for the Weslaco facility. These cuts to the ARS Honey Bee Research Laboratories would have a severe effect on the honey industry as well as on all pollination-dependent agriculture and many native plants. This seems particularly inappropriate considering the substantial benefits that flow from this program, which helps assure the vitality of the American honey bee industry and U.S. agriculture.

These four ARS laboratories provide the first line of defense against exotic parasite mites, Africanized bees, brood diseases and other new pests and pathogens that pose serious threats to the viability and productivity of honey bees and the plants they pollinate. If the rescissions proposed this year by the President were to be enacted, scientists at the Baton Rouge and Weslaco laboratories will be overburdened and forced to discontinue essential research, thereby jeopardizing the U.S. honey

bee industry and the production of agricultural crops that require pollination by honey bees.

THE IMPORTANCE OF HONEY BEES TO U.S. AGRICULTURE

Honey bees fill a unique position in contemporary U.S. agriculture. They pollinate more than 90 food, fiber, and seed crops. Honey bees are necessary for the production of such diverse crops as almonds, apples, oranges, melons, vegetables, alfalfa, soybeans, sunflower, and cotton, among others. A Cornell University study, published in 2000, estimated that the annual value of agriculture production attributable to honey bee pollination exceeds \$14.6 billion. The increased value of such crops comes in the form of both better yields and improved quality. In addition, honey bees are responsible for the production of an average of 200 million pounds of honey annually in the United States, the sales of which helps sustain this nation's beekeepers.

Since 1984, the survival of the honey bee has been threatened by continuing infestations of mites and pests for which appropriate controls are being developed by scientists at the four ARS laboratories. The industry is also plagued by a honey bee bacterial disease that has become resistant to antibiotics designed to control it and a honey bee fungal disease that has no known medication to control it. These pests and diseases, especially *Varroa* mites and the bacterium causing American foulbrood, are now resistant to chemical controls in many regions of the country. Such resistance is increasingly becoming a problem, as most of the major chemical controls are ineffective in treating such pests and diseases. Further, we have seen that honey bees are building resistance to newly-developed chemicals more quickly than in the past, thereby limiting the longevity of chemical controls.

Unfortunately, there is no simple solution to these problems, and the honey bee industry is too small to support the cost of the needed research, particularly given the depressed state of the industry in recent years. Further, there are no funds, facilities, or personnel elsewhere available in the private sector for this purpose. Accordingly, the beekeeping industry is dependent on research from public sources for the scientific answers to these threats. Since the honey bee industry is completely comprised of small family-owned businesses, it relies heavily on the ARS for needed research and development. The key to the survival of the honey industry lies with the honey bee research programs conducted by ARS.

The sequencing of the honey bee genome at Baylor University has opened the door to creating highly effective solutions to these problems via marker assisted breeding. Marker assisted breeding would permit the rapid screening of potential breeders for specific DNA sequences that underlie specific desirable honey bee traits. The sequenced honey bee genome is the necessary key which will allow scientists to discover the important DNA sequences. Because of the sequenced honey bee genome, it is now possible to apply molecular biological studies to the development of marker assisted breeding of honey bees. Good success can be expected in several areas: honey bee tracheal mite resistance, certain aspects of *Varroa* mite resistance such as grooming behavior (mite removal from the hive), bacterial and fungal disease resistance, and the optimization of pollination behavior.

Furthermore, research on honey bees, one of five animals chosen by the National Institutes of Health for genome sequencing, may provide important insight into other areas of science. The honey bee is the first agricultural species to be sequenced, and such work may provide breakthrough advances in many areas of science. In fact, honey bees are being studied by the U.S. Department of Defense as sentinel species that could detect and locate agents of harm, such as chemical or biological threats. According to one researcher, it appears that honey bees' olfactory capabilities are at least on par with a dog, if not more sensitive. Thus, the scientific advances achieved by ARS will provide an array of benefits across many disciplines.

THE WORK OF THE ARS HONEY BEE RESEARCH LABORATORIES

The ARS Honey Bee Research Laboratories work together to provide research solutions to problems facing businesses dependent on the health and vitality of honey bees. The findings of these laboratories are used by honey producers to protect their producing colonies and by farmers and agribusinesses to ensure the efficient pollination of crops. Each of the four ARS Honey Bee Research Laboratories (which are different in function from the ARS Wild Bee Research Laboratory at Logan, Utah) focuses on different problems facing the U.S. honey industry and undertakes research that is vital to sustaining honey production in this country. Furthermore, each honey bee research laboratory has unique strengths and each is situated and

equipped to support independent research programs which would be difficult, and in many cases impossible, to conduct elsewhere.

Research at the ARS Weslaco Laboratory

Because the AHPA recommends that the appropriation for the Weslaco laboratory be approved at not less than current levels, we respectfully request Congress to reject the President's proposal to eliminate \$249,000 in funding added by Congress for the ARS Honey Bee Laboratory at Weslaco, Texas. Retaining the current (fiscal year 2004) level of funding for the Weslaco laboratory will enable it to continue its work in finding a chemical solution to parasitic mites that are causing a crisis for the U.S. beekeeping and pollination industries. Varroa mites are causing the loss of hundreds of thousands of domestic honey bee colonies annually as well as devastating wild bee colonies. The only chemical which has received a general registration for Varroa mite control, fluvalinate, is being rendered ineffective by the development of resistant mite populations. The ARS laboratory at Weslaco has been developing alternative chemicals to control the Varroa mite. The laboratory has found a chemical, coumaphos, with the potential of being equally effective as fluvalinate. Unfortunately, the mites are also rapidly developing a resistance to this latest chemical product, coumaphos. Presently, there are no other chemicals available for controlling the Varroa mite, and the laboratory is working frantically to develop other means of control.

Additionally, the laboratory is researching methods that may control the small hive beetle. Since its discovery in Florida in 1998, this pest has caused severe bee colony losses in California, Florida, Georgia, South Carolina, North Carolina, Pennsylvania, Ohio, and Minnesota. Estimates put these losses in just one season at over 30,000 colonies. The beetles are now spreading all across the United States. Although it seems that coumaphos may help control this insect as well as the Varroa mite, it has not yet received a Section 3 registration for general use. The ARS honey bee research scientists at the Weslaco laboratory have been working overtime to find chemicals, techniques, pheromones, or other methods of controlling the beetle. Time is of the essence and a control must be found immediately, because all the bee colonies in the Western Hemisphere are at risk.

This facility also focuses its research efforts on developing technologies to manage honey bees in the presence of Africanized honey bees, parasitic mites, and other pests. In order to ensure that further pests are not introduced into the United States, scientists at the Weslaco facility provide technical assistance to agriculture departments in foreign countries on the control of parasitic mites. The laboratory has worked with officials in Guatemala, Costa Rica, Mexico, and South Africa to protect the U.S. honey bee population from further devastation by infestation of foreign parasites, diseases, and other pests. This inter-governmental cooperation is necessary to ensure the continued viability of the U.S. honey bee industry.

Research at the ARS Baton Rouge Laboratory

While we are pleased that the President has requested an increased funding in the amount of \$250,000 for honey bee genome research at the ARS Baton Rouge Laboratory, we are dismayed by and opposed to the Administration's simultaneous request for \$397,000 in cuts for this facility, eliminating previous Congressional increases in funding. In light of the importance of genome research, we hope that Congress will support the President's recommended increase for the ARS laboratory at Baton Rouge, Louisiana, while opposing the rescission proposed by the Administration. An increase in funding will allow the vital genome research conducted in Baton Rouge to achieve more quickly the breakthrough successes that are closer than ever to realization. The Baton Rouge facility is the only laboratory in the United States developing long-term, genetic-based solutions to the Varroa mite. Existing stocks of U.S. honey bees are being tested to find stocks which exhibit resistance to the parasitic mites.

Research scientists with the laboratory have also been to the far corners of the world looking for mite resistant bees. For example, in eastern Russia, they found bees that have co-existed for decades with the mites and survived. Using these bees, the laboratory develops stocks of honey bees resistant to the parasites. Before these new stocks are distributed to American beekeepers, the laboratory ensures that the resistance holds up under a wide range of environmental and beekeeping conditions, testing attributes such as vigor, pollination, and honey production. We believe recent scientific breakthroughs with this genomic research will allow scientists in the near future to breed honey bees that are resistance to the Varroa mite and other parasites.

The Baton Rouge facility also operates the only honey bee quarantine and mating station approved by the Animal and Plant Inspection Service. These stations are

necessary to ensure that new lines of bees brought into the United States for research and development are free of diseases unknown in the United States. In addition, Baton Rouge research scientists are focused on the applications of new technologies of genomics. This work has the potential to enhance the proven value of honey bee breeding for producing solutions to the multiple biological problems that diminish the profitability of beekeeping.

Research at the ARS Tucson Laboratory

The American Honey Producers Association supports the Administration's request that funding for the ARS Honey Bee Research Laboratory in Tucson be kept at the current level for fiscal year 2005. This research center is the only ARS honey bee laboratory serving the needs of beekeepers and farmers in the western United States. The facility works to improve crop pollination and honey bee colony productivity through quantitative ecological studies of honey bee behavior, physiology, pest and diseases, and feral honey bee bionomics.

Because more than one million colonies are transported from across the country for pollination into crops grown in the western United States (primarily California), the Tucson research center addresses problems that arise from transporting and introducing colonies for pollination of crops such as almonds, plums, apricots, apples, cherries, citrus, alfalfa, vegetable seed, melons, and berries. This research center has been instrumental in disseminating information on technical issues associated with the transport of bee colonies across state lines. Additionally, in order to ensure that transported colony populations remain stable during transport and also during periods before the crop to be pollinated comes into bloom, scientists at the laboratory have developed an artificial diet that stimulates brood production in colonies. A large bee population is necessary to ensure that efficient pollination occurs, creating superior quality crops.

Research at the ARS Beltsville Laboratory

Again, we support the President's proposal to increase funding at the ARS Honey Bee Research Laboratory in Beltsville by \$100,000 to boost current research efforts aimed at eliminating invasive honey bee pests. This facility, the oldest of the federal bee research centers, conducts research on the biology and control of honey bee parasites, diseases, and pests to ensure an adequate supply of bees for pollination and honey production. Using biological, molecular, chemical, and non-chemical approaches, scientists in Beltsville are developing new, cost-effective strategies for controlling parasitic mites, bacterial diseases, and emergent pests that threaten honey bees and the production of honey.

The laboratory also develops preservation techniques for honey bee germplasm in order to maintain genetic diversity and superior honey bee stock. Scientists at the facility also provide authoritative identification of Africanized honey bees and diagnosis of bee diseases and pests for Federal and State regulatory agencies and beekeepers on a worldwide basis. In operating this bee disease diagnosis service, the Beltsville facility receives over 2,000 samples annually from across the United States.

CONCLUSION

In conclusion, we wish to thank you again for your support of honey bee research in the past and for your Committee's understanding of the importance of these laboratories. The American Honey Producers Association would appreciate your continued support by (1) increasing the level of funding for the ARS Honey Bee Research Laboratory in Baton Rouge, Louisiana, by \$250,000, as proposed by the Administration in its fiscal year 2005 budget; (2) increasing the level of funding for the ARS Honey Bee Research Laboratory in Beltsville, Maryland, by \$100,000, as proposed by the Administration in its fiscal year 2005 budget; (3) restoring the proposed rescissions from previous years of \$397,000 for the Baton Rouge facility and \$249,000 for the Weslaco, Texas, facility; and (4) maintaining the current level of funding for the ARS Honey Bee Research Laboratory in Tucson, Arizona. Only through research can we have a viable U.S. beekeeping industry and continue to provide stable and affordable supplies of bee pollinated crops which make up fully one-third of the U.S. diet.

Furthermore, we urge you to reject any effort to cut the operating budgets of these vitally important research laboratories by consolidating their functions. Any proposed cuts and their resulting budget and staff reductions would significantly diminish the quality of research conducted by these laboratories, harming bee keepers as well as farmers who harvest pollination-dependent agriculture. Congress cannot allow these cuts to occur and must continue to provide sufficient funding for the ARS Honey Bee Research Laboratories to perform their vital role.

I would be pleased to respond to any questions that you or your colleagues may have.

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 32 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 2005.

This statement is presented in three parts: (a) a summary of our fiscal year 2005 funding request, (b) a brief background on Tribal Colleges and Universities, and (c) an outline of the 1994 Tribal College Land Grant Institutions' plan for using our land grant programs to fulfill the agricultural potential of American Indian communities, and to ensure that American Indians have the skills needed to maximize the economic development potential of their resources.

SUMMARY OF REQUESTS

We respectfully request the following funding levels for fiscal year 2005 for our land grant programs established within the USDA Cooperative State Research, Education, and Extension Service (CSREES) and Rural Development mission areas. In CSREES, we specifically request: \$12 million payment into the Native American endowment fund; \$3.1 million for the higher education equity grants; \$5 million for the 1994 institutions' competitive extension grants program; \$3 million for the 1994 Institutions' competitive research grants program; and in the Rural Development-Rural Community Advancement Program (RCAP), that \$5 million for each of the next five fiscal years be targeted for the tribal college community facilities grants. RCAP grants help to address the critical facilities and infrastructure needs at the colleges that impede our ability to participate fully as land grant partners. Since fiscal year 2001, the RCAP tribal college competitive program has received an annual appropriation of \$4 million.

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, as much as any other higher education institutions, 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. Rapid growth 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—32 of which now comprise the list of 1994 Land Grant Institutions—located in 12 states created specifically to serve the higher education needs of American Indian students. Annually, they serve approximately 30,000 full- and part-time students from over 250 Federally recognized tribes.

Thirty-one¹ of the 1994 Land Grant Institutions are accredited by independent, regional accreditation agencies and like all institutions, must undergo stringent performance reviews on a periodic basis to retain their accreditation status. Tribal colleges serve as community centers by providing libraries, tribal archives, career centers, economic development and business centers, public meeting places, and child care centers. Despite their 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 operational costs for non-Indian students enrolled in our institutions, accounting for approximately 20 percent of our student population. Under these inequitable financing conditions and unlike our state land grant partners, our institutions do not benefit from economies of scale—where the cost per student to operate an institution is diminished by the increased size of the student body.

¹White Earth Tribal & Community College is in the pre-candidacy stage of accreditation.

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 and Universities, American Indian communities are receiving services they need to reestablish themselves as responsible, productive, and self-reliant citizens. 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—AMBITIOUS 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.

Native American Endowment Fund.—Endowment installments paid into the 1994 Institutions' account remain with the U.S. Treasury, only the annual interest, less the USDA's administrative fee, is distributed to the colleges. The latest gross annual interest yield (fiscal year 2003) is \$1,929,849, after the USDA's administrative fee of \$77,194 is deducted; \$1,852,655 remains to be distributed among the 31 eligible 1994 Land Grant Institutions by statutory formula. We believe that the annual administration fee is excessive. Last year, the USDA's administrative fee of \$70,863 was larger than the interest yield payments distributed to 74 percent of the 1994 Land Grant Institutions. After the distribution amounts are determined for this year's disbursement we fully expect similar results and therefore ask the Subcommittee to review the administration fee and consider reducing it. More critical funding can then be put to work at the 1994 Land Grant Institutions in order to accomplish the goals of their community based programs.

Just as other land grant institutions historically received large grants of land or endowments in lieu of land, this endowment 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 academic 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. Several of the colleges have indicated the need for immediate and substantial renovations to replace construction materials that have long exceeded their effective life span, and to upgrade existing buildings due to accessibility and safety concerns.

An increased endowment payment would enhance the size of the corpus and thereby increase the annual interest yield available to the 1994 land grant colleges. 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 continue to help address the critical and very expensive facilities needs at our institutions. Currently, the amount that each college receives from this endowment is not enough to adequately address curricula development and instruction delivery, as well as 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 frankly 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 2005 endowment fund payment to the \$12 million recommended in the President's Budget.

1994 Institutions' Educational Equity Grant Program.—Closely linked with the endowment fund, this program currently provides approximately \$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 plan activities specifically targeting 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; bison production and management; and especially food science and nutrition to address epidemic rates of diabetes and cardiovascular disease on reservations. If more funds were available through the Educational Equity Grant Program, tribal colleges could channel more of their endowment yield to supplement other facilities funds to address their critical infrastructure issues. Authorized at \$100,000 per eligible 1994 Institutions, in fiscal year 2004, this program was appropriated at just \$1,679,000, or about \$54,000 per 1994 institution. 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.

Extension Programs.—The 1994 Institutions' extension programs strengthen 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 2004, \$2,929,000 was appropriated for the 1994 Institutions' competitive extension grants, a 13 percent decrease from fiscal year 2003, by far the largest percentage decrease of all Smith Lever programs, as the 1862 and 1890 programs received a reduction of just 0.59 percent. Reductions in already sparse funding will significantly limit the 1994 Institutions' ability to maintain existing programs and to respond to emerging issues such as food safety and homeland security especially on border reservations. Additional funds are needed to support these vital programs designed to address the inadequate extension services provided to Indian reservations by their respective 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 support this competitive program by appropriating \$5 million to sustain the growth and further success of these essential community based programs.

1994 Research Program.—As the 1994 Land Grant Institutions have begun to enter into partnerships with 1862/1890 land grant institutions through collaborative 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 institutional expertise, with the overall impact being far greater than the sum of its parts. We recognize the budget constraints under which Congress is functioning. However, \$1.1 million, the fiscal year 2004 appropriated level of funding, is clearly inadequate for a competitive pool of 31 institutions. This research program is vital to ensuring that tribal colleges may 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 projects funded under this program:

—Southwestern Indian Polytechnic Institute (SIPI) serves American Indian/Alaska Native students from across the nation. Currently, SIPI is studying the feasibility of an intensive, extended production of high value crops. This research project compares the economic returns from growing raspberries and strawberries under high tunnels to returns from open-field growing conditions, under organic management at three sites that consider variations in harvest time and duration, and total production.

Other project areas include soil and water quality, 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 improvements at Tribal Colleges and Universities. As stated earlier, the facilities at many of the 1994 Land Grant Institutions are in serious 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 1994 Tribal College Land Grant Institutions. Additionally, we respectfully request report 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 aggressively address critical facilities needs.

CONCLUSION

The 1994 Land Grant Institutions have proven to be efficient and effective tools for bringing educational 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 support of the Tribal Colleges and Universities and we ask you to renew 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 equitable 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 2005 appropriations requests.

 PREPARED STATEMENT OF THE AMERICAN LEGION
National School Lunch Program

Since 1941, The American Legion has supported programs of nutrition for children, including the National School Lunch Program. This federally-assisted meal program operates in more than 99,000 public and non-profit private schools and residential child care institutions, providing nutritionally balanced, low-cost or free lunches to more than 25 million children each school day.

The importance of this nutrition assistance program is underscored by these facts: A poor diet is a significant factor in 4 of the 10 leading causes of death in the United States—coronary heart disease, cancer, hypertension, stroke and diabetes.

- Poor nutrition and lack of physical activity account for 300,000 deaths per year.
- The economic cost of poor nutrition accounts for at least \$200 billion per year in medical costs and lost productivity.
- Participation in school feeding programs leads to improved educational outcomes.

There continues to be expressions of concern by health authorities and various national organizations with an interest in the status of proper nutrition among young people. A USDA analysis of the 1994–1996 Continuing Survey of Food Intakes for Individuals (CSFII) noted these alarming trends in children's eating patterns:

- Only 2 percent of school-aged children meet the Food Guide Pyramid serving recommendations for all five major food groups.
- Girls, ages 14 to 18, have especially low intakes of fruits and dairy products.
- More than two-thirds of females, ages 14 to 18, exceed the recommendations for intake of total fat and saturated fat, but even greater percentages of children exceed these recommendations among the other age/gender groups.
- Children's diets are high in added sugars. For all children, added sugars—including sugars used as ingredients in processed foods or added to foods as they are consumed—contribute an average of 20 percent of total food energy.
- Children are heavy consumers of regular or diet soda. Overall, 56 to 85 percent of children (depending on age and gender) consume soda on any given day. Teenage males are especially heavy consumers of soda, with over a third consuming more than three servings a day.
- All of the age/gender groups experienced a shift from milk products to soda and fruit drinks. The decrease in milk consumption tended to be larger for females than for males.
- These trends have contributed to some serious diet-related health concerns.
- The prevalence of overweight among youth ages 5–17 years in the United States has more than doubled in the past 30 years; most of the increase has occurred since the late 1970's.
- Current evidence suggests that childhood overweight and obesity continue into adulthood.
- One of the most serious aspects of overweight and obesity in children is Type II diabetes. Type II diabetes accounted for 2 to 4 percent of all childhood diabetes before 1992, but skyrocketed to 16 percent by 1994. Overweight adolescents are more likely to become overweight adults, with increased risk for developing

heart disease and stroke, gallbladder disease, arthritis, and endometrial, breast, prostate and colon cancers.

—Failure to meet calcium requirements in childhood can hinder the achievement of maximal skeletal growth and bone mineralization. Getting enough calcium in the diet during childhood, adolescence, and young adulthood, to reduce the risk for osteoporosis later in life is particularly important for females.

Nutrition clearly has a major impact on children—on their health, their ability to learn and on their potential for becoming healthy and productive adults. School meals make an important contribution to the nutrition of school-aged children. The School Nutrition Dietary Assessment Study-II indicates that reimbursable meals selected by students exceeds the Recommended Dietary Allowances (RDA) standards for key nutrients. According to the USDA analysis of the 1994–1996 CSFII data:

—National School Lunch Program (NSLP) participation is associated with higher average intakes of many nutrients, both at lunch and over 24 hours.

—NSLP participants have substantially lower intakes of added sugars than do non-participants.

—NSLP participants are more likely than non-participants to consume vegetables, milk and milk products, and meat and other protein-rich foods, both at lunch and over 24 hours; they also consume less soda and fruit drinks.

Federal nutrition assistance programs have a critical role to play in promoting 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 and promotion to program participants. The American Legion urges Congress to appropriate \$10.6 billion for school nutrition programs to reflect the increased cost of food and to provide for needed facilities and trained personnel for the purpose of conducting an adequate school lunch program.

PREPARED STATEMENT OF THE AMERICAN PUBLIC POWER ASSOCIATION

The American Public Power Association (APPA) is the national service organization representing the interests of over 2,000 municipal and other state and locally owned utilities throughout the United States (all but Hawaii). Collectively, public power utilities deliver electricity to one of every seven electric consumers (approximately 40 million people), serving some of the nation's largest cities. However, the vast majority of APPA's members serve communities with populations of 10,000 people or less.

We appreciate the opportunity to submit this statement outlining our fiscal year 2005 funding priorities within the jurisdiction of the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Subcommittee.

Department of Agriculture: Rural Utility Service Rural Broadband Loan Program

APPA urges the Subcommittee to fully fund the Rural Utility Service's (RUS) Rural Broadband Loan Program at \$20 million, as authorized in the 2002 Farm Bill, and to take all appropriate steps to assist the RUS in facilitating the processing of loan funds provided in fiscal year 2002 through fiscal year 2004. A funding level of \$20 million would produce approximately \$700 million in RUS loans for fiscal year 2005.

APPA believes it is important to provide incentives for the deployment of broadband to rural communities, many of which lack broadband service. Increasingly, access to advanced communications services is considered vital to a community's economic and educational development. In addition, the availability of broadband service enables rural communities to provide advanced health care through telemedicine and to promote regional competitiveness and other benefits that contribute to a high quality of life. Approximately one-fourth of APPA's members are currently providing broadband service in their communities. Several APPA members are planning to apply for RUS broadband loans to help them finance their broadband projects, and one member—Grant County Public Utility District in Washington—applied for an RUS loan last year.

PREPARED STATEMENT OF THE AMERICAN SHEEP INDUSTRY

The American Sheep Industry Association (ASI) is a federation of state member associations representing over 64,000 sheep producers in the United States. The sheep industry views numerous agencies and programs of the U.S. Department of Agriculture as important to lamb and wool production. Sheep industry priorities include rebuilding and strengthening our infrastructure primarily through the Na-

tional Sheep Industry Improvement Center, critical predator control activities, fully funded our national animal health efforts, and expanding research capabilities.

The rapid changes that have occurred in the domestic sheep industry and continue to take place put further emphasis on the importance of adequately funding the U.S. Department of Agriculture programs important to lamb and wool producers.

We appreciate this opportunity to comment on those portions of the USDA fiscal year 2005 budget.

RURAL DEVELOPMENT

The National Sheep Industry Improvement Center is critical to the industry and we fully support appropriations for the balance of authorized spending of \$22 million. The Sheep Center is currently involved with an Intermediary Low Interest Direct Loan Program, which became operational in 2000 and has committed \$14 million for lamb, wool and goat projects. Loans are being used to fund a variety of large and small projects in every region of the country with emphasis on targeting different marketing challenges through value added and niche marketing initiatives. The second focus area is a direct grant program that was started in 2002. The Center has approved a grant solicitation process with an increased funding amount for fiscal year 2004, which ought to be considered again in fiscal year 2005 with additional appropriations.

We understand that loan proposals currently under consideration will fully use the available funds. The demand for the Center's funds is increasing and additional appropriations will be required to meet the new project requests. Furthermore the authority of the Center to receive Federal funds allows for another \$22 million during the next 2 fiscal years. The Center is a premier vehicle of the U.S. sheep industry's adjustment plan and adequate funding is critical to the industry.

ANIMAL AND PLANT HEALTH INSPECTION SERVICE (APHIS)

Scrapie

The American Sheep Industry Association is very appreciative for the increased appropriations approved in fiscal year 2003 and fiscal year 2004 of \$15.47 million. USDA/APHIS, along with industry and State regulatory efforts, is now in the position to eradicate scrapie from the United States with a multi-year attack on this animal health issue. As the collective and aggressive efforts of Federal and State eradication efforts are expanding into slaughter-surveillance and other methods and systems, the costs are, as expected, escalating. We urge the subcommittee to support the President's request of \$21 million for scrapie eradication in the 2005 budget.

Scrapie is one of the family of transmissible spongiform encephalopathies (TSEs), all of which are the subject of great importance and interest around the globe. USDA/APHIS, along with the support and assistance of the livestock and allied industries, began an aggressive program to eradicate scrapie in sheep and goats three years ago. The plan USDA/APHIS is implementing will eradicate scrapie by 2010 and with subsequent monitoring and surveillance would allow the United States to be declared scrapie-free by 2017. Becoming scrapie-free will have significant positive economic impact to the livestock, meat and feed industries and, of course, rid our flocks and herds of this fatal animal disease.

Essential to the eradication effort being accomplished in a timely manner, is adequate appropriated funds. The program cannot function properly without additional personnel, diagnostic support and surveillance activities that depend upon appropriated funds. We strongly urge you to support the level of funding that is specified for scrapie in the President's budget request. Funding of \$21 million will provide for an achievable scrapie eradication program and the eventual scrapie-free status for the United States. As with the other successful animal disease eradication programs conducted by USDA/APHIS in the past, strong programs at the State level are key. We therefore urge the subcommittee to send a clear message to USDA to budget significant funding toward cooperative agreements with the State animal health regulatory partners.

Wildlife Services

With well over one-quarter million sheep and lambs lost to predators each year, the Wildlife Services (WS) program of USDA-APHIS is vital to the economic survival of the sheep industry. The value of sheep and lambs lost to predators and predator control expenses are second only to feed costs for sheep production. Costs associated with depredation currently exceed our industry's veterinary, labor and transportation costs.

Wildlife Service's cooperative nature has made it the most cost effective and efficient program within Federal Government in the areas of wildlife management and public health and safety. Wildlife Services has more than 2,000 cooperative agreements with agriculture, forestry groups, private industry, state game and fish departments, departments of health, schools, county and local governments to mitigate the damage and danger that the public's wildlife can inflict on private property and public health and safety.

ASI strongly supports the fiscal year 2004 appropriations for Wildlife Services operations and methods development programs, particularly as related to livestock protection. We request the Committee restore the funding levels that are decreased in the Administration's fiscal year 2005 budget. We encourage continued recognition in the appropriations process for fiscal year 2005 of the importance of aerial hunting as one of Wildlife Service's most efficient and cost-effective core programs and ASI supports continued appropriations. It is used not only to protect livestock, wildlife and endangered species, but is a crucial component of the Wildlife Services rabies control program.

Similar to the increasing needs in the aerial hunting program we encourage continued emphasis in the programs to assist with management of wolf depredation in the states of Montana, Idaho, Wyoming, Minnesota, Wisconsin, Michigan, New Mexico and Arizona. Additionally, program expenses are expected in the states surrounding the Montana, Idaho and Wyoming wolf populations. It is strongly supported that appropriations be provided for \$586,000 for additional wolf costs anticipated in Washington, Oregon, Nevada, Utah, Colorado and North Dakota. A regional helicopter proposed for use in the affected areas is supported at \$980,000.

The following additional appropriations are urged for consideration in fiscal year 2005:

- Wildlife Services must document its operations in order to conduct program analysis and comply with Federal reporting requirements. The agency's current information technology support system has become antiquated, which could result in incomplete data collection and analysis. To update and maintain the information system, an additional \$700,000 is needed.
- Research and Development is needed to improve existing techniques, find new methods for capturing and/or discouraging wildlife from preying on livestock or other wildlife species, and explore fertility methods (i.e., sterilization and immunocontraception) that are economically and socially acceptable. An additional \$1,150,000 is needed to meet the research and personnel needs of the National Wildlife Research Center Predator Research Unit.
- Implementation of Newly Developed Methods including new technologies that deal with electronic devices or immunocontraception require significant funds to implement. It is recommended that a fund of \$2,300,000 be established to take the newly developed techniques and test them in actual field conditions to determine their practicability in terms of effectiveness and cost.
- Livestock protection is the major emphasis of the WS western program and the agency frequently receiving requests to assist other types of wildlife damage related issues. For example, concerns over declining native wildlife are being expressed by many state wildlife agencies. WS is being requested to provide assistance to reduce impacts of predation on these species to allow for recovery and to avert threatened and endangered species listings. With limited resources and employees to accommodate these requests, additional infrastructure and equipment is needed to meet these demands. An additional \$6,900,000 is necessary to purchase equipment, meet personnel needs to maintain and implement programs, update the data collection system, develop and implement a public communication plan, and meet NEPA planning requirements.

AGRICULTURAL MARKETING SERVICE

Lamb Market Information and Price Discovery Systems

The sheep industry strongly supports the fiscal year 2005 budget for Market News of USDA-Agricultural Marketing Service. Furthermore ASI supports necessary increases in appropriations for the full implementation of the mandatory price-reporting system for livestock. We expect AMS to continue efforts to fully implement the price reporting system this fiscal year with the inclusion of the imported lamb meat price report.

FOREIGN AGRICULTURAL SERVICE (FAS)

The sheep industry participates in FAS programs such as the Market Access Program (MAP), Quality Samples Program and the Foreign Market Development Program. ASI strongly supports appropriations at the full authorized level for these

critical Foreign Agricultural Service programs. ASI is the cooperator for American wool and sheep pelts and has achieved solid success in increasing exports of domestic product. Exports of American wool have been increased dramatically with approximately 60 percent of U.S. production now competing overseas.

NATURAL RESOURCES CONSERVATION SERVICE (NRCS)

ASI urges increased appropriations for the range programs of the Soil Conservation Service to benefit the private range and pasture lands of the United States with conservation assistance. We support the budget item and recommend an increased level for the Grazing Lands Conservation Initiative, which ASI has worked with, along with other livestock and range management organizations, to address this important effort for rangelands in the United States.

RESEARCH, EDUCATION AND ECONOMICS

Our industry is striving to be profitable and sustainable as a user of and contributor to our natural resource base. Research, both basic and applied, and modern educational programming is essential if we are to succeed. We have been disappointed in the decline in resources USDA has been targeting toward sheep research and outreach programs. With net increases in the animal systems category of the agriculture research budget, for example, sheep and wool research has either declined or remained static for the past several years. In order for the sheep industry to be more globally competitive in the future, we must invest in the discovery and adoption of new technologies for producing, processing and marketing lamb and wool. We urge the subcommittee to send a strong message to USDA supporting sheep research and education funding increases.

Agricultural Research Service

We continue to vigorously support the administration's funding of research concerning emerging and exotic diseases. Emerging and exotic diseases continue to have significant impact on our industry due to animal health and trade issues. The animal disease portion should be substantial and is urgently needed to protect the U.S. livestock industry. We agree that BSE is an extremely important disease issue globally and believe that research is needed. With this in mind, we remind the subcommittee that scrapie is a TSE that is endemic in the United States and we recommend that these monies for BSE research be utilized in such a manner that the resultant research assists with scrapie eradication needs. We also respectively remind the subcommittee that scientists in the Animal Disease Research Unit (ADRU), ARS, Pullman Washington, have made significant progress in the early diagnosis of TSEs, in understanding genetic resistance to TSEs and in understanding mechanisms of TSE transmission, which are important in eradication of all TSEs. The programs of these scientists at ADRU should be enhanced and expanded to include, for instance, the development of further improvements in rapid and accurate TSE detection methods and to provide an understanding of the role of environmental sources of the TSE agent in the transmission of TSEs within the United States and world and to further understand the basis of genetic resistance and susceptibility to these devastating diseases.

We appreciate and support the President's budget request of \$1 million for Animal Genomics at ARS/ADRU. Since 2001, Congress has had the foresight to appropriate \$775,000 each year to this unit for "Microbial Genomics." Microbial genomics is the cornerstone project for their genomic research infrastructure and has resulted in very important genome projects for infectious diseases of livestock such as scrapie. The \$250,000 enhancement of the genomics program at ADRU over the fiscal year 2004 would enhance the program to include defining the genes involved in the immune response of sheep to important emerging diseases such as MCF and ovine progressive pneumonia virus.

We also urge the subcommittee to recommend the restoration of \$496,000 for Malignant Catarrhal Fever (MCF) at the ARS/ADRU in Pullman for the fiscal year 2005 budget. MCF is a viral disease of ruminants that is of great concern to our livestock industries. The exotic variant of MCF is considered a high priority select agent. This funding is provided for collaborative research with the U.S. Sheep Experiment Station, Dubois ID, for vaccine development directed at preventing transmission of MCF.

Research into Johne's disease has received additional funding through ARS over the past several years, focusing on cattle. Johne's disease is also endemic in the U.S. sheep population and is not well understood as a sheep disease. The same food safety concerns exist in both sheep and cattle; other countries are also very concerned about Johne's in sheep. We urge the subcommittee to send a strong message to ARS

that John's disease in sheep should receive more attention at the National Animal Disease Research Center (NADC) with an emphasis on diagnostics.

Economic Research Service

ASI appreciates the subcommittees' support of USDA/ERS and the accomplishment of publicly available retail price data on lamb as initiated last year. We urge continued support of funding for mandatory price reporting including collection and reporting of retail lamb price data.

COOPERATIVE STATE RESEARCH, EDUCATION, AND EXTENSION SERVICE (CSREES)

The Minor Use Animal Drug Program is funded through a "Special Research Grant" that has had great benefit to the U.S. sheep industry. The research under this category and the companion "NRSP-7" program through FDA/CVM has provided research information on therapeutic drugs that are needed for the approval process. Without this program, American sheep producers would not have effective products to keep their sheep healthy. We appreciate the Administration's request of \$588,000 for this program, and we urge the subcommittee to recommend that it be funded at least at this level to help meet the needs of our rapidly changing industry and increasing costs for research necessary to meet the requirements for approving additional therapeutics for sheep.

On-going funding for the Food Animal Residue Avoidance Databank (FARAD) program is critically important for the livestock industry in general and especially for "minor species" industries such as sheep where extra-label use of therapeutic products is more the norm rather than the exception. FARAD provides veterinarians the ability to accurately prescribe products with appropriate withdrawal times protecting both animal and human health. We urge the subcommittee to restore funding for FARAD at least to the level of \$800,000.

Ongoing research in wool is critically important to the sheep and wool industry. ASI urges the subcommittee's support of \$294,000 for fiscal year 2005 through the special grants program of the CSREES for wool research.

Ongoing research for the Montana Sheep Institute is important to the sheep and wool industry. Sheep grazing is being used as an important tool for natural resource management to improve the competitiveness of lamb and wool in the marketplace. ASI encourages the subcommittee's support of funding at \$556,360.

The research and education programs conducted through the Joe Skeen Institute for Rangeland Restoration provide valuable information for sheep producers in the western United States. ASI urges the subcommittee to restore the funding to the originally proposed \$1,000,000 in fiscal year 2003.

The industry greatly appreciates this opportunity to discuss these programs and appropriations important to the sheep industry.

PREPARED STATEMENT OF THE AMERICAN SOCIETY FOR MICROBIOLOGY

The American Society for Microbiology (ASM), the largest single life science society with a membership of over 43,000, appreciates the opportunity to submit testimony in support of the fiscal year 2005 budget for the Food and Drug Administration (FDA). The FDA serves as the science-based protector of public health by assuring the safety, efficacy, and security of human and veterinary drugs, biological products, medical devices, the food supply, consumer products and by responding to new challenges of bioterrorism and food defense. The FDA also advances health care by taking steps to improve and ensure new medical product development based on biomedical research. It is critical that FDA maintain the highest level of public trust in all of its activities and increased funding is vital to its success and its critical mission initiatives.

The ASM supports the Administration's fiscal year 2005 budget request of \$1.8 billion which represents an 8.8 percent increase over the fiscal year 2004 funding level. This increase will enhance security of the nation's domestic and imported food supply and support stronger FDA review of medical devices, better protection against bovine spongiform encephalopathy (BSE), and more efficient work output through further consolidation of FDA facilities. The increase recognizes the important activities of the FDA in improving patient and consumer safety and responding to new challenges of bioterrorism and food defense. The FDA is a principal partner in inter-agency homeland security strategies.

Science-based decision making and a well-trained workforce make the FDA an effective and reliable guardian of public health. As the U.S. population grows and threats to public safety persist, demands on the FDA are multiplying in number and complexity. Changes in global trade and international politics affect the FDA mis-

sion as well. Last year for instance, the FDA conducted nearly 80,000 imported food examinations, up from 12,000 in 2001. The agency must remain highly responsive both to on-going consumer needs and to unexpected emergency situations. In 2003 the FDA activated its Emergency Operations Center to respond to the first reported United States case of BSE and to participate in a two-city, full-scale counter-terrorism exercise of a simulated detonation of a nuclear device and the release of the pneumonic plague pathogen.

Food Defense and National Security

Over the past three years, the FDA has worked to improve food security by adding more inspections of imported food, trained investigators, and port of entry security measures. Protecting the food consumed by over 290 million Americans demands major effort from the FDA and its staff. The agency directly oversees the safety of about 80 percent of the nation's food supply and assists the U.S. Department of Agriculture (USDA) on the remainder. Nearly half of the proposed \$149 million budget increase, an amount of \$65 million, would further broaden the FDA's capabilities to guarantee and defend the national food supply to an fiscal year 2005 total of \$181 million.

This allocation would support the key food defense strategies already being implemented by the agency: increase food security awareness among public and private stakeholders; develop advanced capacities to identify specific threats or attacks on the food supply; design additional protection to shield the food supply from terrorist attack; fine-tune rapid coordinated response capability in the event of a foodborne terrorist attack; and enhance the capacity for a quick recovery if such an attack did harm any residents of the United States.

Of the proposed \$65 million increase, \$35 million would establish a joint FDA-USDA network of qualified investigative laboratories, the Food Emergency Response Network (FERN). Throughout its long history, the FDA has optimized consumer protection by collaborating with states, other Federal agencies, law enforcement, industry, academic institutions and others in the areas of research, information exchange, and emergency responses. The FERN program will continue this tradition by creating a nationwide network of Federal and State laboratories capable of testing thousands of food samples for biological, chemical, and radiological threat agents. It will add 15 FDA-funded state laboratories to the 10 labs planned for fiscal year 2004, all to possess advanced instrumentation and pathogen containment capabilities. The program also incorporates FDA research on new testing methods that could shorten the time needed to detect foodborne threats. The FDA will expand to 104 the number of state health and agricultural laboratories connected through its electronic network, eLEXNET, to facilitate exchange of lab data critical in first-alert situations.

Basic research underlies every application applied by the FDA in its search for possible foodborne health hazards. Within the fiscal year 2005 increase, \$15 million would fund intramural and extramural research on methods development, characteristics of specific foodborne pathogens, and new prevention technologies to improve food safety—results subsequently would help shape new guidelines and performance standards for the food production industry. Better understanding of how pathogens survive in foods during processing and storage and of the doses of pathogens needed to cause disease will provide superior prevention protocols. FDA funded research also discovers new microbiological, chemical, and radiological methods to detect and identify biothreats found in food.

Surveillance constitutes a large part of the FDA's protection of the food supply. In fiscal year 2005, the FDA intends to conduct nearly 26,000 inspections of domestic food production firms, almost 11 times the investigations done in fiscal year 2001. FDA inspectors also will perform 97,000 import-food field inspections, more than 60 percent over last year and seven times the number in fiscal year 2001. The \$7 million within the proposed fiscal year 2005 increase earmarked for increased food inspections would help alleviate the burgeoning potential of contaminated food imports, though many thousands of imported food shipments would remain left unchecked. The FDA will soon implement its component of the Public Health Security and Bioterrorism Preparedness and Response Act of 2002, which among other measures will require the registration of food facilities and advance notice of food imports. In the fiscal year 2005 food defense increase, the FDA also would receive \$5 million for its role in the new interagency Biosurveillance Initiative developed to improve the Federal Government's capability to rapidly identify and characterize bioterrorist attacks. When in place, the Biosurveillance Initiative will shorten the time needed to alert the nation to such an attack. Towards this goal, the FDA will coordinate existing state and Federal food surveillance networks to facilitate communications on outbreaks and other events related to foodborne illness. The remaining \$3

million of the proposed funding increases for food defense would upgrade the FDA's intra-agency communication system used by personnel during emergencies.

Contamination of the food supply not only threatens public health; the economic and political ramifications are enormous, as evidenced by costly export embargoes recently triggered by fear of BSE in meat products. More than 30 countries have banned the import of American beef, in response to last December's discovery of an imported BSE-infected dairy cow. The Federal Government just announced that up to 300,000 U.S. cattle may be tested for BSE each year, which would require some new, FDA-approved rapid screening test to succeed. The President's budget includes more than \$8 million to fund new FDA safeguards against BSE. This would increase FDA's funding to stop BSE to \$30 million in fiscal year 2005.

Most of the \$8 million will be used for field activities under the FDA's Animal Drugs and Feeds program, including an additional 920 risk-based inspections, 600 targeted sample collections/analyses, and at least 2,500 state inspections of animal feed firms. Animal feed contaminated with the BSE agent is the only known route of BSE transmission. As the agency responsible for animal feeds used in food production, this year the FDA will inspect 100 percent of feed mills and renderers. The FDA's more aggressive approach to BSE also will involve evaluating new commercial BSE screening tests like polymerase chain reaction techniques and educating even more food producers on new and updated regulations. In January, the FDA announced additional, more-rigid safeguards to prevent potentially BSE-contaminated animal parts from entering either the food supply or health care products.

Medical Products and Public Safety

The ASM supports the Administration's proposed fiscal year 2005 funding levels for FDA regulation of medical-use products, including medical devices, human drugs, and biologics such as vaccines and gene therapies. The budget includes \$252 million for the Medical Devices program, a \$26 million increase over fiscal year 2004. The program plans to more rapidly review new products, while increasing the number of products reviewed in a time period. The Human Drugs program would receive \$499 million, an increase of \$23 million, and the Biologics program, \$173 million, or \$4 million more than last fiscal year. All medical products are evaluated by the FDA for safety and efficacy before entering the U.S. marketplace. In fiscal year 2003, the FDA approved 466 new and generic drugs and biological products, following extensive science-based evaluations. Agency personnel also monitor the 10,000 drugs already on the market. FDA oversight of these products has both public health and national security significance, under the goal of more quickly reviewing new products and making them available to the nation's health care systems and defense agencies and to the public.

FDA is the only government agency involved with the approval of products necessary to prevent or treat human exposure to terrorist agents. Given the unpredictability of emergencies, the FDA must be able to respond to product needs at any point along the product production pipeline. The Administration has included \$5 million in the fiscal year 2005 budget proposal to support the FDA's role in Project Bioshield, an inter-agency initiative to ensure medical readiness in the event of war or a catastrophic event. The FDA's role in Project Bioshield is the expedited review of specialized products and medical countermeasures for at-risk populations, such as the military, first responders, those near nuclear facilities, and others. FDA plans collaboration with the CDC on plague in African countries, and with the National Institute of Allergy and Infectious Diseases on studies to determine the lowest effective antibiotic dose to treat pneumonic plague. Like the other Federal agencies involved in Project Bioshield, the FDA must be able to respond quickly and correctly to emergencies, using its best science-based capabilities.

The ASM recommends continuing commitment and support by Congress for the important public health protection work of FDA. Increased funding will help enable FDA to perform its responsibilities to ensure access to safe and effective medical countermeasures against potential biological, chemical or radiological terrorism, consumer product safety, food safety, accurate product information and safe and effective drug and device evaluations. Additional funding will help to ensure that FDA can develop and maintain a highly skilled scientific workforce and that science based decision-making continues to be strong at all of FDA's research centers.

PREPARED STATEMENT OF THE AMERICAN SOCIETY FOR MICROBIOLOGY

The American Society for Microbiology (ASM) appreciates the opportunity to submit testimony on the fiscal year 2005 appropriation for the United States Department of Agriculture (USDA). The ASM is the largest single life science organization

in the world, with more than 43,000 members who work in academic, industrial, medical, and governmental institutions worldwide. The ASM's mission is to enhance the science of microbiology, to gain a better understanding of life processes, and to promote the application of this knowledge for improved health, and for economic and environmental well-being.

The USDA sponsors research and education programs which contribute to solving agricultural problems of high national priority and sustaining safe food and a competitive agricultural economy. United States agriculture faces new challenges, including threats from emerging infectious diseases in plants and animals, climate change, and public concern about food safety and security. It is critical to increase the visibility and investment in agriculture research to respond to these challenges. The following testimony will focus on USDA's research and education programs.

The ASM supports increases proposed for the USDA Food and Agriculture Defense Initiative, the Bovine Spongiform Encephalopathy (BSE) Initiative, and the Genomics Initiative. The ASM recommends greater emphasis on funding for research in these programs. Microbiological research in agriculture is vital to understanding and finding solutions to foodborne diseases, new and emerging plant and animal diseases, and the development of new agriculture products and processes. Unfortunately, Federal investment in agricultural research has not kept pace with the need for additional agricultural research to solve emerging problems. According to National Science Foundation (NSF) data, agriculture research makes up only 4 percent of Federal funds devoted to basic research. ASM urges Congress to provide increased funding for research programs within the USDA.

USDA National Research Initiative Competitive Grants Program

The National Research Initiative Competitive Grants Program (NRI) was established in 1991 in response to recommendations outlined in *Investing in Research: A Proposal to Strengthen the Agricultural, Food and Environmental System*, a 1989 report by the National Research Council's (NRC) Board on Agriculture. This publication called for increased funding of high priority research, that is supported by USDA through a competitive peer-review process directed at:

- Increasing the competitiveness of U.S. agriculture.
- Improving human health and well-being through an abundant, safe, and high-quality food supply.
- Sustaining the quality and productivity of the natural resources upon which agriculture depends.

Continued interest in and support of the NRI is reflected in two subsequent NRC reports, *Investing in the National Research Initiative: An Update of the Competitive Grants Program of the U.S. Department of Agriculture*, published in 1994, and *National Research Initiative: A Vital Competitive Grants Program in Food, Fiber, and Natural Resources Research*, published in 2000.

Today, the NRI, housed within USDA's Cooperative State Research, Education, and Extension Service (CSREES), supports research on key problems of national and regional importance in biological, environmental, physical, and social sciences relevant to agriculture, food, and the environment on a peer-reviewed, competitive basis. Additionally, NRI enables USDA to develop new partnerships with other Federal agencies that advance agricultural science. An example of such collaboration is USDA's partnership with the NSF on the Microbe Project.

In fiscal year 2004, funding for NRI suffered a decrease of \$2 million from fiscal year 2003, providing just \$164 million. Comparatively, the USDA requested \$180 million for NRI in fiscal year 2005, a decrease of \$20 million from the request for fiscal year 2004, and a decrease of \$60 million from the request for fiscal year 2003. NRI can fund only between 14–15 percent of the high quality research proposals received, while agencies such as the National Institutes of Health (NIH) and the NSF fund between 20–30 percent of the research proposals. ASM urges Congress to fund NRI at the President's requested level for fiscal year 2003 of \$240 million in fiscal year 2005. Increased funding for competitive, peer reviewed grants is needed to increase the size and number of awards and to pursue more research opportunities. Additional funding for the NRI is needed to expand research in microbial genomics and to provide more funding for merit reviewed basic research with long-term potential for new discoveries. Without an increase in funding for NRI, the following critical research will be severely limited:

- Research showing linkages between food and human diseases;
- Research showing new ways to combat insects, weeds, plant and animal disease in fields and ranches;
- Research that helps keep pathogens and other dangers out of our air, water, soil, plants, and animals;

- Research establishing new crops, improved livestock and economic opportunities;
- Research that creates new food and processing techniques, producing greater value and profitability;
- Research on air culture to adapt to and mitigate climate change.

USDA Food and Agriculture Defense Initiative

The Food and Agriculture Defense Initiative is an interagency initiative to improve the Federal Government's capability to rapidly identify and characterize a bioterrorist attack, by improving the national surveillance capabilities in human health, food, agriculture, and environmental monitoring. The President's request for this initiative within the USDA budget is \$381 million for fiscal year 2005, an increase of \$79 million over fiscal year 2004. This funding will go towards:

Enhancing food defense by:

- Increasing surveillance and monitoring of pathogens and other hazards in meat, poultry and eggs and establishing connectivity with the integration and analysis function at the Department of Homeland Security (DHS);
- Establishing a Food Emergency Response Network (FERN) with participating laboratories including implementation of the Electronic Laboratory Exchange Network (eLEXNET) and an electronic methods repository; and strengthening research to develop diagnostic methods for quickly identifying various pathogens and contaminated foods; and
- Developing diagnostic methods to quickly identify pathogens and contaminated foods.

Enhancing agriculture defense by:

- Providing funds for completing the consolidated state-of-the-art BSL-3 animal research and diagnostic laboratory at Ames, Iowa;
- Establishing a National Plant Disease Recovery System that will quickly coordinate with the seed industry to provide producers with resistant stock before the next planting season in the event of a natural or intentional catastrophic disease or pest outbreak;
- Expanding the Regional Diagnostic Network with links to the National Agricultural Pest Information System;
- Establishing a Higher Education Agrosecurity Program that will provide capacity building grants to universities for interdisciplinary degree programs to prepare food defense professionals;
- Substantially enhancing the monitoring and surveillance of pests and diseases in plants and animals, including targeted National wildlife surveillance;
- Increasing State Cooperative Agreements to better select and identify plant and animal health threats;
- Increasing biosurveillance of pests and diseases in plants and animals and establishing connectivity with the integration and analysis function at DHS;
- Establishing a system to track select disease agents of plants; and
- Increasing the availability of vaccines through the National veterinary vaccine bank.

ASM believes there should be greater emphasis on research in the Food and Agriculture Defense Initiative, which provides just a small portion of funding, \$31 million, for research of the overall \$381 million requested for this initiative. ASM recommends an increase in funding, both extramurally and intramurally, for research on pathogenic microorganisms as part of the Food and Agriculture Defense Initiative.

USDA BSE Initiative

In the wake of the discovery of the first incident of BSE in a Holstein cow from Washington State, the USDA has requested an increase for BSE related activities of \$47 million in fiscal year 2005 over fiscal year 2004, for a total of \$60 million. USDA has allocated only \$5 million of the total request for BSE activities related to research. This level of funding for research is inappropriately low. ASM urges Congress to increase the funding level for BSE research above the \$5 million requested. Basic research is essential in this area for the development of scientifically sound prevention strategies.

Food Safety

The USDA plays a key role in the government's effort to reduce the incidence of foodborne illness. Continued and sustained research is important to safeguarding the nation's food supply and focusing on methods and technologies to prevent microbial foodborne disease and emerging pathogens. Although increases are provided for the Food and Agriculture Defense Initiative, for the Food Safety and Inspection

Service, and for BSE activities, we note that funding for food safety is level within ARS and only a small increase is provided within CSREES.

Genomics Initiative

The NRI and the ARS fund USDA collaborative efforts in the field of genomics. There are opportunities to leverage USDA investments with those of the NIH, the Department of Energy, and the NSF in projects to map and sequence the genomes of agriculturally important species of plants, animals, and microbes. USDA plays an important role in coordinating and participating in interagency workgroups on domestic animal, microbial, and plant genomics. Access to genomic information and the new tools to exploit it have implications for virtually all aspects of agriculture. In 2005, the NRI will support investments in functional genomics and databases. The USDA budget requests a \$12 million increase in animal and plant genomics research within the ARS, although the current funding levels are not specified in the budget request. There is no specific increase in the NRI for this initiative which suggests the program may have to reallocate from other under-funded programs to support this initiative.

Emerging Infectious Diseases in Plants and Animals

The food production and distribution system in the United States is vulnerable to the introduction of pathogens and toxins through natural processes, global commerce, and intentional means. The ASM supports increases in the USDA research budget for emerging diseases and invasive species. Nearly 200 zoonotic diseases can be naturally transmitted from animals to man. For emerging diseases to be effectively detected and controlled, the biology and ecology of the causal pathogens must be understood and weaknesses exploited to limit their spread. This research will help address the risk to humans from zoonotic diseases and the safety of animal products. Additionally, expanded research is needed to accelerate the development of information and technologies for the protection of United States livestock, poultry, wildlife and human health against zoonotic diseases.

Antimicrobial Resistance Research

The USDA plays a key role in addressing the national and global increase in antimicrobial resistance and the complex issues surrounding this public health threat. The ARS Strategic Plan for 2003–2007 states the need to “determine how antimicrobial resistance is acquired, transmitted, maintained, in food-producing animals, and develop technologies or altered management strategies to control its occurrence.” In 1996, the Department of Health and Human Services (HHS) and the USDA established the National Antimicrobial Resistance Monitoring System (NARMS) to monitor trends in antimicrobial resistance in foodborne pathogens. USDA support for this project should continue. USDA research also has a vital role to play in controlling the emergence of resistance in pathogens associated with food through NRI funded grants. ASM urges Congress to increase support for antimicrobial resistance surveillance, research, prevention, and control programs.

Conclusion

The USDA's mission and goals include leadership on food, agriculture, and natural resources, based on sound public policy, the best available science, and efficient management. With a significant investment in research, USDA will be better able to meet its goals. ASM urges Congress to provide sufficient funding for research at USDA increasing funding for agricultural research programs, including providing \$240 million for NRI.

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 appropriations process.

PREPARED STATEMENT OF THE AMERICAN SOCIETY FOR NUTRITIONAL SCIENCES
(ASNS)

The American Society for Nutritional Sciences (ASNS) is the principal professional organization of nutrition research scientists in the United States representing 3,000 members whose purpose is to develop and extend the knowledge and application of nutrition science. Our members include scientists involved in human as well as animal nutrition research. ASNS members hold positions in virtually every land grant, private institution, and medical school engaged in nutrition-related research in the United States as well as industrial enterprises conducting nutrition and food-related research.

Competitive Grants

The NRC report, National Research Initiative (NRI), suggests that inadequate funding for competitive research has “limited its potential and placed the NRI program at risk.”¹ A competitive system for allocating government research funds is the most effective and efficient mechanism for focusing efforts on cutting edge research aimed at improving the health of the American people. Competitive grants provide the highest economic return to the public. ASNS strongly supports the competitive grants process as reflected in the NRI and believes that an open, merit and peer review process, applied as extensively as possible throughout the research system, is the preferred way to distribute research funds among qualified scientists and to support the most meritorious new concepts. ASNS also supports the finding in the 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 portfolio. For these reasons, we strongly urge this subcommittee to consider an appropriation of \$200 million for the NRI competitive grants program as an important step toward the original authorized level of \$500 million.

Indirect Costs Cutting-edge research requires substantial investment in buildings and instrumentation. The USDA provides partial reimbursements for these indirect, but necessary, costs of research as part of grant funding. While we appreciate the efforts to raise the Congressionally mandated cap to 20 percent, the partial reimbursement for buildings and instrumentation still remains a significant disincentive for many university faculty to seek USDA funding. Furthermore, a diminutive facilities reimbursement significantly impairs the ability of universities to meet their fixed obligations such as, building and facility maintenance, and prevents them from further investing in needed facilities in the future. ASNS strongly urges that the USDA indirect costs rate be raised and made commensurate with the rate of other federal agencies. The best and brightest scientists in the United States are being deterred from agricultural research to the detriment of U.S. agriculture and the consumers of its commodities because universities discourage their researchers to apply for grants that when full indirect costs cannot be recovered. Furthermore, increasing the cap on fixed costs from 20 percent should not come at the expense of the overall agricultural research budget and its competitive grant programs.

Nutrition Monitoring

Under an agreement between the Department of Health and Human Services (DHHS), the Center for Disease Control and Prevention (CDC), the National Center for Health Statistics (NCHS), and the USDA Agricultural Research Service (ARS/USDA), the ARS and NCHS has agreed to collaborate on a program of nutrition monitoring. This agreement establishes a cooperative diet and nutrition monitoring program integrating previously conducted Continuing Survey of Food Intakes by Individuals (CFSII) and the National Health and Nutrition Examination Survey (NHANES), which was designed to assess food consumption and related behavior in the U.S. population using personal interviews. The most recent survey was conducted in 1998. This appropriations sub-committee has long supported USDA's role in food security, progress on foot and mouth disease, WIC, and prevention of diseases such as diabetes, cancer, and heart disease. ASNS requests your support for data collection via nutrition monitoring which is essential to policy making in all of these areas.

The Human Nutrition section of the 2005 budget proposal includes an increase of \$5 million for research in support of the Administration's Healthier U.S. Initiative. This research “will be pursued to define the role of nutrients and other food components in promoting health and preventing obesity and related diseases.” Additionally, we support the \$3 million slated for the Economic Research Service (ERS) to carry out a Flexible Consumer Behavior Module to assess the relationship between individuals' knowledge and attitudes about dietary guidance and food safety and their food-choices. Data for this survey will be collected in conjunction with the National Health and Nutrition Examination Survey. Finally, we request \$8.7 million for the Consumer Date and Information Initiative proposed for USDA's Economic Research Service (ERS). This data and analysis framework will provide information on diets, knowledge and information levels, and health status. Such information will help policymakers respond to current events, such as the rise in obesity which is especially troublesome in minority populations.

¹National Research Initiative: A Vital Competitive Grants Program in Food, Fiber, and Natural Resources Research. National Research Council, National Academy Press, Washington, D.C. 2000.

THE NEED FOR FEDERALLY FUNDED NUTRITION-RELATED RESEARCH

The need for increased nutrition science and research is critical within the USDA. As stated in the recent report of the National Academies, “despite food and nutrition assistance programs, hunger and food insecurity persist in the United States . . . in addition, prevalence of overweight and obesity among U.S. adults has increased over the last three decades . . . and the percentage of overweight children and adolescents has also increased.” We already know that many chronic diseases are weight-related, including diabetes, cancer, heart disease, stroke, and hypertension. There is an urgent need for increased research to “guide and evaluate food and nutrition policies and interventions at multiple levels and settings, including individual, family, school, worksite, retail, marketing, and production.”²

Increasing populations, international economic competitiveness, improving the environment and minimizing healthcare costs through disease prevention are all areas that will continue to demand solutions for the future. These solutions will include advances in the understanding of the genetic basis of disease and the genetic basis of nutrient requirements for optimal health, which will require greater understanding of how nutrition and dietary information can be used for disease prevention in at-risk populations.

The economic impact on society in healthcare costs produced by advances in nutrition research is significant in the number of dollars saved by the American taxpayer. As health costs continue to rise, it is imperative that our medical practices take a preventive approach. This requires a thorough understanding of the role of nutrients in foods in preventing chronic illnesses such as heart disease, cancer and diabetes. Most of the recent work on nutrient content and availability in various foods has come from USDA-National Research Initiative Competitive Grants Program (NRICGP) supported research.

NUTRITION-RELATED RESEARCH OPPORTUNITIES AND ACCOMPLISHMENTS

Obesity

Nutrition and physical activity are the two most important factors in the prevention of many chronic diseases such as diabetes, heart disease, stroke, and cancer. The United States Center for Disease Control (CDC) calls obesity the number one health problem in America. Current estimates show that half the American population will be clinically obese by the year 2030. The direct costs of treating complications of obesity, plus the indirect costs from lost productivity, represent a \$100 billion annual burden on the U.S. economy. For these reasons the Federal Government needs to play a larger role in finding more effective treatments and ways to prevent this disease that is linked to so many other chronic diseases.

NRICGP—funded obesity research that has made significant advances in nutrition and human health include:

- Using mice as research models to study mechanisms of obesity; USDA NRI-funded researchers are studying the compromised hormone recognition in diet-induced obesity (<http://www.reeusda.gov/nri/pubs/highlights/2001PDFs/No6.pdf>).
- NRI researchers have observed that prepregnant 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.
- Food, Phytonutrients and Health

Research in areas of bioactive food components will lead to a better understanding of the most promising food compounds that can address major health threats. Other areas offering great promise include improving the nutrient content of foods by modifying fats in plant and animal products to reduce cardiovascular disease, cancer and diabetes risk as well as research on how consumers select and use food and how food intake is linked to health.

- 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)).
- USDA–NRI supported studies in recent years have led to a new understanding of folate requirements and health effects. Dietary studies of nonpregnant women provided strong evidence that folate intakes similar to the previously-held RDA were not adequate to support metabolic needs. Other studies have shown that an adequate folate intake in women of child-bearing age minimizes

²Frontiers in Agricultural Research: Food, Health, Environment, and Communities, National Research Council of the National Academies, 2002.

- the risk of certain birth defects should they become pregnant. Ongoing studies are examining the role of an adequate folate intake in maintaining health by reducing the risk of cardiovascular disease and certain cancers.
- Flavonoids are non-essential nutrients found in all plant foods and plant-derived beverages. Epidemiological studies have shown that these compounds are protective against various cancers. USDA-funded researchers have found that a flavonoid-inducible enzyme is important in inactivation of the major cooked-food mutagen and colon carcinogen in cell cultures. Studies to determine the bioavailability of the active flavonoids in rats and humans are ongoing.
 - Soy isoflavones and vitamin E may reduce the risk of fractures in osteoporotic women. Osteoporosis-related fractures are an enormous public health problem. Scientists are studying the effects of soy isoflavones and vitamin E on fracture healing and bone quality in a rat model that mimics osteoporotic fracture in postmenopausal women. They found that the combination of soy isoflavones and vitamin E at 1,000 and 525 mg/kg diet, respectively, was effective in bringing bone mineral content of the femur to levels similar to those of intact, non-ovarian hormone deficient rats.
 - Dietary omega-3 fatty acids affect immune function. Omega-3 fatty acids are essential for the normal development and function of the neonatal brain and retina. However, the consumption of a diet rich in omega-3 fatty acids may impair infectious disease resistance against certain pathogens. Results can be used to formulate future recommendations for dietary omega-3 fatty acid intakes for human.
 - Cows that eat fish oil as part of their feed produce milk with higher concentrations of conjugated linoleic acid, a compound shown to help prevent cancer. USDA-funded research shows that butter, yogurt, and ice cream produced from this milk also contains healthful compounds and that consumers like the taste.
 - Efforts are under way to develop a corn hybrid that will synthesize genistein, an isoflavone in soybeans that protects against breast, prostate, and colon cancers.

Conclusion

ASNS appreciates the proactive approach to the Subcommittee in supporting research at the USDA in the past and looks forward to the continued growth of research at and through the USDA in the critical areas of nutrition and disease prevention issues. Thank you for considering our request for the NRI and other important research programs within the USDA. We hope that you will call upon the expertise of our members as the Committee continues to deliberate these very important research areas.

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 2005 appropriations for research sponsored by the Department of Agriculture.

ASPB supports the fiscal year 2005 budget request of the Department of Agriculture of \$180 million for the National Research Initiative Competitive Grants Program (NRI). The NRI supports research into fundamental questions that lead to new enhanced crops, technologies and practices in agriculture. These research findings help address critical needs of the nation's farmers. NRI-sponsored plant research is needed to help prevent future losses of crops to pests, diseases and adverse weather conditions, such as drought and freezing.

Advances in science made possible through the NRI will enable farmers to reduce their dependency on pesticides and antibiotics and to protect the water supply, soils and fragile ecosystems.

Research sponsored by the NRI contributes to higher yields and safer foods. The NRI contributes to the talent pool of agricultural scientists in the states and nation to better serve the needs of producers and consumers. Without grant support from the NRI, the agricultural research community in our nation would be severely weakened.

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 recommended that a major emphasis of the NRI continue to be the support of high-risk research with potential long-term pay-offs. 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. The Department of Agriculture's Agricultural Research Service (ARS) continues to address very effectively many important research questions for American agriculture.

Helping America's farmers meet the food production needs of the nation's people and millions more overseas places huge demands on the research community. Researchers supported by the NRI and ARS are called upon to help farmers produce higher yields while farming the same or less acres of land. At the same time, the research community is asked to help make farming friendlier to the environment.

Scientists supported by the NRI and ARS are responding to these needs. 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 beneficial to growers, consumers, and the environment.

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.

Human nutrition depends upon plants. Vitamins, minerals, and other important compounds such as essential amino acids come from plants directly or indirectly. There remain substantial questions about how minerals are taken up and essential compounds are made. As these questions are answered by basic plant research it will be possible to determine how plants can be used to assist in providing a healthier mix of nutrients in the diet both in developed and developing countries. Substantial progress can be made in understanding the role of plant products in human nutrition with additional funding for the NRI and ARS.

We urge the Subcommittee to increase support for the NRI and ARS in fiscal year 2005. As requested by the President, ASPB urges appropriating \$180 million to the NRI in fiscal year 2005. We urge a significant increase for ARS over the fiscal year 2004 appropriation.

We deeply appreciate the Subcommittee's support for research sponsored by the Department of Agriculture. The Subcommittee's support has been essential to producing and securing the nation's food supply.

PREPARED STATEMENT OF THE AMERICAN VETERINARY MEDICAL ASSOCIATION

Dear Mr. Chairman: On behalf of the 70,000 members of the American Veterinary Medical Association (AVMA) we thank you and the committee for the past support of issues and programs of importance to our nation's veterinarians. AVMA membership is comprised of 86 percent of the veterinarians in the United States. These members direct the activities and policies of the AVMA. These Doctors of Veterinary Medicine are trained scientific experts in the fields of agriculture, animal health, public health, food safety, medical and veterinary research, epidemiology, toxicology, microbiology, and a host of other activities necessary for the continued safety and prosperity of our nation.

Policy item 8c of the Homeland Security Presidential Directive HSPD-9 states, "(8) The Secretaries of the Interior, Agriculture, Health and Human Services, the Administrator of the Environmental Protection Agency, and the heads of other appropriate Federal departments and agencies shall build upon and expand current monitoring and surveillance programs to: . . . (c) develop nationwide laboratory networks for food, veterinary, plant health, and water quality that integrate existing Federal and State laboratory resources, are interconnected, and utilize standardized diagnostic protocols and procedures." In order for American veterinarians to successfully continue in their traditional roles, as well as to aid in the fulfillment of the HSPD-9 policy we respectfully request the following appropriations in fiscal year 2005 for the U.S. Department of Agriculture (not ranked by priority).

The National Veterinary Medical Service Act (NVMSA)

\$20 million for the funding of the NVMSA. NVMSA (Public Law 108-161) was enacted on December 6, 2003 to correct the serious shortage of veterinarians in

rural agricultural areas, agencies of the Federal Government, and certain disciplines such as public health, food safety and research. High student loan debt precludes veterinarians from accepting lower-paying positions in these areas. NVMSA authorizes the Secretary of Agriculture to conduct a student loan repayment program for veterinarians who agree to work in these shortage situations. This law will also repay student loan debt for those veterinarians who volunteer to provide services to the Federal Government in emergency situations as determined by the Secretary of Agriculture. NVMSA will improve national preparedness by placing veterinarians at locations where agricultural emergencies occur. \$60 million is needed over a 3-year period to allow 400 veterinarians to participate in this program. This would provide a net of \$25,000 per year for 3 years for service in a shortage situation plus an additional \$10,000 per year for volunteer service in emergency situations.

Food Animal Residue Avoidance Databank

\$1.5 million for the Food Animal Residue Avoidance Bank (FARAD). FARAD is a highly cost-effective, federal/multi-university extension program that provides assistance to veterinarians, extension agents, and regulatory personnel throughout the country in preventing contaminated milk, meat, and eggs from reaching the consumer through publications, continuing education, a web-site, and a toll free hotline. Staffed by highly trained veterinary pharmacologists/toxicologists, FARAD provides assistance ranging from explaining which drugs can legally be used in food animals to creating computer models for cases of herds or flocks exposed to toxins such as pesticides or dioxins.

National Animal Health Laboratory Network

\$107 million for the National Health Laboratory Network (NAHLN). In June 2002, President Bush signed HR 3448 into law as the Public Health Security and Bioterrorism Preparedness and Response Act of 2002 (Public Law 107-188). This law authorized the Secretary of Agriculture to develop an agriculture early warning surveillance system, enhancing the capacity and coordination between state veterinary diagnostic laboratories, Federal and State facilities, and public health agencies. It also provided authorization for Congress to appropriate funding to the NAHLN. A pilot NAHLN, involving 12 state/university diagnostic laboratories was funded through USDA in May 2002 for a 2-year period to develop capacity and surveillance programs for eight high priority foreign animal diseases considered to be bioterrorist threats. However, these funds fell short of developing a true national network that will effectively provide surveillance for zoonotic and foreign disease, bioterrorist agents, and newly emergent diseases.

USDA § 1433 Formula Funds for Animal Health

\$100 million for USDA § 1433 Formula Funds for Animal Health. Animal health protection requires an effective veterinary response at the local level. In the event of a disease outbreak, veterinarians are responsible for diagnosis and risk management leading to disease control or elimination. The failure to accurately and rapidly diagnose foreign animal diseases, emerging infectious diseases and zoonotic agents, whether intentionally introduced or naturally occurring, can lead to catastrophic economic losses and loss of human and animal lives. Thus, new methods for rapid diagnosis, prevention and eradication of these diseases must be developed. The nation's veterinary medical colleges can develop new diagnostic methods with increased funding.

Foreign Animal Disease Laboratory

\$400 million for the Foreign Animal Disease Laboratory (FADL). The Foreign FADL was transferred to the Department of Homeland Security in June 2003 as directed by the Homeland Security Act of 2002 (Public Law 107-296). The United Department of Agriculture (USDA) continues to perform its functions of research and diagnostics within the FADL. Currently, 180 employees at the FADL are helping to lead a research and development program to protect America's food supply against the intentional or natural introduction of foreign animal diseases and to develop improved methods to diagnose foreign animal diseases. FADL is in critical need of renovation and upgrades to be able to maintain its capabilities in foreign animal disease detection and research.

Once again thank you for the support you and your staff have extended in the past.

LETTER FROM D. LARRY ANDERSON

STATE OF UTAH,
DEPARTMENT OF NATURAL RESOURCES,
Salt Lake City, UT, March 26, 2004.

Hon. ROBERT BENNETT,
*Chairman, Subcommittee on Agriculture, Committee on Appropriations, U.S. Senate,
Washington, DC.*

CHAIRMAN BENNETT: As the Governor of Utah's representative on Colorado River Issues and the senior Utah member of the Colorado River Salinity Control Forum, I wish to convey Utah's support for funding the Salinity Title II Program, authorized in 1995 (Public Law 104-20) at the level of 2.5 percent of the Environmental Quality Incentives Program (EQIP) of the United States Department of Agriculture with EQIP being funded at the amount sought in the President's 2005 budget. In addition, Utah requests funds be provided to the Natural Resources Conservation Service at sufficient levels to provide the technical assistance necessary to efficiently spend these funds.

This vital program has been a mainstay in improving water use efficiency in the Colorado River Basin of Utah. During the past 5 years of drought, the facilities funded by the salinity earmark of the EQIP program have been a significant reason for agriculture in the Uinta and Price/San Raphael basins maintaining productivity and stimulating these rural economies.

In addition, the Salinity Control Program helped to meet the salinity related water quality standards for the Colorado River and U.S. treaty obligation with Mexico. This important program helps meet national and international obligations and needs to be funded at the aforementioned level.

Thank you,

D. LARRY ANDERSON, P.E.,
Director.

PREPARED STATEMENT OF THE ASSOCIATION OF STATE DAM SAFETY OFFICIALS

The Association of State Dam Safety Officials is pleased to offer this testimony on the President's proposed budget for the Department of Agriculture Natural Resource Conservation Service (NRCS) for fiscal year 2005, specifically in support of the Watershed Rehabilitation Program.

The Association of State Dam Safety Officials is a national non-profit organization of more than 2000 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 federally-owned 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 increase the Administration's proposed appropriation to \$65 million of the total \$120 million authorized in the 2002 Farm Bill which includes discretionary funds and 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 the 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. Nearly 450 small watershed dams will reach the end of their expected design life by 2005; and this number will increase to over 1,800 by year 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.

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 they identify 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 security threat alerts that so often include potential actions against dams, these plans are even more critical.

Often, development, attracted by the benefits provided by the dam, has 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 dramatically changes the consequences of a potential failure to now include loss of life. This significantly alters the minimum safety requirements and causes dam safety officials great concern. These development consequences are typically beyond the control of the local sponsoring organizations, yet they are responsible for compliance with the state dam safety standards.

Table 1, attached to this testimony lists by state the number of USDA Watershed dams, the estimated number of people at risk below the dams, the infrastructure at risk, as well as an estimate of the number of watershed dam rehabilitation projects and their projected costs over the period fiscal year 2004 through fiscal year 2009. There have been 118 watershed rehabilitation projects initiated in 20 states which include 18 completed rehabilitation projects and 100 projects either in the planning or design phase. It is clear from these 118 projects as well as the 54 projects which requested assistance but were unable to be funded in fiscal year 2004, just how much demand exists; and how successful this USDA program is. It is essential to continue this program funding at a level that recognizes this demand, the size of the problem and the importance of maintaining the Federal Government's leadership role.

Mr. Chairman, in your home state of Utah, there are 25 USDA Watershed Dams that provide important irrigation water, critical flood protection and many other benefits. Ten of these watershed dams are expected to request assistance during the period fiscal year 2004 through fiscal year 2009 and totaling an estimated \$17,000,000 in rehabilitation costs.

In Wisconsin there are 86 watershed dams built between 1956 and 1970, with many reaching the end of their design life over the next 10 years. Wisconsin has had several watershed rehabilitation success stories with 11 of the initial 118 projects. Of these 11 projects 6 are completed and 5 have been authorized and are in design or construction phases. Over the period fiscal year 2004 through fiscal

year 2009 Wisconsin expects to receive another 10 requests for rehabilitation assistance costing an estimated \$1.5 million.

Example of Success

Pilot rehabilitation projects in Wisconsin on Plum Creek, Alma-Mill Creek, Glen Hills Creek and Bad Axe Watershed repaired unsafe conditions, restored flood control benefits, extended the service life another 50 years and enhanced water quality. The Glen Hills Creek project highlights a very frequent problem as a home was constructed below the dam, threatening the home should the dam fail and requiring significant design modifications due to increased safety standards. The funding was used to relocate the home from below the dam to reduce the consequences of a failure and substantially lowering the repair costs should the home have remained.

Request

Mr. Chairman and Members of this subcommittee, the Association of State Dam Safety Officials is convinced that funding of this program is 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 \$65 million for fiscal year 2005.

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.—USDA WATERSHED DAMS DATA

STATE	Total no. of watershed dams	Data from limited 2001 survey of 1500 dams ¹			Estimated rehab projects fiscal year 2004-fiscal year 2009	Estimated project costs fiscal year 2004-fiscal year 2009
		Population at risk	Infrastructure at risk in dollars	Annual benefits in dollars ²		
AK	0				0	\$0
AL	105	3,805	\$19,380,000	\$5,634,000	6	3,425,000
AR	170	245	8,655,000	2,131,743	25	43,541,000
AZ	25	75,560	178,330,000	28,440,000	8	31,773,000
CA	3	10,000	25,000,000	3,000,000	1	7,070,000
CO	144	55,580	70,000,000	3,743,000	6	3,800,000
CT	31	1,000	3,000,000	150,000	0	0
DE	0				0	0
FL	10				0	0
GA	357	5,931	1,583,258,241	17,465,239	107	158,200,000
HI	4				0	0
IA	1,325	180	3,311,000	551,000	11	8,239,000
ID	3	5,000	10,000,000	675,000	0	0
IL	64	840	2,050,000	106,900	0	80,000
IN	110	1,101	38,150,000	1,344,460	0	0
KS	809	39	4,051,700	1,820,100	20	9,848,000
KY	200	12,100	16,700,000	2,902,800	16	8,808,880
LA	35				20	3,525,000
MA	29	61,108	3,300,000	12,175,000	8	3,160,000
MD	16				0	0
ME	16			6,000	0	100,000
MI	13				1	540,000
MN	44	18	380,000	29,000	3	575,000
MO	770		2,829,825	1,299,810	11	1,750,000
MS	578	1,953	18,355,000	3,764,600	30	10,694,000
MT	16	365	21,000,000	2,465,900	7	4,615,000
NC	98	688	1,337,520	717,300	0	0
ND	48	250	5,500,000	1,200,000	15	14,650,000
NE	723	1,401	15,937,000	10,327,691	63	12,600,000
NH	24				0	0
NU	20	25	60,000	21,500	2	825,000
NM	78	2,256	154,900,000	1,333,000	30	15,752,000
NV	8				0	0
NY	55	76,428	1,747,949	2,240,455	15	1,638,000

TABLE 1.—USDA WATERSHED DAMS DATA—Continued

STATE	Total no. of watershed dams	Data from limited 2001 survey of 1500 dams ¹		Estimated rehab projects fiscal year 2004-fiscal year 2009	Estimated project costs fiscal year 2004-fiscal year 2009
		Population at risk	Infrastructure at risk in dollars		
OH	61	720	13,250,000	27	7,120,000
OK	2,087	5,245	27,625,000	257	69,762,779
OR	5	125	1,100,000	0	0
PA	87	14,640	414,000,000	6	1,143,000
PR	2	.....	.....	0	90,000
RI	0	.....	.....	0	0
SC	86	69,335	62,868,000	7	2,918,500
SD	55	0	140,000	0	0
TN	140	.....	.....	6	250,000
TX	2,038	19,677	87,104,000	40	74,711,900
UT	25	.....	.....	10	17,000,000
VA	145	1,183	17,906,216	16	11,286,000
VT	4	960	25,000,000	4	0
WA	3	.....	.....	0	0
WI	86	292	1,623,100	10	1,462,000
WV	167	13,969	76,587,670	80	19,800,000
WY	13	.....	.....	12	14,195,769
TOTALS	10,935	442,019	2,914,437,221	880	564,948,828

¹This data was collected from 1,500 watershed dams in 2001.

²The total annual benefits from all of the Watershed Dams in \$1.7 billion.

PREPARED STATEMENT OF BERNARD H. BERNE, M.D., PH.D

I am a resident of Arlington, Virginia. I serve the Food and Drug Administration (FDA) as a Medical Officer and as a reviewer medical device approval applications. I am testifying as a private individual.

I ask your Subcommittee to deny the Administration's request to provide funds for costs related to the occupancy of a new FDA Human Drugs facility in White Oak, Maryland. These funds are included within the \$1,820,849,000 that the President's Budget for fiscal year 2005 requests on page 421 under the heading "Department of Health and Human Services", "Food and Drug Administration", "Federal Funds, General and special funds", "Salaries and Expenses". The Budget states on page 422 under this heading that "the budget requests increased funding for . . . moving expenses for a new Human Drugs facility in White Oak, Maryland".

The General Services Administration (GSA) is now constructing this facility. Please deny these funds for the following reasons:

Economic Considerations

FDA will need to pay rent to GSA if FDA occupies this facility. FDA's future budgets, which your Subcommittee would fund, would pay these rents. The rents would likely be higher than rents that GSA and FDA pay to private property owners, since GSA would not need to enter into competitive bidding processes.

Congressional authorizing committees need to evaluate the current costs of the consolidation and compare them to the costs of maintaining FDA's current facilities. No Congressional committee has done this during the past 15 years.

Lack of Need for Relocating FDA to White Oak Facility

All or nearly all of FDA's offices are presently located in satisfactory leased facilities. Some, such as my own, are in excellent buildings. There is no urgent need or economic reason to relocate these offices to White Oak.

Despite this, the requested funds would support the relocation of a large number of offices in FDA's Center for Drug Evaluation and Research (CDER) to White Oak. There is no clear need for this relocation, since it would put 20 miles between this office and all other FDA offices, including the Office of the Commissioner. The relocation would clearly decrease FDA's efficiency by decreasing interactions between this office and related ones.

White Oak is an unsatisfactory location for FDA's headquarters consolidation. The project would promote urban sprawl.

FDA's White Oak facility would occupy 125 acres next to a golf course in a suburban residential neighborhood in Montgomery County, Maryland. The FDA site is outside of the Capital Beltway on a largely forested 750-acre property surrounded by heavily congested roads and highways. The site is three miles from the nearest Metro station, and has only infrequent bus service.

An FDA consolidation at White Oak would bring 6,000 FDA employees to this Washington area suburb. Most would need to commute for much longer times and distances than they presently do. White Oak is more than 20 miles from most present FDA facilities.

I and thousands of other FDA employees presently commute to work by Metrorail, as our workplaces are near Metro stations. This will be impossible at White Oak.

FDA employees driving to White Oak will add traffic congestion and air pollution to the Washington Metropolitan Area. This is especially unfortunate because the Washington Metropolitan Area already has the second worst traffic congestion of all urban areas in the United States.

FDA employee surveys have revealed widespread opposition to this relocation. Three years ago, a survey of those employees who would relocate first to White Oak showed that 70 percent opposed the move. Many stated that the relocation would impair FDA's ability to regulate drugs and medical devices.

It is clear that the location of the facility will have long-lasting adverse effects on FDA's ability to recruit and retain qualified employees. Further, many more FDA employees will telecommute than presently do. They will rarely work at the new facility. This will greatly diminish FDA's efficiency and will contradict a major goal of the FDA consolidation at White Oak.

The Washington Metropolitan area has a number of better sites at which FDA can consolidate. Among these is the Southeast Federal Center in downtown Washington, D.C. This underutilized 50-acre federally-owned property is adjacent to the Navy Yard Metro Station. It is only one mile from the U.S. Capitol and the headquarters of the U.S. Department of Health and Human Services.

Legal Issues

On February 23, 2001, I and a number of other FDA employees joined the Sierra Club and the Forest Conservation Council in a law suit that is intended to stop the White Oak project. For a number of reasons, FDA's occupancy of any buildings at White Oak would be illegal. The Federal district court for the District of Columbia is presently considering this suit.

The White Oak facility would house the Office of the Commissioner of Food and Drugs, as well as most other FDA headquarters offices. This would violate 4 U.S.C. § 72, which states: "All offices attached to the seat of government shall be exercised in the District of Columbia, and not elsewhere, except as otherwise expressly provided in law." 4 U.S.C. § 72 is derived from the 1790 Act that established the District of Columbia as the Nation's capital. The first Congress enacted this law, which President George Washington signed.

There is no law that expressly provides that FDA's headquarters offices shall be exercised outside of the District of Columbia.

The FDA Revitalization Act (Public Law 101-635; 21 U.S.C. § 369b), authorizes the Secretary of HHS to award contracts to acquire property and to construct an operate a consolidated FDA headquarters facility. This Act does not provide the location of the consolidated facility.

I ask Congress not to appropriate funds to support an illegal activity. The 1790 Act had the worthy purpose of ensuring that all central offices of the Federal Government would consolidate in the Federal capital District, and not elsewhere. The consolidated FDA facility would be one such office that is "attached to the seat of government".

Article 1, Section 8, of the Constitution gives Congress exclusive jurisdiction over the District of Columbia. Your Committee should take no action to support the location of FDA's headquarters at a location that is outside of the District. Any such action would tend to vitiate this section of the Constitution, which 4 U.S.C. § 72 is intended to support.

Executive Order 12072, August 16, 1978, states in Section 1-1, Subsection 101: "Federal facilities and Federal use of space in urban areas shall serve to strengthen the Nation's cities and to make them attractive places to live and work. Such Federal space shall conserve existing urban resources and encourage the development and redevelopment of cities."

White Oak is not in or near any city. An FDA consolidation at White Oak (which is in an "urban area", the Washington Metropolitan Area) would not strengthen any cities. The FDA facility would not encourage the development or redevelopment of any cities.

Executive Order 12072, Section 1-1, Subsection 101, contains the word "shall" in several locations. FDA therefore can not legally locate its headquarters in suburban White Oak.

Executive Order 12072 and several Federal statutes require that heads of Federal agencies consult with local city officials to obtain their recommendations for and objections to all proposed new Federal facilities. Neither GSA nor FDA officials ever consulted with officials of the District of Columbia or of the City of Rockville in Montgomery County, Maryland, concerning the White Oak facility.

This lack of consultation violated Executive Order 12072 and several laws. It prevented District and Rockville officials from recommending alternative sites for the consolidated facility within their own jurisdictions and from objecting to the selection of the White Oak site.

The Public Buildings Act of 1959 requires that the Committee on Environment and Public Works of the U.S. Senate approve prospectuses that describe the location and maximum costs of any large buildings that GSA may wish to construct before Congress can appropriate funds to design and construct such buildings. That Committee has never approved a prospectus that describes FDA's White Oak facility.

The Consolidated Appropriations Act, 2001 (Public Law 106-544) appropriated funds that GSA is presently using to construct the new FDA Human Drugs facility at White Oak. However, Public Law 106-544 contains the following restrictive provision at 114 Stat. 2763A-143: "Provided further, That funds available to the General Services Administration shall not be available for expenses of any construction, repair, alteration, or acquisition project for which a prospectus, if required by the Public Buildings Act of 1959, as amended, has not been approved, except that necessary funds may be expended for each project for required expenses for the development of a proposed prospectus."

The Public Buildings Act of 1959 requires a prospectus that describes FDA's White Oak facility. No prospectus that described this facility had been approved before Public Law 101-58 was enacted into law. Therefore, GSA may only legally use the funds appropriated in these Acts for "required expenses for the development of

a proposed prospectus". GSA cannot legally use the funds to design and construct any buildings.

Despite this prohibition, GSA is presently designing and starting to construct the new FDA Human Drugs facility in White Oak without an approved prospectus. This is illegal.

The President's Budget is therefore asking Congress to appropriate funds in the Agriculture, Rural Development, and Food and Drug Administration Appropriations Act, 2005, that would enable FDA to occupy new facilities at White Oak that GSA is now constructing illegally. Your Committee should not initiate the appropriation of any such funds.

The prospectus approval process is designed to assure that Congress evaluates the need, location, and maximum cost for all GSA building projects. Congress has never done this for any of the facilities that FDA would occupy at White Oak.

The National Environmental Policy Act (NEPA) of 1969 requires that Federal agencies compare in an Environmental Impact Statement (EIS) alternative locations for any large new Federal facility. However, the EIS for the White Oak FDA facility did not make any such comparisons.

The EIS only compared the environmental impacts of an FDA consolidation at White Oak with the "no action" alternative. Following this legally inadequate comparison, GSA and FDA officials selected White Oak as the location for the facility.

GSA and FDA officials therefore violated NEPA when they selected the White Oak site. Congress should not appropriate funds to support this illegal selection.

A Federal court may prevent FDA from consolidating its facilities at White Oak for one or more of the above reasons. Congress should not provide funds for FDA to occupy the White Oak facility until the Federal courts decide whether the project can proceed.

I therefore ask that your Committee not provide the requested to FDA in this legislation. Thank you.

PREPARED STATEMENT OF THE CALAVERAS COUNTY WATER DISTRICT

Calaveras County is located on the eastside of the Central Valley of California and encompasses approximately 1,028 square miles of land, stretching across more than 50 miles of valleys, foothills, and mountain peaks. The topography ranges from approximately 200 feet above mean sea level (ft-msl) in the northwestern region of the County, to a peak height of 8,170 ft-msl near Alpine County.

The communities of West Point, Wilseyville and Bummerville are located in the northeastern portion of the county in the sparsely populated higher foothills. The topography ranges from approximately 2,500 feet in Wilseyville to 3,200 feet in Bummerville. Mild summers and cold winters characterize the region, with temperatures ranging from the low 20's to the middle 80's. Snow accounts for a large percentage of the precipitation in the watersheds supplying the study area.

In the fall of 1946, the Calaveras County Water District (CCWD) was organized under the laws of the State of California as a public agency for the purpose of developing and administering the water resources in Calaveras County. Therefore, CCWD is a California Special District and is governed by the California Constitution and the California Government and Water Codes. CCWD is not a part of or under the control of the County of Calaveras. CCWD was formed to preserve and develop water resources and to provide water and wastewater service to the citizens of Calaveras County.

Under state law, CCWD, through its Board of Directors, has general powers over the use of water within its boundaries. These powers include but are not limited to: the right of eminent domain, authority to acquire, control, distribute, store, spread, sink, treat, purify, reclaim, process and salvage any water for beneficial use, to provide sewer service, to sell treated or untreated water, to acquire or construct hydroelectric facilities and sell the power and energy produced to public agencies or public utilities engaged in the distribution of power, to contract with the United States, other political subdivisions, public utilities, or other persons, and subject to the California State Constitution, levy taxes and improvements.

CCWD provides water service to over 10,000 connections throughout Calaveras County. CCWD operates five independent treatment facilities with a combined treatment capacity of over 13 million gallons per day. The water facilities include approximately 290 total miles of transmission and distribution pipelines ranging from 4 to 20 inches in diameter and 31 storage tanks with capacity of over 14.5 million gallons. CCWD provides water and/or wastewater service to 65 percent of the residents of Calaveras County.

WEST POINT, WILSEYVILLE AND BUMMERVILLE SYSTEM HISTORY

CCWD owns and operates the domestic water system in the rural communities of West Point, Wilseyville, Bummerville and part of Sandy Gulch. This water system is located in the District's West Point Service area, located in the Mokelumne River Watershed, Calaveras County, Central California, in the foothills of the Sierra Nevada Mountains. Population growth in the service area has generally averaged less than one percent annually over the last 15 years. This low growth rate may be attributed in part to the reduction in industry within the service area. Presently, the economic base of the community is principally related to retirement living with some of the population commuting to larger nearby communities for employment opportunities.

The communities of West Point and Wilseyville developed over the last 150 years, initially as mining companies and later as logging communities. Originally, these areas were served water through a series of mining ditches associated with these activities. The decline of these industries, which were critical to the area economy, brought about CCWD's purchase of the water and conveyance systems.

The West Point water system was purchased in 1954 by CCWD from the West Point Ditch Company. The predecessor to Sierra Pacific Logging Company owned and built the Wilseyville system and sold it to CCWD in 1964. The Bummerville system was connected to the West Point system in 1959. Between 1964 and 1974 the system was brought into compliance with state and Federal regulations for operation by CCWD.

The existing water system serves 520 connections, a total population of 1,298, including a local Native American Reservation. The current facilities include two raw water reservoirs (Wilson Lake and the Regulating Reservoir); two raw water diversion facilities (Bear Creek gravity and Middle Fork Mokelumne pumped); one water treatment plant (West Point); two treated water pump stations (Bummerville and Upper Wilseyville); and the associated distribution and storage systems.

The two main sources for water supply for the West Point water treatment plant are the Bear Creek diversion, which is a gravity source, and the pumped source from the Mokelumne River. Both raw sources are generally of good quality and are very easily treated to potable standards. Water rights for the West Point/Wilseyville water system are derived from existing water rights for diversion of flow from Bear Creek and from an agreement for diversion from the Middle Fork of the Mokelumne River. These provisions allow for adequate water to serve the present water customers, as well as future full buildout of the adjacent areas. In the case of drought, the Bear Creek supply can be supplemented with water from the Middle Fork of the Mokelumne River. In addition, the District maintains the 50 acre-foot Regulating Reservoir (also referred to as the West Point Reservoir), which may be called upon to supplement and augment supply during dry periods.

The West Point/Wilseyville water system and related facilities were primarily constructed before 1960 and many system components are either inadequate or in need of replacement. Several changes have been made to the systems in response to more stringent regulations, which allowed the abandonment of the Wilseyville plant. In addition, the West Point water treatment plant and pump stations have been upgraded and an intertie has been installed between West Point and Wilseyville.

Distribution system deficiencies are evident when evaluated against current water industry standards for publicly owned and operated systems. The 1996 Master Plan was completed to address these deficiencies. Specific recommendations were presented to bring the system into compliance with current and anticipated water industry standards. In 1998, a Master Plan Supplement provided additional analysis for improvements to the West Point Wilseyville, and Bummerville systems.

West Point, Wilseyville and Bummerville have infrastructure requirements that far exceed their financial capabilities. However, the infrastructure is crucial to the health, safety, and existence of these small, rural communities. In addition, rising water and wastewater rates have been necessary due to new regulatory requirements and these rising rates have been difficult for the community to face. The closing of lumber mills in Calaveras and neighboring Amador County (over the last 10 years) has also made a difficult situation worse for those dependent on that industry for employment, especially in this current climate of high unemployment rates. In an effort to begin addressing these needs at the state and local level, a \$500,000 feasibility study state grant and a \$1.9 million Bear Creek state construction grant have recently been provided. In order to build on these state and local efforts and to meet the critical infrastructure needs and the needs of the community, we respectfully request assistance for the following project components:

WATER SUPPLY INFRASTRUCTURE REHABILITATION PROJECT REQUEST

The small rural communities of West Point, Wilseyville, and Bummerville are faced with unaffordable water system replacement costs for aging supply and distribution systems. Water pressure and fire flow are inadequate in much of the service area. The raw water storage and transmission facilities are in need of immediate repairs.

Seven projects have been identified to provide the West Point water system with a safer and more reliable level of service. These projects include:

- West Point Clearwell Replacement.*—The upgraded West Point Water Treatment Plant is operational; however, the current clearwell will not provide sufficient contact time for compliance with disinfection regulations. This project will demolish and replace the old 500,000 gallon tank with a new 600,000 gallon steel tank.
- Bummerville Treated Water Storage Tank Replacement.*—Replacement of small redwood tank with a single 150,000 gallon steel tank.
- Wilson Lake Embankment.*—Assessment and reconstruction of a primary storage reservoir that is no longer functional.
- West Point-Wilseyville Distribution System.*—Replace the aging “backbone” transmission and distribution piping and provide a second intertie between West Point and Wilseyville service areas to improve fire flow and system reliability.
- Bummerville Treated Water Distribution System.*—Replacement of old, leaking, small-diameter piping to improve flow and fire protection.
- Mokelumne River Intake and Pump Station.*—Relocation of the pump station out of the flood plain, replacement of the raw water line to the treatment plant, and modification of the existing river diversion structure.
- Regulating Reservoir.*—Remediation projects to improve water quality problems at a primary storage reservoir.

The funding we are requesting here is necessary to assist in the upgrade, reconstruction, and repair of water system infrastructure critical for basic water pressure and fire flow. The District, therefore, respectfully requests the Committee’s support for a \$2,000,000 appropriation in fiscal year 2005 under the U.S. Department of Agriculture’s Rural Development Program (Rural Utility Service), so that efforts to initiate construction for the much-needed Downtown West Point Distribution System Improvements may move forward.

PREPARED STATEMENT OF WINE AMERICA, THE WINE INSTITUTE, THE CALIFORNIA ASSOCIATION OF WINEGRAPE GROWERS, AND WINEGRAPE GROWERS OF AMERICA

Dear Chairman Bennett and Senator Kohl: Our organizations are pleased to provide recommendations for the funding of important programs that greatly impact the wine and winegrape industry in the United States. We are attaching a description of the contributions made by this great industry.

Recommendations: Funding for Winegrape Research

The Viticulture Consortium

Our organizations strongly support increasing the funding for the very successful Viticulture Consortium to \$2.5 million.

Due to budgetary constraints last year the funding of the Viticulture Consortium by the Cooperative State Research Education Extension Service (CSREES) was reduced to \$1.6 million from the previous level of \$1.78 million. The Consortium was initiated in fiscal year 1996 and is administered by Cornell University, Pennsylvania State University and the University of California (Davis). The consortium funds grants for state researchers in about twenty states through a competitive process. It is a keystone of grape related research in the United States.

The consortium addresses unmet national research needs important to our industry. As an active partnership of Federal, State, and industry resources, the consortium enhances research coordination, collaboration, improves efficiency and eliminates duplication of effort. Explicit matching funds from both industry and state sources have increased dramatically in response to growing Federal support. Research proposals have been received from nearly 20 states, including California, Pennsylvania, Michigan, Missouri, Virginia, New York, Ohio, Michigan, Oregon, and Washington and are funded on a competitive basis. Research priorities are developed by a national network of key industry, research and extension representatives known as AVERN (American Viticulture and Enology Research Network). Because the consortium integrates and coordinates grape research throughout the nation it

is recognized as the most important mechanism for advancing knowledge and providing the capability for American grape growers to remain competitive in a world marketplace.

Sustainable Viticulture Scientist and Grape Genetics Research Leader

For fiscal year 2005, we are requesting that Congress increase funding by \$300,000 for an ARS scientist entomologist to be part of the sustainable viticulture group at (Davis, California). We also request \$325,000 for an ARS grape genetics research leader at Geneva, New York.

ARS sponsored grape research must keep pace with the needs of a research intensive, high value crop facing global competition based on product quality. Congress has been building important grape research capabilities for sustainable vineyard practices (Davis, California) and grape genetics (Geneva, New York).

ARS Sustainable Viticulture Center

We are requesting \$10 million to begin the first phase of this center

Sustainable viticulture and other work at Davis, California has been a major new initiative for the ARS with several new positions that have been added over the last decade. In order to provide laboratory and green house space for these personnel and to properly develop an appropriate interdisciplinary team approach to sustainability a new building is required. Engineering and architectural funds were provided in the fiscal year 2004 appropriation.

ARS Center for Grape Genetics

We respectfully request that \$10 million be provided in fiscal year 2005 to begin construction of the ARS Center for Grape Genetics in Geneva.

There is a serious need to add laboratory and office space for ARS grape genetics research at Geneva, New York This will represent a critical investment to enable ARS to assume a proper role of national and world leadership in grape research. Engineering and architectural funds were provided in the fiscal year 2004 appropriation.

Recommendation: Pierce's Disease Control, Containment, and Research

Our organizations support an increase in funding from the Animal and Plant Health Inspection Service for the containment and control program to \$28.5 million—an increase of \$6.25 million over funding for fiscal year 2004.

We also support a continuation of CSREES funding of work on Pierce's disease at the University of California in the amount of \$2.235 million (the fiscal year 2003 funding level).

We also recommend that Congress increase Agricultural Research Service (ARS) funding of research on Pierce's Disease and the GWSS by \$600,000.

Pierce's disease, a fatal infection of grape vines by the bacterium *Xyella fastidiosa* (Xf), is being spread throughout California by the glassy winged sharpshooter (GWSS). GWSS was first detected in California in 1989. It has invaded much of Southern California and is established in the southern San Joaquin Valley.

This vigorous and difficult-to-control insect vector, indigenous to the southeastern United States and northern Mexico, threatens California's entire grape and wine-producing community. Commercial grape varieties grown in California cannot tolerate infection by the Xf bacterium and are quickly killed or rendered uneconomical. There is no cure for Pierce's disease.

The onslaught of the GWSS and its spread of Pierce's disease has triggered a massive and expensive cooperative response by Federal and State agencies, California nurseries, citrus and winegrape growers to contain, control and eventually eradicate the GWSS in California. The risks to California agriculture presented by the GWSS were recognized by a USDA declaration of emergency June 23, 2000 and subsequent allocation of CCC funds to conduct research, manage and fight the disease.

There are many crops and commodities threatened by the agents that cause Pierce's disease, including almonds, citrus, stone fruits, alfalfa and oleander.

Congress has appropriated money to fund GWSS and Pierce's disease research beginning in fiscal year 2001 and every year thereafter. To date in California, winegrape growers have assessed themselves approximately \$15 million to fund research programs to combat this deadly disease.

Recommendation: Market Access Program

We respectfully request that the full amount of authorized funding, \$140 million, be provided for this program in fiscal year 2005.

The Market Access Program (MAP) provides export assistance to over 70 different agricultural industries, most producing specialty crops. This assistance is frequently

the only kind of government export assistance given these producers to allow them to compete in world markets against highly subsidized European producers. The wine industry has made excellent use of the MAP program, increasing its exports by over 225 percent in the past 10 years. Yet, our industry has less than 6 percent of the world's export market. There is still considerable potential to increase our share.

Current funding for the MAP pales in comparison to the support given other major world producers. The Farm Bill recognized the need to increase MAP funding consistent with the growing exports of these specialty crop producers. The authorized funding of \$140 million needs to be restored in order for momentum to be maintained.

Recommendation: Cooperative Bio-Control Program for Vine Mealy Bug

We respectfully request that \$1.2 million be provided to address this dangerous invasive pest before it gets more established and spreads widely.

The vine mealy bug, *Planococcus ficus*, is an exotic pest first found in the Coachella Valley, Riverside County in 1994. Since then, it has spread to an additional 15 counties. The pest feeds on grape (winegrapes, table grapes, and raisins), fig, pomegranate, avocado, date palm, apple, quince, and certain ornamental plants. Not only does the pest feed on sap, it also excretes large amounts of honeydew as it feeds, fouling the plant. The pest's activities provide a food source for sooty mold, attracts ants and reduces the quality of harvested grapes.

The vine mealy bug threatens over 900,000 acres of grapes and over \$3 billion in derivative annual income in California. To meet this threat, a cooperative work group has been formed, including representatives of the grape industry, the Animal and Plant Health Inspection Service, the University of California, the California Department of Food and Agriculture, and California County Agricultural Commissioners. This group has developed a program that includes public education; detection, monitoring and mapping surveys; research; and a control program implementation plan.

The California Association of Winegrape Growers was created in 1974 to be an advocate for California winegrape growers on state, national and international issues. CAWG represents the growers of more than 60 percent of the state's annual tonnage of grapes crushed for wine and concentrate. WineAmerica is the national trade association of American wine producers representing more than 750 American wineries in 48 states. Wine Institute is the voluntary association of more than 700 California wineries and affiliated businesses that represent 92 percent of California wine shipments and 80 percent of all U.S. wine shipments. Winegrape Growers of America is a federation of state winegrape grower organizations representing America's production of grapes for wine.

WINE FACTS

Winegrape growing contributes to the U.S. economy in diverse ways. It generates jobs, exports, tax revenues, tourism and, of course, outstanding wines. Wine is also the center of intense global competition that may seriously affect the ability of American vintners to compete in this very global marketplace. The industry's future success will hinge on public and private policies that facilitate rather than impede responses to new competitive conditions.

The U.S. grape crop, now grown in over 40 states, has more than tripled in 15 years from \$955 million in 1985 to almost \$3 billion in 2000. Winegrapes have increased far faster than the overall grape crop and now represent almost two-thirds of the total crop. Grapes are the highest value fruit crop in the nation and the seventh largest crop overall.

As vineyards continue to expand, so do the number of producing wineries. There are nearly 3,000 wineries in all fifty states. Wine production, which typically adds value of approximately \$2-\$4 for each \$1 of farm gate value, is closely integrated with grape growing operations. Wineries with tasting rooms contribute another \$4-\$10 per \$1 of farm gate value to the rural economy by selling their wine directly to consumers.

The nation's top wine producing states are (in production order): California, New York, Washington, and Oregon. California produces more than 90 percent of the volume.

Wineries are almost always located in rural areas, near the source of the grapes. The combination of vineyards and wineries provides a stable, year-round, and flexible base of rural employment. Winery tourism is very popular and contributes significantly to the rural economy; in many cases state tourism departments feature their wineries as a major tourist attraction.

The economic activity directly generated by the wine industry in turn creates additional jobs, wages and economic activity as services are purchased and wages are spent. In aggregate, wine contributes more than \$45 billion to the U.S. economy, along with 556,000 jobs, which account for \$12.8 billion in wages and \$3.3 billion in state and local tax revenues.

Wineries and grape growers have made a major commitment to implement sustainable practices, which are environmentally sound, economically viable and socially responsible. Formal programs are being implemented in New York (agriculture environmental management program), California's Central Coast Vineyard Team and Lodi-Woodbridge Winegrape Commission, Oregon LIVE (Low Input Viticulture and Enology) and Washington's Walla Walla Valley Wine Alliance. Wine Institute and the California Association of Winegrape Growers have developed a California Code of Sustainable Winegrowing Practices with an accompanying 490-page self-assessment workbook of best management practices that is being embraced by growers and vintners throughout the state.

Foreign competition is formidable. The U.S. accounts for 9.7 percent of the world grape production (third after Italy, France) accomplished on only 5 percent of the world's vineyard acreage.

The United States represents about 8 percent of world wine production (fourth after Italy, France, and Spain). Our 2003 exports of wine, at 94 million gallons, were about 5.6 percent of the world export market.

Imports of wine into the United States (2003) represent about 170 million gallons, an increase of more than 6 percent from 2002. Imports now account for 25 percent of the U.S. wine market.

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 2005 funding request of \$500,000 through the U.S. Department of Agriculture (USDA) Cooperative State Research, Education, and Extension Service (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 has recently requested redesignation to extreme and is committed to updating their 1-hour ozone State Implementation Plan (SIP) in 2004, based on new technical data. In addition, the San Joaquin Valley, Sacramento Valley, and San Francisco Bay Area exceed the new federal 8-hour ozone standard. SIPs for the 8-hour standard will be due in the 2007 time-frame—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. This enabled leveraging of the efforts of the particulate matter study in that 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.

CCOS includes an ozone field study, data analysis, modeling performance evaluations, 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 five main components:

- Developing the field study;
- Conducting 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; and
- Evaluating emission control strategies for upcoming 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 are currently managing 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 \$9.4 million for the field study. The Federal Government has contributed \$4,874,000 to support 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 \$2.5 million to complete the remaining data analysis and modeling. California is an ideal natural laboratory for studies that address agriculture-related issues, given the significant agriculture industry in the state.

For fiscal year 2005, 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. With the current SJV PM₁₀ SIP and the upcoming ozone and PM_{2.5} SIPs, the agricultural industry within the study area is facing many new requirements to manage and reduce their air quality impacts. The identification of scientifically validated, cost-effective options for reducing the environmental impacts of tilling, discing, cultivation, and livestock related air emissions will contribute significantly to the long-term health and economic stability of local agriculture. Funding will support livestock and crop-related research that will help maintain a vital agricultural industry within the state. Research will be focused to measure baseline emissions, and to study the most economical and effective approaches for reducing the impacts of agriculture on air quality. These studies also have nationwide benefits.

The San Joaquin Valley of California is one of the few areas of the country to be classified as extreme in failing to meet the federal Clean Air Act's attainment standards. Agricultural production practices are considered to be a contributor to the air quality problem. Farmers in the San Joaquin Valley are facing, for the first time, obligations to obtain permits to farm from government agencies. Ongoing research is essential to identify scientifically validated and cost-effective options for reducing the environmental impacts of tilling, discing, cultivation, and livestock related air emissions. Research will measure baseline emissions and study the most economical and effective approaches to reducing the impacts of agriculture on air quality. While such research is critical to the long-term health and economic stability of local agriculture, it will yield state-of-the-art benefits derived from a unique agricultural study site that will have national application and benefit.

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. 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 CALIFORNIA TABLE GRAPE COMMISSION

Mr. Chairman and Members of the Subcommittee: The California Table Grape Commission respectfully urges this subcommittee to fund the Market Access Program (MAP) at the \$140 million level for fiscal year 2005 as approved in the 2002 Farm Security and Rural Investment Act (FSRIA).

The Importance of Agricultural Exports

By passing the FSRIA, Congress-recognized the importance of agriculture to the U.S. economy. With increased funding for the Market Access Program, the FSRIA also acknowledged the vital role of exports in the long-term growth and overall well-being of the country's agricultural sector. Agriculture is the only sector of the U.S. economy that consistently runs a trade surplus. Moreover, exports account for 25 percent of U.S. farm cash receipts and for over \$1 billion per week in sales to more than 100 countries. The benefit to rural U.S. economies across the country, in employment and revenue, is immense.

California Within the Broader Picture

California, perhaps more than any other state, has benefited from the MAP program, among other Federal export assistance programs. California is the leading state in agricultural exports, with export shipments totaling over \$6.5 billion annually. Exports represent roughly 14 percent of California's agricultural production, though for many commodities, including grapes, this figure is much higher. The importance of exports to many California commodities are growing. Last year alone, export shipments for California walnuts, pistachios, prunes, peaches, nectarines, almonds and grapes increased considerably. This is not to mention the long-term increases accrued over the last 10 years. Federal export assistance programs such as MAP made these exports successes possible.

California Table Grapes

The California table grape industry is just one of the aforementioned industries that has benefited considerably from export development. Over the past 10 years, California table grape exports increased 58 percent by volume and nearly 70 percent by value. Record export shipments were achieved in each of the last 4 years. These records coincided with the opening of new markets such as China, Australia, Vietnam, and India. The MAP program enabled the commission to pursue export development activities in each of those markets, thereby helping the California industry take full advantage of these opportunities.

MAP funds also allow the commission to support export development efforts in other emerging and developing markets. As a result, the California table grape industry now exports significantly larger volumes to Mexico, Malaysia, Central America, Thailand, Indonesia, Vietnam and the Middle East among others. At the same time, programs funded in more developed export markets such as Japan, Korea, and the United Kingdom enable the commission to preserve California's position as the leading supplier of fresh grapes despite increased competition. The significance of exports to the California table grape industry cannot be overstated. Exports now account for 40 percent of production.

The Changing Export Environment

Based on the growth figures cited above, the California table grape industry has clearly benefited from the MAP program, and similar export assistance programs. However, global developments are creating a myriad of new challenges and opportunities for U.S. agricultural producers. Bilateral and multilateral trade agreements are opening markets that once prohibited the import of California table grapes and other U.S. agricultural products. While California benefits from access to these new markets, the same is true for competing grape producers in Chile, South Africa, Israel, and China. However, growers in many of these countries receive government subsidies and other supports that place California grapes at a disadvantage. Increased competition from global table grape suppliers therefore threatens the export gains previously made by the California table grape industry and could limit new opportunities in emerging markets.

Conclusion

Congress recognized the dynamic nature of global agricultural trade, and the growing challenges faced by U.S. agricultural producers, when passing the FSRJA in 2002. To meet the long-term needs of U.S. agricultural producers, Congress approved incremental increases in funding for the MAP program. Those long-term needs have not changed. If anything, the challenges and opportunities have intensified. For this reason, the commission asks Congress to again recognize the importance of U.S. agriculture and address its resource needs by allocating the full \$140 million to fund the MAP program in 2004.

PREPARED STATEMENT OF THE COALITION ON FUNDING AGRICULTURAL RESEARCH MISSIONS

Dear Chairman Bennett: The Coalition on Funding Agricultural Research Missions (CoFARM), representing 130,000 members from professional scientific organizations, dedicated to assuring the safe and secure availability of food, feed, and fiber, is united by a commitment to advance and sustain investment in our nation's research portfolio.

Recommendation 1.—We understand that the Agriculture Appropriations bill has many valuable and necessary components, and urge you to continue to support the National Research Initiative Competitive Grants Program (NRI), USDA's premier, peer-reviewed, competitive grants program. We request that you build on the President's \$180 million funding request for the NRI in the fiscal year 2005 budget cycle.

A study conducted by USDA's Economic Research Service (<http://www.ers.usda.gov/publications/aer735/>) to study) highlights the annual rate of return to publicly fund agricultural research at 35 percent.

Recommendation 2.—CoFARM requests that any new monies appropriated for the NRI, as in fiscal year 2004, allow the Secretary the discretion to apply up to 20 percent towards carrying out integrated research, extension and education competitive grants program as requested by the Administration in fiscal year 2005.

As you lead the Congress in deliberation on funding levels for agricultural research, we urge you to build on the President's proposal of \$180 million for the NRI. Please consider CoFARM as a resource for information in your efforts to improve the agricultural research capacity of our nation. The expertise of our collective membership is available to help in your efforts.

COFARM MEMBER SOCIETIES

American Dairy Science Association	Council on Food, Agricultural and Resource Economics
American Institute For Biological Sciences	Crop Science Society of America
American Phytopathological Society	Council of Entomology Department Administrators
American Society of Agricultural Engineers	Federation of Animal Science Societies
American Society of Agronomy	Genetics Society of America
American Society of Animal Science	Institute of Food Technologists
American Society for Horticultural Science	Poultry Science Association
American Society for Microbiology	Rural Sociological Society
American Society for Nutritional Sciences	Society of Nematologists
American Society of Plant Biologists	Soil Science Society of America
	Weed Science Society of America

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. We believe the United States 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.

During consideration of the 2002 Farm Bill, Congress sought to bolster U.S. trade expansion efforts by approving an increase in funding for the Market Access Program (MAP) and the Foreign Market Development (FMD) Program, which will begin to reverse the decline in funding for these important export programs that occurred over the last decade. For fiscal year 2005, the Farm Bill authorizes funding for MAP at \$140 million, and FMD is authorized at \$34.5 million. The Coalition strongly urges that both programs be funded at the full authorized levels in order to carry out important market development activities.

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 fiscal year 2004, U.S. agriculture exports are projected to reach \$59 billion, which is still below the high of roughly \$60 billion that was achieved in fiscal year 1996. Exports could be significantly higher if it were not for 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 \$9.5 billion, down approximately 66 percent from fiscal year 1996, with imports continuing at record levels. In fiscal year 1999, the United States recorded its first agricultural trade deficit with the EU of \$1 billion. In fiscal year 2004, USDA forecasts that the trade deficit with the EU will grow to \$4.3 billion, the largest agriculture deficit the United States runs with any market.

According to recent information from USDA, the European Union (EU) spends more than \$2 billion annually on agricultural export subsidies compared to less than \$100 million by the United States. In other words, the United States is being out-

spent by more than 20 to 1 or more by the EU alone with regard to the use of export subsidies.

In recent years, 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. 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 USDA budgets (\$125 million in fiscal year 2004) through MAP to promote American-grown and produced products worldwide!

Because market promotion is permitted 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 budgeted significant investments in export promotion expenditures worldwide 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.

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 WTO rules 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 use of USDA funds has actually dropped. Since 1992, MAP participants have increased their contributions from 30 percent (30 cents for every dollar contributed by USDA) to almost 175 percent (\$1.75 in industry funds for every USDA dollar). For FMD, the contribution rate has risen from 76 percent to the current level of 146 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.

Competing in the agricultural export market carries new challenges and opportunities for U.S. agriculture. Not only is the competition becoming more intense with increased funding being brought to bear, but we also face a world where new trade agreements are being developed almost daily. The United States is also negotiating trade agreements with the goal of opening new market opportunities for U.S. agriculture. In addition, the opening of the Iraq market and the markets of other previously sanctioned countries will offer further opportunities and challenges.

For all these reasons, we want to emphasize again the need to 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.

PREPARED STATEMENT OF THE COLORADO RIVER BASIN SALINITY CONTROL FORUM

COLORADO RIVER BASIN SALINITY CONTROL PROGRAM, TITLE II

Forum's Recommendation Concerning: Funding for Environmental Quality Incentives Program

Support funding of this nationwide program at the President/s requested amount of \$985 million for fiscal year 2005.

Request there be designated to the Colorado River Basin Salinity Control Program 2.5 percent of the EQIP Funding.

The Congress concluded that the Colorado River Basin Salinity Control Program (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 (Department) within the Colo-

Colorado River Basin Salinity Control Act (Act). With the enactment of the Federal Agriculture Improvement and Reform Act of 1996 (FAIRA), the Congress directed that the 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 Program within the EQIP.

The Program, as set forth in the 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 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. 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, in fiscal year 2003, earmarked \$13.6 million and in fiscal year 2004 there was earmarked \$19.8 million to be used for the Program. The Forum appreciates the efforts of the subcommittee in this regard. The plan for water quality control of the Colorado River was prepared by the Colorado River Basin Salinity Control Forum (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. In fiscal year 2004, for the first time, funding reached this level. State and local cost-sharing is triggered by the Federal appropriation. In fiscal year 2004, it is anticipated that the states will cost share with about \$8.4 million and local agriculture producers will add another \$7.6 million.

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.

OVERVIEW

The Program was authorized by Congress in 1974. The Title I portion of the 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 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 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 3 years the Forum prepares a formal report analyzing the salinity of the Colo-

rado 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 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.

Although the Program thus far has been able to implement salinity control measures that comply with the approved plan, recent drought years have caused salinity levels to rise in the river. Predictions are that this will be the trend for the next several years. This places an added urgency for the acceleration of the implementation of the Program.

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 the 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 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.

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 2005.

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 2004 appropriation of \$4.147 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 liv-

ing 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 2004, USDA received an allocation from Congress of \$4.147 million. These funds are supporting 24 state projects serving 27 states (due to several projects serving multiple states), the national project, and USDA-CSREES administration of the Program. The state projects funded with fiscal 2004 money are California, Colorado, Delaware, Illinois, Indiana, Iowa, Kansas, Kentucky, Maine, Maryland, Michigan, Minnesota, Mississippi, Missouri, Nebraska, New Hampshire, New York, Oklahoma, Pennsylvania, South Dakota, Tennessee, Texas, Utah, Vermont, 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.

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 2005 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 2005 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 AMERICAN SOCIETIES FOR
EXPERIMENTAL BIOLOGY

The Federation of American Societies for Experimental Biology (FASEB) is a coalition of 22 scientific societies who together represent more than 66,000 biomedical research scientists. The mission of FASEB is to enhance the ability of biomedical and life scientists to improve, through their research, the health, well-being and productivity of all people. We appreciate the opportunity to submit testimony on the critical research and scientific training being conducted at the United States Department of Agriculture (USDA) and will primarily focus our remarks on the National Research Initiative Competitive Grants Program (NRICGP), an extramural, peer-reviewed program, ensuring that funds are invested in the highest quality research projects at universities throughout the nation.

Basic and applied research in agriculture establishes the scientific foundation required to provide a safe, nutritious food supply in a manner that reduces environmental pollution, promotes sustainable yields, improves human health and promotes the competitive position of U.S. agriculture in the global marketplace. Agricultural research also plays a critical role in homeland security, providing the essential knowledge needed to strengthen the protections of our food supply from natural or bioterrorist threats. NRICGP funding levels have remained far below the authorized level of \$500 million. This level of funding limits fundamental and applied research, thereby threatening the progress of the U.S. agricultural sector and the associated economic, health and security benefits to Americans.

NRICGP peer-reviewed research focuses on increasing productivity of crops and livestock, enhancing human and animal health and nutrition and ensuring food safety. The recent discovery of a cow with Bovine Spongiform Encephalopathy (BSE, or “mad cow disease”) highlights the importance of increased investment in agricultural research. The ability to rapidly identify infected animals, a better understanding of how BSE and related diseases affect the food supply, discovering how prions function in healthy animals, perhaps leading to comprehension and treatment of equivalent human diseases—these are all areas that could benefit from NRICGP funding. Basic research into plant and animal pathogens not only prepare us to combat naturally occurring epidemics, such as BSE, chronic wasting disease (CWD) and West Nile virus, but lead us towards powerful tools to battle bioterror agents, as well. Guarding the U.S. food supply against the threats of bioterrorism is absolutely critical to the security of the nation.

Mad cow disease is only one of numerous areas of scientific opportunity and pressing public need that justify an increase in peer-reviewed research funding at the USDA. According to the Centers for Disease Control and Prevention, obesity will soon become the leading cause of preventable death in the United States. Through its research programs, the USDA has historically supported human nutrition studies emphasizing the maintenance of good health. They have taken the lead as, during the past two decades, the incidence of obesity—especially among children and adolescents—has become a rapidly accelerating public health problem. This problem has been particularly striking among certain minority populations. The obesity epidemic has been directly responsible for the dramatic increase in diabetes in both children and adults which, if unchecked, will overwhelm our health care system. Prevention of obesity is the key strategy, and requires both basic and applied knowledge to advance our understanding of potentially successful interventions. Projects funded by the NRICGP are using animal models to study the basic mechanisms of obesity, as well as investigating how school lunches and childhood eating patterns contribute to the prevalence of overweight children and adolescents.

NRICGP funded research is breaking new ground in genomic and molecular biology. This basic research allows us to understand disease resistance in plants, antibiotic resistance in bacteria and to decipher genetic methods to augment the nutritional value of crops, thereby contributing to agricultural advancement and human health. Functional genomic initiatives directed toward agriculturally important organisms, including animals, plants and microbes, represent major opportunities as well. The International Rice Genome Sequencing Project, in which the USDA was the lead U.S. agency, is being completed and will soon enhance global human nutrition and health. Funding to link the NRICGP and the National Institute of Health’s National Human Genome Research Institute is essential to a paradigm shift from gene cloning to genome scale biology. The challenge is to understand the genetic bases for biological variation responsible for desirable health and production traits in plant and animal agriculture. Genomic biology is the magnet that will attract outstanding students to the agricultural sciences that are the foundation of ensuring a safe and stable food supply.

Molecular and genomic discoveries made through projects funded by the NRICGP stand to have major impacts on U.S. agriculture. USDA-funded researchers have identified genes in wheat that may significantly boost production yields. Key factors that promote bacterial resistance in cattle have been identified and can be used to develop new agents to control infectious diseases. Scientists have elucidated the genetics of wood, which will lead to substantial improvements in quality and quantity produced. Genetically modified soybeans have been created that produce more oleic acid, a critical dietary fat for improving the human diet. These soybeans are also resistant to bean pod mottle virus, a devastating crop disease. NRICGP researchers have developed viruses that can deliver disease resistant genes to catfish, which reduces dependence on medicated feeds while enhancing animal health. In a similar but potentially higher impact discovery, antimicrobial peptides have been found in pigs that may kill swine pathogens without the need for conventional antibiotics.

This may decrease the risk of antibiotic-resistance infections in human acquired through exposure to live animals or meat.

In addition to research, the USDA plays a vital role in development of future researchers. Training students in the agricultural sciences is critical if the United States is to maintain its leadership position in an increasingly competitive, global food and agriculture industry. Unfortunately, the number of doctorates awarded in agricultural sciences has decreased significantly in recent years. The National Needs Graduate Fellowships Program trains excellent researchers who can interact effectively with both agricultural producers and consumers. This program allows institutions to recruit outstanding graduate students in targeted areas of research, including plant and animal biotechnology, agricultural engineering and food science or human nutrition. Despite its importance, this program is funded at low levels, allowing only a fraction of the qualified Ph.D. applicants to be supported. Additionally, the USDA supports innovation in teaching methods and materials through the Higher Education Challenge Grants program. The decreasing pool of young scientists with backgrounds in agriculture, and the critical need to recruit and train the next generation of agricultural researchers, make it imperative that these two programs be supported at levels sufficient to accomplish their goals effectively.

The best and brightest scientists in the United States are also being deterred from agricultural research by the current cap on indirect costs, to the detriment of both producers and consumers. FASEB urges that the USDA indirect costs rate be raised and made commensurate with the rate used by other Federal agencies. Cutting-edge research requires substantial investment in buildings and instrumentation. The USDA provides partial reimbursements for these indirect, but necessary, costs of research as part of grant funding. Currently the Congressionally mandated 19 percent facilities and administrative (F&A) costs cap results in a significant disincentive for many university faculty to seek USDA funding. Additionally, an insufficient facilities reimbursement significantly impairs the ability of universities to meet their fixed obligations and prevents them from further investing in needed facilities in the future. However, increasing the cap on F&A costs from 19 percent should not come at the expense of the overall agricultural research budget and its competitive grant programs.

FASEB strongly supports funding the NRICGP at the \$200 million level recommended in the President's fiscal year 2004 budget.¹ Furthermore, we are concerned that the President's fiscal year 2005 budget requests funding below this level. The NRICGP has been underfunded since it was created by the 1990 Food, Agriculture, Conservation and Trade Act with an authorized annual expenditure of \$500 million. This limitation in funding constrains the size and duration of essential research projects. As a consequence of the NRICGP's limited funding and restrictive indirect cost policies, FASEB is concerned that researchers are directing their efforts away from agricultural needs towards the goals of other funding programs, because the number of applications in several NRI areas has decreased in recent years. In order to achieve scientific progress in agriculture, it is crucial that young investigators are not discouraged from these critical areas of research. Greater investment in basic and applied agricultural research is critical, as the demand for a safe and nutritious food supply continues to increase.

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 before this Committee. I would like to take a moment to briefly acquaint you with Florida State University.

Located in Tallahassee, Florida's capitol, FSU is a comprehensive Research I university with a rapidly growing research base. 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 and have a strong commitment to public service. Among the current or former faculty are numerous recipients of national and international honors including Nobel laureates, Pulitzer Prize winners, and several members of the National Academy of Sciences. Our scientists and engineers do excellent research, have strong interdisciplinary interests, and often work closely with industrial partners in the commercialization of

¹Federation of American Societies for Experimental Biology. 2004. Federal Funding for Biological Sciences and Related Life Sciences Research—Fiscal Year 2005. <http://www.faseb.org/opa/fund2005/fedfund05.pdf>.

the results of their research. Florida State University had over \$162 million this past year in research awards.

FSU recently initiated a new medical school, the first in the United States in over two decades. Our emphasis is on training students to become primary care physicians, with a particular focus on geriatric medicine—consistent with the demographics of our state.

Florida State University attracts 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 in its student body, which currently includes some 345 National Merit and National Achievement Scholars, as well as students with superior creative talent. We consistently rank in the top 25 among U.S. colleges and universities in attracting National Merit Scholars to our campus. At Florida State University, we are very proud of our successes as well as our emerging reputation as one of the nation's top public research universities.

Mr. Chairman, let me tell you about a two projects we are pursuing this year through the U.S. Department of Agriculture.

The first project involves the reduction of agricultural crop risk.

The Federal Government, the entity which sets crop insurance rates, needs access to new cost-effective ways to reduce crop risk. In the S.E. United States, El Niño and La Niña climate variability are major factors of crop risk. By using new methods of predicting, more appropriate and fair pricing of premiums for crop insurance can be set. The Southeast Climate Research Consortium, which consists of Florida State University, the University of Florida, the University of Miami, the Universities of Georgia, Auburn University and University of Alabama at Huntsville has been at the forefront of this climate prediction work. The Consortium has worked in Florida and throughout the Southeastern United States, with support from NOAA, to develop new methods to predict the consequences of climate variability.

In this consortium, Florida State University provides the climate forecasts and risk reduction methodology. The University of Florida, the University of Georgia, and Auburn University translate this climate information into risks associated with production and environmental impacts and work with Extension Services in each state to provide information to the agricultural community. The University of Miami provides the economic modeling of the agricultural system and evaluate use and impacts of the products. Each university works with farmers to communicate outcomes. New tasks for fiscal year 2005 include: Assessing climate forecasts to reduce risks of ground water contamination from agricultural practices in the S.E. United States; investigating how to better manage crops to maintain or increase profitability and simultaneously reduce risks of environmental damage; and evaluating agricultural risks associated with water policy changes.

FSU, on behalf of the FL Climate Consortium, is seeking \$4 million in fiscal year 2005 for this activity through the U.S. Department of Agriculture.

Our second project involves the utilization of sugarcane by-products, also know as bagasse.

Sugarcane has been identified as an essential world food source and is mainly used for sugar production. The United States produces over seven million metric tons sugar annually—85 percent of which is grown in Florida and Louisiana. Bagasse, a fibrous agricultural residue that is a by-product of sugarcane processing, is for the most part overlooked at this time. Thousands of tons of sugar industry waste by-products are generated annually in the form of bagasse. Florida State University, in conjunction with Louisiana State University and the University of Tennessee, are furthering development and production of industrial textile products from bagasse that will enhance the value and use of this potentially important agricultural commodity. Working with cane producers and cooperatives, this project will demonstrate mill-to-market bio-based value-added products. Previous work has demonstrated that fibers can be extracted from bagasse and formed into non-woven mats for significant and successful erosion control. This multi-state research project will scale up the previous pilot process to extract larger volumes of sugarcane fibers from bagasse for the production and evaluation of industrial textile products from the extracted fibers.

Two prototype continuous reactors—one at Florida State University and one at Louisiana State University—will be used to process bagasse fibers that will be characterized and made into carded webs for spinning fibers. Processing parameters for carding and spinning the fibers will be optimized and dyeability of the fibers, yarns and mats will be investigated. The carded webs will also be subjected to a process that results in non-woven mats with enhanced strength. Operating conditions will be established and costs assessed. These products from renewable resources have industrial applications based on their biodegradability for environmental purposes. Additional efforts will focus on developing value-added products from sugarcane ba-

gasse with production methods that ensure environmental compatibility. Results of this research and development will increase the economic value and potential applications for sugarcane fiber products.

The development of new products from sugar cane bi-products can be a tremendous economic benefit for the farmers and the region. Historically, this segment of the agricultural economy has had a limited variety of products from the cane. This research will hopefully increase the marketability of cane and its enhanced bi-products in a wider range of commercial areas and applications.

Florida State University, as project coordinator, is seeking \$1.5 million in fiscal year 2005 for this activity through the U.S. Department of Agriculture.

Mr. Chairman, these are just of couple 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 THE FOREST LANDOWNERS ASSOCIATION

The Forest Landowners Association (3776 Lavista Road, Suite 250, Tucker, Georgia, 30084; telephone 404-325-2954), an association of over 10,000 private forest landowners throughout eighteen southern and eastern states, appreciates this opportunity to submit written testimony to the Senate Committee on Appropriations, Subcommittee for Agriculture, regarding appropriations for the Cooperative State Research, Education, and Extension Service (Department of Agriculture), and in particular funding for the following programs.

—*Formula Programs.*—McIntire-Stennis Cooperative Forestry (proposed funding by administration in fiscal year 2005 Budget: \$21,884,000).

—*Extension Programs.*—Renewable Resources Extension Act (proposed funding by administration in fiscal year 2005 Budget: \$4,093,000).

Formula Programs: McIntire-Stennis Cooperative Forestry

The Cooperative Forestry Research Program (McIntire-Stennis Act) supports long-term research and scientist training efforts at the nation's public land-grant universities and colleges.¹ The McIntire-Stennis program increases the efficiency and productivity of private forestland by providing "for cutting-edge research on productivity, technologies for monitoring and extending the resource base, and environmental quality."² In addition, the program has assisted in the completion of over 7,500 masters degrees and 2,200 doctoral degrees in forest resources fields.³

The program's objectives fulfill several areas of need within the forestry community. The McIntire-Stennis Cooperative Forestry Research program:

- “Significantly enhance[s] sustainability and productivity of nonfederal forests;
- “Increase[s] the financial contributions of nonfederal forests to benefit landowners, the rural community, state and national economies, and environmental values; and
- “[Helps] conserve and sustain the nonfederal forests and other natural resources for future generations.”⁴

The McIntire-Stennis program has a funding authorization of \$105.0 million per year.⁵ However, the program has never been funded at its authorized level; the enacted fiscal year 2004 budget only allocated \$21,755,000 for the program (approximately one-fifth of its authorized level),⁶ and below the fiscal year 2001 budget of \$21,932,000. This reduced funding is even more disturbing when viewed through the knowledge that McIntire-Stennis funds are matched by three dollars from states and universities for every Federally supplied dollar provided by Congress.⁷

¹National Council on Private Forests (NCPF). (2001). Working Paper on Farm Bill Forestry Title Priorities. Unpublished manuscript, p. 6. See also National Coalition for Sustaining America's Nonfederal Forests (NCSANF). (2000). A National Investment in Sustainable Forestry: Addressing the Stewardship of Nonfederal Forestlands through Research, Education, and Extension/Outreach, p. 7.

²Brown, Dr. Perry J. (2001). Testimony submitted to the Subcommittee on Agriculture, Rural Development, FDA, and Related Agencies of the House Appropriations Committee, fiscal year 2001 CSREES Budget. Online: www.napfsc.org/creestest02.htm, p. 2.

³National Coalition for Sustaining America's Nonfederal Forests (NCSANF). (2000). A National Investment in Sustainable Forestry: Addressing the Stewardship of Nonfederal Forestlands through Research, Education, and Extension/Outreach, p. 7.

⁴Brown (2001), p. 2.

⁵NCSANF, p. 16.

⁶Brown (2001), p. 1.

⁷Ibid., p. 2; NCPF, p. 6.

FLA recommends that Congress fully fund the McIntire-Stennis Cooperative Forestry Research program at its authorized level of \$105.0 million per year. We believe that this funding is vital to the eventual sustainability of America's forests. As stated in a National Coalition for Sustaining America's Nonfederal Forests report, "[These] funds would be used to create about 500 new campus-based faculty positions addressing forest resources needs."⁸ The needs addressed in the report are just as critical 4 years later. FLA is cognizant of the enormity of such a request; therefore, we would request a ten percent increase over fiscal year 2004 levels, to a fiscal year 2005 appropriations level of \$23,930,500.

Extension Programs: Renewable Resources Extension Act

The Renewable Resources Extension Act (RREA) is the nation's leading forestry extension program, tackling critical forestry and related natural resources extension and stewardship needs in states, while also addressing critical issues of forest management for productivity and environmental quality on non-Federal private forestlands.⁹ The program, administered by CREES,¹⁰ is the foundation of university outreach and extension efforts.¹¹ RREA programs help to "(1) solve immediate problems; (2) transfer research technologies and new knowledge; and (3) increase [forest landowner] awareness of the benefits of active [forest] management."¹²

RREA has received consistent support from forestry organizations, including the National Council on Private Forests (NCPF) and the National Association of Professional Forestry Schools and Colleges (NAPFSC). However, the program is consistently funded below its congressional authorized level of \$30.0 million per year; the enacted fiscal year 2004 budget only allocated \$4,040,000 for the program. It is apparent that funding levels must be increased to fulfill the extension and outreach objectives of RREA. Once again, FLA is cognizant of the enormity of such a request; therefore, we would request a ten percent increase over fiscal year 2004 levels, to a fiscal year 2005 appropriations level of \$4,444,000.

The Forest Landowners Association thanks the Appropriations Subcommittee for Agriculture for the opportunity to submit written testimony regarding fiscal year 2005 appropriations for the Cooperative State Research, Education, and Extension Service (Department of Agriculture). If the subcommittee has any questions or comments regarding this written testimony, it should contact Dr. Vernon R. Hayes, Jr., FLA's government affairs director, at his office (8204 Foxhall Road, Clinton, Maryland, 20735; telephone 301-877-6898; fax 301-877-6899).

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.

Our testimony addresses four central themes.

First, we begin with our highest recommendation for an item within the President's budget—Identification, Prevention, and Control of Invasive Species.

Second, we turn to the urgent need to continue support for specific research areas mandated by the Congress in fiscal years 2001, 2002, 2003, and 2004. These projects address critical research needs that have enormous impact. They have been strongly endorsed and supported by this Subcommittee and many others. We list them below with brief descriptions and our recommendations for continued funding.

Third, we briefly discuss the BARC and the Maryland Technology Development Corporation (TEDCO) partnership for transferring technology from the laboratory to the marketplace. We fully support the goals and accomplishments of this special relationship.

Last, we will address our recommendation for construction funds to complete Phase III of the Beltsville Human Nutrition Research Center

⁸NCSANF, p. 16.

⁹Ibid., p. 4.

¹⁰Brown (2001), p. 3.

¹¹"[RREA] funds extension efforts that are a model of partnership between the U.S.D.A. and State Universities and Land Grant Colleges." NCPF, p. 4.

¹²Brown (2001), p. 3.

INVASIVE SPECIES

The President's budget proposes a \$2 million increase for invasive species research at BARC. In our view, the urgency for supporting invasive species research could hardly be overstated. Invasive species—insects, fungi, nematodes, and animal parasites—have never posed a greater threat to American agricultural security than they do today.

What's more, the threat is growing, accelerated by rising international travel and immigration, expanding globalization and trade, and the ominous threat of international bioterrorism. Ironically, our nation faces this growing challenge when Federal support for invasive species research has reached dangerously low levels after decades of decline. Resources are barely adequate to keep up current programs, much less adequate to cover skyrocketing demands for new research and services. To make matters worse, universities and others have cut back sharply also. The net effect is to leave America weak and vulnerable in an area that urgently needs strengthening.

In November 2002, BARC convened a distinguished panel of scientists and stakeholders, headed by Dr. Peter H. Raven, Director of the Missouri Botanical Garden, to address these issues. They focused basically on the threat of invasive species to agricultural biosecurity, pest management and control, and regulation/quarantine.

The panel noted that BARC houses personnel, collections, and information systems that are unduplicated anywhere in the world. BARC's internationally recognized experts and collections underwrite the scientific basis for the action programs of the Animal and Plant Health Inspection Service, the Forest Service, and state departments of agriculture. BARC experts spend substantial parts of their time identifying alien species that action agencies have intercepted at our ports and borders.

In the concluding remarks of its report, the panel foresees BARC as a national and global leader for protecting the security and productivity of American agriculture against the threat of invasive species. The panel sees BARC as a future center of unparalleled excellence providing the cohesive and responsive knowledge base for protecting United States and global agriculture.

The funding increase proposed in the President's budget is a necessary step in the right direction.

CONGRESSIONALLY MANDATED PROGRAMS AT BARC

For fiscal years 2001 through 2004, Congress designated funding for the 14 BARC projects that we briefly describe below. Total funding for these projects was \$7,772,585. We understand that the President's budget for fiscal year 2005 proposes to eliminate all 14 projects and replace them with new projects that would receive \$7,575,000 of total funding. Though the net difference of total proposed funding is relatively small, the impact on vital research would be dramatic.

In our view, the 14 on-going projects should be funded to completion before new projects are added to the BARC portfolio. We would also point out that there is no simple way to re-assign scientists from the on-going projects to the proposed new projects, which are considerably different in emphasis and required scientific skills. We strongly recommend continued funding for the projects listed below.

Animal Improvement Programs Laboratory.—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 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 because inflation and salary increases have consumed 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, obesity, and diabetes. 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. We recommend continuation of this funding.

Bioinert Soil Amendments for Nematode Control.—Losses to soil nematodes cost farmers billions every year. The soybean cyst nematode alone can cut soybean yields by 30 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 amendments 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. 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 chicken meat industry from disease. But traditional chemical controls are becoming ineffective. New non-chemical control methods are needed. 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 agents 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 costly 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 cooperators 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. Funding will support collaborative research by the Gene Evaluation and Mapping Laboratory, the University of Illinois, and the University of Connecticut aimed at improving cloning efficiency. 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.

Nutrition monitoring system.—BARC’s Food Survey Research Group monitors food and nutrient intake for the nation in collaboration with HHS and the NHANES study (National Health and Nutrition Examination Survey). We recommend continuation of this funding.

The approximate \$500,000 of new money will enable the collection of a second day of dietary intake data from human subjects. This information is critical for increasing the statistical reliability of the food intake survey data. These data are important for supporting such public policy programs as school lunch, food stamps, WIC, senior meals programs, etc. They are also important when the Institute of Medicine’s Food and Nutrition Board (part of NAS) sets recommended intakes for essential nutrients. We recommend continuation of this funding.

Coffee and Cocoa.—These funds support research to control a range of fungal diseases and pests that attack coffee and cacao (chocolate). More profitable production

systems for these crops will make them more attractive alternatives to some producers of coca (cocaine). We recommend continuation of this funding.

Johne's Disease.—This disease is also called bovine paratuberculosis. It is a contagious disease that causes chronic wasting or debilitating enteritis and eventual death in cattle, sheep, goats, deer, and other wild and domestic ruminants. Infected animals intermittently shed the microorganism into milk and feces. The research at BARC will provide a better understanding of the pathogenicity of the organism so that better diagnostic tests and vaccines can be developed. We recommend continuation of this funding.

Food Safety.—This is funding for studying transmission of *Listeria*, a human pathogen and food safety contaminant. Certain cheeses, including some popular French imports, are made from fresh unpasteurized milk, and can carry *Listeria*. *Listeria* can make anybody sick, but it's a particular risk for pregnant women because it can cause miscarriage or other problems. We recommend continuation of this funding.

Weed Management.—These funds support a cooperative project with Rodale Institute on weed management in organic farming. Organic farming is a very rapidly growing sector of agriculture, and organic foods often command a price premium. Organic farming makes it possible for small farmers to make a living with high-value products from a small piece of land. Weeds are one of the biggest problems encountered by organic farmers, and a serious threat to their economic viability. These research funds will improve non-chemical weed control.

BARC–TEDCO PARTNERSHIP

The Maryland Technology Development Corporation (TEDCO) and BARC have created a partnership to speed the transfer and commercialization of technologies from BARC laboratories to the private sector. Goals include fostering new industries, creating or re-vitalizing businesses, stimulating economic growth, and creating new, stable jobs.

We understand that TEDCO has approached the Congress regarding a \$1 million appropriation to support technology transfer. The funds are needed to continue ongoing BARC–TEDCO technology transfer activities. Approximately one half of the appropriation would be made available to BARC laboratories to complete research needed to commercialize new, valued-added products made from poultry feathers.

Potential economic and environmental benefits from the successful commercialization of products made from poultry feathers are substantial, not only for Maryland but well beyond. Environmentally, finding an economic outlet for waste poultry feathers would relieve the tremendous burden of disposing an unusable material. Economically, estimates predict that as many as 80 new poultry-feather plants, each generating 80–100 new jobs, could be created across the nation. The first such plant may appear on Maryland's Eastern Shore, where there is substantial commercial interest.

FAR–B heartily endorses support for this innovative approach to technology transfer and commercialization.

BUILDINGS AND FACILITIES

Phases I and II of the three-planned phases of construction and modernization for the Beltsville Human Nutrition Research Center have been completed. Phases I and II provided for constructing two new buildings for human nutrition research. The new buildings are now fully functional and are contributing to the research mission of the Beltsville Human Nutrition Research Center. They were officially opened last August in a dedication ceremony at BARC. With the opening of these buildings, BARC now has the largest capacity for free-living volunteer studies in the United States.

Phase III is for renovating the original human nutrition building, which after almost seven decades of heavy use is in poor condition. Its interior badly needs modernization. Externally, the building remains generally sound. BARC is committed to preserving the building's historical exterior and appearance. Once renovated, the building will house the Food Composition Lab, the Nutrient Data Lab, the Food Surveys Research Group, and the Community Nutrition Research Group—all research. BARC then will have all of the BHRNC staff in one complex of buildings, all modern and meeting current needs and building standards.

In fiscal year 2001, Congress provided \$1.9 million to design the building's interior renovation. Though the design work is about 35 percent complete, the process is on hold pending approval of \$26 million needed for construction. BARC may not begin construction before all of the construction funding has been approved. Should Congress approve partial construction funding for fiscal year 2005, BARC will hold

the partial funding until full funding may be approved in a later appropriation. We commend BARC's flexibility regarding the renovation project, and we encourage Congress to approve funding for Phase III.

Mr. Chairman, that concludes our statement. We again thank you for the opportunity to present our testimony and for your generous support.

PREPARED STATEMENT OF THE GREAT LAKES INDIAN FISH AND WILDLIFE
COMMISSION

Agency Involved.—Natural Resource Conservation Service

Summary of fiscal year 2005 Testimony.—The Commission requests Congress support funding for conservation programs as authorized under the Farm Security and Rural Investment Act of 2002 including:

- \$1 billion in for the Environmental Quality Incentives Program (EQIP), and
- \$60 million for the Wildlife Habitat Incentives Program (WHIP).

The Commission also requests Congress restore \$275,000 in funding for the Wisconsin Tribal Conservation Advisory Council (WTCAC) eliminated by the Administration in fiscal year 2005.

Disclosure of USDA Grants Contracted.—The Commission is an intertribal organization which, under the direction of its member tribes, implements federal court orders governing tribal harvests of off-reservation natural resources and the formation of conservation partnerships to protect and enhance natural resources within the 1836, 1837, and 1842 ceded territories. Under the USDA's Environmental Quality Incentives Program, the Commission contracted \$10,000 in fiscal year 1998 and an additional \$40,000 in fiscal year 1999. In addition, the Commission also contracted EQIP Education Grants funded by USDA and the University of Wisconsin Extension Service for \$29,940 in fiscal year 1998 and \$20,000 in fiscal year 2001. Under the WHIP program, GLIFWC contracted \$2,400 in fiscal year 2003.

Mr. Chairman, Members of the Committee, my name is James H. Schlender. I am the Executive Administrator of the Great Lakes Indian Fish and Wildlife Commission (Commission). Our eleven member tribal governments thank you for considering our testimony regarding programs funded by USDA's Natural Resource Conservation Service. The Commission's testimony stresses three major objectives:

- provide funding for the Environmental Quality Incentives Program (EQIP) at \$1 billion nationally and support intertribal and tribal efforts to participate in conservation partnerships;
- provide funding for the Wildlife Habitat Incentives Program at \$60 million nationally to support efforts to protect and enhance wildlife and fish habitats; and
- restore funding for the Wisconsin Tribal Conservation Advisory Council (WTCAC) at \$275,000 annually.

Background.—The Commission is comprised of eleven sovereign tribal governments located throughout Minnesota, Wisconsin, and Michigan. The Commission's purpose is to protect and enhance treaty-guaranteed rights to hunt, fish, and gather on inland territories ceded under the Chippewa treaties of 1836, 1837, and 1842; to protect and enhance treaty guaranteed fishing on the Great Lakes; and to provide cooperative management and protection of these resources. The Commission participates in a wide range of cooperative management activities with local, state, federal, and foreign governments. Some of these activities arise from court orders, while others are developed in general government-to-government dealings between tribes and other governments.

EQIP Supports Tribal Partnerships to Control Purple Loosestrife in the Bad River and Chequamegon Bay watersheds.—Purple loosestrife (*Lythrum salicaria* L.) is an exotic perennial plant first recorded in Wisconsin in 1940. As purple loosestrife spread throughout wetland ecosystems, it reduced carrying capacities for muskrats, water birds, and mink and degraded the quality of migratory waterfowl production sites.

In 1998, the Commission began a 5-year project under USDA's Environmental Quality Incentives Program (EQIP) to control purple loosestrife in the Bad River and Chequamegon Bay watersheds. Under this project, the Commission utilized funding from the BIA's Noxious Weed Program to control loosestrife on public lands located in the Chippewa ceded territories and utilize funding from EQIP to control loosestrife on private lands with land owner consent—orchards, dairy farms, etc. This program integration promotes conservation partnerships to protect critical habitat on a watershed basis including:

- Kakagon and Bad River Sloughs—the largest, healthiest, fully functioning estuarine system in the upper Great Lakes Basin and is listed as a National Natural Areas Conservancy Landmark (National Registry 1983)—Bad River Tribe;

- Fish Creek Sloughs Refuge—an important area for waterfowl nesting/staging, and northern pike spawning; and Sioux River Refuge—important wetland, waterfowl staging area, and critical steel head trout spawning habitat—WI DNR;
- Whittlesey Creek—this newly established refuge possesses critical habitat for salmon spawning and reintroduction of rare native brook trout strains—USFWS, and
- Apostle Islands National Park—National Park Service.

In addition to its EQIP Purple Loosestrife Control program, the Commission has also completed two EQIP education grants. Under these grants, the Commission: (1) prepared and published educational materials to prevent the spread of purple loosestrife, leafy spurge, and other invasive plants; (2) established an Internet GIS web site (i.e. see www.glifwc-maps.org) to assist landowners, state and federal agencies, non-profit conservation organizations, and tribes in developing and implementing invasive plant control strategies within watersheds; and (3) promoted cooperative control projects through technical assistance and educational materials/presentations.

The Establishment of the Wisconsin Tribal Conservation Advisory Council and EQIP Funding Set-asides have Increased Program Participation by Indian Nations in Wisconsin.—The Wisconsin Tribal Conservation Advisory Council (WTCAC) was established for the purposes of: (1) identifying tribal conservation issues, (2) advising the USDA Natural Resources Conservation Service on more effective ways to deliver USDA programs, and (3) assisting the Indian Nations of Wisconsin in accessing USDA resources. This Tribal Conservation Advisory Council was organized in March 2001 and is the first such council formed in the country as authorized under the 1995 Farm Bill.

One of the responsibilities of the WTCAC, at the request of the NRCS State Conservationist, is to review and recommend funding for conservation proposals from the 11 federally recognized tribes in Wisconsin. In fiscal year 2003, the WTCAC was allocated \$440,000 for this effort and recommended numerous tribal EQIP contracts including:

Supporting Tribal Aquaculture Development.—The St. Croix Tribe contracted \$43,162 in EQIP funding to assist the tribe in installing an aquaculture effluent treatment system at its St. Croix Waters Aquaculture facility. St. Croix also contracted \$19,918 in EQIP funding to improve water volume and quality for the rearing of food fish and walleye and perch fingerlings for restocking efforts on local lakes.

Decommissioning Abandoned Wells.—The Bad River Tribe contracted \$5,550 and Lac du Flambeau contracted \$10,026 in EQIP funding to decommission abandoned wells on their Reservations that are a potential source of groundwater contamination.

Controlling Shoreline Erosion.—The Lac du Flambeau Tribe contracted \$40,000 in EQIP funding to provide stream bank and shoreline stabilization, critical area planting, tree and shrub establishment, grade stabilization structure, and heavy use area protection on Flambeau and Pokegama Lakes. The erosion is causing sedimentation, adverse effects on water quality, as well as aquatic and riparian habitat damage.

The St. Croix Chippewa Tribe contracted \$18,750 in EQIP funding to install a grade stabilization structure to control soil erosion upstream of the confluence of the Yellow River and the St. Croix River. This erosion is impairing wild rice beds downstream on the St. Croix River.

Stream Corridor, Wetland, and Wild Rice Restoration Project.—The Sokaogon Chippewa Community contracted \$47,780 in EQIP funding to restore the natural flow that was altered in Swamp Creek, remove nuisance plant species, reseed wild rice, remove debris from stream banks and beds, and control erosion on a tribal access road.

Forest Restoration Project.—The Bad River Tribe contracted \$40,000 in EQIP funding to plant white pine, red pine, balsam fir, and white spruce on 1,120 acres of tribal lands that, left untreated, would regenerate to aspen and increase erosion problems. This is the first step in promoting and restoring forest biodiversity on lands cut-over in the 1920's.

Wildlife Habitat Incentives Program (WHIP).—NRCS's WHIP program provides a flexible funding resource to Wisconsin that enables local communities to form conservation partnerships between private landowners, local conservation districts, counties, and tribal governments. Again the WTCAC combined with a WHIP program set-aside of \$33,000 in Wisconsin resulted in numerous tribal WHIP contracts in fiscal year 2003. Through this process NRCS was able to establish Tribal WHIP contracts for such diverse projects as wild rice seeding, walleye spawning habitat restoration, stream bank protection, and native grass seeding.

Unfortunately, the success of Wisconsin Tribes in contracting fiscal year 2003 EQIP and WHIP funding from NRCS is not found among GLIFWC's member tribes in Michigan as documented by the table below.

GLIFWC/Member Tribes	EQIP Funding Contracted fiscal year 2003	WHIP Funding Contracted fiscal year 2003
Michigan:		
Lac Vieux Desert	None	None
Keweenaw Bay	None	None
Bay Mills	None	None
Michigan Total	\$0—contracted by 3 MI GLIFWC tribes \$0—contracted all MI tribes	\$0—contracted by 3 MI GLIFWC tribes \$0—contracted all MI tribes
Wisconsin:		
Bad River	\$40,000 forest restoration/erosion control \$5,550 decommission abandoned wells	None
Red Cliff	Did not apply for fiscal year 2003 projects	\$1,350 stream bank protection project
St. Croix	\$43,162 aquaculture waste storage facility \$2,000 aquaculture hatchery well project \$18,750 erosion control project	\$10,000 walleye spawning habitat restoration
Sokaogon	\$47,780 stream corridor & wetland restoration project	\$3,000 Rice Lake wild rice seeding
Lac Courte Oreilles	Did not apply for fiscal year 2003 projects	\$3,000 wild rice seeding
Lac du Flambeau	\$40,000 to address shoreline erosion concerns \$10,026 decommission abandoned wells	\$3,000 Powell Marsh native grass seeding
GLIFWC	Did not apply for fiscal year 2003 projects	\$1,200 Jackson Box Flowage wild rice seeding; \$1,200 Manitowish River wild rice seeding
Wisconsin Total	\$207,268—contracted by GLIFWC member tribes in Wisconsin \$440,000—allocated to 11 Tribes statewide	\$22,750—contracted by GLIFWC and 5 member tribes \$33,000—allocated for 11 tribes statewide

GLIFWC takes the following lessons from these circumstances:
 —Funding for tribal projects in Wisconsin is directly attributable to active outreach toward and integration of tribes into the budgeting process of NRCS state offices.
 —A tribal advisory council consisting of the tribal representatives and funded by NRCS can effectively link tribes with the NRCS and result in more funding directed toward tribal projects.
 —Set asides for tribal projects from NRCS state office funding allocations is critical to ensure that tribes are able to access their fair share of those allocations.
 GLIFWC requests Congress restore funding for WTCAC at \$275,000 in fiscal year 2005 thereby ensuring tribal communities in Wisconsin have the technical resources needed to address their conservation needs.

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 and Related Agencies Subcommittee on fiscal year 2005 funding items of great importance to The Humane Society of the United States and its more than 8 million supporters nationwide.

We are grateful for the Committee's outstanding support during the past few years for improved enforcement by the U.S. Department of Agriculture of key animal welfare laws, and we urge you to sustain this effort in fiscal year 2005. 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) orchestrated dogfights and cockfights that often involve illegal gambling, drug traffic, and human violence, and can contribute to the spread of costly illnesses such as Exotic Newcastle Disease and bird flu; (2) injuries to slaughterhouse workers from animals struggling in pain; (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; (6) injuries and deaths of pets on commercial airline flights due to mishandling and exposure to adverse environmental conditions; and (7) the spread of "mad cow" disease and bacterial infections that people can get from eating contaminated meat.

For fiscal year 2005, we want to ensure that the important work made possible by the fiscal year 2004 budget is continued 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 / \$1.2 million for Animal Fighting Enforcement

We very much appreciate the inclusion of \$800,000 in fiscal year 2004 for USDA's Office of Inspector General to focus on animal fighting cases. Congress enacted provisions in 2002 (as part of the Farm Bill) 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 only a handful of dogfighting and cockfighting cases, despite rampant activity across the country. USDA continues to receive frequent tips from informants and requests to assist with state and local prosecutions, and is beginning to take seriously its responsibility to enforce the portion of the AWA dealing with animal fighting ventures. Dogfighting and cockfighting are barbaric practices in which animals are drugged to heighten their aggression and forced to keep fighting even after they've suffered grievous injuries. Animal fighting is almost always associated with illegal gambling, and also often involves illegal drug trafficking and violence toward people. Dogs bred and trained to fight endanger public safety, and some dogfighters steal pets to use as bait for training their dogs. Cockfighting has been linked with the outbreak of Exotic Newcastle Disease in 2002–2003 that cost taxpayers more than \$200 million for containment and compensation, and with the death of at least two children in Asia this year who were exposed through cockfighting activity to avian influenza.

Given the potential for further costly disease transmission, as well as the animal cruelty involved, we believe it would be a sound investment for the federal government to increase its efforts to combat illegal cockfighting and dogfighting activity, working closely with state and local law enforcement personnel to complement their efforts. We therefore respectfully request that \$1.2 million be designated for the OIG to focus on animal fighting cases in fiscal year 2005.

Food Safety and Inspection Service / \$5 million for Humane Methods of Slaughter Act (HMSA) Inspectors

We are grateful that Congress provided \$5 million in fiscal year 2003, and bill language to sustain the initiative in fiscal year 2004, for USDA to hire at least 50 inspectors whose sole responsibility is to ensure that livestock are treated humanely and rendered unconscious before they are killed. This initiative was undertaken following reports of lax enforcement of the HMSA and animals being skinned, dismembered, and scalded while still alive and conscious. We are pleased that the President's budget recommends \$5 million in fiscal year 2005 for enforcement of this law. We are quite concerned, however, that these funds are not being used by USDA as Congress intended. Rather than hiring new inspectors, the department has apparently opted to apply these resources broadly across its existing personnel, indicating in the explanatory notes accompanying the President's fiscal year 2005 budget that the \$5 million will cover "an estimated 63 staff years annually, distributed over hundreds of employees in hundreds of inspected establishments." When Congress provided this funding, the goal was to establish a separate cadre of humane slaughter inspectors because we recognized that it was not working to have the regular food safety inspectors—those responsible for the important job of checking body parts and carcasses in order to protect consumer health—also responsible for com-

pliance with humane slaughter requirements. We were concerned that food safety inspectors were often stationed far down the production line, well past where the animals were killed. In some cases, slaughter plants had even built barriers that made it impossible for food safety inspectors to see the animals while they were still alive.

While we welcome any USDA efforts to ensure that every inspector maintains a watchful eye for humane slaughter violations, including this task as part of each existing inspector's routine should not require additional funds. We therefore respectfully request that \$5 million be designated in fiscal year 2005 bill language for USDA to hire an additional 50 inspectors who will work solely on enforcement of the Humane Methods of Slaughter Act through full-time ante-mortem inspection, particularly unloading, handling, stunning, and killing of animals at slaughter plants. We also request language re-stating that the mission 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.

APHIS/Animal Welfare Act (AWA) Enforcement

We commend the Committee for responding over the past few years to the urgent need for increased funding for the Animal Care division to improve its inspections of approximately 10,000 sites, including laboratories, commercial breeding facilities, zoos, circuses, and airlines, to ensure compliance with AWA standards. Thanks to the Committee's strong support, Animal Care now has 106 inspectors, compared to 66 at the end of the 1990s. While there is certainly room for continued improvement, the Committee's actions have made a major difference. We are pleased that the President's budget contains a sustained level of support for this program in fiscal year 2005, including allowance for pay costs. We urge you to provide \$16.818 million, as recommended by the President, for Animal Welfare in fiscal year 2005.

APHIS/Horse Protection Act 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 gait 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. We hope you will provide the \$497,000 requested by the President for fiscal year 2005. We also urge the Committee to oppose any effort to restrict USDA from enforcing this law to the maximum extent possible.

Downed Animals and BSE

We are pleased that the Bush Administration proposed an interim final rule to ban the use of downed cattle for human food, in the wake of the discovery of a cow in Washington State that was infected with Bovine Spongiform Encephalopathy (BSE or "mad cow" disease). We greatly appreciated the Committee's help last year agreeing to incorporate Senator Akaka's downer ban during floor debate on the fiscal year 2004 bill. We hope the Committee will codify the Administration's ban—and extend it to other livestock besides cattle—with language barring the Food Safety and Inspection Service from spending funds to certify meat from downed livestock for human consumption. While the science to date has only clearly indicated BSE transmission from infected cows to people, downer pigs and other downer livestock are at a significantly higher risk of transmitting other serious and sometimes fatal illnesses, such as E. coli and Salmonella. It is very difficult to determine the reason an animal is non-ambulatory, whether illness, injury, or a combination of the two. Hence, it would not adequately protect public health if inspectors were required to distinguish downers who are injured vs. sick. As Secretary Veneman has testified several times before various congressional committees, USDA need not rely on slaughter plant testing for disease surveillance purposes. They can conduct a viable surveillance program at rendering plants and farms to track the potential progression of BSE in this country.

Furthermore, a ban on use of all downers for human food provides an incentive for producers to treat animals humanely and prevent livestock from going down. Even before the administrative ban, USDA estimated that less than 1 percent of all cows processed annually were non-ambulatory. The downer ban encourages producers and transporters to engage in responsible husbandry and handling practices, so that this percentage may be reduced to levels approaching zero. As Temple Grandin—advisor to the American Meat Institute and others in the meat industry—

long ago explained in Meat & Poultry Magazine, "Ninety percent of all downers are preventable."

In addition to the downer issue, we urge the Committee to provide adequate funding to ensure meaningful enforcement by the Food and Drug Administration of its "feed ban," designed to prevent BSE-contaminated animal products from being fed to other animals. We are concerned that inspectors visit facilities infrequently and rely on self-reporting by those facilities and paperwork checking rather than first-hand evaluation of feed content and dedicated production lines. We are also concerned that FDA relies a great deal on state agencies to conduct this oversight, when most states face severe budget constraints that may compromise their ability to handle this job. Preventing the spread of BSE is vital to the nation as a whole, for public health, the agricultural industry, and animal welfare. Vigorous enforcement of the feed ban is an essential component of this effort. We hope adequate federal funds will be provided in fiscal year 2005 to meet this challenge.

Again, we appreciate the opportunity to share our views and priorities for the Agriculture, Rural Development and Related Agencies Appropriation Act of fiscal year 2005. 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-COOPERATIVE STATE RESEARCH, EDUCATION, AND EXTENSION SERVICE

[In thousands of dollars]

Program/Division	Fiscal Year—		
	2004 Enacted	2005 President's Budget	2005 IAFWA Recommended
Research and Education:			
Formula Programs:			
McIntire-Stennis Cooperative Forestry	21,755	21,844	¹ 25,000
Special Research Grants:			
Global Change UV-B Monitoring	2,000	2,500	² 2,500
National Research Initiative Competitive Grants	164,027	180,000	³ 240,000
Extension Activities:			
Formula Programs:			
Smith-Lever Formula 3(b) and (c)	277,742	275,940	⁴ 277,742
Other Extension Programs:			
Renewable Resources Extension Act	4,040	4,093	⁵ 30,000
Section 406 Legislative Authority:			
Water Quality	11,530	12,971	⁶ 20,000

¹The Association strongly encourages that McIntire-Stennis Forestry Research funds be increased from the \$21.755 million appropriated in the fiscal year 2004 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 brings 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.

²We support the \$2.5 million appropriation for global change and urge that special effort to combat greenhouse gases through carbon sequestration be conducted in such a way as to not adversely impact fish and wildlife habitat. Carbon sequestration that also results in soil, water and wildlife conservation will maximize public benefits and minimize the need to spend separately and additionally to achieve other conservation needs.

³There 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.

⁴We are concerned that there is no budget line item specifically for education programs addressing water quality concerns targeted at agricultural producers. We recommend a minimum of \$3.5 million be allocated for this purpose.

⁵The Association strongly recommends that for fiscal year 2005 the Renewable Resources Extension Act be funded at \$30 million as authorized in the 2002 Farm Bill. 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 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. Even though the RREA has been proven to be effective in leveraging cooperative state and local funding, it has never been fully funded.

⁶The Association appreciates the proposed increase in funding to \$12.97 million in the budget for Water Quality Integrated Activities, but believes that this amount remains insufficient considering the growing public concern over water quality, particularly on agricultural landscapes. Therefore, the Association recommends the appropriation be increased to \$20 million.

USDA-NATURAL RESOURCES CONSERVATION SERVICE

[In thousands of dollars]

Appropriation/Activity	Fiscal year—		
	2004 enacted	2005 President's Budget	2005 IAFWA Recommended
Technical Assistance for CRP and WRP	(¹)	92,000	² 92,000
Environmental Quality Incentives Program (EQIP)	975,000	1,000,000	³ 1,200,000
Ground and Surface Water Conservation	51,000	60,000	60,000
Klamath Basin	10,000	8,000	8,000
Wetlands Reserve Program (WRP)	⁴ 280,000	⁵ 295,000	(⁶)
Wildlife Habitat Incentives Program (WHIP)	42,000	60,000	³ 85,000
Farm and Ranch Lands Protection Program (FRPP)	112,000	125,000	³ 125,000
Grassland Reserve Program (GRP)	115,000	84,000	⁷ 84,000
Conservation Security Program (CSP)	41,000	209,000	.....
Technical Assistance Cost Adjustments .....	.....	.....	(⁸)
EQIP	-76,000	-15,000	⁹ -23,000
G&SW	15,000	20,000	⁹ 0
Klamath Basin	2,000	3,000	⁹ 0
WRP	18,000	(¹⁰)	⁹ 0
WHIP	-7,000	-1,000	⁹ 0
FRPP	-24,000	-5,000	⁹ 0
GRP	-13,000	-2,000	⁹ 0
CRP	83,000	(¹⁰)	.....

¹ Funding for WRP and CRP technical assistance provided from EQIP, WHIP, FRPP and GRP—see technical assistance cost adjustments Specific Comments

² The Association appreciates the efforts of the administration to address the problem of technical assistance funding for CRP and WRP by establishing a technical assistance account for these two programs.

³ The Association supports program funding at levels authorized by the 2002 Farm Bill.

⁴ Enrollment of 189,144 acres.

⁵ Enrollment of 200,000 acres.

⁶ The Association appreciates the continued targeting of 200,000 acres annually for enrollment in WRP. However, we recognize that if 200,000 acres are not enrolled every year (fiscal year 2004 limited to 189,000 acres), enrollment must increase in future years to reach the authorized level of 2,275,000 acres. Full WRP enrollment is needed if the Administration intends to achieve no-net-loss of wetlands by building on the WRP successes of the 1990's that reduced wetland losses to 32,600 acres/year as reported in the USDA National Resource Inventory (NRI).

⁷ With the estimated expenditure of \$115 million in fiscal year 2004, the proposed funding level of \$84 million in fiscal year 2005 will meet the authorized cap of \$254 million for the GRP. GRP should focus on grasslands of high biodiversity that are at risk of conversion and that support grazing operations as directed by Congress in the Farm Bill. In addition, enrollment should increasingly focus on long-term enrollment since no more than 40 percent of authorized funding can be used for short-duration rental agreements and short-duration agreements have been emphasized to date.

⁸ CSP should not receive expanded funding at the expense of other conservation programs.

⁹ Klamath Basin and G&SW are subsets of EQIP and we recommend that all technical assistance funding for these two programs should come from EQIP, rather than from FRPP, WHIP and GRP.

¹⁰ WRP and CRP technical assistance funded from a technical assistance account on discretionary side.

General Comments

The Association recommends funding of Farm Bill conservation programs at levels authorized by the 2002 Farm Bill.

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. Although non-Federal temporary staffing levels have been reduced due to completion of some Farm Bill implementation workloads, the Association is concerned that the staffing level of (16,301 FTE) proposed by the Administration is far too low to adequately address the need.

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 planning another CRP general sign up for 2004 and for the continuous CRP sign-up of high value environmental practices including the bottom land hardwood tree initiative. The Association recommends that FSA adopt additional program options such as wildlife field borders as part of continuous CRP to benefit bobwhite quail and other early successional species and incentives to ensure enrolled acres deliver optimum soil, water, wildlife and other natural resource bene-

fits through the use of more wildlife friendly cover mixes. The required management for CRP should also be applied to CCRP.

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 for placing 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 as provided in the 2002 Farm Bill, with cost share is essential to ensure continuation of soil, water and wildlife benefits throughout the life of the CRP contract. The Association encourages FSA to quickly develop necessary programmatic mechanisms as well as reimbursement for the cost of recurring management performed when needed to manage plant succession that continues wildlife benefits throughout the contract period.

The new managed haying and grazing aspect of CRP is a permissive use that could provide an added benefit to participants while still achieving the natural resource purposes of the program. However, one size will not fit all when it comes to the wildlife purpose of CRP and it is important that FSA tailor managed haying and grazing to each state to ensure that the frequency (among years) and timing of haying and grazing is compatible with the wildlife needs in each state.

USDA-APHIS VETERINARY SERVICES

[In thousands of dollars]

Appropriation/Activity	Fiscal year—		
	2004 Enacted	2005 President's Budget	IAFWA Recommended Funding Levels
Aquaculture	178	871	871
Brucellosis	10,244	8,861	11,000
Chronic Wasting Disease	18,522	20,067	30,067
Import/export Invasive Species	11,074	15,792	15,792

Aquaculture

The Association supports the increased funding of Veterinary Services to a level of \$871,000 for surveillance and eradication of farmed fish diseases, such as infectious salmon anemia and spring viremia of carp, that may threaten valuable natural resources.

Brucellosis

The Association recommends Congress restore Brucellosis funding by \$2,000,000 to a level of \$11,000,000 in order to continue working collaboratively with the Greater Yellowstone Interagency Brucellosis Committee, including the states of Idaho, Montana, and Wyoming, as well as with other Federal agencies to eliminate brucellosis in bison and elk in the Greater Yellowstone Area.

Chronic Wasting Disease

The Association commends APHIS-Veterinary Services' cooperation and funding for state wildlife management agencies for CWD surveillance and management in free-ranging deer and elk. Additionally, the Association strongly supports APHIS efforts to eliminate CWD from captive cervids in order to eliminate the risk of spread of the disease from these animals to free-ranging deer and elk. The Association supports increased CWD funding to a total of \$20,067,000 in fiscal year 2005. However, this \$20 Million is inadequate to effectively address management of CWD, 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 CWD in free-ranging deer and elk.

Import/Export Invasive Species

The Association supports increased funding to prevent the potential introduction and for surveillance of exotic ticks, including the tropical bont tick, in the United States because these ticks and the microbes they carry represent a disease threat to free-ranging wildlife.

USDA-APHIS WILDLIFE SERVICES

[In thousands of dollars]

Appropriation/Activity	Fiscal year—		
	2004 Enacted	2005 President's Budget	IAFWA Recommended Funding Levels
Operations	71,313	71,684	89,284
Methods Development	16,999	13,876	16,999
Aquaculture	1,042	776	1,042

General Comments

The Association is concerned with the Administration's proposal to decrease overall funding for Wildlife Services (WS) activities. The Association was pleased that Congress provided a \$200,000 increase in fiscal year 2004 to expand the Berryman Institute for Wildlife Damage Management at Mississippi State University, and recommends that Congress continue this support by maintaining adequate future funding levels.

Operations

The Administration's proposes a program reduction of \$5.5 million from fiscal year 2004 levels. This reduction is proposed to offset a \$5.0 million increase in fiscal year 2005 for a wildlife disease surveillance system. The Association strongly recommends that Congress restore the \$5.5 million reduction in order to maintain existing operations and cautiously provide an additional \$5.0 million to initiate the new surveillance system. The new wildlife disease surveillance system must be accompanied by close coordination and respect for the State's management authority over resident wildlife, and Congress should direct that this relationship be institutionalized in a cooperative agreement between each state fish and wildlife agency and APHIS-WS. The Association also recommends that Congress provide an additional \$4.6 million 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 \$1.2 million in fiscal year 2004 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 damage complaints across the country. The Association also supports the continuing request in the President's Budget (\$1.3 million) for wolf issues in Montana, Idaho, and Wyoming.

WS Methods Development

In 1997, the United States and European Union entered into an Understanding (Agreed Minute and Annex) that identified a process for developing and evaluating more effective and humane trapping devices used to manage certain wildlife populations (e.g. for research, for mitigating wildlife damage, to reestablish species extirpated from prior habitats, and to protect endangered species). An active research program is being developed at the USDA's National Wildlife Research Center in Fort Collins, Colorado. The Association strongly objects to the proposed elimination of \$3.35 million for the Methods Development program, and urges Congress to restore this funding.

The Association recommends the Congress restore funding for research of non-lethal methods to mitigate wildlife damage and that Congress provide additional funding to WS to conduct research in order to better manage invasive species such as the brown tree snake and the Coqui frog that threaten local agriculture, fragile electrical systems, and threatened and endangered species in Guam and Hawaii.

Aquaculture

The Association recommends that Congress restore WS funding for aquaculture by increasing the budget request by \$275,000 in order to continue telemetry and population dynamics studies on depredating wildlife species in the Southeast without placing undue strains on WS Cooperators.

PREPARED STATEMENT OF THE INTERTRIBAL BISON COOPERATIVE

INTRODUCTION AND BACKGROUND

My name is Ervin Carlson, a Tribal Council member of the Blackfoot Tribe of Montana and President of the InterTribal Bison Cooperative. Please accept my sin-

cere 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 fifty-four federally recognized Indian Tribes located within 16 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 amend the earmark language for purchase of buffalo from "Native American producers or producer owned cooperatives" to "exclusively from Native American producers" in the current fiscal year 2004 amount of \$4,000,000. 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)), \$4,000,000 shall be used to purchase bison and/or bison meat for the FDPIR and other food programs on the reservations, exclusively from Native American bison producers: 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 cardio vascular 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. ITBC's technical assistance is critical to ensure that the current Tribal buffalo projects are sustainable within their Tribal communities. 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 a U.S.D.A. 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 actively developing strategies for sustainable Tribal buffalo operations. Finally, and most critically for Tribal populations, ITBC is developing a preventative 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 \$4,000,000 for the purchase of Native American produced buffalo and buffalo meat, to improve the diet of Tribal members.

PREPARED STATEMENT OF THE OKLAHOMA FARMERS UNION

INVASIVE SPECIES AFFECTING ANIMALS AND PLANTS IMPORTED RED FIRE ANT ARS-RESEARCH

Mr. Chairman and members of the Subcommittee, I appreciate the opportunity to submit testimony with respect to the increasing invasive species of the red imported fire ant. I am an agriculture producer in southern Oklahoma, employed with the Oklahoma Farmers Union and a 19-year advocate for research initiatives to combat this growing problem impacting both agriculture and the daily lives of citizens in impacted states and counties. Oklahoma Farmers Union is a general farm organization representing over 100,000 families in the State of Oklahoma.

My work on the issues goes back to the 1980's as the red imported fire ant as a House Agriculture Appropriations Subcommittee associate staff member, later as an agriculture producer/research cooperater and now as an association representative and participant in numerous committees and fire ant conferences and meetings.

The Red Imported Fire Ant Problem

The imported fire ants now inhabit more than 320 million acres in the southern United States and Puerto Rico. The average densities of fire ant populations in the United States are more than 5 times higher than in their native South America, where natural enemies keep the fire ant population under control. Imported fire ants destroy many other ground-inhabiting arthropods and other small animals, reducing the biological diversity in many areas. Fire ants cause a multitude of problems for humans, domestic animals, and agriculture. Between 30 percent and 60 percent of the people in the infested areas are stung each year. More than 200,000 persons per year may require a physician's aid for fire ant stings. Anaphylaxis occurs in 1 percent or more of those people as a result of bites.

The fire ant impact on the American economy is approximately \$5.5 billion dollars per year. Agriculture producers are economically hurt with the loss of animals due to stings, shorting of electrical equipment due to ant buildup in switch boxes, damage to farm equipment from ant mounds in pastures and fields and personal discomfort and risk to life from frequent exposure and contact with the ants in the normal course of working on the farm or ranch. According to data from Dr. Curt Lard with Texas A&M University, the estimated impact of fire ants on different states is: \$1.3 billion in Florida, \$1.2 billion in Texas, \$210 million in South Carolina, \$164 million in Mississippi and \$18 million in Oklahoma.

This past year in the State of Oklahoma we saw the spread of fire ants during research surveys in counties where citizens had reported possible fire ant mounds. Surveys and sampling was done and fire ants were found for the first time in five additional counties for a total of 13 counties of which 8 counties are completely infested. Future surveys to determine expansion will be hampered this year given the fiscal year 2004 APHIS budget reduced funding to the states for this purpose. The focus will now shift to educational outreach only on a requested basis.

The Research Solution

The lead research agency on the national level for this issue is the USDA-Agricultural Research Service with most work centered at the Center for Medical, Agricultural and Veterinary Entomology in Gainesville, Florida. I have the highest respect and admiration for the scientists, the administration and the methods of basic and applied research utilized by this agency and this research location.

I and others have advocated for many years the need to increase funding for the site where key research for red imported fire ants is conducted and from where field activities across the United States is directed. We are delighted to see that the President's fiscal year 2005 budget request includes \$5 million for Invasive Species Affecting Animals and Plants. As ARS Acting Administrator Dr. Edward B. Knipling indicated in his testimony to the committee, the red imported fire ant is a growing problem that "has steadily spread through all the Gulf States and is now reported in Southern California and New Mexico.

The proposed increase will allow ARS to target its research with respect to the fire ant by studying its genomics and developing more effective pesticides and biological control agents. Additionally, this will allow ARS to continue in concert with the aforementioned to continue to develop biologically-based integrated pest management components. The latter has shown a marked impact on fire ant research locations but more work must be continued in this area to identify more cold-hardy species that can be utilized in more northern environments where the advancing fire ant line continues to spread.

To date, the researchers in the USDA-ARS Imported Fire Ant Research Unit in Gainesville, FL, have continued to search for new biological control agents that

could be used as self-sustaining bio-control agents against the imported fire ants. Biological control agents are the only long-term and self-sustaining solution for the fire ant problem in the United States.

Self-sustaining biological control agents cause direct mortality and/or stress, reducing the ecological dominance of fire ants and can be useful in natural habitats where pesticide use is not tolerated. The successful establishment of biological control agents of fire ants would be a major benefit throughout the southern United States. Biological control has the potential to offer long-term suppression of fire ants over large areas in the United States and save millions of dollars annually by reducing the use of pesticides.

Biological control agents could also help slow the spread of these pests into other susceptible states, such as Kentucky, Maryland, Virginia, Delaware, New Mexico, Arizona, Nevada, other parts of California, and up the Pacific Coast.

For long-term success, investment in genomics research to develop more effective pesticides and pathogens is crucial if biological controls are to be fully effective.

New developments in fire ant biological control

I'm excited about new developments in fire ant biological control. The protozoan *Vairimorpha invictae*, a specific pathogen of fire ants in South America, is being tested in quarantine in Gainesville, FL. This disease should be released in the field in the coming years.

A new isolate of the fire ant pathogen *Thelohania solenopsae* is being tested in quarantine in Gainesville, FL. This isolate may be better adapted to black and hybrid fire ants, than the present isolate found in the United States. It may also have a more detrimental effect on the ants than the United States isolate. Scientists hope to have this new isolate released in the field in the coming years.

Viruses have been identified from fire ant populations in Florida. Molecular biology studies may reveal opportunities for the use of these viruses as biological agents against fire ants. Besides the viruses, during the past 3 years, three other new diseases of fire ants have been identified from ants in Florida. These discoveries serve as indications that new diseases can be identified in the South American range of the fire ants, and developed for use in the biological control of U.S. fire ants.

Three different species of the fire ant decapitating flies have been released so far in the United States. Two species are established in Florida and South Carolina. One species is established in other southeastern states. New decapitating fly species are being tested in quarantine in Gainesville, FL, and should be ready for field release in the coming months. Other species will be collected in South America, tested in quarantine.

Area-wide suppression of fire ants research programs are being conducted at locations in Florida, Texas, Mississippi, Oklahoma, and South Carolina. These research efforts combine both biological and chemical methods to achieve an integrated pest management approach.

Conclusion and Request for Funding

Much progress has been made but to continue this aggressive, results-oriented research at the same or perhaps excelled pace, it is imperative that additional funding be directed—preferably in permanent base funding to the Gainesville, FL location. On behalf of the producers and consumers who make up the membership of the Oklahoma Farmers Union, we support the Administration's \$5 million research initiative contained in the ARS budget for further targeted research for Invasive Species Affecting Animals and Plants.

Thank you for this opportunity. I would appreciate the Subcommittee's consideration of this most important issue.

PREPARED STATEMENT OF THE MID-AMERICA INTERNATIONAL AGRI-TRADE COUNCIL (MIATCO) AND FOOD EXPORT USA—NORTHEAST

As Executive Director of MIATCO (Mid-America International Agri-Trade Council) and Food Export USA—Northeast, I am pleased to offer this written testimony as to how Market Access Program funds are being optimized to help Midwest and Northeast U.S. food and agricultural exporters extend their reach and penetration of foreign markets resulting in incremental business, enhanced export sales, and new jobs here in the United States.

Secretary Veneman has outlined that expanding trade is the Administration's top priority for U.S. agriculture. Continued support for the trade promotion through the Market Access Program is critical part of that effort.

The MAP is designed to focus on these high-value products. There are approximately 70 non-profit industry groups across this country representing all sectors of agriculture that participate in this program.

The 50 state departments of agriculture participate in MAP through four State Regional Trade Groups (MIATCO, Food Export USA—Northeast, SUSTA and WUSATA). These groups coordinate the export promotion efforts of the states, and focus on assisting smaller food and agricultural processor.

While remaining separate trade non-profit trade associations, MIATCO and Food Export USA—Northeast are strategically and operationally aligned in order optimize cost efficiencies while leveraging cross-regional opportunities abroad.

MIATCO and Food Export USA—Northeast contract with 14 overseas in-market representatives to provide promotional support and to help local importers and buyers more fully leverage all of our resources

In combination with significant state and private investment, MAP funding allows MIATCO and Food Export USA—Northeast to focus on three key areas of exporter assistance:

- Education & Outreach
- Market Entry
- In-Market Promotion

Education & Outreach

MIATCO and Food Export USA reach out to both existing and potential exporters of food and agriculture products through numerous communications vehicles including a bi-monthly newsletter, The Global Food Marketertm, monthly email updates and periodic broadcast faxes. Our current combined database includes 12,000 U.S. food and agricultural suppliers.

Another key Education & Outreach initiative is our Food Export Helpline, a free service that helps companies in secondary market research and in achieving export readiness by addressing regulations and pricing challenges inherent in selling to foreign buyers.

Market Entry

Once an export company has decided to pursue a specific foreign market, MIATCO and Food Export USA—Northeast provide assistance in a number of ways, including:

- Distributor Development Service.*—Providing assistance with primary market research specific to a market (country) and a United States supplier particular product's.
- Food Show PLUS!*TM.—Enhancing specific tradeshow participation with translation of their promotional material, interpreters, publicity, buyer introductions, guided retail tours, etc.
- Buyers Missions.*—Bringing foreign buyers to the United States to meet with suppliers in the Midwest and Northeast.
- Trade Missions.*—Facilitating export company visits with potential foreign market buyers through organized trips, tours etc.
- Trade Lead Service.*—A new initiative which provides to U.S. suppliers pre-qualified, product-specific leads in foreign markets.

In-Market Promotion

Helping exporters successfully promote and sell their agricultural products once they've penetrated a foreign market is a key component to our overall support. Through participation in our Branded Program, qualified small companies can receive reimbursements of up to 50 percent of eligible international marketing expenses such as trade show participation, advertising, public relations, promotions, marketing and point-of-sale material and label modifications (as necessary by local regulations).

The MAP focuses on value-added agricultural products, including branded foods. Overseas consumers, like those here in the United States tend to buy product based on brand names. By promoting brand names that contain American agricultural ingredients, we build long-term demand for our products. These value-added product support jobs and encourage investment in our own processing industries.

Following are examples of testimonials of our current participants:

- “Our ability to build solid foundations for long-term export growth is greatly dependent on the funding we receive from MIATCO's Branded Program. It goes a long way towards helping us set up effective marketing campaigns in many of our overseas markets”. Garrett Smith, Vice President of Sales, American Popcorn Company.
- “Food Export USA—Northeast has done a great job helping us export and exposing us to international markets. We used funds from the Branded Program

to hold products demos in other countries and to attend food shows. The product sampling has helped us facilitate a great deal of business in Singapore.” Marty Margherio, President, M&V Global Foods.

The MAP also stimulates private investment. While the MAP requires that companies match all federal dollars on a one-for-one basis, in fact most companies spend much more than that. Last year, participants in our programs contributed an additional \$2.58 for each MAP dollar invested in our programs.

As foreign market opportunities shift and change, MIATCO and Food Export USA’s programs and services have never been more important to midwestern and northeastern food, agricultural, and wood exporters.

American products are seen worldwide as high quality and safe products. Selling higher quality products requires promotion. The MAP is an investment in promotion that pays off. It is for this reason that we support funding for MAP in fiscal year 2005 at the \$140 million level legislated in the Farm Security and Rural Investment Act (FSRIA) of 2002. We also urge the subcommittee to support a strong USDA Foreign Agricultural Service (FAS), our partner in promoting increased U.S. agricultural exports.

Following are our results for the fiscal year from October 2002 through the end of September 2003.

Thank you.

	MIATCO	Food Export USA—Northeast
Total Number of U.S. Export Companies Participating in Programs	632	360
Number of New Distributor Relationships Established	1,000	274
Number of Companies with Resulting “First-Time” Export Sales in a Market	153	85
Actual Reported Increases in Export Sales As Result of Program Participation	\$84,630,356	\$41,394,170
Total Private Investment Generated Through Program Participation	\$19,754,462	\$8,482,566

PREPARED STATEMENT OF THE NATIONAL ASSOCIATION OF PROFESSIONAL FORESTRY
SCHOOLS AND COLLEGES (NAPFSC)

The Growing Importance of NonFederal Forest Lands

Society continues to place diverse and increasing demands on the nation’s 740 million acres of forest (nearly one-third of the U.S. land base). This acreage includes the public lands and the more than 400 million acres of private forest lands now providing most of the nation’s forest-based products. However, forest ownerships face many pressures including fires, floods, insect and disease losses, urbanization, fragmentation, and missed employment and economic opportunities. Countering the threats and achieving the full promise of these forests will require an enhanced effort from the combined research and outreach activities of the USDA Forest Service and our nation’s public universities. Ten million landowners, their families, their communities, forest based industries, more than a million primary forest products industry employees, and many millions of resource users and consumers have a major stake in the promise of these lands. Fortunately, the full promise CAN be achieved with well-planned and carefully executed investments in research and education. This message from the National Association of Professional Forestry Schools and Colleges (NAPFSC) describes key parts of such a plan including recommendations for the fiscal year 2005 budget.

Investing in USDA Cooperative State Research, Education, and Extension Service (CSREES) Programs

Priority 1: The Cooperative Forestry Research (McIntire-Stennis) Program.—Is the foundation of forest resources research and scientist education 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. Program funding is currently at \$21.755 million and matched more than three times by universities with state and nonFederal funds. NAPFSC recommends \$25 million for fiscal year 2005 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;
- Forest health and risk.*—To address fire, pest species, and other disturbances affecting domestic resource security, downstream impacts, and restoration of complex systems;

—*Assessing social values and tradeoffs.*—To identify realistic policy options, economic impacts, and to inform decisions, at all levels of government, with effective science; and

—*New biobased products, improved processing technologies, and utilization of small trees.*—To extend the forest resource and enhance environmental quality;

In the long run, it is important to advance this program to its full authorization—50 percent of the funding for USDA Forest Service R&D. NAPFSC requests 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. Portions of this funding will also be used to educate critically needed new scientists.

Priority 2: The National Research Initiative Competitive Grants Program (NRI).—Is a significant source of funding for basic and applied research on forest resources including their management and utilization. This program is currently funded at \$164 million of which approximately 10 percent goes to successful forestry research proposals. NAPFSC supports the Administration's efforts to increase the funding for the NRI to \$180 million providing at least an additional \$10 million is directed to research on:

—*Woody plant systems.*—Including genetic improvement and increased tree growth rates and yields, and improved utilization;

—*Managed forest ecosystems.*—Including issues of forest health, productivity, economic sustainability, and restoration; and

—*Assessing alternative management systems.*—With emphasis on risk analysis, geospatial analysis including landscape implications, and associated decision support systems.

Priority 3: The Renewable Resources Extension Program (RREA).—Is the foundation of outreach and extension efforts at universities. This program is critically important today since universities provide a large share of the nations outreach and extension. Audiences for the products of outreach and extension are as diverse as the stakeholders. The highest priority are the owners of non-Federal forest lands and those involved in implementing forest management. After cuts in 2004, the program is currently funded at \$4.04 million. We urge restoration of funding to the fiscal year 2003 level of \$4.516 million. NAPFSC further recommends focusing this program on:

—*Best management practices.*—Together with information on programs, services, and benefits of natural resources management and planning to integrate water, wildlife, timber, fish, recreation, and other products and services;

—*Risk management/forest health.*—Approaches addressing management of fire, insects and diseases, invasive species, fragmentation, and other disturbances at local to larger scales for working forests and landscapes;

—*Opportunities for economic development.*—For individuals and communities including 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.

In the long run, it is important to advance this program to its full \$30 authorization. NAPFSC further recommends focusing this funding to achieve rapid progress on one or more of these extension targets in each school's state, region, or nationally.

Partner Programs

USDA Forest Service R&D.—NAPFSC recommends strengthening Forest Service research to address the full complexity of forest systems and their importance to society including issues of global change and the domestic security. At the same time, we see the most direct routes to this strengthening being through increased ties to university forestry research programs, for example through the funding of cooperative agreements and competitive grant programs. Forest Service R&D funding of Cooperative agreements with universities has become a very effective way to engage university science capability. Additionally, this vehicle is critically important to the training of eventual agency scientists and in achieving the necessary critical mass for major research problems. Funding to schools through such mechanisms also improves agency linkages to stakeholders and the technology transfer capability within universities. Competitive grants are a means of improving targeted basic and multidisciplinary research. However, cooperative agreement funding has fallen from near 20 percent of the R&D budget to less than 10 percent today. Consequently, NAPFSC urges Forest Service R&D to:

—Increase cooperative agreement opportunities, incrementally over the next 5 years, to attain a percentage of the total research budget that returns to historic levels of approximately 20 percent. In the fiscal year 2005 budget we rec-

commend an increase of \$5 million in the share of Forest Service research dollars committed by the Forest Service for cooperative agreements. This increase would reverse the downward trend in the percentage of funds utilized for cooperative agreements and would move toward a better balance between internal Forest Service research and external collaboration with research universities.

—Establish a major external competitive grant program in forest and natural resources research to engage the broader research community in addressing critical research and outreach needs. In the fiscal year 2005 budget we recommend designation of \$10 million for this purpose, eventually building to \$40 million. Recommended target areas of research are those noted above for the NRI in the USDA CSREES.

—Additionally, we see it important to elevate research university linkages by assigning staff responsibility for advocacy and oversight of this key partnership and associated funding.

USDA Forest Service State & Private Forestry (S&PF).—Has strong formal linkages to state forestry agencies. However, there is no formal link between S&PF and the forestry school based research, extension, and technology transfer capabilities in states. NAPFSC believes such a link would greatly strengthen cooperation among S&PF, state forestry agencies, forestry schools, industry, and landowners in states. Also, such a link would greatly improve the targeting, timeliness, and effectiveness of technology transfer focused on state needs relating to stewardship. Consequently, NAPFSC proposes the creation of a technology transfer line under Cooperative Forestry Programs in the agency's budget. We further urge this line be funded at \$5 million and suggest staff be directed to establish criteria for grant and cooperative programs by consulting with university forestry and related natural resources schools and other educational or technology transfer entities. Criteria may include linkage to state forestry agency efforts, ties to basic and applied research, addressing critical state needs, and multi-school or multi-state cooperation. Suggested themes for this new line include productivity improvement, critical forest management information and analysis, and forest fire.

The National Fire Plan (USDA and USDI).—Has become a major area of activity for Federal agencies and partners. This billion-dollar program also has significant research and technology transfer needs. NAPFSC believes important elements of these needs can best be accomplished through the existing research, extension and technology transfer capabilities of forestry schools. Consequently NAPFSC urges the addition of a science, education, and technology transfer line under Wildland Fire Management to effect this role.

USDI Cooperative Ecosystem Studies Units (CESUs).—The seventeen new CESUs are proving to be a cost-effective means of engaging university science and training capabilities regionally to achieve Federal agency goals. However, schools cannot carry the cost of partnering and information sharing activities themselves. Consequently, NAPFSC recommends \$1.275 million in support of the CESU program in the U.S. Department of Interior. We suggest this funding under the Department's CESU cooperative/joint venture agreements with CESU host universities to provide research, technical assistance, and education consistent with the mission of these units. This would provide \$75,000 annually to each host institution and \$75,000 for the national office for the purposes of partnering activities to support essential conservation and information sharing through websites and other technologies. This funding could be placed within the National Park Service under external programs on behalf of all the Federal agencies involved with the CESU program. Annual work plans would be developed by the host universities and participating Federal agencies per guidelines established by the CESU Council.

Other Competitive Grant Programs (NASA, NSF, DOE, & EPA).—Competitive grant programs in non-USDA science agencies have been very important to the progress of forest resources research efforts in universities. We urge the Administration and Congress to recognize the importance and effectiveness of these programs in efforts to address the issues of non-Federal forests. Specifically we urge programs, subprograms, and funding that can compliment and supplement USDA research programs, notably in the areas of remote sensing and information technologies, basic tree biology, ecosystem structure and function, climate change, water resources management, and the social sciences underpinning natural resources and environmental management.

Agenda 2020.—The American Forest and Paper Association has proposed a program of research to address our nation's needs for wood and fiber products and issues of industry and national competitiveness. Scientists from NAPFSC schools have played a key role in research addressing this agenda. We seek support for the base programs, cooperative agreements and competitive grants noted above to make this agenda a continued success story.

Workforce Needs.—The changing makeup of our society and a looming shortage in forest science research capacity also argue for including the full range of partners as stakeholders, and notably including 1890 and 1994 institutions and others serving minorities.

Summary.—The plan and investments outlined here are substantial, but the potential savings and returns are far greater. NAPFSC urges cooperation at Federal, State, and university levels to make this investment and its promise a reality.

PREPARED STATEMENT OF THE NATIONAL ASSOCIATION OF STATE DEPARTMENTS OF AGRICULTURE

My name is Gene Hugoson, Commissioner of the Minnesota Department of Agriculture and President of the National Association of State Departments of Agriculture (NASDA). I present my statement on behalf of my fellow commissioners, secretaries and directors from the 50 states and four U.S. territories.

Fund Specialty Crop Block Grant Program

We respectfully ask that the Senate provide funding for a block grant program in the fiscal year 2005 Agricultural Appropriations Bill. Congress first approved a specialty crop block grant program in 2001 (H.R. 2213, Public Law 107-25). Congress chose States to administer the \$159.4 million block grant program which was directed at the specialty crop industry to address difficult circumstances caused by disease, low prices, and lack of funding in several areas including: research, promotion, and inspection. NASDA members believe that this block grant program has improved the specialty crop industry's ability to sustain, expand and enhance their production systems.

The program provided state block grants to assist the specialty crop industry, not in the traditional manner of farm assistance programs, but through a focus on projects to improve the industry's competitiveness. The demands for the grant funds were overwhelming; more than 3,900 requests for grant funding were made totaling \$1.52 billion.

State Departments of Agriculture took advice from their local constituency groups and ultimately made investments in more than 1,400 projects in significant issue areas including marketing, nutrition, education, research, pest and disease programs, and food safety. We would like to point out that an important factor in many states' grant funding criteria was commitment to matching funds. Together, states and grant recipients contributed more than \$45 million in matching funds.

Knowing that Congress would have a keen interest in the success of the 2001 block grant program, we surveyed the states and compiled a progress report. It is available on NASDA's website at www.nasda.org or copies can be requested from NASDA's office. Each member of the subcommittee will be provided their own copy of the report.

We would like to bring to your attention that current legislation in the U.S. House of Representatives, H.R. 3242, "The Specialty Crop Competitiveness Act of 2003," provides \$470 million for a specialty crop block grant program. NASDA supports the passage of this legislation.

Changing Times

As you know, times are changing in the agriculture industry. No longer are bulk commodities the only crops that come to mind when people think about American agriculture. In the early 1900's, bulk commodities like wheat, corn, and cotton were the dominant crops grown on the majority of America's farms. While bulk commodities will always remain essential components of America's agricultural industry, today specialty crops have grown significantly in economic importance. During the last century, farmers and ranchers have become much more diversified and more involved with marketing their products from the farmgate to the consumer.

Specialty Crops—A Strong Economic Engine

The contribution of the specialty crop industry to the economic health of the United States and to our agricultural economy becomes clear when you consider the cash receipts the industry generates. For the year 2002, the United States Department of Agriculture's Economic Research Service (ERS) reported that, "Vegetables, Fruit and Nuts, All other Crops, and Hay" generated \$57.7 billion in cash receipts. This figure is important as it outpaces the cash receipts generated by the remaining plant crops. In 2002, "Oil Crops, Tobacco, Cotton, Feed Crops, and Food Grains" generated \$45.7 billion in cash receipts.

The Challenges—Low Income & Trade Deficit

As times have changed, so have the needs of farmers and ranchers in our country. Specialty crop growers are faced with a variety of challenges—many of them brought about by the diversity of the specialty crop industry. Just like any farmer or rancher, specialty crop growers face the risk of their crop being destroyed by a pest, disease or natural disaster. But they also carry additional risk due to compliance with ever changing regulatory requirements, high labor costs, high fuel costs and exotic pest pressures while competing on a non-level playing field against imports from outside the United States.

The USDA ERS reported in “Agriculture Economy Improves in 2003” that specialty crop producers should expect lower than average income: “Producers of specialty crops (vegetables, fruits, nursery products) are especially susceptible to higher energy and labor costs (the fastest rising expense categories in 2003). Lower average income is expected for these farms, since modest gains in receipts will not be enough to compensate for higher expenses.”

However, not all growers in other sectors are experiencing the same challenges. The report stated, “The financial condition of U.S. farmers and other agricultural stakeholders is expected to improve in 2003. Net farm income, a measure of the sector’s profitability, is forecast to be up \$17 billion (49 percent) from the \$35.6 billion earned in 2002 and about 10 percent above the 10-year average.”

While we recognize the importance of global trade in agricultural commodities and recognize the complexity of the global economy, we are alarmed at the disparity between the explosive growth in importation of specialty crops into the United States versus the relatively flat growth in the exportation of our products to other countries. The USDA’s Foreign Agricultural Service’s “Foreign Agricultural Trade of the United States” reports that for the period 1997–2002 that:

- Imports—increased 39 percent to a total of \$14.7 billion in 2002; while,
- Exports—increased 6.5 percent to a total of \$11.7 billion in 2002.

While these trends certainly raise questions regarding “fair trade”, it’s also important to emphasize the issue of “safe trade.” Can our industry remain competitive when they are asked to absorb the cumulative risk of introduction of unwanted foreign pests and diseases imported on foreign commodities that are deemed to be “safe?”

Block Grants—An Investment in Critical Infrastructure

It’s time for the public sector to realize the value of specialty crops and make long term investments in the competitiveness of the industry. Public investment in critical infrastructure will benefit not only the economy but public health and the environment. This investment can be used to support on-going research that is furthering the development of new varieties of specialty crops and contributing to advances in fighting foreign pests and diseases brought in by imports. It will help continue statewide marketing and promotion campaigns that are increasing the consumption of fruits and vegetables across the nation. It will help maintain competitive prices, both domestically and internationally. And more importantly, Federal resources will support nutritional education programs in our schools which will give our children the tools to make healthy eating choices ? helping us all battle the obesity epidemic that is affecting each and every one of our states.

Farmers and ranchers need government policies that make it possible for them to remain competitive. When farmers earn a profit, they are better equipped to adapt to change. These changes bring better results for the environment, for workers, for consumers and for the economy. Everyone benefits from the support of specialty crops. I ask you to please take a minute to think about what you want agriculture to look like in the next 5, 10 or even 25 years. We can shape that vision today by committing to a long-term investment in our specialty crop producers and ensuring they continue to feed the nation and the world.

The State Departments of Agriculture are ready to continue this important dialog and be a part of the solution in keeping specialty crops producers competitive and viable. Thank you for the opportunity to express NASDA’s strong support for the Specialty Crop Block Grant Program.

PREPARED STATEMENT OF THE NATIONAL ASSOCIATION OF STATE FORESTERS

INTRODUCTION

The National Association of State Foresters (NASF) is pleased to provide testimony on the U.S. Department of Agriculture (USDA) budget request for fiscal year 2005. Representing the directors of state forestry agencies from all fifty states, eight

U.S. territories, and the District of Columbia, our testimony centers around those Deputy Areas most relevant to the long term forestry operations of our constituents: Natural Resources and Environment and Research, Education, and Economics. We believe the USDA budget for fiscal year 2005, which offers opportunities for advancing the sustainable management of private forestland nationwide, can be strengthened through our recommendations.

FARM BILL CONSERVATION PROGRAMS

NASF believes that the conservation programs enacted in the 2002 Farm Bill are integral for protecting water quality, erodible soils, wildlife habitat, and wetlands associated with agricultural and forestry operations. Trees and forestry practices are often the best solution to many of the conservation challenges arising from these operations. We support the continued funding and development of the Environmental Quality Incentives Program (EQIP) by providing \$1.2 billion for fiscal year 2005, full funding for the Conservation Reserve Program (CRP), \$85 million for the Wildlife Habitat Improvement Program (WHIP), targeting of 250,000 acres under the Wetlands Reserve Program (WRP), \$150 million for the Emergency Watershed Program (EWP), and \$26 million for the Conservation Security Program (CSP). These programs are important for landowners with both forest and agricultural land, as well as farmers who wish to plant trees for conservation purposes on their agricultural lands. Nearly two-thirds of the land in the United States is forested, the majority of which is privately owned. NASF recommends that the Subcommittee encourage the Secretary of Agriculture and the NRCS to reinforce the importance of including and expanding forestry practices in EQIP and the other Farm Bill Conservation Programs.

USDA RESEARCH AND EXTENSION PROGRAMS

NASF recommends funding the Cooperative Forestry Research (McIntire-Stennis) Program (CFR) at \$25 million, the National Research Initiative Competitive Grants Program (NRI) at \$180 million, and the Renewable Resources Extension Program (RREA) at \$4.5 million. The proposed increase in CFR will help the program continue to serve as the cornerstone of forest research in universities, providing knowledge central to sound management from environmental, economic, and social perspectives. NASF supports the funding provided in the Administration's fiscal year 2005 budget for NRI and encourages more funds be targeted to forestry research. A small increase in RREA funding will improve the program's ability to address critical extension and stewardship needs.

CONCLUSION

The National Association of State Foresters seeks the Subcommittee's support for a USDA fiscal year 2005 budget that will make sure the conservation needs of private landowners—both forest and agriculture—are met. Thank you for the opportunity to provide our testimony.

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 2005 budgets for the U.S. Department of Agriculture. 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.

The following table summarizes NAUFWP's recommendations:

[In thousands of dollars]

USDA Agency/Program	Fiscal year—		
	2004 Enacted	2005 President's Budget	2005 NAUFWP Recommended
Coop. St. Research, Education, and Extension Serv.:			
Hatch Act	179,085	180,148	180,148
Renewable Resources Extension Act	4,040	4,093	15,000

(In thousands of dollars)

USDA Agency/Program	Fiscal year—		
	2004 Enacted	2005 President's Budget	2005 NAUFWP Recommended
McIntire-Stennis Cooperative Forestry	21,755	21,844	30,000
Natural Resources Inventory	164,027	180,000	180,000
Natural Resources Conservation Service:			
Forest Land Enhancement Program	10,000	.....	80,000
Technical Service Provider training .....	.....	.....	100
Conservation Program Monitoring and Evaluation .....	.....	.....	1,000

Cooperative State Research, Education and Extension Services

Hatch Act.—The Hatch Act supports agricultural research in the states at college and university agriculture experiment stations. Experiment stations conduct research, investigations, and experiments that relate directly to the establishment and maintenance of an effective agricultural industry and promote a sound and prosperous agricultural and rural life. These stations are essential for their work on food and fiber systems, environmental impacts of these systems, and resource issues relating to the future of agriculture in each state and the nation. We support the administration's request for this base program in fiscal year 2005.

Renewable Resources Extension Act.—We strongly recommend that the Renewable Resources Extension Act be funded at \$15 million in fiscal year 2005. RREA funds, which are apportioned to State Extension Services, leverage (at an average of 4:1) cooperative partnerships with a focus on development and dissemination of information needed by private landowners. The need for RREA educational programs is greater than ever today due to fragmentation of ownerships, urbanization, and increasing societal concerns about land use and its impact on soil, water, air, and wildlife. Though RREA has been proven to be effective in leveraging cooperative state and local funding, it has never been fully funded.

McIntire-Stennis.—We encourage Congress to increase McIntire-Stennis Cooperative Forestry funds to \$30 million. These funds are essential to the future of resource management on non-industrial private forestlands, supporting 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.

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. We request \$180 million for National Research Initiative Competitive Grants in fiscal year 2005.

Natural Resources Conservation Service

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. We request restoration of the full funding balance, \$80 million, for this program in fiscal year 2005.

Technical Service Provider Training.—NRCS is building a Technical Service Provider program of certified professionals who can assist the agency in delivering conservation services to agricultural producers. Training will be needed to effectively prepare Technical Service Providers to assist these producers. NAUFWP recommends that Congress direct NRCS to appropriate \$100,000 for a pilot training program at a university in cooperation with professional societies (Society for Range Management, The Wildlife Society, American Fisheries Society) and the USDA Cooperative State Research, Education, and Extension Service that subsequently can be used at land grant universities and colleges across the country to train Technical Service Providers. This program is critical to the effective delivery of Farm Bill Conservation Programs.

Conservation Program 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 and effective use of appropriated funds. Thus far, limited monitoring efforts have been focused on soil and water achievements, and NRCS and the Agricultural Research Service have done all the evaluations. It is important for assessments to address wildlife and habitat impacts, and for external parties to be included to ensure credibility and objectivity. We recommend Congress direct \$1 million toward a pilot watershed-based monitoring and evaluation project that can serve as a model for conservation program assessment nationwide.

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 COALITION FOR FOOD AND AGRICULTURAL RESEARCH

Dear Chairman Bennett, Ranking Member Kohl and Members of the Subcommittee: On behalf of the National Coalition for Food and Agricultural Research (National C-FAR), we are pleased to submit comments in strong support of enhanced public investment in food and agricultural research, extension and education as a critical component of Federal appropriations for fiscal year 2005 and beyond.

INTEREST OF NATIONAL C-FAR

National C-FAR serves as a forum and a unified voice in support of sustaining and increasing public investment at the national level in food and agricultural research, extension and education. National C-FAR is a nonprofit, nonpartisan, consensus-based and customer-led coalition established in 2001 that brings food, agriculture, nutrition, conservation and natural resource organizations together with the food and agriculture research community. A list of current members is provided as Exhibit 1. More information about National C-FAR is available at <http://www.ncfar.org>.¹

DEMONSTRATED VALUE OF PUBLIC INVESTMENTS IN FOOD AND AGRICULTURAL RESEARCH, EXTENSION AND EDUCATION

Public and private investments in U.S. agricultural research have paid huge dividends to the United States and the world, especially in the latter part of the 20th century. However, these dividends are the result of past investments in agricultural research.

If similar research dividends are to be realized in the future, then the nation must commit to a continuing investment that reflects the long-term benefits of food and agricultural research.

Food and agricultural research to date has helped provide the United States with an agricultural system that consistently produces high quality, affordable food and natural fiber, while at the same time:

- Creating Jobs and Income.*—The food and agricultural sector and related industries provide over 20 million jobs, about 17 percent of U.S. jobs, and account for nearly \$1 trillion or 13 percent of GDP.
- Helping Reduce the Trade Deficit.*—Agricultural exports average more than \$50 billion annually compared to \$38 billion of imports, contributing some \$12 billion to reducing the \$350 billion trade deficit in the nonagricultural sector.
- Providing many Valuable Aesthetic and Environmental Amenities to the Public.*—The proximity to open space enhances the value of nearby residential property. Farmland is a natural wastewater treatment system. Unpaved land allows the recharge of the ground water that urban residents need. Farms are stopovers for migratory birds. Farmers are stewards for 65 percent of non-Federal lands and provide habitat for 75 percent of wildlife.
- Sustaining Important Strategic Resources.*—This nation's abundant food supply bolsters national security and eases world tension and turmoil. Science-based improvements in agriculture have saved over a billion people from starvation and countless millions more from the ravages of disease and malnutrition.

¹National C-FAR seeks to increase awareness about the value of, and support for, food and agricultural research. For example, National C-FAR circulates a series of one-page Research Success Profiles highlighting some of the many benefits already provided by public investment in food and agricultural research. Each provides a contact for more information. Profiles released to date are titled "Anthrax," "Mastitis," "Penicillin," "Witchweed," and "Making Wine." The Profiles can be accessed at <http://www.ncfar.org/research.asp>.

Publicly financed research is a necessary complement to private sector research, focusing in areas where the private sector does not have an incentive to invest, when (1) the pay-off is over a long term, (2) the potential market is more speculative, (3) the effort is during the pre-technology stage; and (4) where the benefits are widely diffused. Public research also helps provide oversight and measure long-term progress. Public research also acts as a means to detect and resolve problems in an early stage, thus saving American taxpayer dollars in remedial and corrective actions.

By any standard, the contribution of publicly supported agricultural research to advances in food production and productivity and the resulting public benefits are well documented. For example, an analysis by the International Food Policy Research Institute of 292 studies of the impacts of agricultural research and extension published since 1953 (Julian M. Austin, et al, *A Meta-Analysis of Rates of Return to Agricultural Research*, 2000) showed an average annual rate of return on public investments in agricultural research and extension of 81 percent!

NATIONAL C-FAR URGES ENHANCED FEDERAL FUNDING FOR FOOD AND AGRICULTURAL RESEARCH, EXTENSION AND EDUCATION

National C-FAR appreciates the longstanding support this Subcommittee and the full Committee have demonstrated through funding food and agricultural research, extension and education programs over the years that have helped the U.S. food and agricultural sector be a world leader and provide unprecedented value to U.S. citizens, and indeed the world community.

National C-FAR is deeply concerned that shortfalls in food and agricultural research funding in recent years jeopardize the food and agricultural community's continued ability to maintain its leadership role and more importantly respond to the multiple, demanding challenges that lie ahead. Federal funding of food and agricultural research, extension and education has been flat for over 20 years, while support for other Federal research has increased substantially. At the same time, public funding of agricultural research in the rest of the world during the same time period has reportedly increased at a nearly 30 percent faster pace. This reduced public investment in food and agricultural research may be the result of the U.S. food and agricultural system working so well that the sector is a victim of its own success. However, societal demands and expectations placed upon the food and agricultural system are ever-changing and growing. Simply stated, Federal funding has not kept pace with identified priority needs.

National C-FAR is deeply concerned that shortfalls in food and agricultural research funding in recent years jeopardize the food and agricultural community's continued ability to maintain its leadership role and more importantly respond to the multiple, demanding challenges that lie ahead.

National C-FAR believes it is imperative to lay the groundwork now to respond to the many challenges and promising opportunities ahead through Federal policies and programs needed to promote the long-term health and vitality of food and agriculture for the benefit of both consumers and producers. Stronger public investment in food and agricultural research, extension and education is essential in producing research outcomes needed to help bring about beneficial and timely solutions to multiple challenges. Multiple examples, such as those listed below, serve to illustrate current and future needs that arguably merit enhanced public investment in research:

- Strengthened bio-security is a pressing national priority. There is a compelling need for improved bio-security and bio-safety tools and policies to protect against bio-terrorism and dreaded problems such as foot-and-mouth and "mad cow" diseases and other exotic plant and animal pests, and protection of range lands from invasive species.
- Food-linked health costs are high. Some \$100 billion of annual U.S. health costs are linked to poor diets, obesity, food borne pathogens and allergens. Opportunities exist to create healthier diets through fortification and enrichment.
- Research holds the key to solutions to environmental issues related to global warming, limited water resources, enhanced wildlife habitat, and competing demands for land and other agricultural resources.
- There was considerable debate during the last farm bill reauthorization about how expanded food and agricultural research could enhance farm income and rural revitalization by improving competitiveness and value-added opportunities.
- Energy costs are escalating, dependence on petroleum imports is growing and concerns about greenhouse gases are rising. Research can enhance agriculture's ability to provide renewable sources of energy and cleaner burning fuels, se-

quester carbon, and provide other environmental benefits to help address these challenges, and indeed generate value-added income for producers and stimulate rural economic development.

—Population and income growth are expanding the world demand for food and improved diets. World food demand is projected to double in 25 years. Most of this growth will occur in the developing nations where yields are low, land is scarce, and diets are inadequate. Without a vigorous response demand will only be met at a great global ecological cost.

—Regardless of one's views about biotechnology and genetic resources, an effective publicly funded research role is needed for oversight and to ensure public benefits.

Finally, there is a continuing need to build the human capacity of expertise to conduct quality food and agricultural research and education, and to implement research outcomes in the field and laboratory where such outcomes benefit consumers and others who need the research results. The food and agricultural sciences face the same daunting task of supplying the nation with the next generation of scientists and educators that many of the scientific disciplines face today. If these basic needs are not met, then the nation will face a shortage of trained and qualified individuals.

Public investment in food and agricultural research, extension and education of today and the future must simultaneously satisfies needs for food quality and quantity, resource preservation, producer profitability and social acceptability. National C-FAR supports the public funding needed to help assure that these needs are met.

A Sense of the Congress resolution endorsed by National C-FAR to double research funding within 5 years was incorporated into the 2002 Farm Bill that was enacted into law. However, the major commitment to expanded research has not yet materialized. National C-FAR urges the Subcommittee and Committee to fund the Administration's request for food and agricultural research for fiscal year 2005, and to augment this funding level to the maximum extent practicable, as an important first step toward building the funding levels needed to meet identified food and agricultural research needs.

CONCLUSION

In conclusion, National C-FAR restfully submits that—

- The food and agricultural sector merits Federal attention and support;
- Food and agricultural research, extension and education have paid huge dividends in the past, not only to farmers, but to the entire nation and the world;
- There is an appropriate and recognized role for Federal support of research and education;
- Recent funding levels for food and agricultural research, extension and education have been inadequate to meet pressing needs; and
- Federal investments in food and agricultural research should be enhanced in fiscal year 2005 and beyond.

National C-FAR appreciates the opportunity to share its views and stands ready to work with the Chair and members of this Committee in support of these important funding objectives.

PREPARED STATEMENT OF THE NATIONAL COMMODITY SUPPLEMENTAL FOOD PROGRAM (CSFP) ASSOCIATION

Mr. Chairman and subcommittee members, I am Kathleen Devlin, 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 provide a quality nutritionally balanced commodity food package to low income persons aged sixty and older, and low income mothers, infants, and children. The program, which was authorized in 1969, serves approximately 536,000 individuals every month in 32 states, 2 Tribal Organizations and the District of Columbia.

—Within the last 5 years, CSFP has added 10 new States to the Program serving 113,792 new program participants, the vast majority being low-income seniors.

—Of special note is the unprecedented growth of this program in fiscal year 2003, during which an additional 84,160 people were served.

—This unprecedented growth was the direct result of the fiscal year 2003 Conference Report that said: "The conferees expect the Department to make the full amount of these budgetary resources available to support participation and caseload. The intention of the conferees is to ensure at a minimum that the

final caseload in September 2003 can be maintained in 2004, while meeting the requirements to protect the states that joined the program in 2003.”

—The fiscal year 2005 President’s Budget has proposed \$98 million for the CSFP. This is a 13 percent cut to the program and will require 69,941 low-income seniors be removed from receiving much needed nutritious commodities. This follows a 19 percent increase in participation among existing CSFP states provided last year as a direct result of Congressional Directives set forth by Conferencees in the Conference Report.

The CSFP’s 35 years of service 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 nutritionally vulnerable populations: the young children and the low-income seniors.

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 in addition to life-changing nutrition education.

The CSFP purchases foods at wholesale prices, which directly supports the farming community. The average food package for fiscal year 2004 is \$13.20, and the retail cost would be approximately \$50.00.

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.

The Senate Agriculture Appropriations Sub-Committee has consistently been supportive of CSFP, acknowledging it as a cost-effective way of providing nutritional supplemental food packages to low income eligible seniors, mothers and children. This year, your support is needed urgently to prevent unprecedented 69,941 low-income participants from being removed from this vital nutrition program.

COMMODITY SUPPLEMENTAL FOOD PROGRAM

NATIONAL CSFP ASSOCIATION CASELOAD & BUDGET REQUEST FOR FISCAL YEAR 2005

\$134 MILLION REQUESTED

Fiscal year 2005 Caseload Slots, Including Seven New States.—660,599 Slots

Fiscal year 2005 Funding Request.—\$134.0 million

Base Caseload Requirements Existing States.—535,756 Slots

Total Cost Per Caseload Slot.—\$158.40 (\$13.20 blended monthly food package cost × 12 months) + \$53.53 = \$211.93 per slot = \$113.5 million

Expansion in Current States.—100,343 Slots

\$118.80 (\$13.20 blended monthly food package cost × 9 months) + \$40.14 (\$158.40 prorated for 9 months) = \$158.94 per slot = \$15.9 million

New States.—24,500 Slots

Arkansas—5000; Delaware—2500; Oklahoma—5000; Maine—3000; Virginia—3000; Utah—3000; Wyoming—3000 and this would equal an additional \$118.80 (\$13.20 blended monthly food package cost × 9 months) + \$40.14 (\$158.40 prorated for 9 months) = \$158.94 per slot = \$3.9 million

Estimated USDA Costs for Procuring Commodities.—\$.8 million

Note: The National CSFP Association would like to bring to your attention a comparison between the CSFP FFY 2004 Appropriation & FFY 2005 Proposed Appropriation.

—*FFY 2004.*—\$98.9 million Appropriation + (approximately) \$11.295 million cash carryover + (estimated) \$6 million Commodity Inventory = Total Program Resources fiscal year 2004 of \$116 Million

—*FFY 2005.*—President’s Proposed \$98 Million (loss of 85,728 or 16 percent of the national caseload)

—Total Program Resources in fiscal year 2005 of \$104.8 million (loss of 69,941 senior slots or 13 percent national caseload)

RESTORE SENIOR INCOME GUIDELINES TO 185 PERCENT OF POVERTY

Current income eligibility for senior clients is 130 percent of the poverty income guidelines, as opposed to 185 percent of poverty as originally established in 1981. We proposed that they be re-established to 185 percent of poverty to be consistent with CSFP women, infants and children and other Federal nutrition programs. Many seniors are struggling with high housing, medical, and utility costs, and at

the lower poverty guideline, the slightest inflation increase in Social Security income renders many seniors ineligible for CSFP.

PREPARED STATEMENT OF THE NATIONAL COUNCIL OF FARMER COOPERATIVES

Thank you, Mr. Chairman, and members of the Subcommittee. The National Council of Farmer Cooperatives (NCFC) appreciates this opportunity to submit its views regarding the fiscal year 2005 agriculture appropriations bill, and respectfully requests this statement be made part of the official hearing record.

AMERICA'S FARMER COOPERATIVES

NCFC is the national trade association representing America's farmer cooperatives. There are nearly 3,000 farmer cooperatives across the United States whose members include a majority of our Nation's more than 2 million farmers. They exist for the mutual benefit of their farmer members and provide them with increased opportunity to improve their income from the marketplace and compete more effectively in the global marketplace.

These farmer owned businesses handle, process and market virtually every type of agricultural commodity grown and produced, along with many related products; manufacture, distribute and sell a variety of farm inputs; and provide credit and related financial services, including export financing. Earnings derived from these activities are returned by farmer cooperatives to their farmer members on a patronage basis thereby enhancing their overall income.

America's farmer cooperatives also provide jobs for nearly 300,000 Americans with a combined payroll over \$8 billion, further contributing to our Nation's economic wellbeing. Many of these jobs are in rural areas where employment opportunities are sometimes limited.

FISCAL YEAR 2005 BUDGET PROPOSAL AND RECOMMENDATIONS

The administration's fiscal year 2005 budget proposal with regard to USDA recommends maintaining support and funding for basic farm and commodity programs as contained in the 2002 Farm Bill. We commend the administration for its recommendation as these programs represent an important safety net for producers and should continue to be fully funded. There are also a number of other important programs within USDA that should be given a high priority as summarized below.

USDA Farmer Cooperative Programs

There is a long history of congressional support for public policy to enhance the ability of farmers to join together in cooperative self-help efforts to improve their overall income from the marketplace, capitalize on new market opportunities, and to compete more effectively in the global marketplace.

USDA's Rural Business-Cooperative Service (RB-CS) mission area includes responsibility for carrying out a variety of programs to help achieve such objectives, including research, education and technical assistance for farmers and cooperatives. Since the elimination of a separate agency with responsibility for such programs, it is our understanding that funding for such purposes has generally been provided through the salary and expense budget relating to rural development.

For fiscal year 2005, the administration's budget proposal provides \$666 million in both budget authority and program level for salaries and expenses for the rural development mission area, compared to \$627 million for fiscal year 2004. Since there is no separate line item relating to programs in support of cooperative self-help efforts by farmers and their cooperatives, we believe Congress should include as it has in the past specific language directing that funding and resources to carry out such programs be given a high priority.

Value-Added Agricultural Product Market Development Grants

USDA's Value-Added Agricultural Product Market Development Grants Program is aimed at encouraging and enhancing farmer participation in value-added businesses, including through farmer cooperatives, to help them capture a larger share of the value of their production and improve their overall income from the marketplace. It also helps promote economic development and create needed jobs in rural areas.

The program is administered on a matching basis, thereby doubling the impact of such grants and helping encourage needed investment. As a cost-share program, it has served as an excellent example of an effective public-private partnership that has been extremely successful by any measure.

The 2002 Farm Bill significantly expanded this important program to a level of \$40 million. In fiscal year 2004, the program was reduced to \$15 million. For fiscal year 2005, the administration's budget proposal recommends the program be maintained with a slight increase to \$16 million. While this represents a significant change from last year's budget proposal, which we are pleased to see, we continue to believe this important program should be fully funded at \$40 million.

Commodity Purchase Programs

USDA annually purchases a variety of commodities for use in domestic and international feeding programs, including the school lunch program. NCFE strongly supports such programs to: (1) meet the food and nutrition needs of eligible consumers and (2) help strengthen farm income by encouraging orderly marketing and providing farmers with an important market outlet, especially during periods of surplus production.

In addition to providing needed funding for such programs, it is important to ensure that farmers who choose to cooperatively market their production and related products, as well as their cooperatives, are not limited or excluded, but remain fully eligible under such programs. This is consistent with USDA's historical mission in support of such cooperative efforts and essential to ensure the continued availability of high quality products on a competitive basis.

B&I Loan Guarantee Program and Farmer Cooperatives

One of the major challenges facing farmer cooperatives in helping farmers capture more of the value of what they produce beyond the farm gate is access to equity capital. In approving the 2002 Farm Bill, Congress made a number of changes to USDA's Business and Industry (B&I) guaranteed loan program to better meet the needs of farmer cooperatives and their farmer members. These included changes to allow farmers to qualify for guaranteed loans for the purchase of stock in both new and existing cooperatives to provide the equity capital needed to encourage more involvement and participation in value-added activities.

For fiscal year 2005, the administration's budget proposal provides an overall program level of \$738 million, which represents a slight increase over fiscal year 2004. Accordingly, we recommend that funding be not less than this level.

Rural Business Investment Program

The Rural Business Investment Program was authorized under the 2002 Farm Bill to help foster rural economic development by encouraging and facilitating equity investments in rural business enterprises, including farmer cooperatives.

In fiscal year 2004, program funding was limited to \$4 million for the development of regulations and review of applications. We understand, however, that such regulations remain pending. While the fiscal year 2005 budget proposal would provide an increase to \$11 million, this is still well below the level authorized in the 2002 Farm Bill. Again, providing improved access to equity capital is essential if farmers are going to be able to capitalize on value-added business opportunities through cooperative self-help efforts. For these reasons, we urge that the program be fully funded as authorized and that USDA be encouraged to complete the rule-making process in order for it to be fully implemented as Congress intended.

International and Export Programs

USDA's export programs are vital to helping maintain and expand U.S. agricultural exports, counter subsidized foreign competition, meet humanitarian needs, protect American jobs, and strengthen farm income. We believe such programs should be fully funded and aggressively implemented to achieve these important objectives.

The administration's fiscal year 2005 budget proposal would provide an overall increase in U.S. international and export programs. At the same time, however, it would reduce or freeze several key programs.

In particular, we are very concerned over the proposal to freeze USDA's Market Access Program (MAP) at \$125 million instead of allowing it to increase to \$140 million as provided under the 2002 Farm Bill. The program, which is administered on a cost-share basis, continues to be tremendously effective in encouraging and promoting U.S. agricultural exports. At a time when our foreign competitors are spending nearly as much to promote their products in just the U.S. domestic market as the United States is spending world-wide, clearly now is not the time to engage in any unilateral reduction in our export programs. As a member of the Coalition to Promote U.S. Agricultural Exports, we urge that funding be provided at \$140 million as authorized, together with \$34.5 million for the Foreign Market Development program as recommended.

Again, it is extremely important that USDA's export programs continue to be fully funded, including the Export Credit Guarantee Programs, the Export Enhancement Program, Dairy Export Incentive Program, Technical Assistance for Specialty Crops, Food for Progress, as well as Public Law 480 and other food assistance programs, including McGovern-Dole.

Finally, we also want to take this opportunity to urge support to ensure there is adequate funding and resources for USDA's Foreign Agricultural Service to continue to effectively carry-out such programs and to provide the technical assistance and support needed to help maintain and expand U.S. agricultural exports.

Agricultural Research

Another important area of emphasis when it comes to enhancing the global competitiveness of farmer cooperatives and American agriculture is research. NCFC endorses the recommendations of the National Coalition for Food and Agricultural Research, which has set an objective of doubling Federal funding over the next 5 years.

Conservation Programs

The administration's fiscal year 2005 budget proposal includes funding for a variety of conservation and related programs administered by USDA's Natural Resources Conservation Service (NRCS). Many of these programs were significantly expanded under the 2002 Farm Bill and provide financial and technical assistance to help farmers and others who are eligible to develop and carry out conservation and related activities to achieve important environmental goals.

NRCS is also the lead technical agency within USDA offering "on-farm" technical and financial assistance. We strongly support such programs, including technical assistance activities that may be carried out in partnership with the private sector involving farmer cooperatives. Farmer cooperatives have invested heavily in developing the technical skills of their employees to help their farmer members address environmental concerns. It is estimated that 90 percent of all members of the Certified Crop Advisor (CCA) program, for example, are employed by the private sector and majority of those are employed by farmer cooperatives.

Conclusion

Thank you again, Mr. Chairman and members of the Subcommittee, for the opportunity to share our views. We appreciate this statement being included in the official hearing record.

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 is estimated at 437,888,000 cwt. with a farm value of \$3.2 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 136.5 pounds in 2003, 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 nutritious consumer commodity and an integral, delicious component of the American diet.

The NPC's fiscal year 2005 appropriations priorities are as follows:

The NPC recognizes the difficult budget situation that the Congress is facing and has carefully targeted its fiscal year 2005 priorities.

Potato Research

Cooperative State Research Education and Extension Service (CSREES)

The NPC supports an appropriation of \$1.75 million for the Special Potato Grant program for fiscal year 2005. The Congress appropriated \$1.417 million in fiscal year 2004, a decrease from the fiscal year 2003 level of \$1.584 million. 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) Report Language

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.

ARS-CSREES Overall Funding

Congressionally Mandated Potato Research

The NPC urges that the Congress reject the Administration’s budget request to rescind all fiscal year 2004 Congressional increases for research projects.

Foreign Market Development

Market Access Program (MAP)

The NPC also urges that the Congress maintain the spending level for the Market Access Program (MAP) at its authorized level of \$140 million for fiscal year 2005 and not support the Administration’s budget request to cap this valuable export program at the fiscal year 2004 level of \$125 million.

Food Aid Programs

McGovern Dole

The Administration has requested \$75 million for the McGovern-Dole Food International Food Aid Program. The Administration requested and the Congress provided \$50 million in fiscal year 2004. The NPC supports an appropriation of at least \$100 million in fiscal year 2005.

Pest and Disease Management

Animal and Plant Health Inspection Service (APHIS)

Golden Nematode Quarantine.—The NPC supports \$985,000 which is the Administration’s fiscal year 2005 budget request. The Congress appropriated \$792,000 in fiscal year 2004.

Pest Detection.—The NPC supports \$45 million in fiscal year 2005, which is the Administration’s budget request. The Congress appropriated \$24 million in fiscal year 2004. Now that the Agriculture Quarantine Inspection (AQI) program is within the new Homeland Security Agency, this increase is essential for the Plant Protection and Quarantine Service’s (PPQ) efforts against potato pests and diseases such as *Ralstonia*.

Trade Issues Resolution and Management.—The NPC supports \$16 million for this program which is the Administration’s budget request. The Congress appropriated \$12.4 million in fiscal year 2004. However, language must be included that designates all or a part of such increase for plant protection and quarantine activities. 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.

Funding Pest Eradication Programs.—The NPC supports having the Congress once again include language to prohibit the issuance of a final rule that shifts the costs of pest and disease eradication and control to the states and cooperators.

Agricultural Statistics

National Agricultural Statistics Service (NASS)

The NPC supports sufficient funds and guiding language to assure that the potato objective yield and grade and size surveys are continued. The fiscal year 2004 Omnibus Bill included the following language:—“The conferees also expect that both the potato objective yield survey and the potato size and grade survey will be continued.”

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 am the executive secretary of the National Rural Housing Coalition.

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.

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 secondary 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.

Renters in rural areas are the worst housed individuals and families in the country. Thirty-five 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.

RURAL HOUSING SERVICE

Rural 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 little more than \$9,000, which is equal to only 30 percent of the Nation's rural median household income. Sixty percent of the tenants are elderly or disabled and one-quarter are minority.

The Federal Government's current investment in rural rental housing is at its lowest level in more than 25 years. In fact, last year and this year the Administration's budget included no funding for rural rental housing production. Over the last 15 years, Congress and Administrations of both parties have engaged in unwise budget cutting of rural rental housing. Lending has declined from over \$500 million a year in 1994 to \$114 million in fiscal year 2003 and 2004. As a result, there is little production of new rental housing in rural areas.

As Congress considers future policy for rural housing, it faces two challenges regarding rural rental housing. The first is to maintain the existing stock of Section 515 units. The second is to increase the production of affordable rental housing units in rural communities. The current portfolio of Section 515 units represents an important resource to low-income families in rural America. At a time of declining Federal resources for rental housing, it is hard to envision a time in which Federal policy will finance the development of a large number of rental housing developments. It is important to preserve the existing stock.

RHS is facing an aging Section 515 portfolio. Of the 17,000 developments across the country, close to 10,000 are more than 20 years old. To maintain those projects, it will take an investment of Federal funds for restoration. That appears to be the focus of the Administration's request for \$60 million for servicing the existing portfolio.

The Housing Act of 1987 regulated rural rental housing principally financed under Section 515. This legislation placed a low-income use restriction on Section 515 and also established financial incentives to owners to maintain their properties for low-income housing. In general, at the end of the initial 20-year use restriction, an owner could seek an incentive to extend long-term low-income use, or sell the project to a nonprofit organization or public body that would operate the housing for low-income use.

A principal source of financing for incentives was the Section 515 and the use of these funds for equity loans authorized under Section 515. Roughly two-thirds of the Section 515 portfolio is regulated under the 1987 Act. The lack of adequate funding for incentives has raised a great concern among the owners. For the most part, the law limits their options of seeking incentives or selling to a nonprofit organization or public body. The demand for incentives is estimated at approximately \$100 million for equity loans alone. But cuts in Section 515 have limited the ability of the USDA to implement a good preservation program. However, as Congress and the Administration reduced funding for Section 515, USDA reduced preservation funding to only about \$5 million per year.

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.

In the fiscal year 2004 appropriations conference report and the fiscal year 2005 budget Congress and the Administration have reduced the term on expiring rental assistance contracts from 5 years to 4 years. One possible result of this is to pile larger appropriations for rental assistance to the out years.

This policy may solve a short term budget need but does not address the need for rental assistance for the 90,000 low income households living in section 515 units paying more than 30 percent of income for rent. It also does not provide any assistance for the few newly constructed units financed under section 515.

We urge the Committee to provide at least \$250 million for section 515 loans and allocate at least \$100 million of that amount for preservation and rehabilitation of rural rental housing. We also urge the Committee to restore rental assistance contracts to 5 years and restore funding that is adequate to meet the needs of preservation and new construction commitments contained in the appropriation of \$250 million for section 515.

Section 502 Single Family Direct Loan Program

In recent years, the major trend in rural housing has been to guarantee home ownership loans. The fiscal year 2005 level for guarantees is approximately \$2.75 billion. This program serves families with incomes at 125 percent of median, substantially higher than that of direct loans.

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 3 percent of households have annual incomes of less than \$10,000. Since its inception, Section 502 has provided loans to almost 2 million families.

Under Section 502 home ownership, the current loan level totals \$1.367 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. There is unprecedented demand for section 502 direct loans in 2003; RHS closed 13,222 loans totaling \$1.037 billion. However, at the end of the fiscal year the agency had on hand over 33,000 applications from qualified families totaling over \$2.5 billion.

The fiscal year 2004 lending level for Section 502 direct loans is \$1.366 billion, the largest in several years. These additional funds are important in the Administration effort to improve minority home ownership. However, this higher level will only address about 50 percent of the demand on hand in RHS offices across the country.

The fiscal year 2005 request reduces section 502 lending to \$1.1 billion, a reduction of over \$250 million. This cut is due to an increase in subsidy rates without a corresponding increase in section 502 direct budget authority.

The section 502 program is an extremely low cost program. For Direct 502, USDA will finance about 15,300 for a budget authority cost of \$8,170 per unit.

We urge the Committee to restore section 502 to loans to the current rate \$1.367 million.

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 in each year over the past 3 years has been approximately 1,500. The budget request is for \$34 million. We support this request.

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. This valuable program is also at risk in the budget request this year—it has been eliminated. For fiscal year 2005, we recommend \$6 million for the Rural Community Development Initiative to continue level funding for fiscal year 2002.

Farm Labor Housing

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.

Rural Utility Service

Hundreds of rural communities nationwide do not have access to clean drinking water and safe waste disposal systems. According to the 2000 Census, approximately 1.9 million people lack indoor plumbing and basic sanitation services, including potable water and sewer. According to 1999 EPA Safe Drinking Water Needs Survey, \$48 billion will be required over the next 20 years to ensure that communities under 10,000 have safe drinking water supplies. According to EPA's 2000 Clean Water Needs Survey \$16 billion is required over the next 20 years to provide wastewater treatment facilities communities under 10,000, and over 19,000 waste-

water facilities will be needed for these communities. In all, small communities will need to identify some \$64 billion in order to meet their water and wastewater needs.

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.

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 (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. Nearly all the communities RUS served last year had median household income below that state non-metro median household income.

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. RCAP provided services to over 2000 communities last year in 50 States, including Puerto Rico and leveraged over \$200,000,000 in additional funding for water and wastewater infrastructure projects in the communities served. 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.

We urge the Committee to restore funding to the fiscal year 2004 rate.

Other Federal Agencies

Other Federal agencies have not picked up the slack in providing assistance for rural areas. Rural households have limited access to mortgage credit and the secondary mortgage market. Rural households are less likely to receive government-assisted mortgages than their urban counterparts. According to the 1995 American Housing Survey, only 14.6 percent of non-metro residents versus 24 percent of metro residents receive Federal assistance. Moreover, poor rural renters do not fair as well as poor urban renters in accessing existing programs. Only 17 percent of very low-income rural renters receive housing subsidies, and, overall, only 12 percent of HUD Section 8 assistance goes to rural areas. Only 7 percent of Federal Housing Administration (FHA) assistance goes to non-metro areas. On a per-capita basis, rural counties fared worse with FHA, receiving only \$25 per capita versus \$264 per capita in metro areas. Programs such as HOME, CDBG and FHA may have the intention

of serving rural areas, but fail to do so to the appropriate extent. One of the few programs at HUD targeted to rural areas is the Rural Housing and Economic Development (RHED) program. The budget proposes to eliminate the program.

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 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 2005 in the amounts requested in the President's budget for 5 percent direct, cost-of-money and guaranteed loans and the associated subsidy, if required, to fund those programs at the requested levels. Supporting Rural Telephone Bank loans in the same amount, as contained in the fiscal year 2004 Agriculture Appropriations Act. Opposing the budget recommendation to not fund new Rural Telephone Bank loans in fiscal year 2005.
- Supporting continued funding, as requested in the President's budget, in the amount of \$25 million in grant authority designated for distance learning and medical link purposes.
- Supporting the budget request for \$331 million in direct loans for broadband facilities and internet service access provided through discretionary funding.
- Supporting elimination of the restriction on retirement of Rural Telephone Bank Class A stock, as requested in the President's budget. Supporting an extension of the prohibition against the transfer of Rural Telephone Bank excess funds to the general fund as well as the requirement that Treasury pay interest on all Bank funds deposited with it. 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 6 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 longterm, 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 de-

ploy 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, over \$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 2 years ago, 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 2005 and the appropriation of the associated subsidy costs, if required, to support these levels:

5 percent Direct Loans	\$145,000,000
Cost-of-Money Loans	250,000,000
Guaranteed Loans	100,000,000
Rural Telephone Bank Loans	175,000,000
Total	670,000,000

These are essentially the same levels established in the fiscal year 2004 appropriations act for the 5 percent direct, cost-of-money and Rural Telephone Bank loan programs and the same amounts for 5 percent direct, cost-of-money and guaranteed loans as requested in the President's budget for fiscal year 2005. The authorized levels of loans in each of these programs were substantially obligated in fiscal year 2003 and the administration estimates that authorized program levels will be fully met in fiscal year 2004. 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 2005.

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 over 32 percent of the government's \$592 million investment, leaving a current balance of \$400 million. As pointed out in our testimony in previous years, 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. We are supporting the administration request to eliminate the 5 percent annual restriction on the retirement of government stock giving it additional flexibility to accelerate privatization of the bank. No additional incentives are necessary. In the meantime, while the administration develops a comprehensive plan for bank privatization, we believe the direct loan program should continue, at existing levels, without disruption.

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 2005, 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 revenue 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 again this year that the mandatory funding of loans for the deployment of broadband technology in rural areas provided in the recent farm act in the amount of \$20 million (new section 601(j)(1)(A) of the Rural Electrification Act of 1936) be rescinded in fiscal year 2005 and in its place the budget requests \$9.9 million in new discretionary authority for these purposes. Given the fact that the program is operating in fiscal year 2004 with carry over balances from mandatory authority of \$38.8 million and discretionary authority of \$13 million, providing \$2.2 billion in loan levels in fiscal year 2004, we do not object to this reduction for next year. We are, therefore, supporting the administration's budget request of \$9.9 million for this program that will provide approximately \$331 million in loan levels for fiscal year 2005.

Specific Additional Requests

—Eliminate the Restriction on Retirement of Class A Government Stock in the Rural Telephone Bank (RTB) but Continue the Prohibition Against Transfer of RTB Funds to the General Fund and Require the Payment of Interest by Treasury

The Administration has recommended in the budget that the 5 percent annual statutory restriction on the retirement of Class A government stock in the Rural Telephone Bank be eliminated. The association supports that proposal. However, we urge the Committee in the general provisions of the bill to continue the prohibition against the transfer of any unobligated balance in the bank's liquidating account, in excess of current requirements, to the general fund of the Treasury along with the requirement that the bank receive interest on those deposited funds. The private Class B and C stockholders of the Rural Telephone Bank have a vested ownership interest in all assets of the bank including its funds and Congress should assure that their rights are protected. Previous appropriations acts (fiscal years 1997 through 2004) 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.

The current statutory provision, also contained in previous years' appropriations acts, that requires Treasury to pay interest on bank funds deposited with it should be continued in fiscal year 2005 in the same general provision of the bill.

—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 2005 of the \$25 million in grant authority provided in the President's budget for medical link and distance learning purposes. The purpose of these grants 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.

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 2005 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 \$120 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.
- 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 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.
- 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 and reject efforts to sweep carryover balances.
- Support the provision of the President's budget funding Distance Learning and Telemedicine Grants.
- Preserve RBCS Rural Development Grant and Loan Programs as well as the Rural Economic Development Loan and Grant 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 continue 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 a few million in Federal subsidy has effectively generated \$690 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.

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 2005 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:

Hardship Account	\$145,000,000
Cost of Money/Treasury Account	250,000,000
Guaranteed Account	120,000,000
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. In 2003, USDA and RUS officials unveiled the regulations and were able make available \$1.4 billion in loans (fiscal year 2002 and 2003 funds). An appropriate level of funding must be maintained in this program 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 2005. 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.

NTCA remains committed to privatization and 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.

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.

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.

While USDA has worked with the industry to ensure an RTB privatization that does not harm the rural telecommunications sector, NTCA remains concerned about the Office of Management and Budget and the Department of Treasury. The industry is well aware of the difficulties that have occurred as part of the joint USDA-OMB-Treasury Privatization Task Force. NTCA remains extremely skeptical of OMB and Treasury's good faith efforts and has worked very closely with the RTB Directors and the RUS Administrator through the privatization process. We believe that OMB and Treasury have yet to fully engage on the issue of privatization and work with USDA. For these reasons, we believe language extending the prohibition of more than 5 percent of Class A stock to be retired, must be included.

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.

Reject the President's Proposal to fund the Rural Broadband Access Loan and Loan Guarantee Program through discretionary funding and reject efforts to sweep carryover balances

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. Since enactment, RUS has received over \$1 billion in loan applications and has struggled to approve loans and meet the demand. Accordingly, we believe the President's proposal to sweep carryover balances do not recognize the current demand for funding and is NTCA believes the President's budget request to cancel the \$20 million in mandatory funding, 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.

NTCA's annual member survey shows our members are offering broadband (200 kbps) to 70 percent of their customer base, members have expressed interest in using the Broadband program to augment broadband availability to their "last mile" customers. While we are concerned about the number of loans approved by RUS, NTCA believes that calls for statutory or regulatory changes are extremely premature.

Support the President's request for Distance Learning and Telemedicine grants

The DLT grant program has had tremendous success in rural America and NTCA believes such grants add to NTCA members long standing efforts to their local communities. For NTCA's 50 years, our members have utilized the Rural Utilities Serv-

ice to provide basic telephone service, advanced telecommunications services, and economic development to rural America. Our members have also been prudent stewards of the taxpayer funds and are extremely concerned about the loan defaults within the DLT Loan program. While extremely well-intended, the DLT Loan program has yet to live up to the high level of expectations envisioned by Congress. Consistently, DLT Loan levels falling significantly short of authorized loan levels. NTCA believes that overwhelmingly those entities interested in the DLT program, lack the legal authority to secure loans and are dependant upon grants. NTCA believes such taxpayer's funds could be better spent in rural America.

Preserve RBCS Rural Development Grant and Loan Programs as well as the Rural Economic Development Loan and Grant Program

These loans and grants, which are administered at the local level by rural telephone and electric systems, help fund economic and community development—business expansion and start-up, community facilities, schools and hospitals, emergency vehicles, etc.—in some of the most rural areas of the country. Our member companies have used a variety of these programs to further their economic commitment to the community and we are extremely supportive of these programs and Congress to ensure adequate funding is at levels that meets the expanding 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 TREASURY EMPLOYEES UNION

Mr. Chairman, Senator Byrd, and Members of the Subcommittee, I am pleased to present the testimony of the National Treasury Employees Union (NTEU) concerning the fiscal year 2005 appropriation for the Food and Drug Administration (FDA).

NTEU represents more than 150,000 Federal employees across the Federal Government, including the employees who work at the Food and Drug Administration. I want to thank you for giving me the opportunity to present testimony on behalf of these dedicated men and women who work to ensure the safety of our food, drugs, cosmetics, and medical devices. It has been the FDA employees, day in and day out, who have responded to the call of the American people to ensure that our food supply is safe and that more effective drugs and medical products are brought to consumers quickly. In fact, the FDA regulates more than \$1 trillion worth of products that account for about 25 cents out of every dollar of American consumer spending. The FDA is staffed with experts in an extraordinary range of fields. Microbiologists, chemists, consumer safety officers, and others are working around the clock testing, approving, and regulating new drugs, robotics, and other medical devices, that will not only improve the health conditions for millions of Americans, but in many cases actually save lives. They are working to ensure that the food we eat is safe and free of disease-causing contaminants, and working to ensure that new food products, food additives, and dietary supplements pose no threat to our health.

And the FDA employees who work in the field offices and laboratories located throughout the country have developed valuable working relationships with top scientists, health officials, and local industries. These employees help protect consumers from mislabeled foods, food borne diseases, defective medical devices, or unsafe cosmetics or drugs. And they work very closely with Customs, USDA, and others at our borders and ports, to inspect and test imported foods and drugs.

FDA would be one of the last parts of government where one would want to hire employees on the cheap. When I talk with our NTEU members at FDA, I am amazed not only at the professionalism and extraordinary talent and quality of these employees, but their commitment to public service. Scientists, chemists, and professionals of every sort tell me that they prefer working in public service. However, they also tell me that if forced to choose between public service or, for example, being able to send their children to college, they would reluctantly feel forced

to accept a position in the private sector in order to obtain such legitimate desires. I know this Subcommittee has the wisdom to see that FDA remain the employer of choice for dedicated, trustworthy professionals interested in working in public service.

Employees at the FDA, both professionals and administrative staff, lag behind their private sector peers in compensation. In fiscal year 2004, the Administration proposed a 2.0 percent pay raise for Federal employees on the GS scale. Congress rejected this miserly pay adjustment and legislated a 4.1 percent increase. It would have been wiser for the Administration to have included the assumption of a fair pay raise in their fiscal year 2004 budgeting. However, better late than never, they have included funding in this year's FDA budget to fund the fiscal year 2004 4.1 percent pay raise. Yet, once again, the FDA budget submitted to Congress assumes only a 1.5 percent pay adjustment for fiscal year 2005. NTEU has called upon Congress to provide Federal employees with a 3.5 percent pay raise, reflecting the historic parity between civilian and military pay. We will be working for this parity in Congress and believe that the FDA budget should reflect this more appropriate amount.

The Administration's Budget proposal also provides funding for relocation costs to the White Oak facility. During fiscal year 2005, 1,700 drug review personnel will be relocated to the White Oak facility. The Administration has asked for \$20.6 in new budget authority and \$10 million in PDUFA user fees for relocation expenses. NTEU strongly supports this request. Consolidation of the various FDA facilities in the Washington metropolitan area is sensible and will add obvious improvements to FDA operations. However, NTEU opposes any plans to consolidate certain out of region field laboratories, particularly the St. Louis laboratory, with the White Oak facility. As the President of NTEU, I can tell you that these highly skilled employees will not relocate to White Oak. The result of such out of region consolidation will be the loss of these prized professionals. This is not in the public interest. In past years, the Congress has included a provision directing FDA management not to close these field laboratories. NTEU would ask that Congress again do so this year.

I want to mention, Mr. Chairman, that while on the above matter we have a disagreement with management at FDA, on a host of other issues, labor and management at FDA have been successful in working together to find win-win solutions and to jointly address very real problems FDA faces. NTEU and FDA management have negotiated a number of innovative and cutting edge initiatives to make sure the agency has the best and brightest employees available. It would be a shame if after such collaboration, these initiatives suffered from inadequate funding. NTEU and FDA have negotiated a Student Loan Repayment Program. This has been designed to aid FDA's recruitment and retention. Permanent and term employees with at least 3 years remaining on their appointment are eligible. Employees must remain at FDA for 3 years to receive this benefit. It allows FDA to repay part or all of a federally insured student loan.

NTEU has also negotiated with FDA management a program of Quality Step Increases (QSIs) which provide incentives and recognition for excellence and has reformed several other awards and special pay provisions so to better achieve agency goals and retain quality employees. All of these initiatives need sufficient and improved funding.

Thank you for giving NTEU the opportunity to share our views on the FDA budget for fiscal year 2005. We thank this subcommittee for its support of FDA programs in the past, and we urge you to work with the Administration to provide FDA with the staffing and resources necessary to protect and improve the health of the American public.

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 the opportunity to provide the Subcommittee with the turfgrass industry's perspective in support of the continuation of the \$55,000 appropriation for the National Turfgrass Evaluation Program (NTEP), included in ARS's baseline within the President's fiscal year 2005 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 2004 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 at ARS stations across the country.

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. NTEP provides unbiased information on turfgrass cultivar adaptations, disease and insect resistance and environmental stress tolerance to home owners, sod producers, sports turf and parks managers, golf course superintendents and highway vegetation managers.

Turfgrass provides multiple benefits to society including child safety on athletic fields, environmental protection of groundwater, reduction of silt and other contaminants in runoff, and green space in home lawns, parks and golf courses. Therefore, by cooperating with NTEP, USDA has a unique opportunity to take positive action in support of 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. 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 75 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. 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. Therefore, it is essential that the USDA maintain its modest financial support of NTEP.

Justification of \$490,000 Appropriation Request for the existing ARS Scientist Position and related support activities

NTEP and the turfgrass industry are requesting the Subcommittee's support for \$490,000 to continue funding for the full-time scientist staff position at ARS, focusing on turfgrass research, that was appropriated in the fiscal year 2004 budget, and in the two previous budget cycles.

A new turfgrass research scientist position within USDA/ARS was created by Congress in the fiscal year 2001 budget. Additional funding was added in fiscal year 2002 with the total at \$490,000. A research scientist was hired, and is now working at the ARS, Beltsville, MD center. A research plan was developed and approved by ARS. This scientist has used the funding for a full-time technician, equipment and supplies to initiate the research plan and for collaborative research with universities. We have an excellent scientist in place and he is making good progress in establishing a solid program. At this point, losing the funding for the position would be devastating to the turf industry as significant research has begun.

Justification of \$5,400,000 Appropriation Request for the first installment on the National Turfgrass Research Initiative: 12 ARS scientist positions at ARS installations around the United States

The turfgrass industry also requests 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 twelve priority research positions at nine locations across the United States. These twelve positions address the most pressing research needs, namely water use/efficiency and environmental issues.

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 U.S. Turfgrass is the number one or two agricultural crop in value and acreage in many states (e.g., MD, PA, FL, NJ, NC).

—As our society becomes and more urbanized, the acreage of turfgrass will increase significantly. In addition, state and local municipalities are requiring the reduction of water, pesticides and fertilizers on turfgrass. However, demand on

recreational facilities will increase while these facilities will still be required to provide safe turfgrass surfaces.

—Currently, the industry spends about \$10 million annually on turfgrass research. However, private and university research programs do not have the time nor resources to identify completely new sources of beneficial genes for stress tolerance. ARS turfgrass scientists will enhance the ongoing research currently underway in the public and private sectors.

—Water management is a key component of healthy turf and has direct impact on nutrient and pesticide losses into the environment. Increasing demands and competition for potable water make it necessary to use water more efficiently. Also, drought situations in many regions have limited the water available and therefore, have severely impacted the turf industry as well as homeowners and young athletes. Therefore, new and improved technologies are needed to monitor turf stresses and to schedule irrigation to achieve the desired quality. Technologies are also needed to more efficiently and uniformly irrigate turfgrasses. Drought tolerant grasses need to be developed. In addition, to increase water available for irrigation, waste water (treated and untreated) must be utilized. Some of these waste waters contain contaminants such as pathogens, heavy metals, and organic compounds. The movement and accumulation of these contaminants in the environment 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.

The turfgrass industry has met on several occasions with USDA/ARS officials to discuss the new turfgrass scientist position, necessary facilities, and future research opportunities. 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 and the turfgrass industry have developed, the National Turfgrass Research Initiative. The highlights of this strategy are below:

NATIONAL STRATEGY FOR ARS TURFGRASS RESEARCH

Research Objectives.—Conduct long-term basic and applied research to provide knowledge, decision-support tools and plant materials to aid in designing, implementing, monitoring and managing economically and environmentally sustainable turfgrass systems including providing sound scientifically based information for use in the regulatory process.

Research Focus.—To make a significant contribution in developing and evaluating sustainable turfgrass systems, ARS proposes developing research programs in six major areas:

Component I. Water Management Strategies and Practices

Rationale.—New and improved technologies are needed to monitor turf stresses and to schedule irrigation to achieve desired turf quality but with greater efficiency or using other water sources.

Component II. Germplasm: Collection, Enhancement and Preservation

Rationale.—Grasses that better resist diseases, insects, drought, traffic, etc. are desperately needed. Also, a better understanding of the basic biology of turfgrass species is essential.

Component III. Improvement of Pest Management Practices

Rationale.—New tools and management practices are needed to adequately control weeds, diseases, insects and vertebrate pests while reducing input costs and pesticide use.

Component IV. The Environment: Understanding and Improvement of Turfgrass' Role

Rationale.—The need is great to quantify the contribution of turf systems to water quality and quantify of vital importance in addressing the potential role of turf systems in environmental issues.

Component V. Enhancement of Soil and Soil Management Practices

Rationale.—Research is needed to characterize limitations to turf growth and development in less than optimum soils and to develop cost-effective management practices to overcome these limitations.

Component VI. Integrated Turf Management

Rationale.—To develop needed tools for turf managers to select the best management practices for economic sustainability as well as environmental protection.

ARS, as the lead agency at USDA for this initiative, has graciously devoted a significant amount of time to the effort. Like the industry, ARS is in this research endeavor for the long-term. To ARS's credit, the agency has committed staff, planning and technical resources to this effort. However, despite ARS's effort to include a budget request in the overall USDA budget request, USDA—at higher levels—has not seen fit to include this research as a priority. Thus, the industry is left with no alternative but to come directly to Congress for assistance through the appropriations process.

The role and leadership of the Federal Government and USDA in this research are justifiable and grounded in solid public policy rationale. ARS is poised and prepared to work with the turfgrass industry in this major research initiative. However, ARS needs additional resources to undertake this mission.

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 2005, the turfgrass industry requests that the following positions be established within USDA/ARS:

Position 1: Component I: Water: Agricultural Engineer—Irrigation Southwest—Phoenix, AZ	\$450,000
Position 2: Component II: Germplasm: Molecular Biologist Southwest—Lubbock, TX	450,000
Position 3: Component IV: Environment: Agricultural Engineer—Fate & Transport Southwest—Phoenix, AZ	450,000
Position 4: Component I: Water: Stress Physiologist—Salinity Southwest—Riverside, CA	450,000
Position 5: Component II: Germplasm: Geneticist—Stress Transition Zone—Beltsville, MD	450,000
Position 6: Component I: Water: Agricultural Engineer—Irrigation Transition Zone—Florence, SC	450,000
Position 7: Component IV: Environment: Agricultural Engineer—Fate & Transport Northeast—University Park, PA	450,000
Position 8: Component III: Pest Management: Weed Scientist Northeast—University Park, PA	450,000
Position 9: Component IV: Environment: Agricultural Engineer—Fate & Transport North Central—Ames, IA	450,000
Position 10: Component III: Pest Management: Pathologist Transition Zone—Beltsville, MD	450,000
Position 11: Component II: Germplasm: Geneticist—Biodiversity Upper West—Logan, UT	450,000
Position 12: Component III: Pest Management: Entomologist North Central—Wooster, OH	450,000
TOTAL	5,400,000

For this research we propose an ARS-University partnership, with funding allocated to ARS for 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.

[In millions of dollars]

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 2004 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 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. Until last year, the salinity control program had 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. Adequate funding for the Environmental Quality Incentives Program (EQIP), from which the Department of Agriculture funds the salinity program, is needed to implement salinity control measures. The Farm Security and Rural Investment Act (FSRIA) of 2002 authorized a funding level of at least \$1 billion for EQIP in fiscal year 2005. 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 until fiscal year 2004. 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, were 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 resulted in the Forum finding that the salinity control program needs acceleration 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.

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 2005 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 2005 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 NEZ PERCE TRIBE

The Nez Perce Tribe requests the following funding amounts for fiscal year 2005, which are specific to the Nez Perce Tribe:

—\$253,000 through the United States Department of the Agriculture, Animal Plant, Health Inspection Service, Plant Protection and Quarantine Program to support its efforts to combat noxious weed infestations using biological control technologies. Biological control of weeds utilizes the weeds' natural enemies to reduce the target weeds' ability to compete with desired vegetation. Use of biological control of weeds in the western United States has been employed since the 1940s to reduce weed densities on range and wildlands where cultural and chemical control methods are not economically practical or feasible. Although biological control has been utilized for many years, there are limited agents available for widespread distribution. As a result, the transfer of biological control technology to the users has been slow.

Through this appropriation, the Nez Perce Bio-Control Center will continue to manage and establish nurseries to increase biological control organisms, mainly insects, for distribution throughout the Pacific Northwest. In addition, this funding will assist in identifying weed infestations, monitor the impacts of biocontrol, and provide annual technology transfer workshops to our partners in Federal and State agencies and other private landowners/managers regionally. The program will continue ongoing research efforts developed through collaborative partnerships with USDA staffs, local universities and regional experts.

The Nez Perce Tribe's strong cultural tie to natural resources creates a good foundation from which to build such a program. Biological control offers long-term management of invasive weeds that cannot be controlled by other means. As biological

control organisms reduce the weeds' competitive edge over desirable and native vegetation, both Tribal and non-tribal users of the region's wild land resources will benefit. The problems created by noxious weeds cannot be fixed quickly. The Nez Perce Tribe is viewing solutions to this problem from a long-term perspective and are asking for a similar commitment from Congress and the Department of Agriculture.

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 *United States 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 Indians and non-Indians 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.

LETTER FROM THE OCEANIC INSTITUTE

WAIMANALO, HAWAII, *March 24, 2004.*

Hon. ROBERT BENNETT,
Chairman, Subcommittee on Agriculture, Committee on Appropriations, U.S. Senate, Washington, DC.

DEAR MR. CHAIRMAN: We would like to bring to your attention the success of the U.S. Marine Shrimp Farming Consortium and the value to the nation in increasing the current funding level from \$3.746 million to \$6 million.

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 Agricultural Experiment Station, 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 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 half of this deficit.

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 program 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 foreign and viral 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.

While exceptional progress has been made, the emerging industry is immature and continually confronted with new challenges. It depends on the U.S. Marine Shrimp Farming Program for high-health and genetically improved stocks, disease diagnosis and production technologies. There is a growing realization that our advanced biosecure shrimp production systems will allow the expansion of shrimp farming away from the environmentally sensitive coastal zone and into near-shore, inland/rural, and desert sites.

As a result of these efforts, investor confidence is increasing—notably, within the last 3 years, new shrimp farm startups have begun in Mississippi, Hawaii, Texas, Arizona and South Carolina, and are being considered in other states. 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. Allocation of \$6 million per year for the next few years to work in cooperation with the private sector to support and build this new industry, with its associated jobs and economic benefits, is in the best interests of the nation.

Sincerely,

THOMAS E. FAREWELL,
President and CEO, The Oceanic Institute.

WILLIAM E. HAWKINS,
Executive Director, University of Southern Mississippi, Gulf Coast Research Laboratory.

COLIN KALTENBACH,
Vice Dean and Director, Agricultural Experiment Station, University of Arizona.

BOBBY R. EDDLEMAN,
Resident Director of Research, Texas A&M University, Agricultural Research & Extension Center.

JOSEPH MCMANUS,
Associate Dean of Finance, Tufts University.

CRAIG L. BROWDY,
Marine Scientist, Marine Resources Research Institute, South Carolina Department of Natural Resources.

MARILYN B. KILGEN,
Head, Department of Biological Sciences, Nicholls State University.

PREPARED STATEMENT OF THE U.S. MARINE SHRIMP FARMING CONSORTIUM, THE OCEANIC INSTITUTE, GULF COAST RESEARCH LABORATORY, TUFTS UNIVERSITY, WADDELL MARICULTURE CENTER, TEXAS AGRICULTURAL EXPERIMENT STATION, UNIVERSITY OF ARIZONA, AND NICHOLLS STATE UNIVERSITY

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 (USMSFP), funded under the Federal initiative, Shrimp Aquaculture.

We 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: the University of Southern Mississippi/Gulf Coast Marine Laboratory, Mississippi; The Oceanic Institute, Hawaii; Tufts University, Massachusetts; Texas Agricultural Experiment Station, Texas A&M University, Texas; Waddell Mariculture Center, South Carolina; the University of Arizona, Arizona; and Nicholls State University, Louisiana. These institutions, which oversee the USMSFP, have made major advances in technology development and services to support the U.S. shrimp farming industry. The USDA in its program reviews has recognized the program's excellent scientific performance, output, and multi-state collaborative efforts. The Consortium is at the crossroads of contributing to major growth of the U.S. industry, consolidating its competitive advantages, and satisfying consumers' demands for safe and wholesome seafood products. Shrimp is the number one consumed seafood product in the United States, yet contributes to a \$3.2 billion trade deficit, second only to the import of oil for the deficit contributed by natural resource products.

Accomplishments

The Consortium, in cooperation with private industry, industry associations and government agencies, has generated new technologies for producing safe and 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 se-

lection program 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, inland/rural farm, and even desert sites; (5) served a lead role in the Joint Subcommittee on Aquaculture's efforts to assess the threat of globally transported shrimp pathogens; (6) served on the Office of International Epizootics, recommending country-of-origin labeling of imported shrimp products to combat the spread of exotic disease pathogens, subsequently adopted by the USDA in its 2002 Farm Bill; (7) supplied the U.S. industry with selectively bred and disease-resistant shrimp stocks; (8) developed advanced technology for biosecure shrimp production systems to protect both cultured and native wild stocks from disease; and (9) developed new feed formulations to minimize waste generation and enhance the use of domestic grains and oilseed products. These substantial accomplishments advance the continued growth of the domestic industry, place an important emphasis on environmental sustainability, address concerns for the safety and quality of our seafood supply, and increase market competitiveness.

Judging from the state of the industry today, USMSFP efforts continue to have measurable positive effect. Coastal farming continues to lead in the production of cultured shrimp in the United States, and inland farming has added new dimensions and growth to the industry. Improvements in farm management practices, coupled with the widespread use of disease-resistant stocks, have resulted in bumper crops for the industry over the last several years. The year 2003 resulted in the largest harvest ever for U.S. farmers of near 13 million pounds. This represents over a three-fold increase in domestic production with the last 5 years, averaging over 25 percent growth of the industry per annum.

Industry Vulnerability

While exceptional progress has been made, this emerging industry is continually confronted with new challenges. The industry depends on the USMSFP for leadership and innovative technology development. As a result of development of high-health and improved stocks, disease diagnosis, new feeds, and new production technologies and farming approaches, the domestic 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 5 years have approached \$6 billion USD. There have been no outbreaks of notifiable viruses in the United States over the last 4 years, with a commensurate increase in shrimp production over the same period. With reliable production in place, we have also seen a commensurate geographic expansion of the industry within the United States from three to seven states in the last 10 years. 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 in the event of disease outbreaks or natural disaster. Significant amounts of shrimp are now being produced in Texas, South Carolina, Florida, Hawaii, Arizona, Alabama, and Arkansas. Several other states are now beginning to explore production with the newer technologies being developed.

While significant progress has been made in risk assessment and risk management with visible success, the industry and the USMSFP must remain constantly vigilant and proactive to further improve global competitiveness. In addition to providing significant input on the development of national and international regulatory standards for shrimp farmers, important service work for governmental agencies and NGOs keeps us continuously apprised of new developments pertaining to emerging regulations so that USMSFP research plans can be kept proactively responsive to dynamic shifts in industry needs.

The overwhelming threat facing the U.S. marine shrimp farming industry today is in the surge of foreign imports that have severely lowered market prices for shrimp. Average U.S. farm gate prices have fallen over 25 percent within the last 2 years, constraining profitability and plans for industry expansion. Domestic production estimates for 2005 are decidedly lower, as farmers have already opted not to stock as many ponds and acreage as previously projected. Inquiries into unfair trading practices impacting the U.S. shrimp industry have begun. Concerns also have been heightened over food safety issues associated with unregulated use of antibiotics and fecal-borne contaminants due to questionable production practices in certain countries. Further, due to disease outbreaks worldwide, several foreign countries have switched production to the dominant species in the United States, eroding a previous competitive advantage. While it is important that a level playing field be created through reexamination of trade and food safety issues, more technologically advanced and innovative approaches are now critically needed to leverage U.S. industry gains, create competitive advantage, and improve profitability. Inno-

vative ways need to be sought to offset low prices and to distinguish and add value to the domestic product to provide a competitive edge in the marketplace and to ensure the safety of the domestic seafood supply.

Industry Independence

As a result of the work of the Consortium, investor confidence is increasing despite recent price trends. In addition to supporting today's industry, our advanced biosecure shrimp production systems are now developed to the point for further expansion of shrimp farming into near-shore, inland/rural and desert sites away from the environmentally sensitive coastal zone. We now have in place the economic models that will appropriately direct research to ensure economic viability taking in consideration all associated biological, regional, and economic risk factors. Importantly, these new production technologies produce the highest quality and safest shrimp, utilize U.S. grain and oilseed products for feed production, and do not pose any threat to the environment. There is hidden value in the domestic industry that can be exploited to gain competitive edge, offset declining prices, and ensure the quality and safety of shrimp for the consumer. Clearly, the U.S. shrimp farming industry has emerged solid from near collapse in the early 1990s, and appears well poised for a new phase of growth provided the technologies and innovations are in place to support a larger, more diverse, and more competitive domestic industry for the new millennium.

To support existing efforts and technology transfer and plans for new dimensions to the research to address recent profitability issues, an increase in the current funding level from \$3.746 million to \$6 million is requested. The increase will support an enhanced profile for: application of molecular biotechnologies to maintain the United States lead in disease monitoring and genetic selection efforts; development and application of sophisticated techniques for genetic selection of advanced and specialized lines of shrimp for U.S. exploitation; expansion of work to determine the mechanisms of disease immunity in shrimp for protection of both farmed and wild shrimp stocks; demonstration, validation, and commercialization of high density, biosecure farming systems to provide advanced, competitive production technologies particularly applicable to the United States; and determination of market and product quality issues for food safety assurances, and development of U.S. label to leverage existing standards for high quality production. In addition to these needed technological innovations, increased funding will support new efforts to promote institutional innovations that will enable expansion and vertical integration of the domestic industry, including examination of regulatory impediments to shrimp aquaculture; the effect of farm insurance; development of cooperatives; and the socioeconomics of existing and advanced, high density production systems.

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.

CEATECH USA, INC,
Honolulu, Hawaii, February 2, 2004.

Dr. ANTHONY OSTROWSKI,
*Director, U.S. Marine Shrimp Farming Consortium, The Oceanic Institute,
Waimanalo, HI.*

DEAR TONY: We appreciate the past provision of a broodstock line from OI for evaluation under commercial scale. Those animals were used to produce seed that were stocked into two production ponds for the assessment of growth performance during this year.

The outcome of these production trials have been discussed between James Sweeney and Shaun Moss, manager of OI's shrimp research program. Both individuals see benefit from additional evaluations.

We continue to look forward to a site visit to Ceatech's farm by you and your scientists to discuss further collaborative research activities. We strongly support such technical exchange, and look forward to making arrangements to accomplish it.

Thank you for your support.

Sincerely,

PAUL BIENFANG, PH.D,
Senior Vice President.

DARDEN RESTAURANTS,
Orlando, Florida, February 23, 2004.

Dr. ANTHONY C. OSTROWSKI,
Director, U.S. Marine Shrimp Farming Program, The Oceanic Institute, Waimanalo,
Hawaii.

Dear DR. OSTROWSKI: I am writing this letter in support of the U.S. Marine Shrimp Farming Program and Oceanic Institute's continued efforts in the development of a United States based shrimp farming industry.

Shrimp farming has become a large and growing global business. In 2003, shrimp consumption in the United States hit an all time high of 3.7 pounds per capita, surpassing Tuna as the number one seafood consumed in the United States. This is directly the result of technological advances made in shrimp aquaculture, and lays a solid foundation for the future of the shrimp business.

However, there is much work to be done. It will be challenging for the U.S. industry to compete based on current technology with many foreign producers of shrimp which have land, labor and construction costs much lower than the United States. The opportunity in shrimp farming in the United States is huge, but will require further research to make it practical and sustainable.

The U.S. shrimp farming industry will need to compete based on advanced technology which allows it to overcome some of the land and labor cost disadvantages. The U.S. industry can also differentiate itself in quality and freshness. This means that systems to grow shrimp year round which offer rapid delivery of fresh, never frozen shrimp are also key to the future of this business in the United States.

Oceanic Institute recognizes these two needs and opportunities and is already working on the science to achieve them. Stock enhancement programs are also an area that Oceanic Institute is expert in developing and can be part of the solution faced by our Gulf and Atlantic shrimp fishing industry.

We at Darden Restaurants, support the research being done by the U.S. Marine Shrimp Farming Program and Oceanic Institute, and believe that new and exciting business opportunities for United States based aquaculture operations will evolve from your continued research.

Sincerely,

BILL HERZIG,
Vice President Seafood, Regional & Capital Equipment Purchasing.

HARLINGEN SHRIMP FARMS, LTD.,
Los Fresnos, TX, February 13, 2004.

Dr. TONY OSTROWSKI,
Director, U.S. Marine Shrimp Farming Program, The Oceanic Institute, Waimanalo,
HI.

DEAR DR. OSTROWSKI: At your request I am writing a letter of support for the U.S. Marine Shrimp Farming Program (USMSFP) so that our U.S. government can renew funding for this valuable program I am proud to note that Texas had a record production year in 2003, with approximately nine million pounds of farmed shrimp produced. Unfortunately, our good production was offset by the lowest shrimp prices the United States has seen in decades, resulting in financial losses for some producers and marginal profits for the rest. U.S. shrimp farmers have had an especially tough time competing with imports from foreign producers. Many of the costs for labor, insurance and taxes as well as costs associated with permitting and compliance with regulations on discharge water quality are greatly reduced or not encountered in other countries. The U.S. shrimp farmers need innovative research from the USMSFP, which will allow our industry to stay competitive.

I believe that the good production of farmed shrimp in Texas last year was, to a great extent, a direct result of benefits received over the years through the USMSFP. The use of domesticated, specific pathogen free (SPF) brood lines as well as the diagnostic services, required to monitor and maintain pathogen free production practices have been a major advantage for U.S. producers. Research on shrimp disease continues and information regarding the occurrence and characteristics of these diseases can be utilized to increase and maintain biosecure production practices on U.S. farms.

It is especially important that research objectives, which directly benefit and bolster the profitability of existing, open pond production systems, which are the mainstay of U.S. marine shrimp farming must be prioritized at this time. I encourage the U.S. government to continue to support the USMSFP and am hopeful that the

resulting research can benefit the profitability of U.S. shrimp farming, which can help to reduce the huge shrimp trade deficit.

Sincerely,

FRITZ JAENIKE,
General Manager.

HIGH HEALTH AQUACULTURE, INC.,
FEBRUARY 6, 2004.

Dr. ANTHONY C. OSTROWSKI,
Director, U.S. Marine Shrimp Farming Program, The Oceanic Institute, Waimanalo, HI.

DEAR TONY: I am writing to express my support for the U.S. Marine Shrimp Farming Program. Its efforts in shrimp science have contributed to the expansion of the U.S. shrimp farming industry.

The global shrimp industry is facing difficult times. The U.S. industry is poised to lead the way through the Consortium's top-flight science.

Let me know if you need any further information.

Best regards,

JIM WYBAN, PH.D.,
President.

KONA BAY MARINE RESOURCES, INC.,
Honolulu, HI, March 10, 2004.

Dr. ANTHONY C. OSTROWSKI,
Director, U.S. Marine Shrimp Farming Program, The Oceanic Institute, Waimanalo, HI.

DEAR DR. OSTROWSKI: I am writing in support of the U.S. Marine Shrimp Farming Program (USMSFP). The program is essential to the continued growth and health of a domestic shrimp industry. The USMSFP has been instrumental in the development of SPF shrimp, the development of disease control strategies and helping shrimp farmers to improve their farming practices.

Continued full funding from the U.S. government is critical to maintaining and building upon the good work done thus far by USMSFP.

Best regards,

BRIAN GOLDSTEIN,
President.

LOWCOUNTRY SEAFARMS, LLC,
Beaufort, SC, March 10, 2004.

Dr. ANTHONY C. OSTROWSKI,
Director, U.S. Marine Shrimp Farming Program, The Oceanic Institute, Waimanalo, HI.

DEAR DR. OSTROWSKI: This letter is in support of the efforts of the U.S. Marine Shrimp Farming Program. I have followed the research work done by the USMSFP over the years. The results of that work, and that of the Waddell Mariculture Research and Development Center in Bluffton, SC, were instrumental in my planning our project to be located here in SC.

As our project is to entail the use of super-intensive closed-loop raceway production systems, the development of lines of SPF shrimp and work in disease control methods and water management techniques by the USMSFP are especially valuable. We will be following new developments as they occur.

We hope to see your continued support to the shrimp farming industry in the United States.

Regards,

MILLS ROOKS,
CEO.

SOUTHERN STAR, INC.,
Rio Hondo, Texas, February 6, 2004.

Dr. ANTHONY C. OSTROWSKI,
Director, U.S. Marine Shrimp Farming Program, The Oceanic Institute, Waimanalo, HI.

DEAR TONY: Thanks for your thinking of my opinion. Basically, I still think American shrimp farmers are working fine. The government regulation did not bother us too much. The system we used is good enough. American shrimp farmers only produce 0.5 percent of market needs. That is the reason we are affected by the market so much when overseas shrimps flood in with cheaper price.

The reason overseas has lower cost is because of their facilities full utilized. In Texas valley, we may have chance to grow two crops. Anywhere else is one crop only. Under this weather condition, we are not compatible.

There are three things you can help us:

- Find another species that can grow faster and last longer which will be accepted by government agents.
- Find a new line of *P. Vannamei* which can tolerate the water temperature colder.
- Ask government to buy P/L from private hatcheries for releasing into gulf which will help shrimpers.

Should you have any question, please feel free to call me.

Truly yours,

FELIX FU,
Vice President.

SWIMMING ROCKFISH AND SHRIMP FARM,
Meggett, SC, March 23, 2004.

Dr. ANTONY C. OSTROWSKI,
Waimanalo, HI.

DEAR OSTROWSKI: I write today in support of the U.S. Marine Shrimp Farming Program. I do so as a consumer, stakeholder, and surviving member of North American entrepreneurs still engaged in shrimp farming. I say surviving because the numbers of shrimp farmers, at least in South Carolina, has drastically declined. The decline, I believe, is because of the USMSFP and its past good works. I understand that statement, supporting the organization that has caused the decline in my industry, is confusing and seemingly contradictory . . . so please read on and allow me to explain.

American shrimp farmers, as well as harvesters of wild stocks, are in financial trouble today primarily because of the low price of shrimp worldwide. In great measure, this is due to the advances in pond culture attributable to the research conducted by USMSFP partner organizations and to the dissemination and subsequent use of the information gained to the world. In other words, the USMSFP programs have been so extraordinarily successful that shrimp has moved from a high dollar luxury status to nearly a commodity staple item.

My current support for the USMSFP stems from the fact that the program is now moving toward hyper-intensive production technology with concomitant genetics research that ultimately will enable surviving and new American entrepreneurs to be competitive again at home. It is my hope that future work will marry native species, particularly east coast white shrimp production, with the developing extreme density production systems. This seems to me to be the least environmentally risky and best marketing strategy for coastal production.

With my best wishes for your continuing achievements, I offer my support for your continued funding.

Sincerely,

Richard B. Eager.

ZEIGLER BROS., INC.,
Gardnes, PA, February 23, 2004.

Dr. ANTHONY C. OSTROWSKI,
Director, U.S. Marine Shrimp Farming Program, The Oceanic Institute, Waimanalo, HI.

DEAR DR. OSTROWSKI: We are most pleased, again this year, to write a letter of support for the U.S. Marine Shrimp Farming Program. By this letter, we are asking

Congress to continue expanded support for this important program for U.S. Aquaculture.

In my letter last year, which is attached, we indicated many reasons why this program is important to U.S. aquaculture and to businesses like ourselves. We recommend that you attach these two letters.

For the past 2 years, we have received additional benefits from the U.S. Marine Shrimp Farming Program through its contribution of technical knowledge to intensive shrimp farming. This is especially important to our company for as you know, we are one of four members of a consortium which received a very large ATP grant for the development of very high intensive re-cycle shrimp farming, known as the BioZest System. Scientific and technical information available through your program has allowed us to proceed with feeds development at a more rapid rate bringing intensive shrimp farming closer to economic feasibility for the United States.

If we can provide additional support in any way for this most important program, please advise.

Very truly yours,

THOMAS R. ZEIGLER, PH.D.,
President & CEO.

PREPARED STATEMENT OF THE ORGANIZATION FOR THE PROMOTION AND
ADVANCEMENT OF SMALL TELECOMMUNICATIONS COMPANIES (OPASTCO)

Summary of Request

The Organization for the Promotion and Advancement of Small Telecommunications Companies (OPASTCO) seeks the Subcommittee's support for fiscal year 2005 loan levels for the telecommunications loans program and Rural Telephone Bank (RTB) program administered by the Rural Utilities Service (RUS) in the following amounts:

(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; and (2) funding of the distance learning, telemedicine, and broadband grant and loan programs at sufficient levels.

General

OPASTCO is a national trade association of more than 550 small telecommunications carriers serving primarily rural areas of the United States. Its members, which include both commercial companies and cooperatives, together serve over 3.5 million customers in 47 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 begun to deliver on the promise of a new "information age." 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-to-the-home, 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 popu-

lation 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. 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 companies 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 Telecommunications Act of 1996 only increases 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. RUS has an essential role to play in the implementation of the law, as it will compliment high-cost support mechanisms established by the FCC, thus enabling rural America to achieve the federally mandated goal of rural/urban service and rate comparability.

1A \$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 establish a \$175 million loan level for fiscal year 2005.

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 RTB 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 2005 appropriations bill will ensure that RTB 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 2005.

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 PEOPLE FOR THE ETHICAL TREATMENT OF ANIMALS (PETA)

Dear Chairman Bennett, Ranking Member Kohl, and Members of the Subcommittee: People for the Ethical Treatment of Animals (PETA) is the world's largest animal rights organization, with 800,000 members and supporters. We greatly appreciate this opportunity to submit testimony regarding the fiscal year 2005 appropriations for the Food and Drug Administration (FDA). Our testimony will focus on four 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 United States 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 the following report language: "The Commissioner of the FDA is required to report to Congress no later than December 1, 2004, regarding the use of in vitro methods using skin from a variety of sources (e.g. human cadavers) for skin absorption studies, human volunteer clinical skin-patch tests (for chemicals first determined to be non-corrosive and free of other harmful properties) for skin irritation studies, the 3T3 Neutral Red Uptake Phototoxicity Test for phototoxicity studies, and the in vitro Human Pyrogen Test for pyrogenicity studies. The Commissioner should describe the reasons for which the agency has delayed accepting the aforementioned methods for regulatory use as total replacements for their animal-based counterparts, exactly what steps the agency is taking to overcome those delays, and a target date by which the agency intends to accept these methods for regulatory use."

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 to-

tally 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 pain-killers.

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. According to the European Centre for the Validation of Alternative Methods, the in vitro Human Pyrogen Test out-performs the rabbit-based test, and does so at one-fifth of the labor cost and less than one-tenth of the labor cost.

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 sim-

ply 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 2005 Agriculture, Rural Development, Food and Drug Administration and Related Agencies bill stating that:

“The Commissioner of the FDA is required to report to Congress no later than December 1, 2004, regarding the use of in vitro methods using skin from a variety of sources (e.g. human cadavers) for skin absorption studies, human volunteer clinical skin-patch tests (for chemicals first determined to be non-corrosive and free of other harmful properties) for skin irritation studies, the 3T3 Neutral Red Uptake Phototoxicity Test for phototoxicity studies, and the in vitro Human Pyrogen Test for pyrogenicity studies. The Commissioner should describe the reasons for which the agency has delayed accepting the aforementioned methods for regulatory use as total replacements for their animal-based counterparts, exactly what steps the agency is taking to overcome those delays, and a target date by which the agency intends to accept these methods for regulatory use.”

PREPARED STATEMENTS OF THE PICKLE PACKERS INTERNATIONAL, INC.

The pickled vegetable industry strongly supports and encourages your committee in its work of maintaining and guiding the Agricultural Research Service. To accomplish the goal of improved health and quality of life for the American people, the health action agencies of this country continue to encourage increased consumption of fruits and vegetables in our diets. Accumulating evidence from the epidemiology and biochemistry of heart disease, cancer and diabetes supports this policy. Vitamins (particularly A, C, and folic acid) and a variety of antioxidant phytochemicals in plant foods are thought to be the basis for correlation's between high fruit and vegetable consumption and reduced incidence of these debilitating and deadly diseases. The problem is that many Americans choose not to consume the variety and quantities of fruits and vegetables that are needed for better health.

As an association representing processors that produce over 87 percent of the tonnage of pickled vegetables in North America, it is our goal to produce new products that increase the competitiveness of U.S. agriculture as well as meet the demands of an increasingly diverse U.S. population. The profit margins of growers continue to be narrowed by foreign competition. Likewise, the people of this country represent an ever-broadening array of expectations, tastes and preferences derived from many cultural backgrounds. Everyone, however, faces the common dilemma that food costs should remain stable and preparation time continues to be squeezed by the other demands of life. This industry can grow by meeting these expectations and demands with reasonably priced products of good texture and flavor that are high in nutritional value, low in negative environmental impacts, and produced with assured safety from pathogenic microorganisms and from those who would use food as a vehicle for terror. With strong research to back us up, we believe our industry can make a greater contribution to better product cost, diets and better health.

Many small to medium sized growers and processing operations are involved in the pickled vegetable industry. We grow and process a group of vegetable crops, including cucumbers, peppers, carrots, onions, garlic, cauliflower, cabbage (Sauerkraut) and Brussels sprouts, that are referred to as minor' crops. None of these crops is in any "commodity program" and as such, do not rely upon taxpayer subsidies. However, current farm value for just cucumbers, onions and garlic is \$2.3 billion with an estimated processed value of \$5.8 billion. These crops represent important sources of income to farmers, and the processing operations are important employers in rural communities around the United States. Growers, processing plant employees and employees of suppliers to this industry reside in all 50 states. To realize its potential in the rapidly changing American economy, this industry will rely upon a growing stream of appropriately directed basic and applied research from four important research programs within the Agricultural Research Service. With strong research to back us up, we believe our industry can make a greater contribution to better diets and better health.

VEGETABLE CROPS RESEARCH LABORATORY, MADISON, WISCONSIN

First, I would like to thank the Committee for \$200,000 additional funding it provided the fiscal year 2002 budget to carry out field and processing research vital to the membership of PPI. However, to continue this important work it is necessary for the Congress restore this funding in fiscal year 2005, since the funds were not

included in the budget sent to the Congress. The USDA/ARS Vegetable Crops Research Unit at the University of Wisconsin is the only USDA research unit dedicated to the genetic improvement of cucumbers, carrots, onions and garlic. Three scientists in this unit account for approximately half of the total U.S. public breeding and genetics research on these crops. Their past efforts have yielded cucumber, carrot and onion cultivars and breeding stocks that are widely used by the U.S. vegetable industry (i.e., growers, processors, and seed companies). These varieties account for over half of the farm yield produced by these crops today. All U.S. seed companies rely upon this program for developing new varieties, because ARS programs seek to introduce economically important traits (e.g., virus and nematode resistance) not available in commercial varieties using long-term high risk research efforts. The U.S. vegetable seed industry develops new varieties of cucumbers, carrots, onions, and garlic and over twenty other vegetables used by thousands of vegetable growers. The U.S. vegetable seed, grower, and processing industry, relies upon the USDA/ARS Vegetable Crops Research Unit for unique genetic stocks to improve varieties in the same way the U.S. health care and pharmaceutical industries depend on fundamental research from the National Institutes of Health. Their innovations meet long-term needs and bring innovations in these crops for the United States and export markets, for which the United States has successfully competed. Past accomplishments by this USDA group have been cornerstones for the U.S. vegetable industry that have resulted in increased profitability, and improved product nutrition and quality.

Both consumers and the vegetable production and processing industry would like to see fewer pesticides applied to food and into the environment in a cost-effective manner. Scientists in this unit have developed a genetic resistance for many major vegetable diseases. Perhaps the most important limiting factor in the production of cucumbers has been its susceptibility to disease. New research progress initiated in the 1990s and continuing today in Madison has resulted in cucumbers with improved pickling quality and suitability for machine harvesting. Viral and fungal diseases threaten much of the U.S. cucumber production. New sources of genetic resistance to these diseases have recently been mapped on cucumber chromosomes to provide a ready tool for our seed industry to significantly accelerate the development of resistant cultivars for U.S. growers. Likewise, new cultivar resistances to environmental stress like cold, heat and salt stress discovered by these scientists will help cucumber growers produce a profitable crop where these stressful conditions occur. The development of DNA markers that are associated with traits for tolerance of biological stress will help public and private breeders more efficiently develop stress-resistant varieties because selection for improved varieties can be done in the laboratory as well as in the field saving time and the costly expenses associated with field testing. Nematodes in the soil deform carrot roots to reduce yield from 10 percent to over 70 percent in major production areas. A new genetic resistance to nematode attack was recently discovered and found to almost completely protect the carrot crop from one major nematode. This genetic resistance assures sustainable crop production for growers and reduces pesticide residues in our food and environment. Value of this genetic resistance developed by the vegetable crops unit is estimated at \$650 million per year in increased crop production, not to mention environmental benefits due to reduction in pesticide use. This group improved both consumer quality and processing quality of vegetables with a resulting increase in production efficiency and consumer appeal. This product was founded on carrot germplasm developed in Madison, Wisconsin. Carrots provide approximately 30 percent of the U.S. dietary vitamin A. With new carrots that have been developed, nutritional value of this crop has tripled, including the development of nutrient-rich cucumbers with increased levels of provitamin A. Using new biotechnological methods, a system for rapidly and simply identifying seed production ability in onions has been developed that reduces the breeding process up to 6 years. A genetic map of onion flavor and nutrition will be used to develop onions that are more appealing and healthy for consumers. Garlic is a crop familiar to all consumers, but it has not been possible to breed new garlic varieties until a new technique for garlic seed production was recently developed and is now being bred like other crops.

There are still serious vegetable production problems, which need attention. For example, losses of cucumbers, onions, and carrots in the field due to attack by pathogens and pests remains high, nutritional quality needs to be significantly improved and U.S. production value and export markets could certainly be enhanced. Genetic improvement of all the attributes of these valuable crops are at hand through the unique USDA lines and populations (i.e., germplasm) that are available and the new biotechnological methodologies that are being developed by the group. The achievement of these goals will involve the utilization of a wide range of biological diversity available in the germplasm collections for these crops. Classical plant

breeding methods combined with bio-technological tools such as DNA marker-assisted selection and genome maps of cucumber, carrot and onion will be the methods to implement these genetic improvements. With this, new high-value vegetable products based upon genetic improvements developed by our USDA laboratories can offer vegetable processors and growers expanded economic opportunities for United States and export markets.

U.S. FOOD FERMENTATION LABORATORY, RALEIGH, NORTH CAROLINA

The USDA/ARS Food Fermentation Laboratory in Raleigh, NC is the major public laboratory that this industry looks to as a source for new scientific information and development of new processing concepts related to fermented and acidified vegetables. This industry has a critical need for an increased level of food safety research do to the recognition that there are acid tolerant food pathogens, including E. coli, listeria and salmonella, that can survive and cause illness in acid foods like apple and orange juice. We need to determine the extent to which the acidified foods we produce are vulnerable to these pathogens. If vulnerabilities are found to exist, practical means must be found to assure that these pathogens are killed, while maintaining the quality of our products that our customers expect. The Food Fermentation Laboratory has unique capabilities in this area because the scientists are very knowledgeable with the processing operations used in this industry and the practical problems processors must deal with in making high quality products from cucumbers, peppers, cabbage and other vegetables. Scientists from this laboratory have been working cooperatively with the industry and with FDA to develop new guidelines for filing safe processes to assure that acid tolerant pathogens are killed in current products. These new guidelines are currently being implemented. The scientists are actively engaged in research projects to develop improved approaches to eliminate these food pathogens from fermented and acidified vegetable products. However, success will require sustained effort as we learn more about the ways in which these pathogens can enter our food supply and discover new approaches to eliminating them from our products. PPI thanks the Congress for \$270,000 additional funding it provided in the fiscal year 2004 budget so that a microbial physiologist can be hired into this unit to carry out this research, which is critical for the membership of PPI. However, to continue this important work it is necessary for the Congress restore this funding in fiscal year 2005, since the funds were not included in the budget sent to the Congress.

The competitive environment from world markets in which our processors operate today requires that research on new processing techniques and product quality issues must also be maintained and enhanced. Over the years this laboratory has been a source for innovations in this industry, which have helped us remain competitive in the current global trade environment. We expect the research done in this laboratory to lead to new processing and product ideas that will increase the economic value of this industry and provide consumers with high quality, more healthful vegetable products. In addition to the newer challenges, this industry needs better technology for waste minimization related to salt and organic waste generated in our processing plants.

This laboratory is conducting research on cucumbers, peppers, cabbage, sweetpotatoes, and other produce. A restructuring technology has been developed that offers a potential for development of convenient to use sweetpotato products that are high in nutritional value. Minimal processing techniques for refrigerated products from cucumbers and sweetpotatoes are also under development. Continued technological advancement must occur so that U.S. farmers and processors can meet competition from emerging countries that often have less strict environmental standards and lower labor costs. To enhance the processing and waste minimization research of this unit we request creation of a new position for a Food Process Engineer to work with the Food Technologists and Microbiologists in the unit to design and improve processes and packaging systems that are used for acidified, fermented, and minimally processed vegetables.

SUGARBEET AND BEAN RESEARCH UNIT, EAST LANSING, MICHIGAN

USDA/ARS Cucumber Sanitation and Vegetable Post Harvest Quality and Food Safety Engineering Research is a component of the Sugarbeet and Bean Research Unit, East Lansing, Michigan. The Vegetable Post Harvest Quality Research Program is the only Federally funded research program that uses engineering principles and technology to address post harvest sanitation and food quality of vegetable concerns on a sustained and programmatic basis. The goals of this research are reflected in the Mission Statement of the CRIS, which is to apply engineering solutions to ameliorate post harvest losses of pickling cucumbers from soil borne

plant pathogens and develop new wash water systems for ensuring the sanitation of cucumbers from rot type pathogens.

The Vegetable Post Harvest Quality Research CRIS is severely under funded and because of the shortage of base funds no full time scientist (SY) is working on the critical problems facing the industry. In fiscal year 2000, a postdoctoral research associate worked to address the chlorine dioxide problem and initiated the dump tank treatment experiments. However, the postdoctoral resigned to take another position. In 2003, the Vegetable Post Harvest Quality Research CRIS hired another postdoctoral research associate to explore alternative methodologies via genetics and genomics to maintain long-term food safety and sustainable production of pickling cucumbers. Goals of this 2-year project are to: (1) Develop genomic infrastructure for pickling and other cucumbers by developing genomic and cDNA libraries; (2) Determine the nucleotide sequence code for as many pickling cucumber genes to be represented as Expressed Sequence Tags as practical; (3) Examine changes in gene expression during fruit development and in response to attack by fruit rotting pathogens; and (4) Develop genetic intervention strategies to combat fruit rot caused by *Phytophthora capsici*. These goals dovetail with recent infrastructure and equipment investments in both breeding and genomic responsibilities of the Sugarbeet CRIS. *Phytophthora* fruit rot is the most serious threat to Michigan growers since symptoms are not generally evident until after harvest, *Phytophthora* fruit rot can render entire lots of pickling cucumbers worthless during the 3 days of transport and handling just before to processing. Effective disease management is currently unavailable, and the disease is spreading rapidly throughout Michigan cucumber and snap bean growing regions.

Post harvest rotting is a major concern to the pickled vegetable industry. Growers and processors go to great lengths to sanitize the surface of vegetable produce through a variety of methods including washing, spraying, brushing, chemical treatments, etc. These sanitizing systems may be losing effectiveness, and they can also be costly to implement and maintain and may be environmentally hazardous. New equipment and systems need to be developed, tested, and evaluated in order to ensure produce safety for all growers, retailers, and consumers. New pickling cucumber germplasm that is resistant to its major post-harvest pathogens is urgently needed. Such germplasm is currently unavailable, and understanding the basic biology of the infection processes is needed to transfer information from model plant genomes for practical application in limiting post-harvest loss of pickling cucumbers.

This CRIS urgently needs an additional \$100,000 in Federal appropriations to conduct the critical research at the scope expected for a permanent scientist to solve basic problems and make an impact on the cucumber industry.

U.S. VEGETABLE LABORATORY, CHARLESTON, SOUTH CAROLINA

The research program at the USDA/ARS, U.S. Vegetable Laboratory in Charleston, SC addresses established national problems in vegetable crop production and protection with emphasis on the southeastern United States. This research program is internationally recognized for its accomplishments, which have resulted in development of over 150 new vegetable varieties and lines along with the development of many new and improved disease and pest management practices. This laboratory's program currently addresses 14 vegetable crops including those in the cabbage, cucumber, and pepper families, which are of major importance to the pickling industry. The mission of the laboratory is to (a) develop disease and pest resistant vegetable crops and (b) develop new, reliable, environmentally sound disease and pest management programs that do not rely on conventional pesticides.

Continued expansion of the Charleston program is crucial. Vegetable growers must depend heavily on synthetic pesticides to control diseases and pests. Cancellation and/or restrictions on the use of many effective pesticide compounds are having a considerable influence on the future of vegetable crop production. Without the use of certain pesticides, growers will experience crop failures unless other effective, non-pesticidal control methods are found quickly. The research on improved, more efficient and environmentally compatible vegetable production practices and genetically resistant varieties at the U.S. Vegetable Laboratory continues to be absolutely essential. This gives U.S. growers the competitive edge they must have to sustain and keep this important industry and allow it to expand in the face of increasing foreign competition.

FUNDING NEEDS FOR THE FUTURE

It remains critical that funding continue to maintain the forward momentum in pickled vegetable research the United States now enjoys and to increase funding levels as warranted by planned expansion of research projects to maintain United

States competitiveness. We also understand that discretionary funds are now used to meet the rising fixed costs associated with each location. Additional funding is needed at the Wisconsin and South Carolina programs for genetic improvement of crops essential to the pickled vegetable industry, and at North Carolina and Michigan for development of environmentally-sensitive technologies for improved safety and value to the consumer of our products. The fermented and acidified vegetable industry is receptive to capital investment in order to remain competitive, but only if that investment is economically justified. The research needed to justify such capital investment involves both short term (6–24 months) and long term (2–10 years or longer) commitments. The diverse array of companies making up our industry assumes responsibility for short-term research, but the expense and risk are too great for individual companies to commit to the long-term research needed to insure future competitiveness. The pickled vegetable industry currently supports research efforts at Wisconsin and North Carolina and anticipates funding work at South Carolina and Michigan as scientists are put in place. Donations of supplies and processing equipment from processors and affiliated industries have continued for many years.

U.S. Vegetable Laboratory, Charleston, South Carolina

The newly constructed laboratory-office building at the U.S. Vegetable Laboratory was occupied in April 2003. Design of the accompanying greenhouse and headhouse research space is underway using the funds appropriated for this purpose in fiscal year 2003. In fiscal year 2004, construction of the headhouse component was funded, but \$10.9 million is still needed to construct the greenhouses. This new facility replaces and consolidates outmoded laboratory areas that were housed in 1930s-era buildings and trailers. Completion of the total research complex will provide for the effective continuation and expansion of the excellent vegetable crops research program that has been conducted by the Agricultural Research Service at Charleston for over 60 years. It is most critical to the mission of the U.S. Vegetable Laboratory that the fiscal year 2003 and fiscal year 2004 appropriated funds for expansion of the Charleston research staff be maintained in fiscal year 2005. In addition, new funds are still needed to hire additional scientists to expand the research program. An Entomologist is needed to facilitate development of host resistance and new management approaches to a wider range of established insect pests of vegetable crops; a Molecular Biologist is needed to develop and utilize molecular techniques for pathogen and pest population studies necessary to development of new management approaches and resistant genetic stocks. Both of these new scientific positions will greatly contribute to the accomplishment of research that will provide for the effective protection of vegetable crops from disease and pests without the use of conventional pesticides. Each of these positions requires a funding level of \$330,000 for their establishment.

Appropriations to restore new scientific staff needed	Current status from fiscal year 2003 and 2004	New funds needed \$770,000.00
Entomologist	Needed	\$330,000
Molecular Biologist	Needed	330,000
Total new funds .....	.....	660,000

Food Fermentation Laboratory, Raleigh, North Carolina

With the additional funds provided in the fiscal year 2004 budget, current base funding for four scientists at the laboratory is \$1,183,000. However, the \$270,000 increase that raised fiscal year 2004 funds to this level are not in the fiscal year 2005 budget submitted to congress. Thus, restoration of the \$270,000 is urgently requested. An additional \$317,000 is needed to create a new position for a Food Process Engineer, and to fully fund the unit scientists, clerical and technical help, including graduate and post-doctorate students.

Scientific Staff	Current Status	Funds Needed
Microbiologist	Active	\$300,000
Chemist	Active	300,000
Food Technologist/Biochemist	Active	300,000
Microbial Physiologist	Hiring process initiated	270,000
Food Process Engineer	Needed	300,000

Scientific Staff	Current Status	Funds Needed
Total funding required	1,500,000
Current funding	- 1,183,000
Proposed reduction	270,000
Additional funding needed	621,000

Vegetable Crops Research Laboratory Unit, Madison, Wisconsin

Current base funding for three scientists is \$832,400, of which \$200,000 was added in fiscal year 2002. An additional \$245,400 is needed to fully fund the scientists and support staff, including graduate students and post-doctorates.

Scientific	Current status	Funds needed
Geneticist	Active	\$300,000
Horticulturist	Active	300,000
Geneticist	Active	300,000
Total required .....	.....	900,000
Current funding .....	.....	- 832,400
Proposed reduction .....	.....	200,000
Additional funding needed .....	.....	267,600

A temporary addition of \$200,000 was provided to enhance the research effort of this program in fiscal year 2002, and we greatly appreciate that additional support, but that addition is being proposed for reduction in fiscal year 2004. Thus, the restoration of the funds proposed for reduction, is urgently requested. We request a \$267,600 permanent addition this year to sustain the long-term research of this group.

Sugarbeet And Bean Research Unit, East Lansing, Michigan

A \$100,000 increase in the current base funding level of the CRIS would permit ARS to recruit a full-time scientist (SY) to programmatically investigate the complex nature cucumber sanitation and vegetable post harvest quality.

Scientific staff	Current status	Funds needed
Post Doctorate to full SY	Active	\$200,000
Total Required .....	.....	300,000
Additional funding needed .....	.....	100,000

Thank you for your consideration of these needs and your expression of support for the USDA/ARS.

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.

The Resolutions contained herein were adopted by the Association during its 79th Annual Meeting in Bossier City, Louisiana on February 19, 2004, and represent the combined concerns of the citizens of the Red River Basin Area as they pertain to the goals of the Association.

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 2005 budget for NRCS indicates a decrease of \$216 million from what Congress appropriated in fiscal year 2004. In reality, NRCS is taking a major decrease in program funding and staff years. Inadequate Technical Assistance (TA) funding for mandatory support to CCC Farm Bill programs compounds this reduction of direct funding. The fiscal year 2005 budget reflects a serious shortfall in services for landowner assistance that will not be available in fiscal year 2005. This is also reflected in the fact that NRCS manpower for fiscal year 2005 would have to decrease by 1,450 staff years if the President's budget is implemented. This is unacceptable.

This means that NRCS assistance to landowners will not be adequately funded, to the detriment of the Nation 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 \$710.4 million, which is a decrease of \$142.6 million from fiscal year 2004. This is the largest 1 year cut made by any administration in recent memory.

We request a total of \$930 million be appropriated for Conservation Operations for NRCS to meet the demands it faces today.

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 enroll in a Federal program. 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 adequate 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, but they may be utilized "in addition to". We 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, not to replace NRCS staffing.

Watershed and Flood Prevention Operations (Public Laws 566 & 534).—We are greatly disappointed that the President's Budget provided only \$40.2 million for watershed operations. There is no doubt that this is a Federal responsibility, in conjunction with a 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 \$87 million enacted in the fiscal year 2004 appropriations bill. It is reassuring to know that both the House and Senate 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 appropriated for Watershed Operations Programs, Public Law 534 (\$20 million) and Public Law 566 (\$180 million).

The Red River has proven, through studies and existing irrigation, to be a great water source for "supplemental" irrigation. The two projects mentioned below, 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.

—*Walnut Bayou Irrigation Project, AR.*—This project received \$300,000 in the fiscal year 2004 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 take on the responsibility 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 2005.

—*Red Bayou Irrigation Project, LA.*—The plans and specifications will be completed in fiscal year 2004 making this project ready for construction in fiscal year 2005. An irrigation district has been formed and is prepared to collect funds to support the O&M for this proposed system. We request that \$2,500,000 be specifically appropriated to begin construction in fiscal year 2005.

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 now 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 \$10.1 million for this program. This is drastically lower than the levels authorized in the 2002 Farm Bill. We request that \$65 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 2004 \$10.6 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 \$5.1 million. We strongly disagree with this low level and ask Congress to fund his 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 \$35 million.

We request that the following two studies be specifically identified and funded in the fiscal year 2005 appropriations bill.

—*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 landowners 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 \$350,000 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 \$50.8 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 at the full cost for program delivery. This includes program administration, conservation planning and contracting with each applicant. Congress, in the 2002 Bill, wisely increased conservation programs each year. This increased investment with the multi-year CCC programs will increase the NRCS workload; therefore, NRCS must receive the TA funds to administer these programs.

The mandatory CCC programs for fiscal year 2005 have been appropriated at a level of \$3.9 billion. Only \$465 million (12 percent) has been allocated in TA for NRCS. Historically 19 percent of total program cost has been required. NRCS will have to fund this TA requirement at a level of \$741 million. The short fall will no doubt leave program monies unexpended because NRCS will not have enough funds to service the multiyear contracts written to date under this and the previous farm bill plus service the fiscal year 2005 program applicants. This makes landowners the real losers.

We request that the CCC Program budget TA in the fiscal year 2005 Appropriations Bill at the full cost of technical assistance, for each program, which must be at least \$741 million (19 percent).

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. Please direct your comments and questions to our Executive Director, Richard Brontoli, P.O. Box 709, Shreveport, LA 71162, (318) 221-5233, E-mail: redriverva@hotmail.com.

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.

PREPARED STATEMENT OF THE SOCIETY OF AMERICAN FORESTERS

The Society of American Foresters (SAF) represents approximately 17,000 forestry professionals in all sectors of the profession. SAF members pledge to use their conservation ethic to ensure the continued health and use of forest ecosystems and the present and future availability of forest resources to benefit society. The programs of the Natural Resource Conservation Service (NRCS), the U.S. Department of Agriculture (USDA) research budget, and the Cooperative State Research, Education and Extension Service (CSREES) contribute to the achievement of these ideals by

supporting education, research, and technology associated with the practice of forestry and the stewardship and sustainability of this country's forest resources. Through these Agencies, partnerships are built with other government entities, universities, and private organizations to advance forest management objectives on both public and private forest land to improve the management of these valuable resources. Federal appropriations facilitate these collaborative partnerships.

Renewable Resources Extension Act Program (RREA)

Forest resource management is increasingly complex, as we place increasing demands on our forest resources, the number of family forest landowners grow while the total acreage these families own decreases, urban sprawl and development pressures persist, and forest health issues persist on both public and private forest lands. Family forest owners need information and assistance to be able to address these problems.

Current budget deficits demand we leverage the most value from every dollar invested. Research funding is no exception. Outreach and extension, which assists in the translation of research findings to solve real world problems, greatly increases the value of our research investment. Through the RREA program, much needed outreach and extension is provided at universities around the country. These efforts utilize research findings, making investments in research increasingly important.

When Congress reauthorized the RREA program in the 2002 Farm Bill, legislation was included to create a new Sustainable Forestry Outreach Initiative (SFOI). SFOI would capitalize on and coordinate private sector initiatives aimed at achieving sustainable forestry. The program will assist landowners in understanding the broad array of choices before them, and facilitate their use of one or more of these programs designed to improve forest management.

SAF strongly supports increased funding for the Renewable Resources Extension Act program and the Sustainable Forestry Outreach Initiative for fiscal year 2005. We would like to see the program funded at the recently authorized level of \$30 million. Though we are asking for a modest increase, we believe there is great potential for success with the RREA and SFOI programs.

The Natural Resource Conservation Service (NRCS)

Through NRCS, family forestland owners can receive assistance for a variety of conservation practices, influencing the stewardship of these valuable resources. Several programs administered by NRCS are key to assisting family forest owners, including the Environmental Quality Incentives Program, the Wildlife Habitat Incentives Program, the Conservation Reserve Program, and the Wetlands Reserve Program. We strongly support full funding for these programs and will continue to work with NRCS to address family forest owner needs through these programs.

With the passage of the 2002 Farm Bill, NRCS responsibilities have greatly increased. However, the proposed budget for fiscal year 2005 does not reflect these increases, and instead decreases funding for Conservation Operations to \$710 million. We recommend increasing this funding to at least that of the fiscal year 2004 enacted level, \$848 million. This will better enable the Agency to meet the increasing demands for the technical expertise and address critical resource concerns on private lands.

The proposed budget creates a separate account to fund conservation technical assistance for two Farm Bill programs, the Conservation Reserve Program and the Wetlands Reserve Program. We hope this solution will resolve the issues associated with technical assistance and allow implementation of all the 2002 Farm Bill programs at authorized levels without compromising the delivery of these important programs to millions of private landowners in need of assistance.

Forestry Research

As populations grow, the demands we place on our forest resources, both tangible and intangible, continue to increase. Forestry Research is crucial to enable forest managers to make decisions and continue to sustainably meet the demands on our forest resources. This research provides new and innovative ways to manage forests and address the environmental, social, and economic concerns that forest managers are faced with. The SAF believes forestry research should be funded through both public and private investments. Two programs within the USDA budget provide public funding for forestry research: The Cooperative Forestry Research (McIntire Stennis) Program and the National Research Initiative.

The Cooperative Forestry (McIntire-Stennis) Research Program supports university-based research on critical forestry issues and is an important part of the collaborative forestry research effort among Federal, state, and private sector scientists. The SAF supports increasing funding for this program to \$30 million. The research accomplished with this funding is critical to the development of new infor-

mation and technologies that increase not only the efficiency and productivity of forest management on all forest ownerships for the full range of forest benefits, but also provide information for developing natural resource management policy. McIntire-Stennis research funds are granted directly to public colleges and universities on a matching basis, leveraging more than three state and university dollars for every Federal dollar. This program has provided funding for research demands that have not been met through other private and public sector programs. We believe at least \$30 million is justified to meet these needs.

The National Research Initiative (NRI), a competitive grant program, provides funding for research on various issues in the biological and environmental sciences arena. Through this program, grants are awarded on a matching basis to university researchers in biological, environmental, and engineering sciences to address critical problems in agriculture and forestry. The SAF strongly supports the increase in funding proposed in the fiscal year 2005 budget, and recommends this funding be allocated with an increased focus on renewable natural resource areas. We strongly believe this combination of formula-based and competitive-based research funding to be appropriate if we are to maintain the long-term stability and focus required in forestry research, and to foster new and innovative thinking characteristic of competitive grants.

Thank you for your consideration.

PREPARED STATEMENT OF THE U.S. AGRICULTURAL EXPORT DEVELOPMENT COUNCIL

U.S. agricultural exporters want to compete on a level playing field. However, foreign governments continue to manipulate markets and production which means U.S. agricultural exporters need Washington's support to overcome this inequity. The record shows that U.S. agriculture takes this public-private partnership very seriously and contributes significant amounts of its own resources to the effort.

Further, U.S. agriculture and the U.S. Department of Agriculture (USDA) are using strategic planning, program evaluation, quantifiable goals, and a competitive award process to ensure that taxpayer's money is being used in a way which generates the biggest returns for the U.S. economy and its 850,000 citizens who depend on a healthy agricultural export sector for their livelihood.

The U.S. Agricultural Export Development Council (USAEDC) respectfully urges this subcommittee to fully support fiscal year 2005 export promotional efforts at the level legislated in the Farm Security and Rural Investment Act (FSRIA) of 2002: the Foreign Market Development (FMD) Program at a level of \$34.5 million and the Market Access Program (MAP) at a level of \$140 million. We also urge the subcommittee to support a strong USDA Foreign Agricultural Service (FAS), our partner in promoting increased U.S. agricultural exports.

First and foremost, it is important to revisit the role agricultural exports play in the health of our national economy and the well being of our citizenry. Every \$1 billion in agricultural exports supports approximately 15,000 United States direct and indirect jobs. With our \$56.2 billion in agricultural exports in 2003, this means a successful U.S. agriculture export effort was responsible for 850,000 jobs. (These figures do not include forestry or fishery products which increase export sales by an additional \$7.9 billion or 120,000 jobs.) Agricultural exports play an important role in every region of the country, including the South (117,000 jobs), the Pacific Northwest (53,000 jobs), and the Midwest (305,000 jobs). Ninety percent of America's agricultural operations are still run by individuals or families and most are still small farms.¹

These jobs not only ensure family incomes, but also help grow the national tax base, increasing revenue to the Treasury and contributing in no small way to the reduction of our rising national debt. At a time when job creation is at a minimum, everything that can be done to maintain this sector is vital. Without a healthy agricultural export sector, we all lose.

Ensuring the long-term vitality of U.S. agricultural exports is one of the missions of the U.S. Agricultural Export Development Council (USAEDC). A national, non-profit, private sector trade association funded solely by its members, USAEDC's 75 members are U.S. farmer cooperatives, agricultural trade associations and state regional trade groups that in turn represent the interests of farmers, agribusinesses and manufacturers in every state of the Union. Our members represent producers of both bulk and high-value processed products, including grains, fruits and vegeta-

¹"Preliminary Census Results Give First Look at Changing Face of Agriculture". USDA Release No. 0063.04

bles, cotton, livestock, dairy products, seeds, fish, wood products, wine, poultry, nuts, and rendered products, among others.

Our members continually strive to ensure the United States remains one of the most active agricultural exporting countries in the world. We proudly produce among the world's highest quality and valued products as evidenced by our ability to be one of the few sectors of the U.S. economy to consistently run a positive balance of trade. In 2003, U.S. agriculture racked up a record year in exports: over \$1 billion per week in sales to more than 100 countries. Put another way, every 60 minutes, nearly \$6.5 million of U.S. agricultural products were consigned for export.

Why Trade is Important to U.S. Agriculture

Demand.—96 percent of the world's food consumers live outside of the United States.

Supply.—Farm production far exceeds United States demand/consumption.

Capacity.—United States productivity is increasing due to improvements in technology and science.

Market.—Two-thirds of the world's purchasing power is outside of the United States.

Sales.—Export market sales are growing at twice the rate of domestic sales.

Export market sales account for over \$1 billion per week to over 100 countries.

Jobs.—Trade supports 850,000 badly needed jobs, 60 percent of which are in urban areas.

Farm Income.—Trade generates 25 percent of farm cash receipts.

Dependency.—Trade is one of the most export-dependent industries in the United States as domestic consumption levels off.

Business.—Trade supports small businesses that employ three of four workers.

Local Impact.—\$1 of exports creates \$1.50 in economic activity

Production.—One of every three cropland acres is grown for export.

Economy.—Agriculture is the only sector that posts a trade surplus year after year.

The Potential for Future Growth

U.S. agricultural exports reached \$56.2 billion in 2003. The largest single markets were Canada and Japan, followed closely by Mexico. Trade with Canada has grown 186 percent in the past 10 years and with Mexico by 200 percent for the same period. While China represents only 3 percent of exports today, trade has grown 700 percent in 10 years and likely to continue apace.

Projections show that the vast majority of world population growth will take place in developing countries. The middle class in key emerging markets is expected to grow by 600 million by 2006. This transition from a subsistence existence to "middle class" creates increased demand for quantity, quality and diversity of food. United States trade in high value products has increased sharply, another indicator of the growing buying power of our customers. China and India have been identified as the two nations that will grow the most exponentially and outstrip all others. The potential value to U.S. agricultural exports and the overall economy is clear and the means to access these markets with changing consumer tastes and preferences must be supported. As trade liberalization occurs, greater market development and marketing activities must be undertaken by U.S. agricultural groups to capture these new market opportunities and consumer demands. U.S. agriculture needs to be poised to take advantage of these opportunities.

But Some Things Stand in Our Way

U.S. agriculture has done well in a climate where international conditions remain extremely competitive. Foreign governments still bolster agricultural production, to the competitive disadvantage of the United States in foreign markets. The European Union alone currently spends more than \$2 billion annually on agricultural export subsidies compared to less than \$100 million by the United States, outspending the United States by more than 20 to 1. With the accession of additional countries into the EU, more and more countries will turn their attention to support for agricultural production for both their domestic and export markets. Through their spending and production decisions, foreign governments continue to strengthen traditional, and create new, competitors for U.S. exports.

United States exporters also face ongoing unreasonably high tariffs in those markets that have been identified as the "growth" markets of the future. Regionally, South Asia's tariffs are at 118 percent and the average agricultural tariff worldwide is 62 percent. The WTO and Regional Trade Agreements are working to break down these "classic" barriers but even when success is achieved, new non-tariff barriers are often substituted, impeding what could be significantly higher exports.

Many countries have turned to sanitary and phytosanitary (S/PS) requirements as market entry barriers to U.S. agricultural products. Although said by their proponents to be based on sound science and thus objective, many of these S/PS barriers are in actuality an attempt to use practices that are not universally accepted to establish import regimes which effectively halt or severely restrict U.S. imports. The recent BSE (beef) and AI (poultry) incidents are cases in point.

A myriad of other types of non-tariff barriers exist which prevent U.S. agriculture from reaching the exports levels of which it is capable. FAS, the ally of agricultural exports, and its overseas offices have compiled information on numerous cases of foreign assistance for agricultural production as well as barriers to trade. The National Trade Estimate of the Office of the U.S. Trade Representative catalogues this loss to U.S. agricultural exports from unfair foreign competition. Despite a significant commitment of their own resources, the United States private sector cannot overcome such extensive barriers alone.

A U.S. Public-Private Partnership is Necessary and Appropriate

American agriculture is 2½ times more reliant on trade than the general economy; every effort should be made to insure its access to the world marketplace.

Given the magnitude of the challenge, it would be unrealistic to expect either the United States private sector or the United States public sector to be able solely to overcome the barriers to foreign trade that U.S. agriculture faces. Since 1954, U.S. agriculture has worked successfully with the U.S. Government to remedy instances of foreign unfair competition and overcome market access barriers that have prevented U.S. exports from realizing their potential. To those who say there is no appropriate role for Washington in this fight, former U.S. Under Secretary of Commerce Jeffrey Garten, now dean of the Yale School of Management, sums up the situation quite well: "In the best of worlds, governments ought to get out of this business [of export promotion] altogether. But the marketplace is corrupted by the presence of government. So do you sit on the side and pontificate about Adam Smith, or do you enter the fray?"² Mr. Garten argues that Washington must enter into the battle or risk losing more U.S. jobs.

USDA proposes funding a number of programs for U.S. agriculture which help the sector overcome these foreign trade barriers and market distortions. USAEDC commends the actions of this subcommittee in the past to fund these programs. We strongly support efforts by this Congress, as provided for in the Food Security and Rural Investment Act of 2002, to again provide a dynamic arsenal of programs to boost the efforts of U.S. agricultural producers to maintain current, and establish new, markets around the world. It is essential that the full range of USDA's export programs be fully funded and aggressively implemented this coming year, including the Foreign Market Development (FMD) program at \$34.5 million and the Market Access Program (MAP) at \$140 million.

Nowhere is the record of success of the public-private partnership more evident than in the FMD and MAP programs. USAEDC members consider these programs the "heavy artillery" in the USDA arsenal. These complementary programs have been instrumental in our record export performance. The Foreign Market Development Program is aimed at long-term marketing efforts, i.e., making infrastructural changes to foreign markets through training and educational efforts among members of the foreign trade and developing long-standing relationships with the trade. Successful efforts result in a modification of the foreign market structure so that U.S. products become an available, attractive, well understood alternative to other sources of competing products. FMD activities help the foreign importer, processor, and retailer to understand not only how to properly store, handle, process, and market the U.S. product, but also to appreciate its unique characteristics, high quality, and reliability of supply.

The Market Access Program (MAP) complements the FMD program. Where FMD is aimed at building market relations, MAP is aimed at building market access and presence. Where FMD targets the importers/processors/retailers, MAP targets the end-user—the consumer. Through activities such as nutrition seminars, in-store promotions, contests, advertising, cooking demonstrations and the like, MAP participants create or capitalize on new trends in foreign consumption and increase the consumers' awareness and level of comfort with the imported U.S. product. MAP provides the small United States branded companies and the United States specialty crops with the necessary funds to assist them in their efforts to gain their fair share in the global marketplace.

The FMD program helps create new markets for U.S. agricultural exports.—For example, the American Soybean Association (ASA) has convinced three Malaysian

²"Don't Be Salesmen", *The Economist*, Jan. 2, 1997.

companies to produce full fat soybean meal (FFSBM) from imported U.S. soybeans for the local swine and poultry diets. Using FMD funds, ASA provided technical data, carried out team visits to other FFSBM facilities and conducted seminars on FFSBM benefits at feedmill and farm level, creating awareness and demand for FFSBM. As a result of ASA's work, the three companies purchased 20,000 metric tons of U.S. soybeans valued at \$6 million. The potential market for FFSBM in Malaysia is estimated at 200,000 MT, valued at \$79 million per year. In a similar vein, the U.S. Wheat Associates (USWA) used FMD funds to demonstrate to Brazilian bakers potential wheat blends and end-use qualities of U.S. wheat. Through a special education and training program, USWA brought new baking techniques to a miller who grinds one million metric tons of wheat per year and has 15 percent of the flour market in Brazil. This company saw that using 40 percent of United States hard winter wheat in the flour blend—instead of 100 percent Argentine—would improve the final product. An initial sale of 25,000 MT of U.S. wheat is expected to lead to even more sales as more Brazilian bakers take part in the education and training sessions.

The MAP program helps build market penetration for U.S. agricultural exports.—One example of this is the California Tree Fruit Agreement (CTFA). Faced with the required perennial renegotiations of the California growers' access agreement with Mexico, CTFA used grower assessments and MAP funds to craft an aggressive advertising and in-store promotion campaign that was ready to launch as soon as the agreement was inked. This resulted in a record 2.3 million cartons (26,422 metric tons) of peaches, plums and nectarines, valued at \$19 million in just a 4 month period. Similarly, a Missouri-based firm has partnered with the Mid-America International Agri-Trade Council (MIATCO) to export feed additives for livestock. Through a technically-oriented promotional campaign to educate and attract new customers, sales to Korea and Japan recently jumped 212 percent and 270 percent respectively. The company has a fermentation processing plant in Iowa, feed plants in Indiana and Nebraska, sources its yeast from Illinois, and purchases soy meal from farms throughout the Midwest, providing jobs to countless individuals.

Numerous examples of other FMD and MAP program "success stories" are available on-line at www.usaedc.org. Therefore, USAEDC strongly supports an FSRIA 2002 funding level of \$34.5 million for FMD and \$140 million for MAP for fiscal year 2005. These amounts represent the levels that the House and Senate Agriculture Committees believed to be essential to the growth and maintenance of U.S. agricultural export markets.

It is important to realize that the program participants contribute their industry's money and manpower to participate in these programs. Contributions are requirements of both the FMD and MAP programs; no one is getting a "free ride." Thus, the program participants have just as much, if not more, impetus to conduct responsible and effective FMD and MAP marketing programs. In fiscal year 2002, MAP participant contributions were 176 percent of total MAP dollars spent and FMD co-operator contributions were 146 percent of total FMD dollars spent. Another way to view this is that U.S. agriculture contributed \$1.76 for every MAP program dollar spent and \$1.46 for every FMD dollar expended. These numbers clearly illustrate the private sector's strong belief in and commitment to the essential nature of the FMD and MAP programs, and that the public-private partnership approach is effective.

U.S. agriculture is also active on other fronts to maximize opportunities for export increases, working with Washington in the trade policy arena. U.S. trade policy efforts have met with success in opening new markets to U.S. agricultural products. However, trade policy alone is not enough. Bringing down barriers to trade is only truly effective at increasing U.S. agricultural exports when followed by intensive marketing efforts. The FMD and MAP programs help U.S. agriculture do just that.

Fine Tuning of the FMD and MAP Programs has Enhanced Effectiveness

USAEDC members are as concerned as everyone in America about the ballooning federal budget deficit and the long-term fiscal health of this country. The public-private partnership in the FMD and MAP programs allows us to be proactive, increasing U.S. agricultural exports beyond that which U.S. agricultural interests would be able to do on their own. Increased exports generate increased tax revenues throughout the system and reduce farm payments as producers rely increasingly on the marketplace for their revenue.

Annual independent evaluations are required by USDA to determine the past impact and future direction of their marketing programs. This evaluation is in addition to that conducted independently by many of the associations themselves as part of their own strategic planning. Program evaluations are reviewed jointly by USDA and program participants to determine the appropriate promotional programs for

particular markets in the future and to demonstrate that program participants are serious about getting the best possible return on FMD and MAP funds.

The programs have gone through a series of reforms that have resulted in application and allocation criteria being much more widely known and transparent for all potential applicants. Other changes in response to General Accounting Office and Office of Management and Budget recommendations to ensure the best possible return to the U.S. taxpayer and the U.S. Treasury have been executed. FAS is to be commended for its work in implementing these changes as well as its continuing efforts to support efforts by U.S. agriculture to expand our exports. A continued strong and well-funded FAS is an important part of our successful public-private partnership. Without a strong overseas presence that is supported in Washington by sufficient staff with access to adequate technology, success in the global marketplace will be much more difficult to achieve. USAEDC supports the fiscal year 2005 request of the President for full FAS funding at \$148 million.

The U.S. Agricultural Export Development Council (USAEDC) appreciates this opportunity to submit written testimony in support of an aggressive United States effort in fiscal year 2005 to increase U.S. agricultural exports, specifically with an FMD program funded at \$34.5 million, and an MAP program funded at \$140 million.

MEMBERS OF THE U.S. AGRICULTURAL EXPORT DEVELOPMENT COUNCIL (USAEDC)

Alaska Seafood Marketing Institute	National Dry Bean Council
Almond Board of California	National Hay Association
American Forest & Paper Association	National Honey Board
American Peanut Council	National Renderers Association
American Seafood Institute	National Sunflower Association
American Seed Trade Association	National Watermelon Promotion Board
American Sheep Industry Association	New York Wine & Grape Foundation
American Soybean Association	North American Export Grain Association, Inc.
Blue Diamond Growers	North American Millers' Association
California Agricultural Export Council	Northwest Horticultural Council
California Asparagus Commission	Northwest Wine Coalition
California Cherry Advisory Board	Oregon Seed Council
California Cling Peach Growers Advisory Board	Organic Trade Association
California Dried Plum Board	Pear Bureau Northwest
California Kiwifruit Commission	Pet Food Institute
California Pistachio Commission	Popcorn Board
California Strawberry Commission	Produce Marketing Association
California Table Grape Commission	Raisin Administrative Committee
California Tomato Commission	Southern U.S. Trade Association
California Tree Fruit Agreement	Texas Produce Export Association
California Walnut Commission	U.S. Apple Export Council
Catfish Institute	U.S. Dairy Export Council
Cherry Marketing Institute	U.S. Grains Council
Chocolate Manufacturers Association	U.S. Hide, Skin & Leather Association
Cotton Council International	U.S. Highbush Blueberry Council
Cranberry Marketing Committee	U.S. Livestock Genetics Export, Inc.
Florida Department of Citrus	U.S. Meat Export Federation
Florida Tomato Committee	U.S. Rice Producers Association
Food Export USA—Northeast	U.S. Wheat Associates United Fresh Fruit & Vegetable Association
Ginseng Board of Wisconsin	United States Potato Board
Hop Growers of America	USA Dry Pea & Lentil Council
Intertribal Agriculture Council	USA Poultry & Egg Export Council
Leather Industries of America	USA Rice Federation
Mid-America International Agri-Trade Council	Washington Apple Commission
Mohair Council of America	Washington State Fruit Commission
National Association of State Departments of Agriculture	Western United States Agricultural Trade Association Wine Institute

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; Cooperative State Research, Extension and Education Service (CSREES) and Agricultural Research Service (ARS) funding.

U.S. Apple is the national trade association representing all segments of the apple industry. Members include 36 state and regional apple associations representing the 7,500 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)

U.S. Apple encourages Congress to appropriate \$140 million in MAP funds, the level authorized in the farm bill for fiscal 2005.

The apple industry receives \$3.2 million annually in export development funds from the U.S. Department of Agriculture's (USDA) 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 nearly 150 percent, due in large part to the foreign promotions made possible by MAP. One-quarter of U.S. fresh apple production is exported, with an annual value of approximately \$370 million.

Strong MAP funding is critical to the U.S. apple industry's efforts to maintain and expand exports, and to increase grower profitability. Congress recognized the importance of MAP by authorizing increased funding in the 2002 farm bill. Over the past 2 years, congressional appropriations have kept pace with the farm bill's authorized level.

Food Quality Protection Act (FQPA) Implementation

U.S. Apple urges full funding for the following U.S. Department of Agriculture (USDA) administered programs to mitigate the negative impact of FQPA implementation on apple growers.

- \$16 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;
- \$2.0 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 IPM 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 support the apple industry's efforts to improve its competitiveness by providing increased federal funding for the development and application of new technologies as outlined below.

Dramatic change in the global apple market over the past decade is threatening the livelihood of U.S. apple growers and the viability of the U.S. apple industry. Low cost producers of apples in the People's Republic of China, South Africa and Eastern Europe are displacing our domestic industry worldwide. A race to survive is now underway among global apple competitors, and for the first time in its history, U.S. industry success is not guaranteed. In response to this competitive threat, the apple industry is seeking federal support of a National Tree Fruit Technology Roadmap that invests in development of new technologies to automate orchards and fruit handling operations, optimize fruit quality, nutritional value and safety.

Each of the following research positions is part of an integrated approach to solving critical research problems that will help make the industry more competitive. The broad-based need to solve these problems requires systematic work across a number of problem areas simultaneously in different locations. Therefore, it is critically important that each of these programs is fully funded.

Postharvest Quality Research—East Lansing, Mich.—U.S. Apple proposes increasing USDA, Agricultural Research Service (ARS) funding at the East Lansing, Mich.

postharvest fruit quality research laboratory by \$350,000 for fruit postharvest technology research to better evaluate internal fruit quality characteristics, such as sugar content and fruit firmness. While this research is already underway in a limited capacity, the increase is needed to expand the capability of the lab to make faster progress in solving complex research issues.

National Research Initiative—Sensor And Automation Research.—U.S. Apple proposes increasing funding in the National Research Initiative program in USDA CSREES by \$1,000,000 for automation and sensor research, and establishment of \$2,000,000 special grants program for fruit quality instrumentation. This research will develop sensors that help growers sense and respond to insect and disease pests and temperature extremes that reduce the value of apple production. It will have additional applications in processing and packing operations to improve fruit quality and food safety.

Apple Rootstock Breeding Program—Geneva, N.Y.—U.S. Apple proposes increasing funding for the USDA, ARS apple rootstock breeding program in Geneva, N.Y. by \$350,000. This research will focus on rootstock improvements that make apple trees more resistant to diseases or pests that may reduce pesticide use and lead to development of more productive and efficient apple trees.

Genetics Of Fruit Quality Program—Wenatchee, Wash.—U.S. Apple proposes increasing funding at the USDA, ARS Wenatchee, Wash. facility by \$350,000 for new genetics of fruit quality research. This research will provide the fundamental scientific knowledge that will allow development of new apple varieties that are juicier, sweeter and more nutritious and attractive to consumers.

National Research Initiative—Genomics, Genetics And Plant Breeding.—U.S. Apple proposes increasing funding in the CSREES National Research Initiative program in the area of apple, cherry and peach genomics by \$2,500,000. This research will provide essential genomics and genetics research that will help solve production problems that result in lower profitability and help develop better apple varieties for consumers.

Other Research Requests:

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 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 2005 rescinds this funding.

Post Harvest Quality Research Position—East Lansing, Mich.

U.S. Apple urges Congress to maintain baseline funding of \$309,600 in the USDA ARS fiscal year 2005 budget for the postharvest quality research position in East Lansing, Mich., and to increase funding for this program by \$350,000 to make faster progress in solving complex research problems. This increase is a specific request as part of the industry's National Tree Fruit Technology Roadmap initiative.

The East Lansing, Mich., USDA ARS facility is conducting research critical to the future survival 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 2005 rescinds this funding. This is a request not only to preserve funding for this program, but also to expand it by appropriating an additional \$350,000 in research funding.

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 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, if required, for the hardship program, cost of money and loan guarantee programs in fiscal year 2005 in amounts requested in the President's budget. Opposing the Administration's proposal to not fund Rural Telephone Bank loans in fiscal year 2005. Supporting Rural Telephone Bank loans in the same amount as contained in the fiscal year 2004 Appropriations Act. 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 as well as the requirement that Treasury pay interest on all Bank funds deposited with it. 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 for distance learning and telemedicine loan and grant authority. Supporting \$20 million in mandatory funding for direct loans for broadband deployment.

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 telecommunications 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

We are now more than 8 years out from passage of the Telecommunications Act of 1996, a landmark piece of legislation in its time, and calls are multiplying for the Act to be revisited to address today's reality of intermodal competition. The current system of government-managed competition in the telecom industry is a tremendous obstacle to investment, economic growth and jobs creation which are important to all Americans, but particularly for those living in telecom-dependent rural America. The financial markets recognize that the current system of inequitable government-managed competition cannot stand. That recognition is reflected in the availability and pricing of capital to telecommunications entities. Dramatic changes in technology, such as Voice Over Internet Protocol (VOIP), and the wide use of wireless service to the point of market parity, have caused great uncertainty for carriers serving the most challenging areas of our Nation. During these changing times, access to a reliable source of capital such as the RUS loan programs is key to the system upgrades which will enable rural areas to experience the economic growth and job creation that a freely competitive market with ready access to fairly priced capital can provide.

The need for modernization of the telecommunications technology employed by RUS borrower rural telecommunications companies has never been greater. In addition to upgrading to next generation networks to allow new services to be extended to rural subscribers, it is critically 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 a few 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 2005, this Committee should set the loan levels and necessary associated subsidy amounts for the hardship, RUS cost of money and guaranteed telecommunications loan programs consistent with the levels recommended in the President's budget. These levels 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 2005. 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 2005, 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 7 percent "cap" placed on the insured cost-of-money loan program. The elimination of the cap should continue. Although the prospects for this happening in fiscal year 2005 seem remote at this time, 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 2005. 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 2005 be set as follows:

(Millions of dollars)

RUS Insured Hardship Loans (5 percent)	145
U.S. Insured Cost-of-Money Loans	250
Rural Telephone Bank (RTB) Loans	175
Loan Guarantees	100
Total	670

Loans and Grants for Telemedicine and Distance Learning

USTA supports the continuation of \$25 million for distance learning and telemedicine, as provided in the President's budget. 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)

Congress has 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 the 2002 Farm Act in the amount of \$20 million. USTA urges the provision of full funding for this program as authorized in the Farm Act. The capital intensive nature of the telecommunications industry, particularly with respect to implementation of broadband, requires a stable and predictable source of capital.

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 UNIVERSITY OF SOUTHERN MISSISSIPPI AND THE
MISSISSIPPI POLYMER INSTITUTE

Mr. Chairman, distinguished Members of the Subcommittee, I would like to thank you for this opportunity to provide testimony describing ongoing research and commercializing efforts of The University of Southern Mississippi (USM) and the Mississippi Polymer Institute. I am very grateful to the Subcommittee for its leadership and the continued support of the Institute and its work. This testimony will include an update on the progress of the Institute since my testimony of approximately 1 year ago. During the past year, our efforts have focused principally on two commercialization thrusts. One effort involves our novel, agricultural-based inventions in emulsion polymerizations, and the other is to produce a commercial quality, formaldehyde-free, soybean derived adhesive for composite board materials, i.e., particleboard. During the past year, we have continued to refine the adhesive and have prepared lab scale particleboards that meet commercial specifications. It is my strong belief that additional research can expand the commercial use of the products and technology this project has produced. However, much more needs to be done in order to exploit the many uses of our novel technology. I will discuss the progress made with the two inventions separately in order to offer more clarity.

In the case of castor and soy oils, we have designed and synthesized novel vegetable oil macromonomers (VOMM) or polymer building blocks that offer state-of-the-art technology. The success of the technology depends on the use of agricultural materials as a building block of emulsion-derived polymers and offers opportunities for using ag-derived materials as a raw material in the polymer industry. The process technology for synthesizing VOMMs has been revised to produce more than 95 percent conversion of the oil to VOMM. Thus, the revised, and now accepted, synthetic procedure affords an acceptable and useful polymerizable VOMM. Our previous synthetic efforts to prepare emulsion or latex polymers containing significant amounts of VOMM monomers (>20 percent by weight) were complicated by synthetic and stability issues. However, during the past year, we have been successful in developing latexes with VOMM content as high as 30 percent by weight by modifying the emul-

sion recipe and process parameters. Currently, these high VOMM latexes are being evaluated for a variety of applications, but particularly in coating formulations. Furthermore, significant progress has been made in the synthesis of novel VOMMs that copolymerize more readily with commercial monomers. The new VOMMs provide latexes with improved stability and reduced yellowing on aging. The fundamental scientific principles regarding its mode of action have been confirmed, yet additional data must be collected as more of these novel monomers, or polymer building blocks, are being designed and synthesized.

Our sustained efforts to patent the technology developed in this project has resulted in a total of eight patents, including one international patent. Seven patent applications are pending with the U.S. Patent Office and more applications will certainly be submitted during the coming year.

Another novel application for vegetable oils is the development of derivatives for use in ultraviolet (UV) curable coatings using thiol-ene chemistry. Castor and soybean oil derivatives were synthesized and crosslinked with commercial thiols in UV curable formulations. The coatings produced showed excellent flexibility but lower hardness values than the controls. Research efforts are in progress to synthesize derivatives that will improve product hardness while retaining other coating properties.

Commercial nail polishes contain very high amount of solvents which constitute volatile organic compounds (VOCs) and negatively impact the environment. Novel VOMM-based latexes have been designed for use in nail polishes. Previous latexes prepared for this application gave poor adhesion to the fingernail and were easily chipped during use. Nail polishes formulated with the new and improved latex emulsions have given consistent adhesion to the fingernail even after one week of application. Rheology studies are in progress to achieve optimum flow and leveling properties of the finished product. Nail polishes constitute a low-volume, high-profit niche market. Presently, there are no low-VOC waterborne products with sufficient adhesion to fingernails.

VOMM-based emulsions have been formulated as coatings for paper coating applications and show promising results in screening tests. At this writing, additional paper coating testing equipment has been ordered for more definitive performance testing.

We have successfully synthesized a soybean oil acrylate monomer (SAM) for incorporation into a permanent press treatment to replace the castor oil acrylate monomer (CAM). Warmkraft, a Mississippi-based company, has tested the new latex and will begin using the soy-based latex this year in their permanent press treatment for use on the U.S. Marines military uniforms. The U.S. Air Force has received 7,500 permanent pressed uniforms for field tests by military personnel. This novel product increases military uniform durability by 30+ percent and minimizes laundry costs creating a significant savings for service personnel and the DOD. Research efforts are now being directed to providing antimicrobial properties to the military uniform treatment formulation to add protection for combat forces.

In summary, commercialization efforts have continued over the past year with waterborne architectural coatings and polymer for textile treatments. Patents have been approved; new patent applications have been submitted; several toll manufacturing runs have been completed; new coatings have been designed, manufactured, formulated, and tested; and formulation efforts have been directed toward the generation of high performance, low odor, and low VOC coatings. We are optimistic that commercialization and sales of these ag-derived products will expand over the next year.

In yet another of our novel ag based technologies, we have developed formaldehyde-free adhesives for use in particleboard composites. The developmental adhesive is composed of 80+ percent soy protein isolate (SPI) and lab produced particleboards made with this formaldehyde-free adhesive meet or exceed industry performance requirements as defined by ANSI standards for M-S grade boards. Efforts are underway to reduce the water content of the current adhesive to decrease dry time and increase line speeds. The new adhesive is scheduled for scale-up to quantities required for commercial scale testing. A leading particleboard manufacturer has requested a commercial trial of the adhesive and we plan to complete the trial in the 2nd quarter of 2004. Kenaf and wood flour are being investigated as alternative sources of wood furnish in our composites. Additional novel soybean oil-based derivatives are also being investigated in an effort to continue to improve the performance properties of the composite particleboards even further. These developments represent major technical advancements during the past year.

A vegetable oil based waterborne, waterproofer polymer has been developed and formulated into wood stain and coating systems. The weathering characteristics of this product are currently being evaluated. The material functions as a waterproofer

yet is carried in water. However, after application to the intended substrate, typically wood or cementitious products, the material becomes hydrophobic and highly water resistant. VOC emission regulations need to be tightened to facilitate the movement towards new, environmentally friendly, products. We will continue our efforts to promote the use of ag-based products offering improved environmental attributes, i.e., high performance accompanied by low odor and low VOCs.

In 1983, the Mississippi Legislature authorized the Polymer Institute at USM to work closely with emerging industries and other existing polymer-related industries to assist with research, problem solving, and commercializing efforts. The institute has maintained that thrust during the past year with much success. In fact, while manufacturing jobs alone in Mississippi have declined over the past 10 years, manufacturing jobs in the plastics sector have risen 45 percent and continue to rise.

The Institute provides industry and government with applied or focused research, development support, and other commercializing assistance. This effort complements existing strong ties with industry and government involving exchange of information and improved employment opportunities for USM graduates. Most importantly, through basic and applied research coupled with developmental and commercializing efforts of the Institute, the School of Polymers and High Performance Materials continues to address national needs of high priority.

The focus of our work has been the development of a technology platform that will lead to the commercialization of alternative agricultural crops in the polymer industry. The polymer industry is the single largest consumer of petroleum chemical intermediates in the world. However, petroleum resources are in finite supply, are non-biodegradable in many cases, and therefore do not represent a sustainable economic development alternative for the polymer industry. The theme of our work is to develop high performance, and environmentally friendly technology utilizing agriculturally produced intermediates. In this way, we as a Nation can improve our environment, reduce our dependence on imported petroleum, and keep America's farmlands in production. As farm products meet the industrial needs of the American society, rural America is the benefactor. Heretofore, this movement to utilize alternative agricultural products as industrial raw materials has received some attention but much less than opportunities warrant. Your decisions are crucial to the accomplishment of these goals as funding from this Subcommittee has enabled us to implement and maintain an active group of university-based polymer scientists whose energies are devoted to commercializing alternative crops. We are most grateful to you for this support, and ask for your continued commitment.

The faculty, the University, and the State of Mississippi are strongly supportive of the Mississippi Polymer Institute and its close ties with industry. Most faculty maintain at least one industrial contract as an important part of extramural research efforts.

Polymers, which include fibers, plastics, composites, coatings, adhesives, inks, and elastomers, play a key role in the materials industry. They are used in a wide range of industries including textiles, aerospace, automotive, packaging, construction, medical prosthesis, and health care. In the aerospace and automotive applications, reduced weight and high strength make them increasingly important as fuel savers. Their non-metallic character and design potentials support their use for many national defense purposes. Moreover, select polymers are possible substitutes for so-called strategic materials, some of which come from potentially unreliable sources.

As a polymer scientist, I am intrigued by the vast opportunities offered by American agriculture. As a professor, however, I continue to be disappointed that few of our science and business students receive training in the polymer-agricultural discipline as it offers enormous potential. The University of Southern Mississippi, the School of Polymers and High Performance Materials, and the Mississippi Polymer Institute are attempting to make a difference by showing others what can be accomplished if appropriate time, energy, and resources are devoted to the understanding of ag-based products.

I became involved in the polymer field 40 years ago and since that time, have watched its evolution where almost each new product utilization offered the opportunity for many more. Although polymer science as a discipline has experienced expansion and a degree of public acceptance, alternative agricultural materials continue to be an underutilized national treasure for the polymer industry. There is less acceptance of petroleum-derived materials today than ever before, and consequently the timing is ideal for agricultural materials to make significant inroads as environmentally friendly, biodegradable, and renewable raw materials. These agricultural materials have always been available for our use, yet society for many reasons has not recognized their potential.

U.S. agriculture has made the transition from the farm fields to the kitchen tables, but America's industrial community continues to be frightfully slow in adopt-

ing ag-based industrial materials. The prior sentence was included in my last three testimonies but continues to ring true, even as I write this report. However, we are making progress and we must persist. We must aggressively pursue this opportunity and in doing so:

- Intensify United States efforts to commercialize alternative crops and dramatically reduce atmospheric VOC emissions and odor. The result will be much cleaner and less noxious air for all Americans.
- Reduce United States reliance on imported petroleum.
- Maintain a healthy and prosperous farm economy.
- Foster new cooperative opportunities between American farmers and American industry.
- Create advanced polymer technology-based manufacturing jobs that can not be easily exported to other countries.

Mr. Chairman, your leadership and support are deeply appreciated by the entire University of Southern Mississippi community. While I can greatly appreciate the financial restraints facing your Subcommittee, I feel confident that further support of the Mississippi Polymer Institute will continue dividends of increasing commercialization opportunities of agricultural materials in American industry. Advances in polymer research are crucial to food, transportation, housing, and defense industries. Our work has clearly established the value of ag products as industrial raw materials and we must move it from the laboratories to the industrial manufacturing sector. Only then can the United States enjoy a cleaner and safer environment which these technologies offer, as well as new jobs, and expanded opportunities for the U.S. farmer. We are most grateful for the support you have provided in the past. The funding you have provided has allowed laboratory work to be conducted, pilot commercial manufacturing to be completed, and limited sales of products derived from this technology. However, additional funds are needed to make these technologies cost effective while maintaining the high performance standards of which we are accustomed. Pilot scale processes are necessary to move this technology into the market place and this will be the principal focus of our upcoming work. Of course, while working to achieve commercialization, continued technology advancement will be in effect, as will basic research on those topic areas where knowledge is required.

Since our testimony last year we have reached new levels of commercializing efforts in that we have manufactured final and finished products for sale. Indeed, the technology has matured and marketing and sales must move parallel with continued commercial development of new products. Thus, we are in need of additional resources to take these technologies to the market place and to continue our developments of other exciting technologies. We therefore respectfully request \$1.5 million in Federal funding to more fully exploit the potentials of commercializing the technologies described herein. We have shown that we can be successful, yet we need additional resources in order to optimize the potential of this technology. Our efforts will be recognized as instrumental in developing a “process” for commercialization of new ag-based products. That is, we will have taken a technology from the “idea” stage to commercialization in several market areas. The development of this process, and to show it successful, is extremely important to all entrepreneurs who believe in ag-based products. Thank you Mr. Chairman and Members of the Subcommittee for your support and consideration.

PREPARED STATEMENT OF THE UPPER MISSISSIPPI RIVER BASIN ASSOCIATION

The Upper Mississippi River Basin Association (UMRBA) is the organization created in 1981 by the Governors of Illinois, Iowa, Minnesota, Missouri, and Wisconsin to serve as a forum for coordinating the five States’ river-related programs and policies and for collaborating with Federal agencies on regional water resource issues. As such, the UMRBA has an interest in the budget for the U.S. Department of Agriculture’s conservation programs and technical assistance.

Prior to enactment of the Farm Security and Rural Investment Act of 2002, conservation spending was lower in constant dollars than during the depths of the Great Depression. In passing the 2002 Farm Bill, Congress made a bold, multi-year commitment to reinvigorate agricultural conservation in this country. In particular, the Farm Bill recognized the importance of providing adequate funding levels and balancing programs that remove land from production with those that support sound practices on working lands. There was also explicit recognition that the USDA’s conservation programs and technical assistance are crucial alternatives to a totally regulatory approach to addressing agriculture-related water quality impairments. Now, as the Nation faces an increasingly difficult budget climate, it is essen-

tial that Congress maintain its commitment to the vision for agricultural conservation articulated in the Farm Bill. This will involve not only providing adequate funding, but also ensuring effective administration and geographic distribution of those resources.

Of particular importance to the UMRBA is funding for the Conservation Reserve Program (CRP), Wetlands Reserve Program (WRP), Environmental Quality Incentives Program (EQIP), and Conservation Security Program (CSP). Taken together, these four Commodity Credit Corporation-funded programs provide an invaluable means for the USDA to work with landowners, local conservation districts, and the States to maintain agricultural productivity while protecting the Nation's soil and water resources. Moreover, they do this in a voluntary, non-regulatory fashion. CRP, WRP, EQIP, and CSP will be key non-regulatory elements in the States' efforts to address agricultural sources of water quality impairment through the Total Maximum Daily Load program. Successful application of conservation programs to this region's water quality problems will also help address the growing national concern with hypoxia in the Gulf of Mexico, which has been linked to nutrient loads from agriculture and other sources. As stewards of some of the Nation's most productive agricultural lands and important water resources, the five States of the Upper Mississippi River Basin believe these programs are vital. Strong farmer interest and state support demonstrate the region's commitment to the objectives of these programs. In fiscal year 2003, non-NRCS sources contributed \$88.3 million in financial assistance and \$27.9 million in technical assistance to help plan and implement natural resource conservation systems in the five basin States, with almost 94 percent of this money coming from state government.

Conservation Reserve Program

Under President Bush's fiscal year 2005 budget request, funding for the CRP would increase modestly to \$1.96 billion. While this increase is certainly welcome, it is not adequate to fund the expanded CRP provided for in the 2002 Farm Bill. The CRP acreage cap is now 39.2 million acres. Yet, as of January 2004, only 34.6 million acres were enrolled in the program, below even the program's previous cap. In the most recently completed general sign-up, USDA was able to accept less than half of the acreage offered for enrollment.

Since its inception, enhancements to the CRP have increased its effectiveness in improving water quality, soil conservation, and habitat. These same enhancements, which include noncompetitive enrollment for filter strips, riparian buffers, and similar measures, as well as establishment of the Conservation Reserve Enhancement Program (CREP), have made the program more flexible and thus more attractive to farmers. Most recently, USDA announced a new continuous sign-up for 500,000 acres of bottomland hardwood trees. Targeted toward the Mississippi, Missouri, and Ohio Rivers, this initiative offers a valuable tool in floodplain restoration efforts on some of this Nation's most important rivers.

In Illinois, Iowa, Minnesota, Missouri, and Wisconsin, CRP general sign-up enrollment currently totals 5.5 million acres, or approximately 17 percent of the national total. All five States also have active CREP programs tailored to meet their priority conservation needs. Current CREP enrollment in the UMRB States is approximately 233,000 acres, or 42 percent of the national total. These rates of participation clearly demonstrate the importance of the CRP and CREP in the Nation's agricultural heartland and reflect the compatibility of these programs with agricultural productivity.

Wetlands Reserve Program

Equally pressing is the need to provide sufficient resources for the WRP. The 2002 Farm Bill more than doubled the WRP acreage cap to almost 2.3 million acres, with a goal of enrolling 250,000 acres annually. Yet the President's fiscal year 2005 budget proposes \$295 million for the WRP. While a slight increase from fiscal year 2004, this would be enough to enroll only about 200,000 acres, or 80 percent of the authorized enrollment rate. Since the WRP's establishment in 1996, its easements have proven to be important tools for restoring and protecting wetlands in agricultural areas. This is clearly evident from the overwhelming landowner response and the resulting improvements to water quality and habitat. At the end of fiscal year 2003, WRP enrollment in Illinois, Iowa, Minnesota, Missouri, and Wisconsin totaled more than 273,000 acres, or 18 percent of the national total. In fiscal year 2003 alone, landowners in the five States enrolled more than 43,000 acres in the WRP. However, there were eligible, but unfunded, applications to enroll another 147,000 acres from the five States in fiscal year 2003. This represents 20 percent of the national backlog of applications for that year. As with the CRP and CREP, the WRP is a

vital tool in the agricultural conservation toolbox. The UMRBA continues to support funding the WRP at a level sufficient to fully enroll the program as authorized.

Environmental Quality Incentives Program

The CRP and WRP have been extremely effective in helping Midwest farmers to protect land and water resources by curtailing production on some of their most sensitive land. And there are certainly many more opportunities to make good use of the CRP and WRP in the region. However, it is also essential to support sound conservation practices on the far greater amount of land that remains in production. EQIP is the USDA's largest and most effective means of assisting farmers and ranchers to implement conservation practices on land currently in production. EQIP assistance can, for example, help operators balance the new dynamics of livestock production with the need to protect soil and water resources.

Like many other conservation programs, EQIP funding has not kept pace with demand. In fiscal year 2003, the backlog of unmet requests for EQIP assistance in Illinois, Iowa, Minnesota, Missouri, and Wisconsin alone was estimated at \$249.1 million. This is more than 3 times the \$74.1 million in EQIP funding actually allocated to the five States in fiscal year 2003, and is 8 percent of the Nation's total unfunded EQIP applications. While this is a slight decrease from the level of unmet need in fiscal year 2002, it is not clear whether there is modest progress in addressing the backlog or whether farmers are simply increasingly disinclined to submit applications to an over-subscribed program. The 2002 Farm Bill authorizes EQIP at \$1.2 billion for fiscal year 2005, but the President is proposing to fund the program at only \$1.0 billion. The UMRBA urges Congress to maintain EQIP at its full authorized level, while recognizing that, even at full funding, there will likely be significant numbers of unfunded EQIP applications.

Conservation Security Program

Newly authorized in the 2002 Farm Bill, the CSP also focuses conservation efforts on working lands. A tiered program, it encourages landowners to implement advanced, cost-effective measures. The States are concerned that several early developments may limit the CSP's ultimate effectiveness. First, USDA still has yet to finalize its implementation rule for the program. As a result, little, if any, CSP enrollment will be possible in fiscal year 2004. Of greater long term significance, the fiscal year 2003 omnibus spending measure capped the CSP at \$3.77 billion over 10 years. Congress has since lifted that restriction. However, in his fiscal year 2005 budget, the President assumes that the program will be limited to \$4.4 billion in financial and technical assistance through 2010. This approach would represent a substantial shift in a program that Congress and the Administration agreed in the 2002 Farm Bill to fund without a fixed cap through the Commodity Credit Corporation. It remains to be seen what the ultimate level of landowner interest will be in the CSP, but the States are reluctant to have the program reduced so dramatically prior to its implementation.

Conservation Technical Assistance

The UMRBA has consistently expressed the States' concern with the adequacy of funding and staffing levels for conservation technical assistance. With the expansion of conservation programs under the 2002 Farm Bill, the issue has become both more complicated and more important. For fiscal year 2005, the President is proposing a \$138 million, or almost 19 percent, decrease in the Conservation Operations Technical Assistance account. This is the funding that supports NRCS's voluntary conservation planning with landowners. It addresses critical concerns including nutrient management and other water quality issues.

The President's budget also includes a revised version of his previous proposal for a new Farm Bill Technical Assistance account. Under the new proposal, this account would fund technical assistance for the Conservation Reserve Program and the Wetlands Reserve Program. In fiscal year 2005, the President is requesting \$92 million for this new account, which would be subject to annual appropriations. The States certainly recognize that adequate technical assistance is absolutely essential to the success of the USDA's conservation programs, and believe that it is important to address the strain that funding CRP and WRP technical assistance from other conservation programs has placed on those programs. However, the States do not believe that the President's proposal reflects Congressional intent in the 2002 Farm Bill. Instead, the States share the perspective of many Members that the intent was to fund the necessary technical assistance for the various conservation programs separately, through mandatory funding rather than annual appropriations. The UMRBA urges that sufficient resources for technical assistance be provided using an approach consistent with this intent.

Watershed Programs

The UMRBA is pleased that the President has once again budgeted for three critical watershed programs—i.e., Watershed and Flood Prevention Operations, Watershed Surveys and Planning, and the Watershed Rehabilitation Program—for which he did not request any funds in fiscal year 2003. However, the President's requests still fall far below recent funding levels for these programs. The three programs all provide significant local, regional, and national benefits in the areas of erosion, sediment, and flood damage reduction; conservation; water supply; and development. They are soundly within USDA's tradition of working with States and local communities to enhance rural America. Specifically, the budget proposal includes only \$40.2 million for Watershed and Flood Prevention Operations, an important proactive program for which Congress approved \$86.3 million in fiscal year 2004. Even at the more generous appropriated levels from recent years, the Watershed and Flood Prevention Operations program falls far short of meeting demand. In fiscal year 2004, there are \$191.2 million in Public Law 534 and Public Law 566 flood control projects ready for construction, and the total project backlog is estimated at \$1.557 billion. The 2002 Farm Bill authorized significant new funding for the Watershed Rehabilitation Program, through which the NRCS assists local sponsors in rehabilitating aging Public Law 534 and Public Law 566 structures. Of the more than 11,000 such structures nationwide, more than 1,800 will reach the end of their design life by 2010. A 1999 estimate put national rehabilitation needs at \$543 million, with needs in Illinois, Iowa, Minnesota, Missouri, and Wisconsin accounting for more than 10 percent of the total. These are very real needs, with very real potential public health and safety implications. This important program received \$29.8 million in fiscal year 2004, but would be funded at only \$10.1 million in fiscal year 2005 under the President's plan. Also of concern, the Watershed Surveys and Planning account would be reduced by more than half under the President's budget. The President's fiscal year 2005 request of \$5.1 million for Watershed Surveys and Planning compares with pending projects totaling \$18.8 million in fiscal year 2004. The States urge Congress to provide adequate funding for these three important watershed programs.

 PREPARED STATEMENT OF THE USA RICE FEDERATION

This is to convey the rice industry's request for fiscal year 2005 funding for selected programs under the jurisdiction of your respective subcommittees. The USA Rice Federation appreciates your assistance in making this a part of the hearing record.

The USA Rice Federation is a federation of U.S. rice producers, millers and allied businesses working together to address common challenges, advocate collective interests, and create opportunities to strengthen the long-term economic viability of the U.S. rice industry. USA Rice members are active in all major rice-producing states: Arkansas, California, Florida, Louisiana, Mississippi, Missouri, and Texas. The U.S.A. Rice Producers' Group, the USA Rice Council, and the U.S.A. Rice Millers' Association are charter members of the USA Rice Federation.

USA Rice understands the budget constraints the committee faces when developing the fiscal year 2005 appropriations bill. We appreciate your past support for initiatives that are critical to the rice industry and look forward to working with you to meet the continued needs of research, food aid and market development in the future.

A healthy U.S. rice industry is also dependent on the program benefits offered by the 2002 Farm Security and Rural Investment Act of 2002. We oppose any attempts to modify the support levels provided by this vital legislation through more restrictive payment limitations or other means and encourage the committee to resist such efforts during the appropriations process.

USA Rice's top priority for 2004 is to regain market access in our former number one export market, Iraq. We realize the Committee's limitations on this issue but encourage you to seek opportunities to increase U.S. agricultural exports to the Iraqi people. Whether through increased MAP and FMD funds for market development or other means, we seek U.S. rice sales to Iraq and urge all options be exhausted.

A list of the programs the USA Rice Federation supports for Appropriations in fiscal year 2005 are as follows:

*Funding Priorities**Research and APHIS*

The Dale Bumpers National Rice Research Center should receive continued funding at the fiscal year 2004 approved level. This center conducts research to help keep the U.S. rice industry competitive in the global marketplace by assuring high yields, superior grain quality, pest resistance, and stress tolerance.

The Western Regional Research Center should receive continued funding at fiscal year 2004 levels for operating funds. In addition, we support \$3.4 million in construction funds for Phase 3 of the modernization project. The center has already completed 25 percent of the modernization project and we feel it is vitally important to complete the remaining updates to this facility.

For APHIS-Wildlife Services, we encourage the committee to fund the Louisiana blackbird control project at \$333,000. This program annually saves rice farmers in southwest Louisiana over \$4,000 per farm, or \$2.9 million total. No increases have been provided to the program since 1994 and inflation is reducing the overall impact. A slight increase from the \$150,000 baseline is justified.

Market Access

Exports are critical to the U.S. rice industry. Historically, 40–60 percent of annual U.S. rice production has been shipped overseas. Thus, building healthy export demand for U.S. rice is a high priority.

The Foreign Market Development program allows USA Rice to focus on importer, food service, and other non-retail promotion activities around the world. For fiscal year 2005, FMD should be fully funded at \$34.5 million, consistent with the President's Budget request.

The Market Access Program allows USA Rice to concentrate on consumer promotion and other activities for market expansion around the world. For fiscal year 2005, MAP should be funded at \$140 million as authorized by the 2002 Farm Security and Rural Investment Act of 2002. This is \$15 million above the President's Budget request.

In addition, the Foreign Agricultural Service should be funded to the fullest degree possible to ensure adequate support for trade policy initiatives and oversight of export programs. These programs are critical for the economic health of the U.S. rice industry.

Food Aid

We encourage the committee to fund Public Law 480 Title I at fiscal year 2004 levels. This program is our top food aid priority and we support continued funding in order to meet international demand.

For Public Law 480 Title II we support a slight increase in the program over fiscal year 2004 levels due to increased freight costs and higher commodity prices. We encourage the committee to fund Title II at \$1.2 billion in order to ensure consistent tonnage amounts for the rice industry.

USA Rice supports continued funding at fiscal year 2004 levels for Food for Progress. Funding for this program is important to improve food security for food deficit nations.

The Global Food for Education Initiative is a proven success and it is important to provide steady, reliable funding for multi year programming. USA Rice supports \$100 million for this education initiative because it efficiently delivers food to its targeted group, children, while also encouraging education, a primary stepping-stone for populations to improve economic conditions.

Other

Farm Service Agency.—We encourage the Committee to provide adequate funding so the agency can deliver essential programs and services. The Agency has been hard hit by staff reductions and our members fear a reduction in service if sufficient funds are not allocated.

Please feel free to contact us if you would like additional information about the programs we have listed. Significant background information is available for all of the programs we have referenced, however, we understand the volume of requests the committee receives and have restricted our comments accordingly.

Thank you for consideration of our recommendations.

PREPARED STATEMENT OF VERIPRIME, INC.

Mr. Chairman and Members of the Committee, it is a tremendous pleasure and a privilege to provide testimony on this important topic on behalf of VeriPrime, a

member-owned and member-operated cooperative. I would like to offer the insights of our members, which may be helpful as Congress and the USDA address these issues.

As a practicing veterinarian I work closely with feedyards and ranchers. I see about a million head of cattle each year in my practice. As a businessman I helped develop and organize an animal tracking company listed on the NASDAQ exchange. My experience relates both to the pragmatic concerns of the animal producer as well as to the bottom-line concerns of business, and consumer concerns about food safety.

My comments are in no way intended as criticism of the U.S. Department of Agriculture or the Congressional Committees of jurisdiction. I believe the government has done a responsible job of BSE surveillance. When the infected animal was found in Washington State, the government responded quickly and efficiently to address industry concerns and to safeguard consumer confidence.

As we move from this point forward, I am hopeful we can do so in a coordinated government-industry effort. VeriPrime is a member-owned and member-operated cooperative created two and one-half years ago to address situations exactly like this. Membership presently consists of two-thirds of the nation's fed cattle supply. We are also a partner with PigCHAMP, a division of farms.com, which gives us access to 75 percent of the pork supply. Having secured a majority of the beef and pork supplies as partners, we are moving forward to recruit members from the packing industry and food retailers. Swift & Co. has joined as a founding member in the packer sector, and Burger King is our founding retailer.

Needless to say, this amalgamation of producers, packers and retailers is watching closely as government ponders what to do next to ensure food safety, consumer confidence, foreign trade, and the economic well being of the \$75 billion beef industry.

USDA's call for a national animal identification system, its decision to evaluate rapid BSE screening methods and, its willingness to reexamine the complicity of Suspected Risk Material, are important and relevant steps. However, speaking from the perspective of the private sector, I respectfully suggest these initiatives and others could more efficiently, effectively, and economically be accomplished by the industry itself.

Overlaying all these issues and solutions is the ever-present question of cost. Both the USDA and Congress are concerned, and rightly so, about adopting costly programs that will increase tax burdens. But an industry-financed alternative, regulated by the USDA, should be considered a viable option. Animal ID and traceability are the backbone of any reliable, responsible food safety system, and we believe the private sector can add value to this discussion as well as self-finance any number of solutions.

At VeriPrime, for example, we employ a licensing strategy in which a fee paid by retailers reimburses the cattle production side for the cost of compliance with an animal identification program. The system would be, and should be technology neutral and have the flexibility to accommodate virtually all vendors. Once established, the revenue stream will make possible evolution to electronic ID and the economies and efficiencies those systems can offer. Moreover, because we are member-directed, we can guarantee adoption of the least-cost, highest-efficiency systems. A competitive marketplace will encourage innovation and as new, better, and cheaper systems evolve, the membership will naturally move to adopt them.

The issue of BSE testing is particularly worrisome to us. No rational view can suppose there was only one BSE-infected animal in this country and we were lucky enough to find it through our very limited test protocols. If in response to the discovery of BSE, the USDA now decides to require increased testing—as has been suggested—the consequences could be severe. The more we test, the more likely we are to discover additional cases. And without a safety net, the economic consequences to the U.S. beef industry would surely be calamitous. After the Washington incident, even though the USDA's response was quick and efficient, cattle prices quickly dropped by 20 percent. We need only look at the economic consequences of BSE in Canada, Japan, and Europe to imagine the catastrophic effect we could anticipate in this country.

Our industry objective must be this: When a consumer prepares to bite into a burger, if a news flash reports another BSE discovery, the announcement should be accompanied by the statement, "the affected meat has been quarantined, and all meat now in the marketplace has passed BSE testing."

Rapid test-hold-release programs have shown excellent results in Asia and in Europe, restoring consumer confidence and economic stability to those beef industries. Our consumers and our marketplace need similar protections. It has been widely stated that testing 100 percent of the beef supply would be prohibitively expensive.

From the government's perspective, that is probably true. But the tremendous power of the American economic marketplace could easily support such a program.

A number of models can be employed. At VeriPrime, we would propose to use our licensing system to finance such an endeavor, giving retailers the opportunity to market BSE-screened beef products in response to consumer preferences. We would regard this function as screening only. Suspected test samples would be referred to the USDA for its "gold standard" testing while the source product is withheld from the food supply.

Some will no doubt argue that the United States does not have a BSE problem. Let's assume they are correct, and that rapid testing as I have discussed is not a food safety issue. I would then suggest that rapid testing is important to the private sector as a marketing attribute. Surveys uniformly show that consumers would prefer the safety margin this screening provides, and are willing to pay much more than the two-pennies-per-burger cost of screening. And to the beef industry, from the cattle rancher all the way through the supply chain, the economic protections BSE screening offers are very attractive and highly desirable.

Mr. Chairman, this is a time of great uncertainty. The threats to our food supply from natural, inadvertent, and malicious sources are of great concern to us. And we face an uncertain future. Ten years ago, none of us had heard of "Mad Cow" disease. What will it be 10 years from now? We need a system that provides responsive, flexible, cost-effective consumer protections. The U.S. Congress, in its rightful role of oversight; the U.S. Department of Agriculture, in its rightful role as regulator; and the U.S. food industry in its rightful role as purveyor of safe, fresh, nutritious products, can form a powerful partnership. We look forward to working together to achieve a balance of responsibility that properly serves our constituents, our customers, and our industry.

PREPARED STATEMENT OF THE WILDLIFE MANAGEMENT INSTITUTE

The Wildlife Management Institute (WMI) is pleased to submit this testimony for your consideration in determining the fiscal year 2005 budgets for the United States Department of Agriculture (Natural Resources Conservation Service, Farm Services Agency, and Animal and Plant Health Inspection Service). Established in 1911, the Institute is staffed by professional wildlife managers and scientists. Its purpose is to promote the restoration and improvement of wildlife in populations and their habitats throughout North America.

NATURAL RESOURCES CONSERVATION SERVICE (NRCS)

General comments.—The USDA's 2005 Budget Summary states the following: "The Department's 2005 budget supports achievement of the five USDA strategic goals and the commitment to provide first-class service, state-of the art science, and consistent management excellence across the board responsibilities of USDA. The Department promotes . . . , protection of natural resources . . ." Out of the 5 listed goals, two of them reflect budget decreases. Ironically both deal with Natural Resources and Environmental issues (quality of life in rural America and protecting and enhancing the nation's natural resource base and environment). As we review this budget, we continue to see a deterioration in funding and manpower necessary to address this nation's natural resource needs, in particular, programs concerning and fish and wildlife. If we are to meet goals and objectives of the 2002 Farm Bill Conservation Title (as set by Congress), we will need to ensure adequate funding for these programs.

Conservation Operations/Conservation Technical Assistance.—WMI recognizes that there has been a decrease in the number of positions within NRCS over the past several years. Our concern continues to be for the resource and the ability to deliver quality technical assistance (TA) to private landowners across this nation. We observe that TA will decrease by \$138 million in fiscal year 2005 under the Administration's proposed budget. In a briefing to the conservation community on the agency's budget on February 19, 2004, it was stated "there is a policy shift in the Administration" towards TA. This shift will result in creating a further backlog in the delivery of the conservation programs. This ultimately will lead to further confusion among the very constituents (private landowners) we desire to serve, thereby preventing us from contributing to the goals set by Congress when it approved the Farm Bill in May, 2002.

Farm Bill Technical Assistance.—Compared to the fiscal year 2004 estimate there is a decrease of \$28 million. The Administration's proposed fiscal year 2005 budget allocates \$92 million to Wetland Reserve Program and Conservation Reserve Pro-

gram for TA. WMI requests TA funding for these programs to be supported by the Commodity Credit Corporation oppose to annual appropriations.

The Technical Services Provider (TSP) program also needs attention. Level of allocations to Conservation Districts, State fish and wildlife agencies and Conservation organization's is good, but there is a need to evaluate effectiveness of TSP funds when achieving conservation goals for soil, water and wildlife enhancements. Therefore, \$2 million additional dollars should be allocated to do just that. In fiscal year 2003 and 2004, NRCS respectively received \$30 million and \$40 million to implement TSP. According to the Administration's fiscal year 2005 proposed budget request no money is set aside for TSP; at least \$40 million should be allocated.

Performance measures on page 9 of a February 2, 2004 budget briefing book listed targets for 2004 and 2005. These targets are activities and will not contribute to the Administration's and OMB's Performance Control Standards. They are not RESULT oriented and will NOT enable NRCS to communicate achievements specifically on soil, water and wildlife enhancements. WMI recommends that Congress require such standards as part of the NRCS budgetary process. WMI also recommends that \$10 million specifically be targeted to conduct comprehensive monitoring and evaluation studies on all Farm Bill Conservation programs. Results of such studies will help the USDA and Congress identify future spending priorities under the Farm Bill.

Wildlife Habitat Incentives Program (WHIP).—WMI supports the \$25 million increase in funding. This funding greatly needed to address over subscriptions in the program, especially in the country's Northeast and Northwest regions.

Grassland Reserve Program (GRP).—The Administration has requested a \$31 million decrease for this program in fiscal year 2005. WMI suggests that with a backlog of private landowners involved in this program, it is unwise to decrease funding for GRP. Because this is a new program, its financial growth curve should extend beyond its first 2 years of implementation.

FARM SERVICE AGENCY (FSA)

Staff Years: FSA is slated to lose 967 positions by fiscal year 2005. These are primarily temporary positions and the Administration has justified these losses as the result of completed Farm Bill activities. The next scheduled sign up of 800,000 acres in the Conservation Reserve Program (CRP) is slated for the spring of 2004. It is expected a similar effort in 2005 will occur. Thus, there is a need to have sufficient staff to process these additional contracts for the CRP program, as well as the expected increase for the Conservation Reserve Enhancement Program (CREP) agreements. WMI is concerned about the delivery of CRP to private landowners and seeks Congressional support for retention of FSA's 967 positions.

WILDLIFE SERVICES, ANIMAL AND PLANT HEALTH INSPECTION SERVICES (APHIS)

Wildlife Services Methods Development: In 1997, the United States and the European Union (EU) entered into a Memorandum of Understanding that identified a process for developing and evaluating more effective and humane trapping devices used to manage certain wildlife populations (e.g. for research and mitigating wildlife damage, to reestablish species extirpated from prior habitats, and to protect endangered species). An active research program is being developed at the USDA's National Wildlife Research Center in Fort Collins, CO. WMI strongly objects to the proposed elimination of \$3.35 million for the Methods Development program, and urges Congress to restore this funding.

WMI also recommends Congress restore funding for research of non-lethal methods to mitigate wildlife damage and that Congress provide additional funding to Wildlife Services (WS) to conduct research for improved management of invasive species (such as the brown tree snake and the Coqui frog that threatens local agriculture, fragile ecosystems, and threatened and endangered species in Guam and Hawaii).

PREPARED STATEMENT OF THE WILDLIFE SOCIETY

The Wildlife Society (TWS) appreciates the opportunity to submit testimony concerning the fiscal year 2005 budgets U.S. Department of Agriculture agencies. 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.

The following table summarizes The Wildlife Society's recommendations for USDA, compared with fiscal year 2004 enacted and the President's fiscal year 2005 request:

[In thousands of dollars]

USDA Agency/Program	Fiscal year—		
	2004 Enacted	2005 President's Budget	2005 TWS Recommended
Natural Resources Conservation Service:			
Wildlife Habitat Incentives Program	42,000	60,000	100,000
Grassland Reserve Program	115,000	84,000	84,000
Wetlands Reserve Program	280,000	295,000	295,000
Forest Land Enhancement Program	10,000	.....	80,000
Technical Service Provider training .....	.....	.....	100
Conservation Program Monitoring and Evaluation .....	.....	.....	1,000
Animal & Plant Health Inspection Service:			
Wildlife Services—Operations	71,313	71,684	77,184
Wildlife Services—Methods Development	16,999	13,876	17,266
Veterinary Services—Chronic Wasting Disease	18,522	20,067	30,067
Coop. St. Research, Education, and Extension Serv.:			
Renewable Resources Extension Act	4,040	4,093	15,000
McIntire-Stennis Cooperative Forestry	21,755	21,844	30,000
Natural Resources Inventory	164,027	180,000	180,000

Natural Resources Conservation Service

Wildlife Habitat Incentives Program (WHIP).—The 2002 Farm Bill included landmark increases for conservation, but annual appropriations have not been commensurate the 80 percent increase passed in the bill. The authorized level for WHIP cost-share payments and technical assistance in fiscal year 2005 is \$325 million. Given the important impacts of WHIP in providing technical and financial support to farmers and ranchers to create high quality wildlife habitat, we request a minimum of \$100 million.

Grassland Reserve Program (GRP).—With estimated expenditure of \$115 million in fiscal year 2004, the proposed funding level of \$84 million in fiscal year 2005 will meet the Farm Bill-authorized cap of \$254 million for GRP. GRP should focus on grasslands of high biodiversity that are at risk of conversion and support grazing operations. In addition, enrollment must increasingly focus on long-term enrollment, since no more than 40 percent of authorized funding can be used for short-duration rental agreements, which have been emphasized to date.

Wetland Reserve Program (WRP).—The continued target of enrolling 200,000 acres annually in WRP is essential; if 200,000 acres are not enrolled every year (fiscal year 2004 was limited to 189,000 acres), enrollment must increase in future years to reach the authorized level of 2,275,000 acres. Full WRP enrollment is necessary for the Administration to achieve no-net-loss of wetlands by building on the WRP successes of the 1990's that reduced wetland losses to 32,600 acres/year (as reported in the USDA National Resource Inventory).

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. We request restoration of the full funding balance, \$80 million, for this program in fiscal year 2005.

Technical Service Provider Training.—NRCS is building a Technical Service Provider program of certified professionals who can assist the agency in delivering conservation services to agricultural producers. Training will be needed to effectively prepare Technical Service Providers to assist these producers. TWS recommends that Congress direct NRCS to appropriate \$100,000 for a pilot training program at a university in cooperation with professional societies (Society for Range Management, The Wildlife Society, American Fisheries Society) and the USDA Cooperative State Research, Education, and Extension Service that subsequently can be repeated at land grant universities and colleges across the country to train Technical Service Providers. This program is critical to the effective delivery of Farm Bill Conservation Programs.

Conservation Program Monitoring and Evaluation.—Monitoring Farm Bill conservation programs and evaluating their progress toward achieving Congressionally established objectives for soil, water, and wildlife will ensure successful program im-

plementation and effective use of appropriated funds. Thus far, limited monitoring efforts have been focused on soil and water achievements, and NRCS and the Agricultural Research Service have done all the evaluations. It is important for assessments to address wildlife and habitat impacts, and for external parties to be included to ensure credibility and objectivity. We recommend Congress direct \$1 million toward a pilot watershed-based monitoring and evaluation project, which would include participation by state conservation and agriculture agencies and the state land-grant university, that can serve as a model for conservation program assessment nationwide.

Animal and Plant Health Inspection Service

Wildlife Services.—The Wildlife Services Unit 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. The Administration proposes a program reduction of \$5.5 million from fiscal year 2004 levels to offset a \$5 million increase in fiscal year 2005 for a wildlife disease surveillance system. We recommend Congress restore the \$5.5 million reduction to maintain existing operations. We also recommend that Congress restore the \$3.35 million (need \$17,266) decrease in the Methods Development program, which provides the credible means to identify and improve publicly acceptable methods of wildlife control.

Veterinary Services.—We commend APHIS-Veterinary Services for working with the state wildlife management agencies on Chronic Wasting Disease (CWD) surveillance and management in free-ranging deer and elk. Additionally, we support APHIS efforts to eliminate CWD from captive cervids to eliminate the risk of spread of the disease from these animals to free-ranging deer and elk. We recommend increasing CWD funding to a total of \$30.067 million in fiscal year 2005 to fully address management of CWD in the states, with emphasis on preventing the spread of CWD from captive cervid operations.

Cooperative State Research, Education and Extension Services

Renewable Resources Extension Act.—We strongly recommend that the Renewable Resources Extension Act be funded at \$15 million in fiscal year 2005. RREA funds, which are apportioned to State Extension Services, leverage (at an average of 4:1) cooperative partnerships with a focus on development and dissemination of information needed by private landowners. The need for RREA educational programs is greater than ever today due to fragmentation of ownerships, urbanization, and increasing societal concerns about land use and its impact on soil, water, air, and wildlife. Though RREA has been proven to be effective in leveraging cooperative state and local funding, it has never been fully funded.

McIntire-Stennis.—We encourage Congress to increase McIntire-Stennis Cooperative Forestry funds to \$30 million. These funds are essential to the future of resource management on non-industrial private forestlands, supporting state efforts in forestry research to increase the efficiency and sustainability 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.

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 requests \$180 million for National Research Initiative Competitive Grants in fiscal year 2005.

Thank you for your past support of conservation funding and for considering the views of wildlife professionals. We look forward to working with you and your staff to ensure adequate funding for wildlife conservation.

PREPARED STATEMENT OF THE WINE INSTITUTE

This statement is in support of the Market Access Program and the need to fully fund it for fiscal year 2005 at \$140 million, the level established in the Food Security and Rural Investment Act of 2002.

The California wine industry has benefited significantly from the MAP, and previous USDA export promotion programs since 1986. At that time our exports were only \$34.9 million. Last year, we exported over \$633 million. Despite this growth,

we have a huge potential remaining as our international market share is only about 5 percent. Wine imports to the United States still outweigh exports by a factor of 4–1 but we are determined to level this balance of payments in the next few years. We need the full amount authorized by the 2002 Farm Bill in order to maintain our growth and accomplish our objectives.

The MAP allows our industry to counter the significant trade barriers we face in all foreign markets. In Europe, our major market, we face high tariffs, expensive certification procedures, and restrictions to our winemaking practices. In addition, we face competition from the European wine industry which is heavily subsidized and backed with export credits and other significant government support programs. In Asia, our industry faces high tariffs in all countries and protective systems that allow preference for local bottlers and wine products.

International wine marketing requires substantial costs of additional labeling requirements, testing and certification procedures. To be competitive, companies must attend major trade shows, conduct educational programs and produce expensive promotional materials. Every competitive wine industry relies on a government program to back its export efforts. Small U.S. wineries simply do not have the resources to compete in this arena without the support of the MAP.

The increase in funding authorized by 2002 Farm Bill for the MAP is necessary for new market entry and expansion into current markets. The Administration's active international trade agenda has allowed for opportunities that all exporters need to address as quickly as possible. Creating opportunities without providing resources is ineffective policy. Our wine industry needs to expand its efforts into China, South America, Eastern Europe, and Russia. We need additional resources to fuel this expansion.

The MAP is a cost share program. Our industry's annual contribution has increased from 50 percent to its current level of 150 percent. We are more than willing to pay our share. However, we also need the resources and support that our competitors enjoy. Therefore, we strongly support the authorized, full funding for the MAP at \$140 million for fiscal year 2005.

PREPARED STATEMENT OF THE WYOMING STATE ENGINEER'S OFFICE

This statement is sent in support of the designation of 2.5 percent of the fiscal year 2005 Environmental Quality Incentive Program (EQIP) funding for the Department of Agriculture's Colorado River Salinity Control (CRSC) Program. Pursuant to Public Law 104–127, the USDA's CRSC Program is a component program within EQIP. Wyoming views the inclusion of the CRSC Program in EQIP as a direct recognition on the part of Congress of the Federal commitment to maintenance of the water quality standards for salinity in the Colorado River—and that the Secretary of Agriculture has a vital role in meeting that commitment.

The State of Wyoming is a member state of the seven-state Colorado River Basin Salinity Control Forum. Established in 1973 to coordinate with the Federal Government on the maintenance of the basin-wide Water Quality Standards for Salinity in the Colorado River System, the Forum is composed of gubernatorial representatives and serves as a liaison between the seven States and the Secretaries of the Interior and Agriculture and the Administrator of the Environmental Protection Agency. The Forum advises the Federal agencies on the progress of efforts to control the salinity of the Colorado River and annually makes funding recommendations, including the amount believed necessary to be expended by the USDA for its on-farm CRSC Program. Overall, the combined efforts of the Basin States, the Bureau of Reclamation and the Department of Agriculture have resulted in one of the nation's most successful non-point source control programs.

The Colorado River provides municipal and industrial water for 27 million people and irrigation water to nearly four million acres of land in the United States. The River is also the water source for some 2.3 million people and 500,000 acres in Mexico. Limitations on users' abilities to make the greatest use of that water supply due to the River's high concentration of total dissolved solids (hereafter referred to as the salinity of the water) are a major concern in both the United States and Mexico. Salinity in the water source especially affects agricultural, municipal, and industrial water users. While economic detriments and damages in Mexico are unquantified, the Bureau of Reclamation presently estimates salinity-related damages in the United States to amount to \$330 million per year. The River's high salt content is in almost equal part due to naturally occurring geologic features that include subsurface salt formations and discharging saline springs; and the resultant concentrating effects of our users man's storage, use and reuse of the waters of the River system. Over-application of irrigation water by agriculture is a large contributor of

salt to the Colorado River as irrigation water moves below the crop root zone, seeps through saline soils and then returns to the river system. The Department of Agriculture's CRSC Program is an important proven and cost-effective tool in improving irrigation water application and thus reducing salt loading into the Colorado River system.

For the past 20 years, the seven-state Colorado River Basin Salinity Control Forum has actively assisted the U.S. Department of Agriculture in implementing its unique, collaborative and important program. At its recent October 2003 meeting, the Forum recommended that the USDA CRSC Program should expend 2.5 percent of the Environmental Quality Incentive Program funding. In the Forum's judgment, this amount of funding is necessary to implement the needed program. "Catch-up" funding in the future will require expending greater sums of money, increase the likelihood that the numeric salinity criteria are exceeded, and create undue burdens and difficulties for one of the most successful Federal/State cooperative non-point source pollution control programs in the United States.

The State of Wyoming greatly appreciates the Subcommittee's support of the Colorado River Salinity Control Program in past years. We continue to believe this important basin-wide water quality improvement program merits support by your Subcommittee. We request that your Subcommittee direct the allocation of 2.5 percent of the Environmental Quality Incentives Program funding for the USDA's CRSC Program during fiscal year 2005. Thank you in advance for your consideration of this statement and its inclusion in the formal record for fiscal year 2005 appropriations.

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