

S. HRG. 109-149

# *Senate Hearings*

*Before the Committee on Appropriations*

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## Agriculture, Rural Development, and Related Agencies Appropriations

*Fiscal Year* 2006

109<sup>th</sup> CONGRESS, FIRST SESSION

H.R. 2744

DEPARTMENT OF AGRICULTURE  
NONDEPARTMENTAL WITNESSES

Agriculture, Rural Development, and Related Agencies Appropriations, 2006  
(H.R. 2744)

**AGRICULTURE, RURAL DEVELOPMENT, AND RE-  
LATED AGENCIES APPROPRIATIONS FOR FIS-  
CAL YEAR 2006**

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**HEARINGS**  
BEFORE A  
SUBCOMMITTEE OF THE  
COMMITTEE ON APPROPRIATIONS  
UNITED STATES SENATE  
ONE HUNDRED NINTH CONGRESS

FIRST SESSION

ON

**H.R. 2744**

AN ACT MAKING APPROPRIATIONS FOR AGRICULTURE, RURAL DEVEL-  
OPMENT, FOOD AND DRUG ADMINISTRATION, AND RELATED AGEN-  
CIES PROGRAMS FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 2006,  
AND FOR OTHER PURPOSES

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**Department of Agriculture  
Nondepartmental witnesses**

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## CONTENTS

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TUESDAY, APRIL 12, 2005

Department of Agriculture: Office of the Secretary .....	Page 1
--	-----------

WEDNESDAY, APRIL 13, 2005

Department of Agriculture .....	81
---------------------------------	----

THURSDAY, APRIL 14, 2005

Department of Agriculture .....	217
Material Submitted by Agencies .....	339
Nondepartmental Witnesses .....	409



# **AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 2006**

**TUESDAY, APRIL 12, 2005**

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

The subcommittee met at 9:35 a.m., in room SD-124, Dirksen Senate Office Building, Hon. Robert F. Bennett (chairman) presiding.

Present: Senators Bennett, Cochran, Bond, Burns, Craig, Brownback, Kohl, Harkin, Dorgan, and Johnson.

## **DEPARTMENT OF AGRICULTURE**

### **OFFICE OF THE SECRETARY**

#### **STATEMENT OF HON. MIKE JOHANNS, SECRETARY**

##### **ACCOMPANIED BY:**

**KEITH COLLINS, CHIEF ECONOMIST**

**LAWRENCE WACHS, ACTING BUDGET OFFICER**

##### **OPENING STATEMENT OF SENATOR ROBERT F. BENNETT**

Senator BENNETT. Good morning, all. The subcommittee will please come to order.

We want to welcome Secretary Johanns. This is his first appearance before the subcommittee, and we welcome along with him Dr. Collins and Mr. Wachs, who have been here before.

We appreciate, Mr. Secretary, your changing your schedule to meet our accommodation of time. The full committee schedule has forced us to move this hearing from last week, and we are grateful that you were as flexible as you were.

The USDA request for our subcommittee is about \$15.3 billion. That excludes the Forest Service, which is in the Interior Subcommittee that Senator Burns chairs. And this represents the third year of declining budgets for the Department. It coincided with my assuming the chairmanship of this subcommittee. I do hope there is not a cause-and-effect relationship there. I have said to Senator Cochran that when he moved from this subcommittee to Homeland Security, he took all the money with him. But that does represent a challenge for us, having the third year of a lower number to work with.

The budget eliminates about \$470 million in research and conservation projects, adds \$177 million in new user fees, and trans-

fers \$300 million in Public Law 480 funds currently in the USDA budget to USAID.

The President's budget calls for an increase of \$275 million in WIC, and FSA would get a \$67 million increase for staff support and information technology. Mr. Secretary, I think we may discuss some of those numbers and whether or not there might be some flexibility.

Now, before I turn to Senator Kohl, I would hope that all members of the subcommittee would have any written questions that they might have from this or the subsequent two hearings in to the subcommittee by the close of business on April 22.

So, with that, we will hear from Senator Kohl, the ranking member, after which I would like to open with a round of questions following the Secretary's statement at 5 minutes each.

Senator Kohl.

#### STATEMENT OF SENATOR HERB KOHL

Senator KOHL. Thank you very much, Senator Bennett. I would like to start by saying how much I am pleased that I will be working with you and your staff again this year. I know the agriculture community recognizes the hard work you do every year on their behalf.

Secretary Johanns, this is your first appearance before our committee, and we welcome you. There is no doubt that you stepped into a difficult job. We all understand that. And we do admire your willingness to take on the many challenges that you will face. So we all wish you the best of luck, and we look forward to a good working relationship.

We would also like to welcome back Dr. Collins, with whom we have worked over the years, and it is very good to see you again here. And we also welcome Mr. Wachs.

Gentlemen, I regret the fact that the budget proposal again will place serious constraints on rural America. You mentioned a need to cut spending, but I must point out that this subcommittee's resources have been reduced, as Senator Bennett has said, every year for the past several years in spite of increased demands.

There are a few highlights in this budget. For example, I am pleased to see increases for the WIC and child nutrition programs. I also want to comment on the President's proposal to extend the MILC program, which is vitally necessary to protect dairy farmers in my State and all across the country from volatile price fluctuations. I look forward to working with you to see that this MILC extension program is reached this year.

However, in this budget there are many programs that our farmers, ranchers, and all of rural America depend on that have been deeply cut, if not eliminated entirely. In rural development, the RCAP program is cut by nearly \$200 million, including a reduction of nearly \$80 million for water and waste grants for low-income communities. Despite the President's campaign to provide broadband services to all communities by 2007, this budget proposes to scale back the loan program by more than \$180 million and eliminate the broadband grant program altogether.

Congressional priorities throughout the bill have been eliminated. Research funding through ARS and CSREES has been cut



by \$370 million. Funding for conservation projects throughout the country is cut by \$190 million. Although it is not unusual for the President's budget to cut congressional priorities, for the first time programs funded through formulas or competitive awards are also being cut.

In addition, this budget includes deeper farm bill cuts than we have ever seen before, and these are only a few examples of the types of cuts found throughout the USDA budget.

It is difficult to conclude that this budget will not be very harmful to many parts of rural America. I am afraid that if these cuts continue, the programs will eventually be not able to function. I remain hopeful, however, that this year is not that time, and I intend to work hard with the chairman to protect the important programs funded by USDA.

So we welcome you here again today, and we look forward to your testimony.

Secretary JOHANNES. Thank you, sir.

Senator BENNETT. All right. Unless some member of the subcommittee has a schedule problem and wants to make an opening statement before we go to your testimony, I would prefer to leave the opening statements with the chairman and the ranking member and go directly to the witness.

Senator BURNS. Mr. Chairman, I have sort of a time thing.

Senator BENNETT. All right. That is why I—go ahead.

#### STATEMENT OF SENATOR CONRAD BURNS

Senator BURNS. I will just make a statement on where this budget, I think, is right now pretty much—the way they have allocated their money is a little wrong-headed right now. But we will finally get there.

I know that we have not used a lot out of farm programs the last couple of years because of market conditions. And just like any other bureaucracy and any other department, the monies that we allocate for programs become a ceiling rather than a floor. We look at those dollars as a floor, and you look at them as a ceiling, and we have got to work those things out.

No, we did not use all the farm programs the last couple of years because of market conditions. That is not to say that negative market conditions could not happen in this next year. And I am not willing to see money come out of those programs, your agencies and programs, the Farm Service Agency and the Risk Management Agency, I don't want to see those dollars come out. I want those dollars there in the event that we need them. And I run on the theory that if you have got a healthy rural America, you do not need this other rural development business. That money will be out there. Everything else kind of takes care of itself.

#### PREPARED STATEMENT

So that is my statement, and if I have to leave early, then I will have some questions to submit to the Secretary, and I appreciate that.

[The statement follows:]

## PREPARED STATEMENT OF SENATOR CONRAD BURNS

Mr. Chairman, thank you for holding this hearing today to begin the process of examining USDA's budget for fiscal year 2006. As you well know, this is a tough budget year, and the President's budget includes a lot of difficult choices. I look forward to working with you to make fiscally responsible decisions that treat our farmers and ranchers fairly, and keep the Farm Bill intact.

I do want to briefly touch on a few issues that are of particular concern to me. First, of course, are the proposed cuts to commodity programs. Federal spending needs to be reduced—there is no question about that. But cuts to commodity programs are coming at a particularly difficult time. Montana is entering its 7th year of drought. Diesel prices are well over \$2 per gallon, and the cost of fertilizer is through the roof. Farmers who are relying on Farm Bill programs just can't afford to absorb any more costs. I worked with Chairman Gregg and Chairman Chambliss on the floor to limit the impact of budget cuts as much as possible, and I will continue to work with this Committee to ensure our farmers and ranchers are not unfairly harmed by the need to cut the budget.

Second, I was disturbed to see the substantial cuts proposed for formula funding for land grant universities. Hatch Act and McIntire-Stennis funds are highly valued by Montana's universities. The research conducted at land grant universities contributes greatly to the advancement of science for agriculture, forestry, and rural development. I appreciate the intent of the changes—to bring about performance and accountability through competitive grants. Competitive grants have their place in the larger scheme of Federal research funds, but they can't be the total package. A long-term investment our land grant universities is needed to create high quality, fundamental programs. Competitive grants too often focus on exciting, trendy, cutting edge research, leaving less exciting topics understudied. Formula funds allow universities to engage in long-term planning, and to devote research dollars to "meat-and-potatoes" research that still needs attention, even as the "next best thing" appears on the horizon.

Finally, I am concerned about the direction of USDA's efforts to implement a National Animal ID system. In my opinion, clear goals and expectations are missing. Some funds for pilot projects have been distributed, but it is unclear what those projects are expected to achieve. It is also not clear how the Department expects to connect a patchwork of pilot projects together into a national system. And if a national system is put together, how does USDA intend to protect the confidentiality of data? Will the information be held by the Federal Government, or—as I would prefer—by the States, accessible by USDA as needed in times of disease outbreak? I am not comfortable appropriating funds to a project as murky as Animal ID seems to be right now, and I hope to learn more about the Department's plans during these hearings.

With those concerns in mind, I will conclude. I look forward to hearing testimony today, and throughout the week, on USDA's budget proposals.

Senator BENNETT. Thank you.

Senator Bond indicates he has a conflict as well. Senator Johnson, can you wait for the round?

Senator JOHNSON. Absolutely.

Senator BENNETT. Okay. Senator Bond.

## STATEMENT OF SENATOR CHRISTOPHER S. BOND

Senator BOND. Thank you, Mr. Chairman, Senator Kohl, and I do want to hear the Secretary's testimony, but I do have to be someplace at 10:00.

I welcome you to the subcommittee. I think there is a point that needs to be made about the budget. Everybody is talking about, well, we need to cut farm programs, the price support programs. Well, we should not be unilaterally disarming our farmers when we are facing subsidies and competition from our trading competitors who provide similar subsidies.

If the Trade Representative is successful in negotiating away those subsidies from others, then I think that the President's proposed cuts in farm payment supplements can be removed. But I

hope that we realize doing that we have to maintain the quantitative and qualitative edge that our farmers have. And, number one, the most important thing we can do for farmers is continue research—research across a broad area. I have already mentioned to you my enthusiasm for plant biotechnology, and we welcome you at any time you want to come to Missouri and look at that. We need to have the research and we need to have the transportation.

And I hope that you can weigh in with your fellow Cabinet members. This is not going to take money out of your budget, but last week, Mr. Connor testified before the Committee on Agriculture on his nomination to be deputy. My colleague asked him if he would be an advocate in the administration for modernizing our Mississippi and Illinois river locks. His response was, I will. It is not important, Senator. It is absolutely essential. We flat out have to get our agricultural bulk commodities out of the Midwest, down to New Orleans to a point of export, or we are absolutely dead in the water. So I will be an advocate of that within the administration, I assure you.

We heard his answer. We liked his answer. But OMB has not heard it. We have introduced bipartisan legislation. It will be marked up tomorrow in WERDA. The folks in the Corps of Engineers who manage to keep the most efficient, effective means of transporting bulk commodities going into the world market where we enjoy a trade surplus depend upon replacing our 70-year-old locks on the Mississippi and Illinois River that were designed to last 50 years and are leaking worse than sieves. So that area I hope you can help us.

I thank you, Mr. Chairman, for the time.

Senator BENNETT. Senator Craig, we are foregoing opening statements except for those who have conflicts. Do you have a conflict or can you go with the program?

Senator CRAIG. I will forego.

Senator BENNETT. Okay. Thank you.

Senator CRAIG. I am just sitting here thinking: Am I conflicted?

#### PREPARED STATEMENTS

No, not really. I have problems I want to discuss with the Secretary. I will ask that my full statement be a part of the record, Mr. Chairman. Thank you.

Senator BENNETT. Without objection.

The subcommittee has received statements from Senators Cochran, Craig, and Johnson which will be placed in the record.

[The statements follow:]

#### PREPARED STATEMENT OF SENATOR THAD COCHRAN

Mr. Chairman, thank you for holding this hearing on the fiscal year 2006 Agriculture Appropriations programs and I welcome Secretary Johanns to the Committee. Since Secretary Johanns' swearing in on January 21, he has shown great leadership in moving the interests of America's agriculture industries forward.

I am especially pleased by the recent announcement that Iraq will purchase 60,000 tons of U.S. rice. Historically, Iraq has long been an important market for the U.S. rice industry. This purchase is an indication that regaining the export markets in the Persian Gulf area is a tangible benefit of our foreign policy. I want to thank Secretary Johanns and the USDA staff for their help in making this purchase of U.S. rice possible.

I am also pleased to see the recent news that Taiwan will reopen its border to U.S. beef. During Secretary Johanns's nomination hearing before the Senate Agriculture Committee, much discussion centered on reopening U.S. beef export markets to Asia, especially Japan. U.S. cattle producers appreciate the continued effort you have made to reopen these markets and I hope that other countries such as Japan will follow Taiwan's lead and reopen their borders.

An important aspect of the Agriculture Appropriations bill is the funding it provides for agriculture research. This research is a critical part of ensuring U.S. producers remain the leaders in food and fiber production.

I recently attended the opening of the Agriculture Research Service's National Biological Control Laboratory in Stoneville, Mississippi. This is a world class facility that will focus research in perfecting and expanding methods for controlling insects, weeds, and microbial pests by using beneficial control technologies. Although the research conducted at many of the Agricultural Research Service's facilities center on agricultural applications, the research goals of facilities like the National Biological Control Laboratory will touch the lives of almost every citizen. Research focused on the treatment and the control of kudzu, fire ants, subterranean termites, and mosquitoes will be conducted at the laboratory. It is important that we continue to support this research.

Once again, I want to thank Secretary Johanns, for his dedication to America's farmers and ranchers and look forward to the testimony.

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PREPARED STATEMENT OF SENATOR LARRY CRAIG

Thank you for appearing before the Committee today to discuss the U.S. Department of Agriculture's fiscal year 2006 proposed budget. In your short time as Secretary, you have already had to tackle some very difficult issues, and I appreciate the resolve and straightforward approach you have given these issues.

We are in a time of restrictive spending where hard decisions must be made. While I am a major proponent of comprehensive spending cutbacks, I am very concerned about the disproportionate cuts to agriculture funding in the President's fiscal year 2006 budget when compared to other areas in the government. Recently, I joined 50 other Senators in a letter to Budget Chairman Gregg and Senator Conrad highlighting this issue.

As you know, Congress is close to conferencing the budget, and I am supportive of the Senate's proposal on agriculture savings. The budget will continue to work its way through the process, and hopefully the outcome will bring agriculture savings to a more proportionate level with cuts in other areas of the government.

Whatever the budget outcome, I would like to point to some important issues I believe are important to my State of Idaho and to our Nation's agriculture industry, food consumers, and rural communities.

Again, thank you for your work over the first few months of your term, and for your willingness to consider some of the items of concern to Idaho.

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PREPARED STATEMENT OF SENATOR TIM JOHNSON

Thank you Chairman Bennett and Ranking Member Kohl, it is my pleasure to participate in today's hearing concerning the fiscal year 2006 United States Department of Agriculture (USDA) budget, and I appreciate the Secretary's time and attention to this important subject.

I am deeply concerned for what I perceive to be a sorely inadequate proposed USDA budget. Agriculture is a crucial industry in South Dakota, with sales of agriculture commodities accounting for \$3 billion each year. By this same token, USDA programs and Federal funding are crucial for producers when markets are challenging and prices are depressed. The Farm Bill that was hammered out in 2002 is a contract with rural America, with South Dakota, to ensure adequate safety nets and increased opportunities for rural communities. Numerous members of Congress, as well as agricultural organizations concerned with the President's proposed budget, have pointed out that the Farm Bill has come in at \$16 billion under projected costs because of solid commodity prices. It is astonishing to me, then, that at a time when producers need the contract negotiated by Congress and signed into law by this President, this Administration would propose limiting the benefits promised to producers. We cannot, I repeat, we cannot, balance the national deficit on the backs of our Nation's producers.

We've seen a drastic shift in population concentration in South Dakota, which is reflected in U.S. Census Bureau and the 2002 Census of Agriculture data. While the net population of South Dakota continues to increase, thousands of residents in

rural counties have had to relocate to find economic opportunities. USDA programs are crucial for maintaining status quo, and there are no substitutes for these initiatives.

One especially troublesome proposal is the Administration's treatment of our Federal formula funds. South Dakota State University (SDSU), a land-grant university in Brookings, South Dakota, relies heavily on Hatch, McIntire-Stennis, and Animal Health Federal formula funds. SDSU is especially concerned for the impact of the President's proposed cuts on their research centers and ability to function in an effective manner. The President's proposed budget would cut 45 faculty and staff at SDSU, with a 25 to 50 percent reduction in graduate students. These cuts will result in the closure of at least one SDSU research farm, and at least one SDSU public service laboratory. The Administration's emphasis on competitive grants is a bad idea for our land-grant institutions, and as a member of this subcommittee, I will work with my colleagues to rectify this flawed proposal.

The Resource, Conservation, and Development Program (RC&Ds) are funded at only \$25 billion, a reduction from fiscal year 2005 funding at \$51 billion. RC&Ds are important options in rural communities that foster economic activity, and use resources available to our rural communities to accomplish this. Decreased funding means fewer opportunities for economic growth.

While the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) will see a proposed increase from fiscal year 2005 funding levels of \$5.2 billion to \$5.5 billion for fiscal year 2006, I am concerned that this increase will not actually provide the dollars necessary to ensure our nutrition programs are fully funded. We're seeing a drastically increased need for these types of programs and a marginal increase in funding that doesn't offset that need.

The Commodity Supplemental Food Program (CSFP) that impacts so many of our Nation's seniors, and impacts a significant number of South Dakotans, was funded at only \$106 million in the President's proposed budget, when nearly \$146 million is needed to maintain the current caseloads. This proposed hit would drastically impact the number of folks, including seniors who rely on this program for vital nutrients in addition to social contact, in South Dakota who could participate in the program. A proactive agenda on programmatic dollars with nutrition programs is crucial, as increased costs on the front end lead to decreased expenses with health care—maintaining quality of life should be a priority by this United States Congress.

Last year, \$33 million was devoted to an animal identification system via the Omnibus spending bill, and for fiscal year 2006, the President has proposed an additional \$33 million for the initiative. Given the tremendous size and scale of this program, and the projected costs, I fail to see how this dollar value will be significant. If USDA is going to lead the charge, especially without a Congressional mandate, the Department needs to ensure adequate communication with Congress and consideration of stakeholder concerns.

I retain significant concerns for the proposal to cut marketing loan gains, direct, and counter-cyclical programs by 5 percent across the board. The Loan Deficiency Payment (LDP) program is an incredibly popular program in my State. The Administration's proposal to base this program on historical production penalizes a producer. It prevents the producer from recouping anything after a good year.

I am encouraged that the President, and this Administration, has proposed common-sense payment limitations. I introduced legislation with Senators Grassley, Dorgan, and Hagel that would lower the payment limitation to \$250,000, from its current level of \$360,000. Lowering the payment limit would save millions of dollars, and would allow Farm Bill programs to be targeted to producers who truly need these payments to stay in the fold. In my home State of South Dakota, in 2002, 20,259 farms with subsidies received an average of \$16,518—a far cry from the hundreds of thousands of dollars some farms receive. While I realize the differences in production input costs depending on commodity, it is my hope that \$250,000 can be seen as an equitable proposal and as a practical solution to our funding shortfall.

Once again, I would like to thank Secretary Johanns for appearing before the Subcommittee and Chairman Bennett and Ranking Member Kohl for holding today's hearing on the fiscal year 2006 Agriculture Budget.

Senator BENNETT. Mr. Secretary, thank you for being here, and we turn to you for your comments.

STATEMENT OF MIKE JOHANNIS

Secretary JOHANNIS. Thank you very much, Mr. Chairman.

Mr. Chairman and distinguished members of the Committee, I want you to know it is a great honor for me to be here the first time as Secretary of Agriculture to discuss the fiscal year 2006 budget. I look forward to serving as Secretary, but I also look forward to working with this Committee to carry out our work to serve the interests of agriculture.

As you have noted, I am joined by two very experienced individuals: Larry Wachs, the Acting Budget Director, and Dr. Keith Collins, our Chief Economist.

I will summarize my statement, and then I would ask that my full written remarks be included in the record.

Senator BENNETT. Without objection.

Secretary JOHANNES. While I am new to the Federal budget process, I do know firsthand the challenges presented in enacting budgets at the State level, and the local level, for that matter. As a Governor, I had the experience of making difficult decisions.

Mr. Chairman, I can relate. I left Nebraska in January. The Forecasting Board met right after I left and raised the forecast and said more revenues would be coming in. Some of my friends asked why it took me so long to leave the State.

I know that the President and the Congress are facing similar challenges. I am here to say that I support the President's budget. It meets our most important priorities while exercising the fiscal discipline that is necessary to deal with the deficit.

Reducing the deficit is a critical part of the President's economic plan. The long-term stability of the economy depends on whether we act now. Farmers and ranchers know the importance of a healthy economy. It raises income. It increases the demand for their products.

At the same time as we reduce the deficit, we must work hard to leverage our other tools, such as an aggressive trade agenda and tax policy to maintain a strong farm economy.

In his February 2nd State of the Union address, the President underscored the need to restrain spending in order to sustain economic prosperity. The budget savings and reforms in the budget are important components of achieving the President's goal of cutting the budget deficit in half by 2009, and we urge Congress to support the reforms.

The fiscal year 2006 budget includes more than 150 reductions, reforms, and terminations in nondefense, discretionary programs government-wide. The Administration wants to work with Congress to achieve these savings.

The President's budget, which was released on February 7, indicates that the USDA outlays are estimated to increase from about \$72 billion in 2004 to nearly \$95 billion in 2005 and then to remain roughly at that level in 2006. The increase in 2005 was due to higher mandatory outlays in farm programs as well as nutrition assistance programs.

For the Department's discretionary budget, the overall budget authority request is \$19.4 billion. This compares to \$22 billion provided in 2005, which included \$1 billion in one-time disaster funding for wildfire management and hurricane assistance. That is not continued in the 2006 budget. The appropriation request pending

before the Committee, which does not include the Forest Service, is \$15.3 billion.

Because the discretionary budget is very tight, we have had to make recommendations for the reduction or termination of some programs based upon best judgment concerning priorities in program effectiveness, and these proposals are detailed in my formal statement. I will offer a few specific highlights.

I have stated that my immediate top priority as Secretary is to get American beef exports moving back into Japan. We need to do all we can, however, to prevent a further incident of BSE. We want to ensure that our agricultural imports and exports are safe for consumers, not only at home but abroad as well.

The Department has been engaged in a one-time enhanced testing program during 2004–2005. I can tell you that we checked just before the hearing started today, and we have tested about 314,000 animals in this program, all negative.

The Department is also in the process of implementing a National Animal Identification System. For 2006, the budget proposes continued funding for the implementation of the System and for ongoing BSE testing. Once we have evaluated the enhanced testing program, a decision on the number of animals needed to be tested in the future will be made.

The budget provides \$7.5 million in additional appropriations to increase our scientific understanding of the disease and to develop the technology needed by regulatory agencies to establish science-based policies and control programs.

Turning to the threats to our food supply, the budget proposes a government-wide effort of nearly \$600 million for the President's Food and Agriculture Defense Initiative. For USDA's part, the budget proposes \$317 million for program activities and \$59 million to complete construction of the National Center for Animal Health in Ames, Iowa. Program funding includes a \$140 million increase above 2005 to strengthen the networks for responding to food emergencies and plant and animal diseases, conducting additional research, and enhancing monitoring and surveillance efforts to quickly detect pests and disease.

The President's budget proposes that the Department's farm programs also contribute to the government-wide deficit reduction effort. There are several proposals cited in the budget to accomplish that objective. These proposals are equitably spread across the agriculture production sector, designed to work within the existing structure of the 2002 Farm Bill, and to achieve savings between 3 and 5 percent from baseline spending over the 10-year period. Together, our proposals would save about \$587 million in 2006 and \$5.7 billion over 10 years. The majority of the savings from these proposals would be attained through the across-the-board reduction in program payments.

We believe the President has presented a budget that has some reasonable suggestions for reducing the cost of farm programs. However, we acknowledge that many of these policy proposals, such as the reduction in the payment limit, are quite sensitive. We recognize Congress may have other proposals to achieve these savings, and we are willing to work with the Congress on other cost savings recommendations.

The budget proposes that starting in 2007, the crop insurance program also make a contribution to deficit reduction. Net outlays for crop insurance have grown nearly 50 percent between 2001 and 2006, with the implementation of crop insurance reforms in 2000. In addition, since 2000 we have seen four ad hoc disaster programs covering 6 crop years; the total cost of that was \$10 billion. In this regard, the budget includes proposals to enhance crop insurance coverage and reduce program delivery costs so that crop insurance will provide coverage that is sufficient to sustain most farmers in times of loss. Our proposals together would save an estimated \$140 million annually in this area, beginning in 2007, contributing about \$1.3 billion to deficit reduction over the 10 years.

Based on the 2002 Farm Bill, this Administration has implemented the largest conservation program in history. The Farm Bill provided in excess of \$17 billion in new conservation funding over 10 years. The budget includes \$3.8 billion in mandatory funding to continue implementation of the conservation programs authorized by the Farm Bill. Total acreage covered by these programs would increase from 159 million acres to 184 million acres in 2006.

The budget also includes \$814 million in discretionary funding for ongoing conservation work that forms the foundation of the Department's conservation partnership with farmers and ranchers. This is a decrease of \$177 million below the 2005 enacted level and reflects the elimination of Public Law 566 and 534 watershed programs, conservation operations earmarks, and a reduction of \$25 million in funding for the Resource Conservation and Development Program. Within the total for conservation program operations, priority will be placed on other high-priority conservation activities, such as providing more conservation technical assistance to livestock producers to help them develop nutrient-management plans, and to meet the regulatory challenges they face.

Participation levels in the Department's three major food nutrition assistance programs—Food Stamps, WIC, and Child Nutrition—have been growing in recent years, as you know, and the budget needs to keep pace with the trend. WIC participation has been growing more than 3 percent each year. Food Stamp participation is actually up about 10 percent each year and School Lunch participation has reached a new record level of 29.8 million children per day.

The budget contains sufficient resources to fully fund expected participation for these programs. It also provides contingency funding in the event that additional resources would be needed.

The Department not only provides food assistance domestically; it also assists 2.6 million women and children in developing countries through preschool and school feeding programs carried out under the McGovern-Dole International Food for Education and Child Nutrition Program. The budget increases funding for the McGovern-Dole program by more than 15 percent over the 2005 enacted level.

Research to improve the quality and productivity of America's food production and distribution system was the central reason why USDA was founded in 1862. America has led the world in innovation and efficiency through our research, and that work must continue, especially if we want to maintain our lead.



The 2006 budget places a high priority on critical research issues facing American agriculture and strengthening the quality of research by focusing on competitive programs. The Administration strongly believes that research should be funded through peer-reviewed competitive programs. Therefore, over the next 2 years, research formula funds will be redirected on a merit-based competitive process. As part of the change, the 2006 budget includes a \$70 million increase for the National Research Initiative and a new \$75 million competitive research grant program targeted to regional, State, and local needs.

Mr. Chairman, my full written statement includes additional details on many areas of the USDA budget, including a total program level of \$973 million for food safety for meat and poultry and egg products, partially funded by a proposed new user fee; \$6 billion for international activities such as trade promotion; and \$13.5 billion in rural development funding, which includes \$4.5 billion for home-ownership opportunities.

In addition, USDA continues to make improvements to our management to ensure that the Department is efficient, that it is effective and guided by equality for all customers and employees. As a former Governor, I am well aware of the need for good management as well as accountability for taxpayer funds, and I look forward to working with this committee and the Congress to ensure the best possible stewardship of our resources.

#### PREPARED STATEMENT

In conclusion, while the President is serious about reducing the deficit so that the economy can continue to grow over the longer term, it is still a robust budget and it continues to fund key priorities. No Department or sector is being singled out, and USDA is part of a team that will do its part to produce savings that will strengthen the economy while adopting reforms that improve our programs.

Thank you very much, Mr. Chairman. We would be happy to answer any questions.

[The statement follows:]

#### PREPARED STATEMENT OF MIKE JOHANNIS

Mr. Chairman and distinguished members of this Committee, it is indeed a great honor for me to appear before you as Secretary of Agriculture to discuss the fiscal year 2006 budget for the Department of Agriculture (USDA).

I am joined today by Larry Wachs, our Acting Budget Officer and Keith Collins, our Chief Economist.

This is my first appearance before this Committee. Let me say that I am grateful to the President for nominating me for this position. I look forward to serving as Secretary of Agriculture and working together with this Committee to carry out our work to serve the interests of agriculture, rural communities and consumers of food worldwide. I am no stranger to agriculture or to public service. I grew up on a dairy farm in Mitchell County, Iowa, and I have always had a deep passion for agriculture. As Governor of Nebraska, I have been actively involved in agricultural issues affecting my State. Agriculture is a key economic driver in Nebraska since it is the Nation's largest beef processing State and the fourth largest exporter of agricultural products. As Governor, I led trade missions all across the world to market our food products. I also worked aggressively on drought issues and drought policy as well as pursuing value added opportunities, such as ethanol production.

While I am new to the Federal budget process, I know first hand the challenges related to presenting and enacting budgets at the State level. As a Governor, I had the experience of having to make some difficult decisions related to the budget since

State law required the budget to be balanced. I know the President and the Congress are facing similar challenges. I am here to say that I support the President's budget for the Department. It meets our most important priorities, while exercising the kind of fiscal discipline that is absolutely necessary to reduce the Federal deficit. Reducing the deficit is a critical part of the President's economic plan. The long-term stability of the economy depends on whether we have the will to act now. Farmers and ranchers know the importance of a healthy economy, which raises incomes and increases demand for their products. At the same time as we reduce the deficit, we must work hard to leverage other tools, such as our aggressive trade agenda, to maintain the strong farm economy.

It is now my responsibility to pick up where Secretary Veneman left off and work with the Congress on the 2006 budget. I want to assure the Committee that the Department will be fully engaged to provide whatever assistance Congress may need as it carries out its responsibility related to the 2006 budget.

Because of the overriding need to reduce the Federal deficit, USDA, like every Federal agency, will share the governmentwide burden of controlling Federal spending. There are proposals in the budget for USDA that will produce real savings in both mandatory and discretionary spending. With that said, the President's 2006 budget request for USDA does meet our priorities by promoting economic opportunity and ownership for farmers and rural residents, protecting America's agriculture and food supply, and providing important assistance to the needy at home and abroad. It also makes government more effective by improving management and accountability and by eliminating, reforming, or phasing out programs that are not cost-effective or do not show measurable results.

The President's Budget, which was released on February 7, indicates that USDA outlays are estimated to increase from about \$72 billion in 2004 to nearly \$95 billion in 2005 and then to remain roughly at that level in 2006. The increase in 2005 was due to higher mandatory outlays in the farm programs as well as in the nutrition assistance programs. For the Department's discretionary budget, the overall budget authority request is \$19.4 billion. This compares to the \$22 billion provided in 2005, which included \$1 billion in one-time disaster funding for wildfire management and hurricane assistance not continued in the 2006 budget. The appropriation request pending before this Committee, which does not include the Forest Service, is \$15.3 billion.

I would now like to focus on some specific program highlights.

#### BOVINE SPONGIFORM ENCEPHALOPATHY (BSE)

I have stated that my immediate top priority as Secretary is to get American beef exports moving again to Japan. We also need to do all we can do to prevent a further incident of BSE. We want to ensure that our agricultural imports and exports are safe for consumers at home and abroad.

For 2006, the budget proposes funding for BSE testing and implementation of the National Animal Identification System (NAIS). The Department has been engaged in a one-time, enhanced testing program during 2004 and 2005. As of late March, we have tested about 295,000 animals so far, all of which have been negative. Once we have evaluated the results of the enhanced testing program, a decision on the number of animals needed to be tested in the future will be made. The Department is also in the process of implementing the NAIS. As of late March, 44 States have the ability to register livestock production operations in the System. The goal is to have all States operational for premises registration by the middle of 2005. In addition, the budget provides an increase of \$7.5 million in appropriations for increasing our scientific understanding of the disease and developing the technology needed by regulatory agencies to establish science-based policies and control programs.

BSE is the disease that is now getting much of the attention. Of course, there are other diseases and pests that can affect livestock and crops that we need to guard against. We need to be constantly vigilant to prevent the deliberate or unintentional introduction or spread of plant and animal diseases and pests that can cause severe economic or environmental damage. Our budget request for 2006 continues the Department's efforts to find and control the spread of deleterious animal and plant pests and diseases.

#### FOOD AND AGRICULTURE DEFENSE INITIATIVE

In order to protect American agriculture and the food supply from intentional terrorist threats and unintentional introductions, the budget proposes a governmentwide effort of nearly \$600 million for the President's Food and Agriculture Defense Initiative. For USDA's part, the budget proposes \$317 million for ongoing program activities and \$59 million to complete construction of the National Center for Ani-

mal Health in Ames, Iowa. Program funding for these ongoing programs includes a \$140 million increase, 79 percent above 2005, to strengthen the networks for responding to food emergencies and plant and animal diseases, conduct additional research and enhance monitoring and surveillance efforts to quickly detect pest and disease threats.

#### FOOD SAFETY

The Nation's current food safety inspection system has demonstrated that our food supply is the safest in the world and continues to show improvements based on historical reductions in the incidence of foodborne illness. The 2006 budget provides for continued protection of the Nation's supply of meat, poultry and egg products. The budget includes a program level of \$973 million for the Food Safety and Inspection Service. This is an increase of \$36 million over 2005. The additional funds are requested to maintain Federal support of State inspection programs, and to provide for a more effective front-line inspection workforce to improve our ability to detect and respond to intentional and unintentional contamination in the food supply. The budget requests an appropriation of \$850 million and \$123 million in existing fees. Of the \$850 million requested to be appropriated, the budget assumes \$139 million will be derived from new user fees.

#### FARM PROGRAM SPENDING

The U.S. farm economy has never been stronger. Record harvests and a strong livestock sector have contributed to the growing strength of the farm sector. Since 2003, producers have experienced record crops, record cash receipts, and record net farm income. The large crops that boosted farm income in 2003 and 2004 are now impacting domestic markets with heavy supplies that are weakening prices and driving up farm program costs. For 2005 and 2006, Commodity Credit Corporation (CCC) outlays are now estimated to total \$24 billion and \$19 billion, respectively, compared to only about \$11 billion in 2004.

The prospect of higher budget outlays for the commodity programs may complicate the job of reducing the Federal deficit. In this regard, the President's budget proposes that the farm programs contribute to the governmentwide deficit reduction effort. There are several proposals cited in the budget to accomplish that objective. These proposals are designed to work within the existing structure of the 2002 Farm Bill and achieve savings of between 3 and 5 percent from baseline spending over 10 years. The proposals which are equitably spread across the agriculture production sector include: reducing farm program payments across the board by 5 percent, basing marketing loan benefits on historical production, tightening payment limits, lowering dairy program costs and reinstituting a small sugar marketing assessment.

Last October, President Bush committed to working with Congress to extend the Milk Income Loss Contract (MILC) program for 2 years. The budget includes additional funding to meet this commitment and continue this program that provides a safety net for small dairy producers.

Together, these proposals would save about \$587 million in 2006 and \$5.7 billion over 10 years. The majority of savings from these proposals is obtained through the across the board reduction in program payments. We are willing to work with the Congress in order to achieve the savings estimated in the President's budget.

#### TRADE

Expanding markets for agricultural products is critical to the long-term health and prosperity of our agricultural sector. The budget provides \$6 billion for the Department's international activities to ensure that we can continue our important work of expanding access to overseas markets and developing long-term trading relations with those markets. Of particular importance, funding for the Foreign Agricultural Service is increased so the agency is able to maintain its overseas presence and continue to represent and advocate for U.S. agricultural interests on a global basis.

#### CROP INSURANCE

The budget proposes that starting in 2007 the crop insurance program also make a contribution to deficit reduction. Net outlays for crop insurance will have grown nearly 50 percent between 2001 and 2006 with the implementation of crop insurance reforms in 2000. In addition, since 2002 we have seen four ad hoc disaster programs covering 6 crop years for a total cost of \$10 billion. In this regard, the budget includes proposals to enhance crop insurance coverage and reduce program delivery

costs so that crop insurance will provide coverage that is sufficient to sustain most farmers in times of loss. Proposals include a higher minimum coverage level, tying the receipt of direct payments for program crops to the purchase of crop insurance and changes in fees, premiums rates and delivery expenses. These proposals together would save an estimated \$140 million annually, beginning in 2007, contributing about \$1.3 billion to deficit reduction over the next 10 years.

#### CONSERVATION

Based on the 2002 Farm Bill, this Administration has implemented the largest conservation program in history. The Farm Bill provided more than \$17 billion in new conservation funding over 10 years. The budget includes \$3.8 billion in mandatory funding to continue implementation of the conservation programs as authorized in the Farm Bill. Total acreage covered by these programs would increase from 159 million acres to 184 million acres in 2006. The Conservation Security Program would receive an additional \$72 million to extend the program to approximately 200 additional watersheds in 2006. For the Conservation Reserve Program, USDA's largest conservation program, enrollment of 37.2 million acres is projected for 2006 up from the current enrollment level of 34.7 million acres.

The budget also includes \$814 million in discretionary funding for ongoing conservation work which forms the foundation of the Department's conservation partnership with farmers and ranchers. This is a decrease of \$177 million below the 2005 enacted level and reflects the elimination of the Public Law 566 and Public Law 534 watershed programs, conservation operations earmarks, and a reduction of \$25 million in funding for the Resource Conservation and Development Program. Within the total for conservation operations priority will be placed on other high priority conservation activities, such as providing more conservation technical assistance to livestock producers to help them develop nutrient-management plans and to meet regulatory challenges.

#### RURAL DEVELOPMENT

Rural America needs to share in the Nation's prosperity. It must have adequate financing for housing, community infrastructure, and rural businesses. The President's 2006 budget includes \$13.5 billion in loan, grant, and related assistance for this purpose, including \$4.5 billion for providing homeownership opportunities. The 2006 budget also includes a major initiative to deal with the changing environment for the multi-family housing program. It provides \$214 million for protecting the rents of tenants who live in projects that are eligible to prepay their loans and leave the program. The Administration will also be proposing legislation later this year to provide new authorities that would help meet the capital needs for necessary repairs and rehabilitations of projects that remain in the program.

#### RESEARCH

Research to improve the quality and productivity of America's food production and distribution system was the central reason that USDA was created in 1862. America has led the world in innovation and efficiency through our research, and that work continues, especially if we seek to maintain the lead. The 2006 budget places a high priority on critical research issues facing American agriculture and strengthening the quality of the research by focusing on competitive programs. The Administration strongly believes that research should be funded through peer-reviewed competitive programs. Therefore, over the next 2 years, research formula funds will be redirected to a merit-based competitive process. As part of this change, the 2006 budget includes a \$70 million increase for the National Research Initiative, and a new \$75 million competitive research grant program targeted to regional, State, and local needs. In addition, the budget supports research's key role in previously mentioned high priority initiatives, including the President's Food and Agriculture Defense Initiative and responding to BSE.

#### FOOD ASSISTANCE

Participation levels in the Department's three major nutrition assistance programs—Food Stamps, WIC and Child Nutrition—have been growing in recent years and the budget needs to keep pace with that trend. WIC participation has been growing at more than 3 percent each year, Food Stamp participation is up about 10 percent each year and School Lunch participation has reached a new record level of 29.8 million children per day. The budget contains sufficient resources to fully fund expected participation for these programs and provides for contingency funding in the event additional resources are needed.

For Food Stamps, legislation will be proposed to tie automatic eligibility for Temporary Assistance for Needy Families (TANF) recipients to those who receive actual cash assistance. This change will reduce food stamp costs by \$57 million in 2006 and by about \$1.1 billion over 10 years. The 2006 budget will continue to exclude special military pay when determining food stamp benefits for deployed members of the armed services.

The WIC request provides full funding for all those estimated to be eligible and seeking services. But, because food costs have risen sharply for the WIC program in recent years, the Department will be looking into ways to contain costs and continue to improve the program's performance.

The Department not only provides food assistance domestically, it also assists some 2.6 millions of women and children in developing countries through preschool and school funding programs carried out through the McGovern-Dole International Food for Education and Child Nutrition Program. The budget increases funding for the McGovern-Dole Program by more than 15 percent over the 2005 enacted level.

#### DEPARTMENT MANAGEMENT

As a former Governor, I know effective management is a critical part of what I want to accomplish in the coming years. I am looking forward to working with the Department's senior managers as we take up the challenge of managing the Department of Agriculture. This Department is a large and complex organization with a program level of over \$100 billion and a staff of over 100,000. If USDA were a private corporation it would be ranked as one of America's largest corporations. So there are many challenges in the management area and our budget request takes this into account.

It is crucial that the Department be as efficient, effective and discrimination-free as possible and that we deliver the best return on taxpayer's investments. In recent years, the Department has made significant progress in improving management. Some notable accomplishments include:

- The Department's Strategic Plan is used throughout the Department to communicate and drive our programmatic, budget and management priorities. The Plan was used to guide the 2006 budget request.
- The Department has developed a comprehensive set of performance goals, measures, and targets for USDA activities.
- The Department received its first-ever unqualified or "clean" opinion on the fiscal year 2002 financial statements and has received a clean opinion each year since.
- USDA agencies are deploying new technologies that allow customers to conduct business transactions over the Internet, saving both customers and the Department time and money.

The 2006 budget builds upon the progress made so far by providing the funding necessary to ensure there are staff and resources in place to continue improving customer service and providing efficient program delivery. As part of the 2006 budget, the Department would also continue efforts to modernize its field office service centers and to expand the use of Geographic Information Systems (GIS) to facilitate customer service. Funds to continue renovations of our headquarters facilities are also being requested in order to ensure that employees and customers have a safe and modern working environment.

In summary, I want to emphasize that the President is serious about reducing the deficit so that the economy can continue to grow over the longer term. This budget moves us in the right direction while continuing to meet key priorities. No Department or sector is being singled out and USDA will do its part in producing savings that will strengthen the economy and adopt reforms that will improve our programs.

That concludes my statement. I look forward to working with members and staff of the Committee and will be glad to answer questions you may have on our budget proposals.

Senator BENNETT. Thank you, Mr. Secretary. We appreciate your comments, and again we appreciate your willingness to serve in this highly challenging position that you have accepted. I think you are finding it probably a little more challenging than you may have thought the day before being sworn in.

You said in your statement that you would be willing to work with the Congress and consider other recommendations besides those that were contained in the President's budget. And that is

good news for us to hear because, as you have heard from those that did make opening comments, there may be some different priorities or different challenges that we would want to address. And so I just want to underscore your comment about your flexibility, your willingness to look at changes within this budget. Let's be clear about this. I am assuming you are not willing to deal with the top line.

#### DEFICIT REDUCTION

Secretary JOHANNIS. The top line is the goal. It is deficit reduction. You know, it appears to me that no matter which side of the aisle, which philosophical approach, deficit reduction is just critical to the future of this economy. The President has put out his suggestions, which I believe are reasonable suggestions, for cost reductions.

We do acknowledge that the policy proposals, such as the reduction in the farm program payments limit, are sensitive issues. Mr. Chairman, I want to underscore to you that we will work with Congress to try to achieve the savings that were set out in the President's proposal.

Senator BENNETT. Okay. Thank you. I appreciate that. I am sure the other members of the subcommittee do.

#### CANADIAN BORDER CLOSURE

Let me raise an issue that probably has some disagreement within the subcommittee, but for that reason I think it is important for us to at least understand it. I would like to discuss the situation with respect to the Canadian border. There are some who are rejoicing that the Canadian border is closed and hope that it stays closed forever and ever. And there are others who are in serious difficulty. We have a processing plant in Utah that now is operating only 3 days a week, where prior to the closing of the Canadian border with respect to live cattle was running a full 6-day full-time shift and doing well.

We understand that many people are building facilities in Canada on the assumption that the permanent effect of this will be to destroy the market opportunities for processing plants in the United States and that we could see a permanent shift into Canada as the Canadians decide, well, we are not going to ship cattle to America anymore, we will process them ourselves and go overseas then from a Canadian base.

Can you discuss this whole situation? What does it look like with respect to the Canadian border? I do understand that boxed beef is being imported into the United States, but discuss with us the question of the Canadian border and how soon you expect that it might be opened or if you feel there is a prospect that it could be delayed indefinitely.

Secretary JOHANNIS. I would offer a number of observations and, Mr. Chairman, I would start out and say I believe the observations you have made are accurate. Canada is killing probably about 80,000 animals a week. Every expectation is that that number will continue to grow. This year, it probably will surpass 100,000. They feel very, very strongly about their beef industry, as we do. They are very proud of their industry. They have done many of the same

things that we have done in terms of the firewalls relative to BSE. In fact, they banned the ruminant-to-ruminant feeding on the same day we did. They are working hard and aggressively, as we are, to implement that ban.

The whole goal here is for the USDA to make its decisions based upon good science, and the minimal risk rule allows for the importation of beef products from animals under 30 months and live animals headed to slaughter under 30 months from minimal-risk countries including Canada. And every indication is that that is safe. And I believe very, very strongly the science supports that.

We were ready to proceed with the rule, as you know, in the first week of March. A decision was made by a Federal court judge in Montana to hold that up. That decision is now on appeal to the Ninth Circuit Court of Appeals. I believe our brief is due on Thursday of this week. So we are now working our way through the legal process. Once that is resolved, given the go-ahead, we are ready to proceed very, very quickly. But, of course, we need to work through the legal process.

The other observation in your question that once the industry restructures in Canada, it is not likely to change again anytime soon. Canada's first preference would be to resume normal trade relations with the United States, but they also recognize that they have to diversify, which means they are aggressively pursuing foreign markets.

It was interesting to me that Taiwan announced, as you know, that they would resume trade with the United States in beef recently. Egypt did also. I just noticed this morning that Taiwan indicated that they are very close to resuming trade with Canada. We see Canada out there in the international marketplace. They are becoming a bigger and bigger competitor.

Then there is the other issue that you point out about the impact on our processing plants in this country, and, again, some will be able to hold on. They have the capital to do it. But for some of the small processors, I worry very much that if this market shift into Canada continues to go on, there is a point at which they cannot hold on and then processing will relocate, and people are out of work. All of the things that you are experiencing in your State start to happen.

Again, I think what it comes back to is this: Base our decisions on sound science, make sure we are paying attention to the science, and that will lead to the right result.

#### CSREES BUDGET PROPOSALS

Senator BENNETT. Thank you. Let's talk about the budget proposals for CSREES and their impact on schools of agriculture or forestry. Do you think that there is a possibility that some of these schools will be shut down if these budget proposals are upheld? And you have been a Governor. What about the State legislatures and colleges? Do they have enough time to react to the changes in funding that are being proposed?

Secretary JOHANNIS. This is a program, as you know, where universities have, over a period of time, built these appropriations into their budget base. Part of the proposal here is that when we head out to do research, we should do it on a competitive-based ap-

proach, to try to do everything we can to ensure that we are getting the maximum impact for the Federal dollars that we put into this area. So the proposal is for a competitive, peer-reviewed, juried approach to decide where those research dollars should be allocated.

It is hard to argue with the approach if you recognize that what we are really trying to do is take a limited resource, the money that we can put into research, and try to obtain the best possible research product we can get. This phases in, if I remember correctly, over 2 years, so my hope is that universities will adjust to this. Many are talking about the reductions they are going to face, but the reality is that I believe universities can compete in this process, compete for these research dollars, and secure the funding through the competitive juried process for science-based research.

#### USER FEES

Senator BENNETT. You propose a number of user fees, additional user fees. Do these come as a single package, or can you estimate the time basis on which they will hit?

Secretary JOHANNIS. I will ask our acting budget director to talk about the package here, and then I will offer a thought, if I could, Mr. Chairman.

Senator BENNETT. Surely.

Mr. WACHS. Mr. Chairman, we have not yet submitted those user fee proposals. We are working on them now, but no decision has been made as to whether or not we will send them up as one unique piece of proposed legislation or individual pieces.

Senator BENNETT. I see. Okay. Well, get that to us as quickly as you can because there is a history that spans administrations and parties that says, well, if you have got a problem, you propose some tax increases or some user fees or something of that kind, which you know the Congress will never enact, but at least it gives you the number.

Now, I am not accusing this administration of that practice, but I have seen past administrations, Republicans as well as Democrats, do that. So the more specificity you can give us, the more credibility you will have with respect to this issue.

Mr. WACHS. Yes, sir.

Senator BENNETT. All right. Did you want to make a comment, Mr. Secretary?

Secretary JOHANNIS. User fees are something I have worked with in a past life, and properly administered and implemented, they do work and you can still have excellent programs, even though a portion of it would be financed with user fees. For example, for meat inspection, the proposal would allow one approved 8 hour shift to be paid for with government funds, and then anything beyond that would be paid for with the user fees. Again, I have seen some very, very excellent programs.

Senator BENNETT. Well, I am not opposed to user fees. I think user fees make sense. But we would like some specifics when we can have them. Thank you very much.

Senator KOHL.

Senator KOHL. Thank you, Mr. Chairman.



## NONFAT DRY MILK

Mr. Secretary, last year, I was able to work with Secretary Veneman to extend a very successful pilot program between USDA and the Milwaukee Hunger Task Force. This program allows them to turn nonfat dry milk into mozzarella cheese, which is then distributed to local food pantries. It has been in effect for over a year now, and we recently were able to extend the program until September at a minimum. However, there has been some question regarding the amount of nonfat dry milk available. I know the USDA Web page shows the total amounts of surplus nonfat dry milk, but it does not indicate, as you know, the quality or age of those stocks.

So could you provide the committee with monthly reports on the age and quality of those stocks and how they are to be distributed, including domestic feeding programs, foreign aid, livestock assistance, and other purposes?

Secretary JOHANNIS. Yes, sir. This is a situation where I just want to represent to you that I know there was a bump in the road there, and, sir, I am sorry for that occurring. But the answer to your questions is yes. We will work with you and the members of the Committee to make sure that the information regarding nonfat dry milk supplies is at your disposal. If the information is not adequate, then we will work with you to solve that problem and get that information at your fingertips. So the answer to your question is very directly yes.

Senator KOHL. I appreciate that.

## FARM INCOME

Mr. Secretary, in your statement you said, and I quote, "The U.S. farm economy has never been stronger." However, I have received an ERS document that headlines "Farm households receive most of their income off the farm." The article confirms that farm household income has been at or above the national average in recent years, but largely because most of that income comes from off-farm jobs.

So what is the real statistic? Is real farm income going up, or are more farmers and ranchers being forced to send out their wives or husbands, their children, and perhaps even themselves, to bring in the necessary income to keep their farms afloat?

Secretary JOHANNIS. You raise an excellent issue, and I have got an economist here that I am sure is probably anxious to offer a thought. But I will offer a thought based upon my experience.

Your observation is accurate. There is just no question that there are more spouses and sometimes both husband and wife, out working in town.

In my experience, there are a number of reasons for that. One of the reasons came home to me very vividly. We had opened a call center in a community in western Nebraska, and a woman came up to me and said, "You know, Governor, we are so appreciative for these jobs. And the reason why is if I work here, I can get a health plan for my family." And she said, "As you know, out on the ranch the only health plan really is the one that we buy."

So there are some things like that going on out in rural America, but your observation is correct. We are seeing more and more people working off the farm now.

In terms of the statistics, I will ask Dr. Collins to offer a thought.

Mr. COLLINS. Senator Kohl, I would say that what you see in the farm economy is really no different than what you see in the national economy. We just had a year where the Gross Domestic Product GDP rose 4.4 percent, but we had unemployment of 5.5 percent. In fiscal year 2005, we had 24 million people on food stamps.

That is not to say because those people have such financial difficulties that we did not have a well-performing national economy. We did. We have had a well-performing farm economy the last 2 years. We set a record for net cash farm income in 2003, another record in 2004, and we are predicting another record in 2005 for farm income.

A lot of that farm income, however, accrues to a small portion of the farms in the United States. When we survey farmers and we ask them what their principal occupation is, over half tell us it is something other than farming. Thus, a large proportion of the 2.2 million farms we have say they are non-farmers and they earn the bulk of their income off the farm. That can be looked at negatively as something they are forced to do to make ends meet. Or it can be looked at positively; that is, people can stay in farming as a small and medium-size farmer because they have an off-farm job and they can remain in farming. So you can look at that either way.

In the aggregate, farm income represents only about 10 percent of the total household income of all farm families; 90 percent is off the farm. And that is largely because of the large number of lifestyle, retired farms and very small farms that we have.

So it is a complicated picture, it is a mixed picture, and you can find different stories in those statistics.

#### AGRICULTURAL BORDER INSPECTIONS

Senator KOHL. All right. Mr. Secretary, a few weeks ago, GAO issued a report on the potential threat of agroterrorism. GAO pointed out problems with USDA accreditation for veterinarians, rapid diagnostic tools, stockpiles of ready-to-use vaccines, and the 8-percent decline in agricultural border inspections. I know you have seen this report.

The decline in border inspections since USDA transferred much of this responsibility to the Department of Homeland Security is especially troubling. Why do you think there has been a decline in agriculture inspections at the border? And what steps do you propose in order to improve agricultural border security?

Secretary JOHANNES. There have been changes, as you point out, and the key here, in terms of what I propose is that we really do everything we can to work with the Department of Homeland Security to make our efforts relative to the protection of our food system and our food supply as absolutely seamless as we possibly can, whether it is border inspection or otherwise.

Many good things have happened over time. Again, having been a Governor on 9/11 and seeing the progress that has been made, many good things have happened especially with the assistance

that has been provided by the President and Congress to the State and local levels. But there is always work to be done. I think this report pointed that out to us, and in some areas, quite honestly, it may call for us to just redouble our efforts, working together with the Department of Homeland Security.

Again, I would not want anything I am saying today to downplay the positive impact that the support of Congress and the President has had on State and local governments in terms of our preparation for problems with terrorism, including bioterrorism.

#### AVIAN INFLUENZA

Senator KOHL. Every day we read of potential threats that could devastate our agricultural sector and endanger human health. Avian flu in Asia is an example which, by some accounts, could result in a really terrible pandemic. What is USDA doing to help contain the avian flu? What other countries are you working with on this problem? And what other agencies, such as CDC, are you working with?

Secretary JOHANNES. Your question is very timely. I have just asked for an extensive briefing on avian flu involving the Department of Health and Human Services and USDA. There are many predictions, some of them doomsday sort of predictions, about the potential for avian flu. And I will tell you that at the USDA, I am taking this very, very seriously. I want to do everything we can to be prepared.

As you know, in our country we have a very robust response to any problems in this area. We are going to do everything we can to encourage our foreign trading partners to do likewise. But let me assure you, this is absolutely on my radar screen. It is a very important issue to me. And I am going to spend some time and effort to make sure we are doing all we can to deal with this issue. It is here and it is very real.

#### VETERINARIAN SHORTAGES

Senator KOHL. Mr. Secretary, what about veterinarians? As you know, we have a shortage of veterinarians in rural areas, and they provide good surveillance of animal disease and potential agroterrorist threats. Do you have some thoughts on how we can do a better job of providing adequate veterinarians in our rural areas?

Secretary JOHANNES. There are a number of programs out there at the State level relative to educating veterinarians. I will give you an example of one I am very familiar with.

In the State of Nebraska, we did not have a veterinary school. Some years ago we made an attempt to make it happen, and it just did not come together, for a variety of reasons. So we entered into an agreement with a veterinary school in Kansas and basically what we did as a part of the State budget is buy down the out-of-State tuition for the student. They liked the program in Kansas, we liked the program in Nebraska, and we have been able to educate veterinarians. So there are some creative things going on out there to try to deal with this veterinarian shortage issue.

Many States have programs that bring retired veterinarians into service. Another thought in terms of dealing with the whole issue

is—let's say you have an outbreak where you really need veterinarian services. States have State veterinarians that we can work with. Many States have plans in place that they can activate.

So the entire burden of providing veterinarian services is not being completely shouldered at the national level. The States are doing some very, very good, creative things, and I think whatever we can do to help them in that effort is very, very positive.

But your observation is, again, very real. There is a need to maximize the veterinary resources we have out there and try to improve that situation. But there are some programs in place that can help do that.

#### MADCOW DISEASE (BSE)

Senator KOHL. Mr. Secretary, on mad cow disease, you stated that your top priority is to get American beef moving again to Japan, and the USDA budget for this year will fund approximately 40,000 BSE inspections. This is a huge decrease, as you know, from the level of inspections since BSE was discovered in the United States.

So how does this level compare to the level of BSE inspections USDA was performing prior to the discovery of BSE in the United States?

Secretary JOHANNES. The request for BSE inspections is double what they were in 2004. Proposed inspections increased from 20,000 in 2004 to 40,000 in 2005 and the same number of inspections is proposed for 2006. However, for the last year, we have been doing an enhanced surveillance program, and as I mentioned, we checked just before this hearing started, and we have now tested about 314,000 animals in this enhanced surveillance program. And, Senator, I am very happy to report to you that everything is negative up to this point.

We are going to evaluate this program. We are doing everything we can to make sure that we are conducting broad-based testing in those areas of the country with increased risk and we will evaluate that and determine whether to continue this enhanced surveillance program.

A couple of very important points. Although I think there is some misunderstanding about this, we have never argued that this was a food safety approach. It really is a surveillance approach. The whole idea of the USDA, when this was kicked off and enhanced, was to get a better idea of what the national herd condition was like relative to BSE.

At the time when it was kicked off, the USDA made statements that we anticipated finding other BSE animals. But it has not happened and we are happy about that. But it was, again, never designed to be a food safety approach. It is an enhanced surveillance approach.

My goal in the next couple of months is to make sure that we have done the testing in the regions of the country that we should be testing that we have touched the necessary bases, that we make an evaluation of where we are with this program and make a decision about where we go from there.

Senator, I will tell you that in that effort, I will certainly consult with Congress and this Subcommittee and others who have an interest in this area about their thoughts and ideas.

Senator KOHL. If we need more inspections, how do you plan to get them funded?

Secretary JOHANNIS. Of course, we would have to consider use of CCC funds or ask for an appropriation to make that happen.

#### BEEF EXPORTS TO JAPAN

Senator KOHL. Well, are you convinced that our present level of testing is convincing our trading partners that we, in fact, are serious? When are we going to get our beef back into Japan? What do you anticipate?

Secretary JOHANNIS. There is a whole combination of things that are at work here. The surveillance, again, was our effort to get an idea of what our national herd looked like. But the removal of specific risk materials (SRMs), and allowing animals under 30 months, all of those things fit in together in terms of a risk analysis. And we believe very strongly that with those approaches, you really bring the risk down to practically nothing when it comes to BSE. And regardless of whether we are talking to Japan or Egypt or any other country the case we are making, is that based upon good science, when you consider all of the things that we have done, our beef supply is safe. And that is the case we are making to our trading partners.

When will Japan be reopened? From the very first day I arrived, I have been pressing for a date. I do believe that the steps are in the right direction. I am encouraged. I wish, Senator, I could lay down a date in front of you and say that is the date. But the Japanese have said, look, this has to go through our science-based food safety process, and they are working their way through that. Again, every step they seem to take seems to be in the right direction, slowly, deliberately. I would argue too slowly, but it does seem like we are headed in the right direction. And we continue to pick countries off. We are very encouraged by Egypt's announcement, and very encouraged by Taiwan's announcement. We are still working with South Korea.

So we are being very systematic about returning normal trade in beef markets worldwide.

Senator KOHL. I thank you.

I thank you, Mr. Chairman.

Secretary JOHANNIS. Thank you, sir.

Senator BENNETT. We can come back for a second round.

Senator BURNS.

Senator BURNS. Thank you, Mr. Chairman. I want to thank the Secretary, and I have a couple of questions here. You know, we learned a lot about the Japanese situation—for the information of the committee—that they have two quasi-government organizations that have to sign off on this thing. One of them is called Risk Assessment, the other is an Agency for Risk Management, and they make recommendations. Then the Japanese Government has got to operate. What does that sound like? It sounds like the United States Government to me. And that sounds like a bureaucracy maze that we have not been able to negotiate yet. But I will tell

you somebody that has learned to negotiate it, and that is the Australians. So they are becoming very efficient at that.

#### CROP DISASTER PAYMENTS

In last year's disaster package that you have been working on—and I appreciate the good work you have done—our farmers still have not gotten their checks, and here we are into the planting season, and I would wonder if there is an explanation for that and why that has not been accomplished. We have been working on that thing for a year now. Do you have anybody that wants to address that?

Secretary JOHANNES. Dr. Collins.

Mr. COLLINS. If you are referring to the crop disaster program, the sign-up just recently began. The main reason that takes a while to implement is because we have this cap on how much a producer can receive. They are limited to their crop insurance indemnities plus the crop disaster payment which cannot exceed 95 percent of the income they would have had otherwise.

Because of that cap, we cannot write checks until we know how the insurance year has finished up, how it is settled out and we get the final database from the Risk Management Agency. That database was transmitted during the month of March, and so we are in a position now to make payments and will be making payments here imminently.

Senator BURNS. I would suggestion posthaste.

Mr. COLLINS. Yes, sir.

Senator BURNS. That just does not seem like a problem that we cannot take care of, that we cannot address.

Mr. COLLINS. In past crop disaster bills, we did not have that 95-percent cap.

#### FARM PROGRAM CUTS

Senator BURNS. In your budget, Mr. Secretary, when we start talking about cuts, I think our farm program cuts are doing more than their share of this particular part. Foreign markets are very important to us, and it was, as far as I am concerned, good news when Taiwan and Egypt decided to open up. And I would say that the only thing we have to do is just keep our head down and don't let our shirttail hit our backside until we get that done.

Over in the risk management area, it just seems to me that we have got cuts there that maybe we ought to be taking a look at in some form. I like the idea of mandatory insurance. I like the idea that if risk management works, there would be no need for an emergency disaster program. And that has not been the case, that we have looked over there and said, well, we can get some savings over there, when basically we ought to be putting more emphasis on risk management as far as production agriculture is concerned.

And that is where I am coming from. It is no wonder we have got people working in town for the simple reason that the commodities that they are selling today are at the same level they were 50 years ago. Now, we have got to figure out some way, gentlemen, to increase the income on the farm. User fees, like you mentioned, Mr. Secretary, are usually paid by those who can ill afford them. And yet they are important, the services that are rendered, to both

the consumer and the producer. But right now the producers are picking up all of that. And so there ought to be some on the other side, whether it be in the processing, manufacturing, distributing, or whatever. There should be some in that part of it, too.

So when we balance these things out, there is nothing wrong on the farm except the price. Now, cattle producers have done well in the last 2 years. There is no doubt about it. They have really done well. But when you come to the grain commodities, you know, the basic needs of what we produce in Montana and what you used to—you were pretty close to in Nebraska—there has been no increase. And our part of the consumer dollar continues to shrink. And then you wonder why we have got to work off the farm.

The other day—and cost input, fertilizer costs, we cannot get the natural gas. We have got all these inputs that continue to go up. The other day I bought a pick-up that is 8 years old. And I gave as much for that pick-up, 8 years old, as I gave for our first house that Phyllis and I bought. That is our problem, is income. And yet in our programs that you treat as a ceiling, we treat as a floor. And I wish we could get in the mind-set that both of us are thinking on the same wavelength whenever we start allocating cuts or increases.

But I think our main goal here should be we should look at risk management. I would a lot rather support premiums on risk management—and I think the farmer would too, because his results, he understands what he is getting there—than trying to pass emergency disaster legislation because that gets tougher and tougher all the time. But had it not been for them, then we would have lost a lot of people in our production agriculture.

#### COUNTRY-OF-ORIGIN LABELING

Country-of-origin labeling, we have done all the work. Why aren't we just putting the final rule into the Federal Register? That is a part of that decision that the judge made in Montana with regards to the lawsuit from R-CALF. He cited that the USDA has got the rules. How come they have not finalized them and put them in the Federal Register?

Do you want to respond to that?

Secretary JOHANNIS. Yes, I can offer a thought on country-of-origin labeling. As you know from my confirmation hearing, my support would be for a voluntary program, but the law makes it a mandatory program. As a matter of fact, fish and shellfish went into effect just within the last few days.

Senator BURNS. We do not produce a lot of shellfish in Montana.

Secretary JOHANNIS. Maybe not in Montana, but the COOL requirement is there in case you were to diversify into shellfish or something.

The other thing I would say is that, as you know, the deadline for country-of-origin labeling is now September of 2006 for all other covered commodities, and that was extended, I believe, by the last appropriations process. So, the time frame we are working toward is the beginning of fiscal year 2007.

When will the rules be published? To be very candid with you, Senator, my guess would be that they will be published in June of 2006.

## CONSERVATION RESERVE PROGRAM

Senator BURNS. But here is the problem. Some of us in this industry are going to have to make some adjustments to be in line with the rules. I think the earlier, the better, because if adjustment has to be made, we should be doing that. And so I would take a look at that because in order to get people in compliance, why, we would have to—I have got other questions, and I have got to go up to an energy meeting, Mr. Chairman. But I just want to really focus on the income part of this thing. I don't know how long you expect American agriculture to compete with the result of the world. Are we going to put everything in Conservation Reserve? I don't know why a farmer who wants to farm has to compete with Government payments on CRP if he wants to expand his operation on a cash lease basis. I think we should look at that. There is a tremendous amount of savings there, and especially CRP basically has been devastating to our smaller communities. It has taken big chunks of land out of production. And I don't want to grow to rely on foreign sources for our foodstuffs in this country, our nutrition. I think that is very shortsighted.

But we need some reform in those areas. Keep that little packing house down at Spanish Fork going.

Senator BENNETT. Hyrum.

Senator BURNS. Was it Hyrum?

Senator BENNETT. Hyrum.

Senator BURNS. Which is the same area, isn't it?

Senator BENNETT. I will introduce you to the geography of the State of Utah.

Senator BURNS. Well, we still have got one at Spanish Fork, too, don't we?

Senator BENNETT. Yes, I think so.

Senator BURNS. And I realize—and I like the idea of we get to add the value to the product. Everybody says we have got to add value. I subscribe to your thinking that we have to do that. But I think we have to look at RMA reform because I think there we can put some predictability into our risk management. And I would a lot rather do that than go through this business of emergency disaster legislation.

So let's don't take any money out. Let's stay there, reform it. And I would subscribe that we would subsidize it to a point because that is a lot easier than going the other way. And it also would help us on our deficit spending also.

I thank the chairman, and I have some more questions. I thank the Secretary because his willingness and his knowledge of agriculture is very, very good. And I certainly appreciate that.

Secretary JOHANNES. It is always a pleasure, Senator. Thank you.

Senator BENNETT. Senator Dorgan.

## TRADE DEFICIT

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

Mr. Secretary, thank you for being here. When you were nominated, I said that anyone who grew up on a dairy farm in Iowa would do right well in this job, and I am glad you are there. But I recognize you pull the wagon for the administration and for OMB,



and their policies must be your policies. I could not, I am sure, get much out of you today that would disagree with the policies that are coming from the administration. And I understand all that.

But let me ask you a couple of questions and precede it by saying about 2 hours ago it was announced that last month's trade deficit was \$61 billion—\$61 billion, another record, another chapter in a book of trade failures. Uncle Sam is being played for Uncle Sucker all across the globe on trade policies, and this year might be the first year in 50 years that the agriculture trade surplus will have vanished. We are a country that imports food, we import oil, and we export jobs. And it is no wonder that things are going haywire.

But having said all that, I want to ask you about two trade issues. One is the Canadian cattle issue and the other is CAFTA.

#### CANADIAN CATTLE

On the Canadian cattle issue, you propose that we open the market to live cattle despite the recent discovery of two additional cases of BSE in Canada. And I would like to ask you about a statement you made. You indicated that you feel the Canadian feed issue is largely resolved, that the ban on animal parts in animal feed has been effective.

As you know, there was a Freedom of Information Act request in Canada reported by the Vancouver Sun that said this: "In the past year"—last year—"the Canadian Food Inspection Agency found prohibited animal materials in 41 of 70 samples." In other words, 58 percent of the cattle feed tested. Now, that comes from a Freedom of Information Act request from information that was in the Canadian Food Inspection Agency, inspections they had done last year, at least to my understanding. How does that square with USDA's insistence that things are going just swimmingly up in Canada with their testing program?

Secretary JOHANNES. I am familiar with that article and the assertions that they made. There was additional work done on that. If I remember correctly, Senator, the situation there was that they had done testing, I believe, of feed samples with a microscope and detected protein—again, if I remember all this correctly.

So then they started looking into that. What protein/what are they finding? The Canadian Food Inspection Agency had a very impossible time of verifying that the prohibited feed material was from cattle. And, in fact, I think they found that part of it was from mice, which, as you might expect, can happen. I think they found one sample that was actually a human hair. And we can get you that additional information. I am drawing this all up from memory, and it has been some weeks since I have looked at that article. But it caught my attention, too. I looked at it very carefully.

The cattlemen, if you will remember, went up to Canada a couple months ago with a team, and they wanted to take a look at that article also. They actually filed a written report which they distributed at their convention in San Antonio and addressed that issue and pointed out some of the same things that I am pointing out today.

Senator DORGAN. Which cattlemen are you describing at this point?

Secretary JOHANNES. The National Cattlemen's Beef Association.

Senator DORGAN. And are they pushing for reopening of the border?

Secretary JOHANNIS. It's probably not as simple to say that because they have put forth a number of criteria that they would like to see fulfilled for that border to be reopened. But I am familiar with the Vancouver Sun article. There is just more information to that article than the article itself. Again, we would be happy to provide that.

Senator DORGAN. Mr. Chairman, what time limit are we on? I was surprised to see the light go on here.

Senator BENNETT. Since it is just you and me—

Senator DORGAN. Mr. Secretary, that is probably not good news, is it?

Secretary JOHANNIS. That is fine with me.

Senator DORGAN. Let me ask you, have you consulted with the Canadian Food Inspection Agency about these samples?

Senator BENNETT. I see Senator Brownback is coming back, so keep going, but it is not—

Senator DORGAN. Is the chairman revoking that invitation?

Senator BENNETT. It is not unlimited, but keep going, by all means.

Senator DORGAN. All right. Well, let me just say this: Our responsibility is to this country's farmers and ranchers and beef industry. I know there are some that would like to create a North American beef brand and so on and so forth. Our responsibility is to our industry, and you know and I know that the press was full of rumors last summer and fall when the President was going to Canada that he was going to assure the Canadians that after the election the border would be opened. And, frankly, I don't know the details of all of that, but I know that in spite of additional evidences of mad cow disease in Canada, there is this movement to reopen the border. And I frankly don't think it makes any sense. The Senate has already expressed itself strongly on that issue, and I wanted to express that to you.

#### CENTRAL AMERICAN FREE TRADE AGREEMENT

Let me ask you about CAFTA, the Central American Free Trade Agreement. I described to you the \$61 billion announcement this morning. This is a colossal failure in policy for this country. And it has happened under the watch of a number of parties and Presidents here, but it is getting worse and worse. And my hope is that the President would park the 747 and understand this is a crisis that we all must work on.

Now, CAFTA was negotiated some long while ago. I do not support CAFTA, with full disclosure, of course. I do not support CAFTA, but I am anxious for it to come to the Hill. The old phrase "Bring it on" should apply to this, in my judgment. Let's have it. Let's have a debate on CAFTA on the floor of the Senate, the sooner, the better.

So, Mr. Secretary, when can we expect CAFTA to be brought to the floor of the Senate, in your judgment?

Secretary JOHANNIS. I am not sure, Senator, that I have a judgment as to when that debate is. I know we disagree on this issue, in the spirit of full disclosure, although I am all over the news-

papers supporting CAFTA and I supported it before I arrived here. I am working very hard on CAFTA and talking to people and groups about it. But, quite honestly, I cannot offer to you a date.

Senator DORGAN. Who is making that call? Who will ultimately make the call when it is sent to Congress and when they want to vote on it?

Secretary JOHANNIS. The Administration, in working with the leadership. Again, that would be my guess. My role is to do everything I can because I believe very strongly in CAFTA. But the timing issue is just not an issue that I have been engaged in.

Senator DORGAN. I believe that CAFTA is a first step in unraveling the sugar program, and I think we will have a potentially significant impact on beet growers and so on. But what I will do, if you don't mind, Mr. Chairman, is send some questions in writing.

#### CROP PAYMENT LIMITATION

Then let me say one additional point. I support the administration's payment limit recommendations, or at least the suggestion there be payment limits. Senator Grassley and I have long worked on that in the Congress. I think, however, the recommendations on cuts in the market loan program and the across-the-board reduction in farm program payments is a horrible mistake and people should not confuse the two.

I did not come here and do not believe that we ought to be supporting farm program payments of \$30, \$35 million over 5 years to big corporate agrofactories. If our farm program is not to try to help keep families under a yard light out there working on the farm, then we do not need a farm program. So I do believe payment limits are important, and I support the administration in their discussion of payment limits.

So, Mr. Chairman, I have more questions, but let me submit them in writing to the Secretary and say that I hope as we go through this process this year on appropriations that we can overcome the recommended cuts in farm program benefits. We have put a farm program out there. We vote on it, we debate it, and I think that ought to represent the bridge across price valleys and difficult problems that family farmers face. Farmers ought to expect that the Government keeps its word on these issues.

Senator BENNETT. Thank you.

Senator Brownback.

Senator BROWNBACK. Thank you, Mr. Chairman.

Welcome, Mr. Secretary.

Secretary JOHANNIS. Thank you, Senator.

Senator BROWNBACK. I hope both of our football teams do better this next year.

Secretary JOHANNIS. Yes.

Senator BROWNBACK. That will be helpful out in the Midwest and to our part of the country.

#### BEEF EXPORTS TO JAPAN

I have got a couple things I want to discuss with you. One is I am delighted to see your focus on Japan and opening up that beef market. Of course, that is key to much of us in the Midwest. You follow in the steps of another great Nebraskan, Clayton Yeutter,

who I worked with over a decade ago to first open those markets. They were tough then because the Japanese threw up every barrier that they could think of, and then a few on top of it to stop us even—I remember one point in time some Japanese officials saying, well, the Japanese digestive system did not digest well U.S.-produced beef. It got to that absurd level of argument that they put forward.

Do we need to do more up here? Do we need to pass laws going at Japan until they will open this market up? Some people are starting to propose that we do something like that to try to get Japan to open their beef market back up.

Secretary JOHANNIS. Well, Senator, I would answer this way: Every opportunity I have had in my meetings with the Japanese and I know every opportunity that Senators and House Members have had, we have all made the point that patience is just simply running very, very slim on Capitol Hill.

I met with the Ambassador of Japan within the first few days of coming to the job and just said, look, if you watched my confirmation hearing, it became an airing of frustration over this issue, and I just worry that there is a point at which the frustration boils over.

And then when the letter was signed by the 20 Senators—and I am sorry, I don't remember if you signed that, but I pointed that out to him and said, again, you have very, very thoughtful people who are signing the letter in frustration.

So my belief is that the message has been delivered very loud and clear. I really appreciate the President's leadership here. He has talked to the Prime Minister, as you know. That was reported. Secretary Rice has raised the issue. Others across the Government have raised the issue. It does appear that the steps are in the right direction. A step forward that is very, very small. But it is in the right direction.

Senator BROWNBACK. I hope we can move. Recently, when a Congressman from Kansas proposed legislation regarding the Japanese on this issue, it garnered a fair amount of support, and I think things like that may start to move forward as we try to find vehicles, the blunt instrument approach that Congress typically uses to try to address something that should not be continuing at this point in time.

Secretary JOHANNIS. Right.

#### RAISING FARM INCOME

Senator BROWNBACK. I do want to follow up on what Senator Burns had mentioned on a couple of topics about we just need more farm income. I was raised on a farm. My family still farms. My brother farms with my dad, and you do see those commodity prices, particularly on grains—he says they have not improved in 50 years. They have actually gone down substantially. If you look at any sort of time value of money and inflation, they have gone substantially down. And people can say, well, there is great efficiencies and size and scale in your global marketplace and all those things. They have some applicability and accuracy. Still, you travel throughout rural America, and you see this in Nebraska, I see this: The farmhouses are deteriorating; the equipment may be in pretty

good shape, but there has not been much net income. And much of the net income on farms now is off-farm income. A spouse works to provide the living expenses. You are hopeful that you can hit that 1 good year in 5 that you can make some decent return.

#### VALUE-ADDED AGRICULTURE

I want to point to two areas, though, where it seems like we have had some reasonable opportunities for growth and hope of increasing farm income. One has been that new uses fee where we move outside of the food and fiber field, doing very nicely now in ethanol, a lot of expansions of plants throughout the Midwest. I know you have seen it in Nebraska. I think we have got a similar opportunity in soy diesel, good environmental qualities, renewable sources of it. And we have put a push on this at different times in different waves in U.S. agriculture.

I would just suggest to you that now would be another good time to give another shoulder behind the wheel push to this conceptualized area and not just in the ones we have been in, the ethanol, the biodiesel, but also things like utensils, eating utensils out of corn or soybeans, a whole array of them.

Once, about 12 years ago, I hosted a new uses expo in St. Louis along with USDA and a whole bunch of other groups—Department of Energy. I think we had 150 different products there, from blue rocks made out of starch—I was hitting Senator Grassley up about this the other day, and he said, yes, they have got a shirt in a museum at Iowa State made out of soybeans. He said it was fine as a shirt, but when it got wet, it started smelling a little bit. That is why it is in the museum.

Now, I am hopeful we can get through the odor issues with that, but my point in saying that is as a new Secretary coming in, coming in from the Midwest, you know these issues. People want hope. They want a chance to think they have got a chance to make some more income.

What about resurrecting that and hosting a big new uses expo somewhere in the Midwest? I would offer Kansas City, but where you really try to bring those entrepreneurs, those innovators that are out there together, showcasing these new sets of products, and put another lean-to into that push where we really have had some modicum of success at other times. I would love to see us put that in your budget or you get behind it and say, yes, we need to do it to showcase—or maybe you do a couple of them at different places around the country to showcase those products.

I don't know if you have had a chance to think about those areas, that is, an expo or even putting together a catalogue of these products so that people can see, well, gosh, you can make these plates out of wheat starch, you can do this disposable utensil, you can make this table out of wheat straw, and here is a nice-looking one. I hope you get a chance to look at that.

Secretary JOHANNES. I will take a look at it. Again, your observations are correct. There is so much going on in value-added agriculture, which is really what you are talking about. It is taking that basic agricultural product and enhancing its value to a broader marketplace. A perfect example of that, again, happens to be in the State I came from. Cargill-Dow joined in an effort in Blair, Ne-

braska, to literally create polymers. I have a tie that came from that initiative, and the potential exists to enter into the marketplace where plastics are and provide a product produced from corn, biodiesel and ethanol that you referenced. The success story in ethanol has been truly remarkable, and I believe that there is going to be that kind of growth in the biodiesel area.

There may be an opportunity for us as we think about how to boost this effort to do something like you have suggested. I wouldn't necessarily suggest that it is budget issues so much as bringing the industries together.

Senator BROWNBACK. That is what it is.

Secretary JOHANNIS. Yes, I think they would be very supportive.

Senator BROWNBACK. And it is not just even industries. It is those entrepreneurs. A lot of them are just an "in a garage" guy that has come up with a different sort of idea, and they create jobs and opportunities in local markets within much of the rural areas, which we desperately need.

Secretary JOHANNIS. It is a very exciting area because when those jobs are created, they tend to be in the rural areas. Ethanol plants are not built in the middle of Kansas City or Omaha. They are built in rural areas near small towns, and the impact they have is very large.

Senator BROWNBACK. Biomass, electric generation I think is another one that looks like to me where you could go on large-scale areas, and then you also get a two-fer. You are dealing with the carbon issue along with an agricultural job creation and market issue.

I would be excited to work with you on something like that because I think to me it really just lends an opportunity to hope and optimism of we can do this, and you can be the chief and will be the chief cheerleader for that by driving around 100 percent biodiesel-fueled truck that is running on soy. We even had them early on, on animal fats. That had a real sweet smell when the engine burned, going through like French fries or you are going by a McDonald's. But those could be real helpful and using those utensils, eating utensils at USDA that are made out of corn or soybeans.

#### CARBON SEQUESTRATION

The second one I want to go into is the carbon area because I do think we have got another opportunity for substantial economic growth on carbon farming, carbon sequestration. We have got a lot of research going on at Kansas State—I think Nebraska has got some of this as well—to measure the carbon fixing of a ton of carbon, over what period of time, so you could measure and trade.

As I look down the road, I think of this as being one of the great possibilities. The numbers I have seen, we have removed about half of the carbon from the soil that was there when the tall grass prairie was throughout much of the center of the country. But that means there is the opportunity to insert half of the carbon back in it. It will hold it. It will clearly hold it. But we have got to build or put into place trading systems, measurements. I think early on we need measurements and the rudimentary trading systems to start initiation. And there it looks like to me you are looking at a

massive marketplace, in the billions if not even greater than that, for down the road when a number of countries are wrestling with the CO<sub>2</sub> emissions issues.

I really hope you can lean in aggressively on that one because I don't know of a bigger area that you could look at for market potential. And if we even get a decent slice of it, it is going to be a lot of income to rural America, and it has got the added benefit of generally always being good conservation practices, soil-enhancing practices, soil retention practices that we need in the farm areas, anyway.

Secretary JOHANNES. I agree.

Senator BROWNBACK. Are you working on carbon?

Secretary JOHANNES. Yes, we are. Maybe I can ask Keith to give a more specific update. It is an area that we had worked in, again before I came here, at the State level, but, Keith, go ahead.

Mr. COLLINS. Senator, we know of your interest in this issue and the legislation you have proposed. Our biggest project right now is working with the Department of Energy under what is called their 1605(b) Greenhouse Gas Registry Program. As you may know, they just published their proposal for accounting rules and guidelines for greenhouse gas mitigation projects. The Department of Agriculture drafted the agriculture and forestry sections of that.

The proposal is in a comment period now. We are holding a public meeting on May 5 in the Washington, DC area, over in Riverdale, to discuss just what you are talking about, measuring the unit of trade. You don't get a trading system going until you have a well-defined unit with standards that people would accept, and that is what is in this proposal. It establishes all the accounting rules and guidelines for agricultural projects and forestry projects.

We think that when we finalize the 1605(b) registry program, which will be kept by the Department of Energy, any farmer or forester could voluntarily report their greenhouse gas offsets to that system. We think that will create a measurable unit which will create an opportunity for trading. We are not calling it a transferable credit, but conceivably it could function in that form. We are calling it a registered reduction, and that will be on file with the Department of Energy. And we think that can help kick start the kinds of markets that you are talking about.

#### FOOD AID PROGRAMS

Senator BROWNBACK. One final brief comment, Mr. Chairman, if I could, and that is just on the food aid area, and that is one I—we have been increasing, the chairman has been very interested in what we can do on food aid, school lunch programs here and overseas. I have done a lot of work overseas. That is just a critical component, but particularly we are seeing lots of needs in countries that just have poverty at a level that people just do not have food at all, and this has been a long historical effort, and I look forward to continue to working with you on that because we had the capacity to do it. It is always a difficulty getting the food aid there and getting it in decent conditions, and the budgetary constraints, but I really hope we can continue to do that. It is the right thing to do, to help those that are in such deep need.

Thank you, Mr. Chairman.

Senator BENNETT. Thank you.

Senator Harkin.

Senator HARKIN. Thank you very much, Mr. Chairman. I apologize to you and Mr. Secretary for being late to the hearing.

#### REDUCING THE FEDERAL DEFICIT

I just have a couple of questions. I do not want to hold people up too much longer, but, Mr. Secretary, reading over your statement, you said because of the overriding need to reduce the Federal deficit, USDA, like every Federal agency, will share the Government-wide burden of controlling Federal spending.

Well, that is all well and good, but, Mr. Secretary, I hope that you will use your voice and your position in cabinet meetings and in meetings with OMB, to point out that when we passed the last farm bill, we were given a budget with the concurrence of this administration. We stayed within that budget for 10 years in passing that farm bill. And in the last two, almost 3 years now, coming up 3 years, we have spent about \$15 billion less than what we could have, what we were allowed to spend. We could have spent it. It was in the budget for us to spend, but we saved that \$15 billion for the taxpayers of this country. We reduced the deficit by \$15 billion. Those people at OMB got to know that, and the people that sit around that cabinet table up there with you and all those other departments, they have to know that too.

And I am just asking you as a friend, as a neighbor, fellow former Iowan, get in there and punch them out a little bit and let them know how much money we have saved. We do not get credit for it. This committee, Senator Bennett ought to get some credit for it. We ought to get some credit for what we have done to fashion a farm bill that saved \$15 billion under what we were allowed.

So to say that we are going to be involved in controlling Federal spending, that is all well and good, but we have already done a big part of it in agriculture, and we ought to be proud of that, and we ought not to say, well, no one else is doing it, but now we are going to take more cuts and more hits. That is just preface to a couple of things that I want to talk to you about, and I hope you will continue to point that out to those people down there.

#### NATIONAL ANIMAL DISEASE CENTER

Mr. Secretary, three brief things, Animal Disease Lab, Ames, Iowa. The National Animal Disease facilities is of critical importance for animal health, human health as well. The Congress, and this Administration and the previous Administration made the decision to upgrade these facilities. The work is under way. \$404 million has already been appropriated for the project. The President's budget proposal calls for an additional \$58.8 million, indicating that this amount of funds will complete the project. The remaining amount is dedicated to completing the so-called low-containment large animal facilities.

There are strong indications that this figure of \$58.8 million proposed in the budget is not adequate to complete these animal holding facilities properly.

I understand that because of the shortage of funds the Department has developed several options for asking for bids to construct



only a part of the major lab building in this fiscal year. Mr. Secretary, I have had, I personally have had an extremely hard time getting to the bottom of this issue of what the correct figure is for the amount of funds needed to complete the modernization of these facilities. The renovation has to be done right, but my staff—and I have asked them to get me this—they have been unable to get documents and information that USDA has about what is really needed.

So, Mr. Secretary, I am asking would you furnish to this subcommittee and to me—I am part of the subcommittee—without a lot of delay because these decisions have to be made in our appropriations process: (1) A copy of June 2003 program of requirements that laid out the need requirements for the Ames Animal Disease facilities; (2) a copy of the full report of the International Review Team in January 2001 that laid out their views of the adequacies of these facilities; and (3) exactly how will the current plans for low-containment holding facilities be short of the June 2003 program requirements?

And lastly, Mr. Secretary, will you inform this subcommittee, prior to the conference on the bill: (1) if the bids received for constructing the main laboratory building show that costs will exceed cost estimates used to this point; and (2) if the Department is delaying any part of the bidding for constructing the main laboratory building because of cost concerns and budget concerns?

That is a lot to throw at you. I will put it in writing.

Secretary JOHANNIS. Okay.

Senator HARKIN. That is a lot to throw at you, but I think you understand what I am saying. I am having a hard time finding out—on the one hand I am told that \$58.8 million is not adequate to complete it, on the other hand we are told that it is, and I am just having a hard time figuring this thing out and trying to get to the bottom of it. That is all.

Secretary JOHANNIS. We will provide that information. We will work with your staff.

[The information follows:]

#### NATIONAL ANIMAL DISEASE CENTER, AMES, IOWA

The President's budget proposes \$58.8 million to complete the National Animal Disease Center in Ames, Iowa. Funding at this level will not compromise the original program requirements as outlined in the June, 2003 Program of Requirements (POR). A POR is an internal planning document that provides the costs of various options and alternatives which the Agricultural Research Service (ARS) uses to assist in defining research program needs and related technical requirements. Developing a POR is an iterative process; an Architect-Engineer (AE) under contract to ARS conducts numerous interviews with a location's scientific and support staff. These inputs are gathered without regard to budget constraints, and the document serves as just one of several factors management considers in making final decisions on project scope, budget, and other project-related policy decisions.

The June 2003 POR represents projections and estimates our professionals and support staff developed through discussions with the AE, who is under contract to ARS. It addresses only the Low Containment Large Animal Facility (LCLAF), which is one of five components that cover the overall plan to modernize the animal health facilities located at Ames, Iowa. Rather than serving as the final design plan, the POR functions as an interim step in developing the overall scope of the project. The June 2003 POR was one of several inputs used by agency management in making final decisions on the scope and sequencing of the project components within the total project budget. A copy of the POR was sent to the Subcommittee staff.

The management decision made was to meet the LCLAF program requirements of the POR by a combination of new construction and renovation of buildings and infrastructure. The LCLAF offered the best opportunity to utilize existing facilities to insure the overall modernization budget is maintained. The modernization effort will construct new animal facilities to meet programmatic needs where the existing facilities are not functionally adequate (i.e. group housing of large animals) and will make use of the existing facilities that are functionally adequate for the remaining programs. Of the planned 132,000 sq. ft., 42,000 sq. ft. will be built new. Existing LCLAF facilities (buildings 3 and 4) will be retained providing an additional 88,500 sq. ft. of space. Together, the new and existing space will accommodate the program requirements originally envisioned. New infrastructure will be provided to ensure adequate and reliable utility space.

The Department will keep the subcommittee informed if any bidding delays are required or if bids received exceed available funds. The Construction Manager (CM) at Risk is the project delivery system ARS is using for the Ames Modernization Project. This approach was selected at the outset because it accelerated the schedule by allowing construction to start before the total design of a particular project component is 100 percent complete. To minimize the likelihood of excessive bids the construction contractor is involved early in the design process and provides verification of cost estimates during design. While the total design may be at the 30 percent stage, a discrete portion of the design, i.e. the site development or foundation, is 100 percent at the time of the award of that package. In essence the construction of a particular project component is being phased while design is underway.

ARS expects to open bids on the first of several construction packages for the Laboratory/Office complex in the August-September, 2005 time frame. The CM will let bids to subcontractors at that time. The package(s) will consist of site preparation, utilities, foundation, etc. or some combination of activities based on market prices. ARS will approve the final award. This process is similar to the design/construction of the BSL3 Ag Containment facility now already underway.

A copy of the full report of the International Review Team is provided for the record.

CANADIAN SCIENCE CENTRE FOR HUMAN AND ANIMAL HEALTH,  
*Winnipeg, Manitoba, January 22, 2001.*

Secretary ANN VENEMAN,  
*Secretary, Department of Agriculture,*  
*Washington, DC.*

DEAR SECRETARY VENEMAN: At the invitation of Dr. Floyd Horn, Administrator of the Agricultural Research Service of your department, we as an International Review Team, examined the Master Plan for the consolidation and modernization of facilities for the National Animal Disease Center (NADC), the National Veterinary Services Laboratory (NVSL), and the Center for Veterinary Biologics (CVB) at Ames, Iowa.

During our visit to the site on January 9–10, 2001, we had important meetings with key personnel of the NADC, NVSL, CVB and the Iowa State University. As well, we were able to visit representative U.S. Department of Agriculture laboratory and animal facilities there.

Enclosed, we provide you with our comments and observations for the future needs and scope of this project which we trust will prove useful to you in your deliberation.

We would like to thank Dr. Horn for his invitation and all those who were involved in the visit. We would also like to note how impressed we were by the enthusiasm and collegiality of the Ames animal health community.

You will see from this report that we were very supportive of this challenging and important project which clearly has national and international implications for the future security of your livestock industries.

Sincerely,

DR. NORMAN G. WILLIS,  
*Executive Director.*

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ARS–APHIS MASTER PLAN FOR FACILITY CONSOLIDATION AND MODERNIZATION  
INTERNATIONAL REVIEW TEAM REPORT

Based on our review on January 9–10, 2001, we fully endorse the principle of consolidating the Agricultural Research Service (ARS) and Animal and Plant Health Inspection Service (APHIS) program elements and the modernization of the laboratory facilities at Ames, Iowa. We consider that the consolidation of the National Animal

Disease Center, the National Veterinary Services Laboratories and the Center for Veterinary Biologics would bring many operational advantages and be entirely appropriate. This would establish a credible national reference laboratory status that we believe is essential for national and international recognition and acceptance.

It is our opinion that this consolidation would further act as a catalyst to focus collaboration with the scientific expertise of academia and to tap into the huge national scientific resource. In addition the plan would emphasize the essential linkage among research, diagnosis and regulation required for the support of animal disease control programs, agricultural industry productivity and agricultural trade.

Globally, new diseases are emerging which require new approaches and new technology. New and more demanding standards for international trade are being developed in international organizations. To address the changing and unpredictable animal disease and food safety needs of the future, a highly effective physical facility and a critical core of scientists are mandatory. Quality science needs quality facilities and quality staff, who are only attracted to quality facilities.

With the globalization of trade heralded through the Sanitary and Phytosanitary Agreement of the World Trade Organization and its reference to a science base, agricultural program and animal disease needs have become more global. The nature and scope of the relevant science is now "big science" demanding state-of-the-art expensive facilities in which to undertake new biotechnology and veterinary biologics for disease detection, surveillance and control. Harmonized international standards dictate requirements. Modern, fully equipped facilities to accommodate and respond to these needs, are essential. To be flexible to changing yet unknown future demands, facilities must be designed to be adaptable.

Current facilities at Ames were built at a time when science, standards and equipment requirements were more limited. They are now inadequate because they do not meet international standards for safety of staff and the environment, for animal welfare and for quality assurance. The need to replace them is urgent and of such a nature that we feel it should be considered a national emergency.

#### SCOPE

##### *General*

Consolidation of the three Centers is appropriate and will enhance synergy and collaboration among these Federal responsibilities and, in the process, significantly improve their functions.

Focusing in this one site will further facilitate collaboration with the scientific expertise existing in universities throughout the Nation. This will serve to expand and coordinate the inclusion of people in science for USDA's access, and to geographically focus the scientific knowledge and inquiry.

It is appropriate and necessary to build modern laboratory facilities capable of supporting federally mandated scientific work. This includes developing new knowledge and technology, conducting trade-related diagnostics and reference testing, and licensing regulated biologics with the required laboratory support.

##### *National Leadership*

There is a need for this facility to serve as a national reference, a premier laboratory that is recognized internationally as a Center of excellence. This recognition will be incorporated into the evaluation of veterinary services, a component in risk assessment which is used by all trading countries to make trade decisions. This recognition will unequivocally work to the U.S. advantage.

The veterinary biologics consolidation will also display a leadership role in establishing biologics standards. Not only will this promote the availability of safe and effective vaccines, but it will also assure the industry that extraneous disease agents are not inadvertently introduced thus threatening the national livestock herds and flocks.

##### *Location*

We support the development of this project in Ames, Iowa based on our observation that there already exists a strong and enthusiastic cooperation and synergy among the three Centers and with the Iowa State University. The Ames site would also provide the opportunity of mutual sharing, and hence not duplicating very expensive equipment and facilities in biotechnology Centers. This is an advantage for the USDA.

The nature of the scientific activities conducted in the Centers can often be viewed with hostility by lay and business communities. It is, therefore, of great value that the Ames community already accepts, understands and values the functions of these Centers, a trust and support which would have to be re-established in a different location.

The current human resource of ARS and APHIS personnel at Ames has been built up over many years. It is our opinion and experience that moving such facilities to a different location would result in a substantial loss or dispersion of scientific staff which would be extremely difficult to re-establish and, in the process, would set the program back, perhaps for years. A strong infrastructure exists upon which to further develop the physical facility. Development of such an infrastructure would be costly at another site.

The best fulfillment of the benefits of this consolidation would be achieved in the present Ames location.

#### NEED

##### *Laboratories*

When viewing the presently occupied laboratory facilities, the poor standard and inadequacy of these facilities, particularly the off site facilities, was quite unexpected. With our perception of the importance of such programs as tuberculosis, brucellosis and prion diseases (such as bovine spongiform encephalopathy/mad cow disease, scrapie, chronic wasting disease), we found it ironic that the United States national reference laboratories are currently housed in a converted animal facility and other converted accommodation. It is our belief that this represents a severe threat to the United States ability to control animal disease. We question whether these facilities could be certified to internationally accepted standards.

##### *Animal Facilities*

We consider that all animal facilities must meet established animal care standards: In the present facilities, we do not believe these are being met. For the future a failure to meet the standards presents a risk of having to restrict further research studies.

We also observe that these facilities may place staff who work with large animals, especially wildlife, at a significant personal safety risk.

There is evidence that the poor State of the facilities is seriously restricting progress in several key areas and that inordinately long periods are required to produce research results. We suggest that this will continue to have, a direct negative impact on agricultural productivity, allowing animal disease to have a greater than necessary impact.

##### *Certification*

With the globalization of trade, reference is made by all trading countries to the international standards and guidelines for trade incorporated in the OIE International Animal Health Code. Included in the guidelines for risk assessment is the evaluation of an exporting country's veterinary services and facilities. We consider that there will soon be a requirement to achieve International Standards Organization (ISO) laboratory certification as a standard. Completion of the Master Plan would provide the Ames facility with the opportunity to be the national reference laboratory with international recognition and acceptance, and to meet these standards. We endorse this opportunity. The result would be a direct positive influence on the facilitation of agricultural trade.

##### *Research*

The Master Plan in our view, provides the capability that would allow for investment in much needed longer term research. Such studies are unlikely to be achieved in other-areas due to a lack of appropriate facilities with the required bio-security.

The focusing of scientific expertise at this one site through collaboration provides the critical mass of scientists necessary to stimulate the creativity required to address and solve future, as yet unidentified problems.

#### CONSEQUENCES

We would like to take this opportunity, if you forgive our directness, to stress risks and vulnerabilities which we believe are facing you.

To our mind, status quo is not an acceptable option.

Laboratories presently doing essential program testing, would not achieve ISO accreditation. This would threaten the acceptance of the results produced which could prove critical to the livestock industry and to the acceptance of the safety of food.

The current animal facilities are placing staff at unacceptable personal risks and are causing significant delays in producing research results urgently needed by the livestock industry.

## POINTS FOR CONSIDERATION

We would like to bring to your attention that, in addition to the need to provide the capital investment to build the proposed new facilities, funding provisions should be considered to secure adequate operating and preventive maintenance as well as the need to equip the new facility. Such a comprehensive vision of this project would ensure that full advantage is taken of the capabilities of the facility and that it is available for the future.

Since future demands cannot be accurately predicted, a key feature of facility design should be adaptability permitting flexible use in the future.

## CONCLUSION

As a result of our review, we fully endorse the scope of the project and the urgent need to address the deficiencies and limitations of the current facilities. We also consider the location of the project in Ames, Iowa to be appropriate and advantageous. We feel that the delivery of this project would address future agricultural industry and food safety needs, and would yield positive international recognition, contributing significantly to the success of USA trade.

We strongly believe that addressing these concerns is urgent. Ten years is too long for correction and we suggest that this question be addressed on an emergency basis.

Senator HARKIN. I appreciate that.

Secretary JOHANNIS. Senator, I would be happy to sit down personally soon once we assemble that and try to go through it so we can both get a good understanding where we are at.

Senator HARKIN. Okay. And I will get this to you in writing, but I wanted it on the record.

## CONSERVATION SECURITY PROGRAM SIGN-UP

Secondly, participation in the first CSP sign-up—somehow you probably knew I was going to ask this question about CSP—was much lower than the NRCS expected, but they still spent \$40 million in 18 watersheds. This year, with expenditures capped at \$202 million for contracts in 220 watersheds, there will be much less money per watershed for new contracts. The President's budget proposes capping CSP at \$274 million next year. Again, all of these numbers are far less than the farm bill provides for this program.

My questions are: how much of the \$274 million for next year, for 2006, would be available for new contracts, and how much of it would go to making payments on contracts already signed in 2004 and 2005?

Secretary JOHANNIS. We can provide that, Senator.

Senator HARKIN. I appreciate that. I knew you would not know that, but if you could provide that, I would appreciate that.

[The information follows:]

## CSP CONTRACTS

NRCS estimates show that for fiscal year 2006, approximately \$110 million would be available for new contracts and \$123.2 million would be used for prior year contracts. The balance of \$41.4 million would be used for technical assistance by NRCS to deliver the program.

Senator HARKIN. Secondly, how many new contracts will be signed in 2005, this year, and how many fewer contracts will be signed in 2006 with only \$274 million? In other words, what do you expect to sign this year, what would you expect to sign next year under the budget that we have been handed.

Secretary JOHANNIS. Okay.

Senator HARKIN. This is my own statement, that it seems to me that if this budget prevails then we will see a substantial decline in the number of new enrollments for CSP, but that is my supposition on that.

Secretary JOHANNIS. We will get that information to you.  
[The information follows:]

#### CSP CONTRACTS

NRCS is estimating that more than 13,000 contracts will be signed in fiscal year 2005, and approximately 9,400 contracts will be signed in fiscal year 2006.

#### PACKER CONCENTRATION

Senator HARKIN. I appreciate that. Last one, packers and stockyards. The Packers and Stockyards Act was written to give USDA the power to go after unfair and anticompetitive market practices that were not being reached by previously enacted laws such as Sherman and Clayton Act. It is a very powerful statute. Concentration in the livestock and poultry industry continues to increase at an alarming rate.

Independent producers repeatedly tell me that they are being driven out of business because of unfair and anticompetitive bidding and contracting practices of packers, large packers and processors. They say they are just at the mercy of a few huge firms. Some of these independent producers have asked me why in the past 4 years, why in the past 4 years, USDA has not filed even one administrative complaint against any firm for anticompetitive activity. They ask why, despite tremendous changes in the industry, USDA has not in the past 4 years proposed any new rules of modifications to rules to protect fair competition under the Packers and Stockyards Act.

Whenever I or my staff have asked about this inactivity either in hearings like this or by written correspondence, the Department always says it is studying the matter and referring it to its meat marketing study. USDA got \$4.5 million in the fiscal 2003 appropriations bill, but it took USDA over a year and a half just to decide who to contract with to conduct the study. That was \$4.5 million for that study. It will be nearly 2 more years before the study is finished, and even then you have no idea if its analysis and conclusions will be worth anything.

I guess what I would ask is, are independent producers justified in believing that the Department will continue to do virtually nothing whatsoever to protect fairness in competition in the livestock and poultry markets? This is what I am hearing, and I ask that question in good faith, that independent producers are thinking that nothing is ever going to happen, and I am asking you if you have any—I know you have only been on the job a little while, but if you have looked at this and if you will at least work with this subcommittee and others to make sure that that \$4.5 million which we appropriated is used expeditiously in getting this study done.

Secretary JOHANNIS. Yes, I will work with the Committee. Senator, I know you asked the question in good faith, and I would tell you that in my time as Governor, this would be an issue that people would raise as I am out there.

I have at least had an opportunity to look at the number of investigations, and if you chart through the investigations, in 2003, there were 1,744; and in 2004, there were 1,923. It is estimated that in 2005 there will be 1,975 investigations. So it appears there is a significant amount of investigative work going on.

What I would offer at this point—I know this is an interest of yours and I would be happy to work with you. I remember reading just within the last few weeks, that you had asked for a look at this whole area of packer concentration. We will cooperate in that effort in any way we can, and I will try to do everything I can to provide you with the information to answer the questions being raised by your constituency.

[The information follows:]

#### LIVESTOCK STUDY

In the Consolidated Appropriations Resolution, 2003, Congress provided the Grain Inspection, Packers and Stockyards Administration (GIPSA) \$4.5 million, to remain available until expended, for a packer concentration study. GIPSA is currently administering a study on alternative procurement and transfer methods for livestock in the farm to retail chain, including captive supplies.

GIPSA awarded a \$4,319,373 contract to Research Triangle Institute (RTI) on June 14, 2004, to conduct the study. RTI will complete two reports. The first, scheduled for release midsummer 2005, will be based on a limited survey of market participants that describes the types of marketing arrangements used, their terms and availability, and the reasons market participants give for their use. The second, scheduled for release in mid-summer 2006, will be a comprehensive report that provides an extensive economic analysis of the different marketing arrangements. Additional data for the second report will come from two types of sources: (1) a survey of industry participants, and (2) data on transactions (purchases and sales) of livestock and meat.

Senator HARKIN. I appreciate that very, very much. I thank you very much, Mr. Secretary. I will get this other stuff to you in writing on that Ames lab thing, and also on the CSP thing. I will get that to you in writing, sir.

Secretary JOHANNIS. Okay, great. Thank you, Senator.

#### ADDITIONAL COMMITTEE QUESTIONS

Senator HARKIN. Thank you, Mr. Secretary.

Thank you, Mr. Chairman, for your indulgence. I appreciate it 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

##### CANADIAN BEEF INDUSTRY

*Question.* The Alberta provincial government and the Canadian federal government have pledged over \$100 million (CDN) to expand its beef industry, taking advantage of the closed U.S. border.

Is the U.S. Government contemplating any actions to counter the Canadians' efforts?

*Answer.* Canadian federal, provincial, and territorial governments have funded \$2.6 billion since 2003 for programs to support the Canadian cattle and ruminant industry. Approximately 50 percent of Canadian cattle and beef production is exported, and the United States is the largest destination of Canadian product. By contrast, approximately 8–10 percent of U.S. beef production is exported. Thus, the United States is not as dependent on export markets as Canada is, although we are working as hard as we can to reopen markets that are currently closed.

Although this funding will be counted against Canada's WTO commitments, Canada's overall expenditures remain well below the CAN\$4.3 billion annual ceiling for aggregate measures of support allowed under the WTO agreements. The Canadian actions do not appear to violate any trade commitments.

*Question.* How do you plan on restoring U.S. market share of beef exports?

*Answer.* USDA, through marketing programs such as the Market Access Program (MAP) and the Foreign Market Development (FMD) Program, works closely with the U.S. Meat Export Federation (USMEF) to develop strategies and action plans to develop, maintain, and restore U.S. beef exports worldwide. These programs are not only aimed at restoring U.S. market share, but are also used to create the atmosphere necessary to make it easier for countries to get consumers to accept their decision to reopen.

The Japanese and Korean governments have specifically asked that USDA implement a risk communications plan to help sell any agreement between the United States and their respective countries on Bovine Spongiform Encephalopathy (BSE). In response, FAS and USMEF have produced a joint pre- and post-opening risk communications plan that focuses on consumer, media, and political beef trade concerns and misperceptions about BSE. Both USDA and USMEF have begun to implement and plan activities to communicate the proper messages such as editorials, journalist trips to the U.S., BSE seminars, advertisements, and dissemination of technical materials.

Most recently, Dr. Charles Lambert, Deputy Under Secretary for Marketing and Regulatory Programs has led teams of technical experts to meet with key Ministry officials in Korea and Japan to discuss the cumulative efforts the United States has made to address BSE. The teams, consisting of representatives from APHIS, FSIS, FAS, FDA, and the industry have included key members who can answer the specific concerns put forward by the Governments of Korea and Japan respectively. However, the team's primary purpose has been to conduct public diplomacy efforts, such as press briefings and seminars, to aid in paving the way to market reopening.

With the recent opening of Taiwan's market to U.S. beef, USMEF and the American Institute in Taiwan (AIT) will host a weekend of re-launch events aimed at trade, media and consumers to celebrate "U.S. beef is back on Taiwan's table" starting May 6, 2005. The activities will include a press conference in the afternoon, followed by a reception jointly hosted by USMEF and AIT. I will be addressing the reception via a previously recorded video to acknowledge the science-based approach of the Taiwanese government, and send that same message to other markets in the region. Director Paal, AIT, will conduct the ceremonial "cutting of the steak."

*Question.* What funding is in the budget to resume and expand U.S. beef exports?

*Answer.* For marketing year 2004/2005, FAS has allocated more than \$15 million in MAP and FMD funds to the U.S. Meat Export Federation to conduct pre- and post-opening activities worldwide. A similar level of activities could be supported through funding provided in the 2006 budget.

In addition, the 2006 budget proposes a \$5.7 million increase and 27 additional staff years for the Trade Issues Resolution and Management activities of APHIS. These funds will be used to station staff at a number of overseas locations where they will be engaged in addressing and resolving technical trade barriers, such as those related to U.S. exports of beef.

#### CROP SUBSIDIES

*Question.* What would the impact to the price of food be if crop subsidies were eliminated?

*Answer.* Since the farm and commodity support programs do contribute to farm income and provide a financial safety net for producers, the removal of these programs could have an adverse impact on farm production, at least in the short term. The effect of that removal would likely be an increase in the price of farm products and, thus, some increase in food prices; however, the long-term effect on consumer food prices would be modest. Since our farm sector is efficient, productive, and already to a considerable degree market-oriented, one would expect production to remain strong over the long term. Having said that, I'd like to caution that an abrupt removal of the programs would be much more disruptive to producers and consumers than a gradual phase out. I will ask the Office of the Chief Economist provide additional information in this regard.

[The information follows:]

The impact over time may be modest. Economic studies generally suggest that the elimination of crop subsidies would lead to a modest increase in the price of program crops, with the magnitude of increase depending on market conditions when the subsidies are removed. Under current farm programs, direct and countercyclical



payments are based on historical production and producers are permitted to plant all the acreage eligible for direct and counter-cyclical payments to any crop, except for some limitations on plantings of fruits, vegetables, and wild rice. Since these payments are “decoupled” from current production, the elimination of direct and countercyclical payments would lead to essentially no reduction in plantings of major crops. In contrast, marketing assistance loan benefits are tied to current production and likely encourage producers to maintain production, especially when prices for major crops fall and continue to remain below marketing assistance loan rates.

Assuming conservation programs, such as the Conservation Reserve Program, continue as specified in the 2002 Farm Bill, elimination of crop subsidies would likely lead to lower plantings and higher prices for major crops, with the acreage and price effects caused by eliminating crop subsidies varying depending on baseline projections of marketing assistance loan benefits. Higher prices for grains and oilseeds following the elimination of crop subsidies would increase feed expenses, causing livestock producers to reduce production resulting in higher livestock prices. These higher farm prices for major crops and livestock would likely lead to only a modest increase in retail prices for food. Various economic studies suggest that the elimination of crop subsidies could lead to less than a 5-percent average increase in all farm prices. Since the farm value currently accounts for less than 20 percent of consumer expenditures for domestically grown food and less than 15 percent of total consumer expenditures for food, a 5-percent increase in all farm prices could raise the retail price of food by less than 1 percent.

*Question.* What would the impact be to rural economies and the U.S. economy?

Answer. I believe the overall effect could be modest over time, although certain rural economies could be more greatly affected. I will ask the Office of the Chief Economist to provide additional information.

[The information follows:]

Crop subsidies provide a stable source of income to producers of program crops and benefit other agriculture-related businesses. Increased farm income from crop subsidies results in additional goods and services purchased in the local economy, which contributes to economic expansion in the non-farm economy. Over time, government payments are capitalized into higher farmland values, stabilizing the property tax base for rural communities. Possible short run effects resulting from the elimination of crop subsidies include: lower farm income, lower planted acreage and production of program crops, higher prices, lower expenditures by producers in the local economy and lower land values and rents.

That being said, eliminating crop subsidies would have very modest effects on the overall U.S. economy and on many rural economies. The importance of the farm sector to the U.S. economy has been declining in recent decades, reflecting improvements in agricultural productivity, macroeconomic growth and the expansion of the non-farm economy. Farming accounted for 0.7 percent of U.S. gross domestic product and 1.4 percent of total employment in 2001. That same year, farm program payments amounted to only 1.3 percent of total personal income in all U.S. rural counties.

However, some counties are much more dependent on farming and would be more affected by the elimination of crop subsidies than others. USDA's Economic Research Service (ERS) classifies counties as farm-dependent when 15 percent or more of average annual labor and proprietors' earnings is derived farming or 15 percent or more of residents are employed in farm occupations. In 2000, ERS identified 440 counties, or 14 percent of all counties in the United States, as farm-dependent. Many of these counties are located in the same areas where crop subsidies are concentrated, such as the Western Corn Belt, Northern and Southern Plains and Delta. In many of these counties, farm program payments account for 3 percent or more of total personal income. In these counties, the elimination of crop subsidies could cause a more pronounced reduction of economic activity, employment and the property tax base than in other areas.

*Question.* What would the impact be to U.S. food and fiber production?

Answer. Once more, I believe we are talking about a modest impact in the long run. However, an abrupt removal of the programs rather than a longer term phase out would be more disruptive to many producers and commodity sectors and this could reduce production levels in the short term. I will ask the Office of the Chief Economist to provide additional information.

[The information follows:]

Economic studies generally suggest that the elimination of crop subsidies would not significantly reduce U.S. food production but could significantly lower fiber pro-

duction. The elimination of crop subsidies is unlikely to significantly reduce overall food production, because a large portion of current crop subsidies are “decoupled” from production and large segments of agriculture do not receive crop subsidies, such as livestock, fruit and vegetable producers. In contrast, nearly all cotton producers receive crop subsidies and a significant portion of these subsidies are marketing assistance loans benefits which are more directly related to production levels.

Under the 2002 Act, participating producers are permitted to plant all the acreage eligible for direct and counter-cyclical payments to any crop, except for some limitations on plantings of fruits, vegetables, and wild rice. As a result, producers’ planting decisions are expected to be largely unaffected by direct and counter-cyclical payments, and producers select the mix of crops to plant based on relative market returns and agronomic considerations. In contrast, marketing loan benefits do depend on how much and which crops are planted and, thereby, alter producers’ planting decisions.

A study by USDA’s Economic Research Service (ERS) analyzed the effects of eliminating marketing assistance loans on production of major crops over the period from 1998 through 2005. The ERS study projected that elimination of marketing loan benefits would have reduced plantings of major crops by 2 to 4 million acres (1–2 percent). For cotton, acreage was projected to decline by 1.5 million acres in 2000 (10 percent) and by 2.5 to 3.0 million acres or 15–20 percent in 2001. The larger decline in cotton acreage in 2001 reflects that year’s sharply lower cotton prices and higher larger marketing loan benefits than for the 2000 crop. This suggests that the effects of eliminating crop subsidies on crop production depend on market conditions at the time subsidies are removed, the magnitude of these subsidies, and the speed with which subsidies were removed. Certainly, there would be some noticeable effects, especially in certain sectors.

#### FARM SPENDING

*Question.* What actions has USDA specifically taken to implement the President’s proposals to reduce farm program spending?

*Answer.* The President’s proposals to reduce farm program spending will require that the Congress pass legislation to modify the farm programs. Proposed legislation to implement the program changes is being drafted and will be submitted to the Congress soon. USDA stands ready to work with the Congress.

*Question.* What actions will USDA take to make certain that the President’s proposals are enacted?

*Answer.* USDA is prepared to work with Congress when these or related proposals are taken up.

#### LOW PATHOGENIC AVIAN INFLUENZA (BIRD FLU)

*Question.* The funding level for the Low Pathogenic Avian Influenza (LPAI) program was increased from \$994,000 in fiscal year 2004 to \$23 million for fiscal year 2005. The increase was provided to indemnify producers for losses and to increase surveillance activities.

Can you provide an update on the status of the fiscal year 2005 funding and when we should expect this program to be fully implemented?

*Answer.* This program has two components: The commercial poultry industry and the live bird marketing system (LBMS). The program in commercial poultry will be administered through the National Poultry Improvement Plan (NPIP) and will provide for: an H5/H7 LPAI monitored status for poultry production facilities and States, thereby certifying disease freedom for international and interstate movement of poultry and poultry products; an active and passive LPAI surveillance program; and an initial state response and containment plan, with indemnification, for managing H5/H7 LPAI outbreaks, should they occur. The program in the live bird marketing system provides uniform standards (published October 2004) that are presently being implemented and enforced at the state level for prevention and control of H5/H7 LPAI in markets, distributors and production facilities that participate in this marketing system.

The breakout of the funding is as follows: \$12,000,000 is for indemnities; \$3,871,547 is for surveillance activities; \$932,285 is for reagents and costs of administering tests; \$4,326,693 is for salaries and benefits and staff support; \$600,000 for the Center for Veterinary Biologics (CVB); \$513,575 for Education and Outreach; and \$555,900 for Information and Technology.

The LPAI program will be fully operational when a regulation is finalized for the commercial component of the program. The proposed H5/H7 LPAI program for commercial table-egg layers, meat-type chickens, and meat-type turkeys is currently going through the rule making process.

As of April 12, 2005, no fiscal year 2005 funding for indemnities has been used. Any unused funding in fiscal year 2005 will be available in fiscal year 2006. In addition, there is about \$6.5 million in funding for indemnities from fiscal year 2004 CCC funding that is currently available.

#### NATIONAL ANIMAL IDENTIFICATION

*Question.* The fiscal year 2006 budget includes a request of \$33.3 million to continue the National Animal Identification program. This is in addition to \$18.7 million that was transferred from the Commodity Credit Corporation (CCC) and another \$33.1 million that was provided in the fiscal year 2005 appropriations bill.

Can you provide the Subcommittee with a status report on this program? Also, will there be a role for private industry?

*Answer.* In fiscal year 2005, the focus of the National Animal Identification System will be on premises registration. As of May 2, 2005, 47 of 50 States have premises registration systems in place. Currently, 60,000 premises have been registered, which represents 3 percent of all participating premises. APHIS also intends to begin the process of registering and distributing animal identification numbers in order to track animal movements. By the end of fiscal year 2005, APHIS expects a small amount of data collection infrastructure to be put in place with the implementation cost to be shared by the public and private sectors. Private industry will be involved with the distribution of animal identification numbers and producers will have the ability to purchase Animal ID devices at their choice of private sector providers.

*Question.* The \$18.7 million that was transferred from the CCC allowed for testing and fine tuning of technologies that could be used to identify and track animals. Can you provide information on what type of technology may be used for the Nation wide program?

*Answer.* While the funds provided will support the data repository, the integration of animal identification technology standards (electronic identification, retinal scan, DNA, etc.) will be determined by industry to ensure the most practical options are implemented and that new ones can easily be incorporated into the National Animal Identification System (NAIS). NAIS allows producers to use technology in coordination with production management systems, marketing incentives, etc., allowing for the transition to a "one number-one animal" system for disease control programs and other industry-administered programs. While animals must be identified prior to being moved from their current premises, producers can decide whether to identify their stock at birth or during other management practices.

*Question.* What is the timeline for a fully implemented national identification program?

*Answer.* We are working on a timeline and expect to release a timeline soon.

#### SPECIAL SUPPLEMENTAL PROGRAM FOR WOMEN, INFANTS, AND CHILDREN (WIC)

*Question.* The Administration's fiscal year 2006 budget request includes an increase of \$275 million for a total funding level of \$5.5 billion. The requested increase for this program follows a fiscal year 2005 increase of \$523 million. Therefore, the WIC program has received an increase of approximately \$798 million over the past 2 years.

Can you explain the fiscal year 2006 budget request for the WIC program and help us understand why the cost of this program has increased so rapidly?

*Answer.* The WIC Program experienced a larger than anticipated increase in costs and participation during fiscal year 2004, for several reasons:

- Participation grew substantially during fiscal year 2004, and is currently at an all-time high. Our fiscal year 2004 budget request projected an annual average participation of 7.8 million, but actual participation was over 7.9 million. The fiscal year 2006 President's budget request projects participation will increase to an average of 8.2 million in fiscal year 2005 and 8.5 million in fiscal year 2006.
- There was an unanticipated spike in the retail price of dairy products in fiscal year 2004; while dairy prices have now moderated, they are still higher than they were prior to the spike.
- Additionally, WIC has seen a decline in the amount of rebates some States are able to receive from the Infant Formula Rebate Program. Further, due to shifts in the infant formula market to more expensive DHA/ARA enhanced formulas, formula began to cost the program more than it did in the past.

WIC participation and food cost are challenging to project into the future. Over time, the program has experienced periods, such as fiscal year 2004, where these factors are particularly volatile. We will continue to closely monitor program per-

formance and will keep Congress apprised of changes to our estimates which might be needed.

#### TRADE STATUS—JAPAN

*Question.* Mr. Secretary, we continue to monitor the current beef embargo with Japan. As you may know, the Congress is considering a number of actions that could be taken to address the current situation. One option would be to seek retaliatory actions against Japan.

Can you update us on the current status of the negotiations? Also, do you believe it is the appropriate time for Congress to take action or do you expect Japan to allow the resumption of trade?

*Answer.* Negotiations are moving forward, albeit at a slower than desired pace. However, for the first time since the October agreement to resume trade, we are finally beginning to see signs of progress in Japan's rulemaking.

The first decision Japan had to make as a pre-condition to rulemaking on imports is the elimination of animals under 21 months of age from its mandatory BSE testing requirement. Japan is finally ready to make that change. In late March, Japan's Food Safety Commission concluded the modification in the testing regulations presents an acceptable level of risk. The decision to exempt animals under 21 months of age from testing is expected to be final sometime during May.

With the decision to exclude younger animals from mandatory testing behind us, this now clears the way for rulemaking on imports. Unfortunately, we do not have a timetable for a decision on imports, but the next steps are now in place. In the coming weeks, the Ministry of Agriculture, Forestry and Fisheries and the Ministry of Health, Labor, and Welfare will deliver the Beef Export Verification (BEV) program for Japan to the Food Safety Commission. The Commission will evaluate the program, and we expect there will be consultations and public meetings. Once they have finished that process, they will make a decision. Again, the timetable for completion of this work is still unclear, and we will continue to press Japan at every opportunity for a decision to resume trade.

To help Japan prepare for decision-making on imports, Dr. Charles Lambert, Deputy Under Secretary for Marketing and Regulatory Programs, has led U.S. delegations of experts to Tokyo for technical discussions and outreach activities with Japanese press and consumer groups. The outreach activities have included press briefings and roundtable discussions with the media, industry, and consumers to educate them on the safety of U.S. beef.

#### BOLL WEEVIL ERADICATION PROGRAM

*Question.* With the submission of each year's budget request, the Administration includes new priorities and drastically reduces a number of ongoing programs. The boll weevil eradication program was funded at \$47 million for fiscal year 2005. The fiscal year 2006 budget request for this program reduces the level to \$15.8 million—which is a \$31.3 million decrease.

If the requested level for the boll weevil program (a decrease of \$31.3 million) is provided, will the program be able to continue as designed?

*Answer.* Together with funds from providers, and the FSA loan program, the budget provides adequate funding to continue the successful boll weevil eradication program.

#### USDA EMPLOYEE RETIREMENTS

*Question.* What are the Department's losses due to retirement and what is it doing to recruit new people to carry out its very important missions?

*Answer.* In fiscal year 2004, the Department lost 2,894 permanent employees to retirement.

In December 2002, the Department established and implemented a Strategic Human Capital Plan which initiated policies and practices that ensure that USDA continue to have a workforce capable of meeting its mission needs. USDA annually assesses its workforce requirements and adjusts its recruitment and retention strategies in the Mission Areas and agencies. This process ensures that we proactively replace those who may choose retirement with people capable of filling those gaps in our skills inventory in a timely manner.

#### ETHANOL PRODUCTION

*Question.* Dr. Collins, your written testimony mentions the rapid increase in ethanol production.

Do you see any danger here in over production and producers' inability to repay loans, many of which are backed by Federal programs?

Answer. Ethanol production has been rising rapidly. Current U.S. ethanol production capacity is 3.75 billion gallons per year. There are 84 ethanol plants producing ethanol in 20 States. Daily ethanol production reached 245,000 barrels or 10.29 million gallons in February 2005. There are 15 ethanol plants under construction and 2 ethanol plants are expanding their production capacities. Total capacity under construction and expansion is about 730 million gallons per year. Ethanol production could increase to as much as 4 billion gallons this year, up from 3.4 billion gallons last year, and late this year or early next year, ethanol production capacity is expected to reach 4.48 billion gallons.

Ethanol is mostly used in oxygenated and reformulated gasoline programs. About 20 percent of ethanol is used as an octane enhancer in conventional gasoline. The market for ethanol as a replacement for methyl tertiary butyl ether (MTBE) has largely been satisfied, and ethanol must now compete as a fuel extender at a lower price.

The price of gasoline is rising due to the rising price of crude oil, and the price of ethanol is declining due to greater ethanol production. The price of ethanol net of the Federal excise tax exemption is significantly lower than the price of gasoline and the price of MTBE. However, refineries and blenders are reluctant to use ethanol, due to a lack of infrastructure, such as storage and blending facilities. This is especially true outside the Midwest. If the current lower price of ethanol and higher price of gasoline continues into the future, it is possible that refineries and blenders will start using more ethanol as a substitute for gasoline and MTBE. In the absence of any new demand for ethanol to replace MTBE, such as the Renewable Fuel Standard, a greater supply of ethanol could lower the price of ethanol in the future.

On a positive note for ethanol producers, the price of corn is less than \$2 per bushel and the price of distiller's dried grains (DDG) is above \$60 per ton. The net corn cost for a new dry mill is about 50 cents per gallon and processing cost is about 45 cents per gallon. Therefore, the cost of producing of ethanol, excluding capital costs is less than \$1 per gallon. The current price of ethanol is about \$1.30 per gallon.

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#### QUESTION SUBMITTED BY SENATOR THAD COCHRAN

##### SOYBEAN RUST

*Question.* I know that several agencies within USDA have worked closely with the soybean industry on an "Early Detection and Surveillance Plan" for soybean rust. This program will be carried out in conjunction with land-grant universities, including Mississippi State University. As you know, Mississippi is one of the nine States where soybean rust was confirmed last fall. My soybean farmers are acutely aware that losses due to soybean rust totaled \$1 billion the first year of the outbreak in Brazil, and \$2 billion the following year. USDA's Economic Research Service has estimated net economic losses for the U.S. ranging from \$640 million to \$1.3 billion in the first year of the pathogen's establishment in this country, and estimated annual losses in the ensuing years of between \$240 million and \$2 billion.

Given the importance of this early detection and surveillance plan, can you please tell the status of its funding?

Answer. APHIS is using \$1.19 million from its contingency fund to implement the SBR monitoring and surveillance network and continues supporting the comprehensive USDA SBR website. APHIS is providing \$800,000 of the contingency funds to State cooperators for sentinel survey plots and \$180,000 to USDA's Cooperative State Research, Education, and Extension Service for 5 mobile monitoring teams. The remaining funds will support the website, which provides real-time updates on the results of surveillance efforts.

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#### QUESTIONS SUBMITTED BY SENATOR TED STEVENS

##### RURAL COMMUNITY ADVANCEMENT PROGRAM

*Question.* The Rural Community Advancement Program (RCAP) was established to provide planning assistance, grants, loan, loan guarantees, and other assistance to meet the development needs of rural communities. Though the fiscal year 2006 budget maintains the flexibility to transfer funding among programs within RCAP, funding for several programs, including Rural Community Development Grants,

Economic Impact Initiative Grants, Rural Business Enterprise Grants, Rural Business Opportunity Grants, and High Cost Energy Grants is eliminated. This action troubles me because of the importance of these programs to my state, especially High Cost Energy Grants, which was funded at \$28 million in fiscal year 2005. 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.

Given the devastating consequences on rural communities, particularly those in my state, why are these cuts being proposed?

Answer. The Administration's proposal, which is referred to as the Strengthening America's Communities initiative, is expected to provide more efficient and effective assistance to the most needy communities and to provide some budgetary savings. Rural communities are expected to receive a fair share of the resources that will be consolidated under this initiative. In addition, RCAP would continue to be an important source of funding for rural communities and would retain the flexibility for transferring resources to meet local priorities. Funding is not being requested for the high energy cost grants because very few rural areas are eligible to receive these grants, and cuts in this program would provide additional funding for RCAP programs that serve more rural communities.

#### ALASKA DAIRY

*Question.* As you know, the closure of the United States-Canada border due to the discovery of BSE infected cows in both Canada and Washington State has negatively impacted producers. This situation is particularly devastating to Alaska producers and dairy farmers who rely on the importation of live animals such as cattle to replenish their herds. This closure has eliminated transportation of these animals via the Alaska-Canada Highway, which is the only economically viable option for importing live animals into Alaska and our major transportation corridor from the Lower 48. During this time, my staff and I have been working with USDA to provide some measure of relief to our agriculture producers. Last fall, Governor Frank Murkowski declared an economic disaster for the State of Alaska caused by the closure and requested Federal assistance to minimize the impacts of this closure.

Despite repeated requests to USDA from Governor Murkowski, the Alaska State Legislature, Senator Murkowski, and myself, no assistance has been offered or provided to assist agriculture workers in my State. The fiscal year 2005 Omnibus included \$1 million for dairies in Alaska. USDA has still not released the funds—the stated reason is uncertainty as to how to allocate it. During this period of inactivity by USDA, the Alaska dairy industry continues to fail.

What steps are being taken by your office and USDA to ensure the continued viability of the Alaska dairy industry?

Answer. USDA has not received a request for a disaster designation. However, as you note, funds of \$1 million were appropriated in Section 786 of title VII of Division A of the Consolidated Appropriations Act, 2005 (Public Law 108-447) to carry out Section 751 of Division A of Public Law 108-7, enacted on December 8, 2004. This legislation authorized the Secretary of Agriculture to make loans and grants to expand Alaska's dairy industry and related milk processing and packaging facilities. Further, I would note that on April 6, 2005, amendment to the Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Tsunami Relief, 2005 (H.R. 1268), which is currently being considered by Congress, would modify that authority by giving the Secretary of Agriculture discretionary authority to apply the 2005 funding to the accounts of Alaska dairy farmers owed to the United States. If enacted, USDA will work expeditiously to implement that legislation and provide appropriate assistance to Alaska's dairy farmers.

In addition, on January 4, 2005, USDA published a final rule amending existing regulations to provide for the importation of certain ruminants, ruminant products and byproducts from regions that pose a minimal risk of introducing BSE into the United States, and designates Canada as the first minimal risk region. The effective date of the final rule was to have been March 7, 2005. However, on March 2, 2005, the U.S. District Court for the District of Montana temporarily delayed the implementation of the minimal risk rule. As a result, opening up the border to trade in cattle is very much a legal process outside of the control of USDA. Nevertheless, we are very concerned about the economic impact of the closed border with Canada on U.S. cattle producers and processors, including Alaska's dairy producers. On June 9, I will host a roundtable discussion on BSE in North America that will bring together experts from the USDA, producers, packers, academia and others to discuss the safety of North American beef and the effects of the border closings.

## QUESTIONS SUBMITTED BY SENATOR HERB KOHL

## EXECUTIVE BONUSES

*Question.* A recent OPM report on the performance level and bonuses of executives in the Federal Government noted that less than 40 percent of executives at USDA received the highest performance rating in fiscal year 2003. However, the same report stated that over 80 percent of these executives received bonuses, at an average of more than \$12,000, that same fiscal year.

What percentage of non-SES employees received bonuses in fiscal year 2003, and what percentage of those employees received the highest available performance rating?

*Answer.* In 2003, 46 percent of non-SES level employees received cash awards. Fifty-nine percent of those employees who received cash awards received the highest available performance rating for their agency. Some of these employees received performance ratings under a five-level appraisal system, some under a three-level system, and others under a two-level system.

*Question.* What was the average monetary amount of that bonus?

*Answer.* The average cash award given to employees who received the highest available performance rating was \$703 in 2003.

*Question.* What is the total amount of funding USDA spent on employee bonuses in fiscal year 2003 and 2004 for SES and non-SES employees? How much does USDA plan to spend on bonuses in 2005?

*Answer.* The amounts spent in fiscal year 2003 and fiscal year 2004 are provided below. For fiscal year 2005, we estimate the amount for SES awards to be 9 percent of salary costs, or approximately \$4 million. The estimate for non-SES bonuses is not available as each individual agency in the Department develops its own plan for bonuses.

[The information follows:]

	SES awards	Non-SES award
Fiscal year 2003 .....	\$1,927,845	\$53,519,877
Fiscal year 2004 .....	3,025,520	57,236,689

*Question.* Please provide a list of agencies that include funding in their fiscal year 2006 budget request for SES and non-SES employees, including the amount set aside for bonuses.

*Answer.* The President's Budget for USDA does not include requests for bonuses. The amounts to be spent on SES and non-SES bonuses are expected to be similar to those in prior years and are funded as part of the agencies' salaries and expenses costs.

## GAO HOMELAND SECURITY REPORT

*Question.* A few weeks ago, GAO issued a report on the potential threat of agro-terrorism. GAO pointed out problems with:

- USDA accreditation for veterinarians;
- rapid diagnostic tools;
- stockpiles of ready-to-use vaccines;
- and the 8 percent decline in agricultural border inspections.

You have stated that you believe in order to reverse the decline in agricultural border inspections it is very important to improve the communication between USDA and DHS.

What specifically do you plan to do to improve your communication and relationship with DHS to improve this situation and avoid similar problems in the future?

*Answer.* APHIS Administrator Ron DeHaven and DHS' Customs and Border Protection (CBP) Commissioner Bonner met in early April 2005 to discuss communication issues between the two Agencies and agricultural inspection operations at U.S. ports of entry. In addition to continuing to implement the newly established joint quality assurance program to evaluate operations at ports of entry, Dr. DeHaven and Commissioner Bonner have agreed to hold quarterly meetings to address any issues that cannot be resolved at the operational level. APHIS and CBP operations officials are meeting twice monthly to carry out the quality assurance program and address ongoing operational issues. The Agency's goal for the program is to ensure the quality of inspections and facilitate an appropriate level of communications between DHS and APHIS. Thus far, APHIS and CBP have conducted a pilot joint inspection blitz at the port of Detroit and joint reviews of operations at the ports of

Philadelphia and Miami. A review of operations at the maritime port of Long Beach, California, is scheduled for June 2005.

APHIS and CBP officials are also continuing to address the large number of vacancies at ports of entry. With the transfer of the port inspection portion of the agriculture quarantine inspection function to CBP in fiscal year 2003, APHIS transferred 363 fully-funded vacant AQI inspector positions. This number has increased significantly through attrition in the last 2 years. While progress has been made in filling many positions, APHIS encourages CBP to continue an aggressive recruitment and hiring program. APHIS assists CBP in recruiting by distributing vacancy announcements to a large pool of qualified candidates and expeditiously training those hired. Following the April 2005 meeting between Dr. DeHaven and Commissioner Bonner, APHIS is enhancing its recruitment program for CBP vacancies through promoting the jobs to qualified candidates. APHIS' Professional Development Center has 14 classes scheduled for incoming agricultural specialists (with space for 36 new inspectors in each class).

Progress has been made in other areas, such as access to CBP's data systems. In March 2005, APHIS and CBP reached an agreement to allow APHIS users to access CBP's Automated Targeting System (ATS), which will allow us to review incoming cargo manifests electronically and determine which to target for agricultural inspections. At this time, 14 APHIS users are approved to access ATS, with 6 more in the approval process. APHIS is also placing two agricultural specialists in CBP's National Targeting Center to develop criteria for determining which incoming shipments to target for agricultural inspections.

#### ACCREDITED VETERINARIANS IN RURAL AREAS

*Question.* You have discussed the importance and variety of State programs that are working to increase the number of accredited veterinarians in rural areas where they could provide ample surveillance of animal disease and potential agro-terrorist threats. I agree that State programs are important, but I also believe they should be strongly supplemented by the Federal Government, especially as they are used to enhance national security.

What Federal programs are available and being utilized to increase the number of accredited veterinarians in rural areas?

*Answer.* APHIS is authorized to offer additional compensation to help recruit and retain veterinarians for difficult-to-fill positions. The National Veterinary Medical Service Act enables APHIS to repay veterinary medical school loans when a veterinarian serves in a "shortage" area. APHIS is also authorized to provide retention bonuses to veterinarians, who are paid on the normal General Schedule. Any retention bonuses must be approved through the APHIS Deputy Administrator's Office on a case-by-case basis.

APHIS has not used its authority under the National Veterinary Medical Services Act since the agency has not received appropriated funding supporting this legislation. In fiscal year 2004 APHIS Veterinary Services provided \$36,755 in retention bonuses to two veterinarians. In addition, APHIS has a roster of about 1,200 private veterinarians in the National Animal Health Emergency Response Corps who are available for public service in the event of an emergency.

FSIS routinely pays a range of recruitment incentives to attract new veterinary hires in shortage or difficult to fill locations nationwide. For example:

- Recruitment bonuses were used when filling positions in various locations in 21 States. In fiscal year 2004, FSIS paid \$632,803 to provide recruitment bonuses to 59 new veterinary hires.
- FSIS pays travel and transportation expenses to all veterinary new hires. In fiscal year 2004, \$290,000 was provided to pay these expenses to 58 new hires.
- Direct-Hire Authority was granted by OPM for VMO hires GS-9 through 13, which doubled the number of applications.
- Training agreement authorizes accelerated promotion for GS-9 to GS-11 VMO within 6 months of hiring to attract talented veterinary applicants. The low starting salary for our entry level positions, compared to jobs in the private sector, has been a major factor in our inability to recruit new veterinary graduates.
- Finally, use Superior Qualifications Appointment authority for veterinarians new to Federal Service—allows for setting starting salary above the normal level.

To date, we have not used Retention allowances to retain FSIS veterinarians. FSIS has also not yet utilized the Repayment of Student Loans Program to attract or retain veterinarians; however, the agency is considering use of these authorities.



## FOOD AND AGRICULTURE DEFENSE INITIATIVE

*Question.* The USDA budget proposes an increase of \$78 million for the Food and Agriculture Defense Initiative (FADI) bringing total FADI spending to \$376 million. The goals of this Initiative are laudable, but I do have questions regarding what, specifically, this money is buying.

Can you tell us what USDA has achieved and what work remains? How are you measuring success in achieving these goals?

*Answer.* The events of September 11, 2001, heightened the Nation's awareness and placed a renewed focus on ensuring the protection of the Nation's critical infrastructures. The Department plays a significant role in protecting America's agricultural industry and food supply from intentional and unintentional harms. A terrorist attack on the food supply could pose both severe public health and economic impacts, while damaging the public's confidence in the Nation's food supply. As a result of new potential threats to the food supply, USDA agencies have made fundamental changes in how they implement their missions and have focused efforts on food and agricultural production, USDA facilities, and USDA staff and emergency preparedness.

Some activities the Department has begun include expanding the Food Emergency Response Network (FERN) and the Regional Diagnostic Network with links to the National Agricultural Pest Information System; upgrading laboratory security and enhancing their capabilities to quickly identify threats to the food supply; strengthening research on diagnostic methods for quickly identifying various plant and animal pathogens; enhancing the monitoring and surveillance of pests and diseases in plants and animals; and enhancing the Department's emergency preparedness and response capabilities by establishing a Homeland Security Staff. The Homeland Security Staff provides oversight of USDA nationwide policies and procedures related to homeland security, and coordination with the Department of Homeland Security and other Federal agencies, public and private organizations. I will have this office provide additional information for the record.

[The information follows:]

The FADI closely correlates to the food and agriculture security tasks set forth in Homeland Security Presidential Directive (HSPD)-9, Defense of U.S. Agriculture and Food. HSPD-9 establishes 6 main components to a defense strategy for agriculture and food security: (1) Awareness and Warning, (2) Vulnerability Assessments, (3) Mitigation Strategies, (4) Response Planning and Recovery, (5) Outreach and Professional Development, and (6) Research and Development. Highlights of current fiscal year activities for each component follow.

#### *Awareness and Warning*

Enhancing Federal, State, local, and industry awareness of the threats to the agriculture and food sector is essential. First responders in this sector are often industry owners and operators or State or local regulatory officials. Additionally, early detection is also key to minimizing the spread of a contaminant. Therefore, USDA has focused upon educating individuals of the signs of an attack or outbreak. USDA has also focused upon enhancing scientific capabilities for early warning, such as establishing laboratory networks that can rapidly share information and diagnostics. Key programs within Awareness and Warning are highlighted below:

*Awareness Activities.*—To ensure awareness, USDA has hosted Food and Agricultural Defense Field Training in a variety of settings. USDA's Food Safety and Inspection Service (FSIS) has provided biosecurity training to in-plant personnel. USDA's Animal and Plant Health Inspection Service (APHIS) has provided biosecurity training via CD-Rom to States. USDA's Cooperative State, Research, Education and Extension Service (CSREES) has trained plant diagnosticians in every State to recognize high consequence pathogens and is conducting plant disease outbreak scenario drills in 24 States. USDA has also provided information on its web page for owners and operators, so that they are aware of signs of contamination. The USDA page on Soybean Rust is an example of these activities. USDA also partnered with industry to ensure their awareness of agriculture and food security during transportation by providing a voluntary security guide with tips for keeping products secure during transport. FSIS has also provided model food security plans for industry to use in developing their own plans.

*Food Emergency Response Network (FERN).*—FSIS, along with the Food and Drug Administration (FDA), co-chairs the Food Emergency Response Network. Screening, in FSIS laboratories, under a surveillance program coordinated by FERN, a national, integrated network of Federal & State laboratories, with the surveillance and surge capability of testing foods for threat agents in the event of a terrorist attack. Currently, FERN includes 93 laboratories representing 43 States and Puerto Rico

(25 Federal, 60 State, 4 local and 4 other) and each laboratory has satisfactorily completed the FERN Laboratory Qualification Checklist. The FERN Laboratory Qualification Checklist provides the FERN National Program Office with vital information to determine if a laboratory meets the criteria for participation in FERN. Within the 93 laboratories, 67 conduct chemical agent testing, 69 conduct microbiological testing, and 25 conduct radiological (some laboratories conduct more than one type of test). The goal for FERN in fiscal year 2006 is to add 15 new State laboratories to partner with FSIS and FDA.

Funding to date has been used to build on the expertise of the Federal, State and local laboratories that are now part of FERN. FERN has laid the foundation for a coordinated laboratory network that will ultimately be capable of meeting the testing demands resulting from an attack on our food supply. FERN laboratories are currently conducting method development for testing and performing proficiency testing. FERN has established Regional Coordination Centers that serve as the primary points of contact for laboratories across the country. Already established are the Southeast Center located in Athens, Georgia, and the Northeast Center temporarily headquartered in Rockville, Maryland. Other Regional Coordination Centers will soon be established in Alameda, California; Denver, Colorado; and St. Paul, Minnesota.

The additional funding requested for FERN, will enable the agency to manage, maintain, and expand the capacity and capabilities of the existing FERN labs. These funds will improve the FERN's ability to handle the numerous samples that would be required to be tested in the event of a terrorist attack on the food supply, because State and local laboratories would be able to conduct a significant portion of the necessary testing.

State and local laboratories continue to be identified and recruited into the FERN. The goal is to include an adequate number of Federal, State, and local food laboratories in the network to ensure the necessary laboratory support, coordination, and collaboration in the event of a terrorist attack on the food supply.

*National Animal Health Laboratory Network (NAHLN).*—The NAHLN is a functional national network of existing animal diagnostic laboratories. Its purpose is to rapidly and accurately detect and report pathogens of national interest that have the potential for high consequence and/or to be introduced intentionally. It provides geographically distributed diagnostic support to APHIS by training diagnostic personnel to improve service capabilities, expanding standardized rapid/sensitive testing capabilities, improving the Nation's Bio-Safety Level (BSL)-3 capability, assuring quality standards and proficiency testing, and improving communications to share data. The goal for NAHLN in fiscal year 2006 is to train and proficiency test 10 additional laboratories; assist in diagnostic fee-for-service guidance; and develop international linkages.

The 12 founding laboratories, along with 32 other laboratories funded by APHIS, provide surveillance testing for Bovine Spongiform Encephalopathy (BSE), Exotic Newcastle Disease, Highly Pathogenic Avian Influenza, and Chronic Wasting Disease in 37 States. The current number of States with laboratories available to assist the National Veterinary Services Laboratory (NVSL) in providing necessary Federal animal diagnostic services has increased to 41.

Outputs that must occur to achieve preparedness oriented outcomes include: laboratory biosafety upgrades, laboratory physical security improvements, laboratory equipment upgrades, deployment of quality management (QM) manuals and personnel, completed standard operating procedures, and diagnostic personnel trained for high consequence pathogens. These outputs are necessary to improve preparedness for and ability to respond to high consequence animal diseases. Currently, 11 of the 12 laboratories are running Exotic Newcastle and Highly Pathogenic Avian Influenza tests post proficiency. All laboratories have passed proficiency tests for Classical Swine Fever. The Foot and Mouth Disease program is progressing according to schedule.

The NAHLN has been an important part of the BSE testing program. Eight of the twelve founding NAHLN laboratories have participated in this high volume surveillance testing program, which tests volumes similar to the Colorado example below, representing three to four fold increases over 2001 levels. Beyond surveillance test performance, NAHLN host institutions helped to operationalize the current high volume BSE test, which makes wider surveillance possible with limited resources. The NAHLN founding laboratories, through assay development and training activities, have also increased the surveillance capacity of the veterinary diagnostic system for Foot and Mouth Disease, Classical Swine Fever, Exotic Newcastle Disease, and Highly Pathogenic Avian Influenza.

As of January 31, 2005, Colorado State University Veterinary Diagnostic Laboratories (CSUVDL) has performed 50,000 BSE tests, processed over 15,000 chronic

wasting disease samples, and 6,000 Scrapie samples since the NAHLN program's inception. Their weekly testing volume has exceeded 3000 samples.

In 2004, Texas experienced 2 outbreaks of Avian Influenza (AI). Because of the training and equipment afforded through this CSREES grant, the Texas Veterinary Medical Diagnostic Laboratory (TMVDL) was able to assume a major role in laboratory testing during and following these 2 outbreaks. They were able to reduce the testing burden on the National Veterinary Services Laboratory significantly by performing almost all PCR and serological tests following the diagnosis of the index case by NVSL. In total TMVDL ran 20,468 triage preliminary tests and 2,679 real time PCR tests for AI during the 2 outbreaks. This success story provides evidence of the increased foreign animal disease response capacity that is needed in order to gather near-real time information regarding potential threats to the Nation's animal resources.

*National Plant Diagnostic Network (NPDN).*—The NPDN provides a functional national network of existing diagnostic laboratories in all States. Its purpose is to provide rapid and accurate detection and reporting of plant pests and diseases that have the potential for high consequence and/or to be introduced intentionally. The NPDN also provides geographically distributed diagnostic support to APHIS by decreasing the time between first observation of an anomaly by first detectors and response, increasing the Nation's plant diagnostic capabilities through improved equipment and training, providing diagnostic surge capacity in case of a concentrated or deliberately distributed agroterrorist incident, and training first detector trainers that will increase the Nation's ability to detect incidents before they become widely distributed.

The network is currently being utilized by APHIS to manage the *Phytophthora Ramorum* (Sudden Oak Death) outbreak. NPDN is currently running several multi-State plant disease outbreak simulations in cooperation with APHIS/PPQ, State governments, the grower community. The network is also currently working with the USDA Forest Service to educate potential first detectors of sudden oak death disease.

NPDN provides equipment funding, training, and educational resources to all land grant university diagnostic laboratories in an effort to raise diagnostic capabilities nationwide. Last year, Plant Diagnostic Laboratories in 41 States received funding to upgrade equipment and facilities and Plant Diagnostic Laboratories in all States and U.S. Territories received diagnostic training. In addition, laboratories provided triage diagnostics for over 130,000 samples that were potentially infected with *P. ramorum*, the pathogen that causes sudden oak death, preventing its nationwide distribution through marketing channels.

The NPDN also hosted outbreak scenario training exercises in 23 States. Outbreak scenarios will be completed for all States in the continental United States by May 2005. Technical training on plant biosecurity issues was provided through The National Pest Diagnostic Network's First Detector Training and Certification Course. This program trained over 10,000 individuals and trained over 1,500 individuals as additional trainers. With a few weeks after soybean rust was first detected in Louisiana, private interest disease surveillance activities were conducted by first detectors. Samples submitted to diagnostic laboratories, as a result of these first detectors, identified soybean rust in Mississippi, Florida, Georgia, Alabama, Arkansas, Missouri, South Carolina, and Tennessee.

*Integrated Consortium of Laboratory Networks.*—Laboratory networks from a variety of Federal Departments have agreed to work cooperatively under a Memorandum of Understanding to communicate and cooperate by sharing capabilities, policies, procedures, and approaches for handling laboratory analysis during national emergencies. The consortium also seeks to reduce redundancies among laboratories, identify holes in laboratory capabilities, and to seek solutions to managing these identified issues in the future. The MOU will likely be signed in early May.

*Integrated Surveillance Capability.*—USDA's APHIS, FSIS, and CSREES agencies are conducting a review and analysis of their information systems that are relevant to the National Biosurveillance Integration System (NBIS). In consultation with the Department of Homeland Security (DHS), the agencies are considering the current information available for submission to the NBIS, the costs of providing the information, and a process for prioritizing information systems that should link to the NBIS. The goal is to provide the highest priority information systems to the NBIS to improve surveillance of threat agents in plants, animals, and food.

*Surveillance and Monitoring.*—Surveillance and monitoring programs are essential to an awareness and early warning capability. Within this realm, USDA has a number of key initiatives underway. FSIS has implemented the National Consumer Complaint Monitoring System (CCMS), a surveillance and sentinel system that monitors, records, and tracks food-related consumer complaints 24/7, and other

reports of suspicious activity. It serves as a real-time, early warning system of a potential attack on the food supply. CCMS has evaluated approximately 3,500 consumer complaints since January 2001.

With regard to plant and animal health, USDA is completing the New Pest Response Guidelines for all the select agents and is completing integration of the Overseas Pest Information System (OPIS) database. Wildlife provides an early indicator for outbreaks that may impact food animals. Therefore, USDA is hiring 77 wildlife biologists nationwide. Due to the importance of food animals, USDA is developing a monitoring and database system for the National Animal Identification System (NAIS) to identify gaps in the surveillance and monitoring of animal health. Similarly, USDA is continuing its surveillance programs for Foreign Animal Diseases (Foot and Mouth Disease), Swine feeding surveillance, and Classical Swine Fever activities.

#### *Vulnerability Assessments*

USDA is using the CARVER + Shock vulnerability assessment method across agencies so that we may compare findings across the farm-to-table continuum. Our goal is to expand and continue these assessments both internally and by leveraging upon DHS projects to partner with industry to conduct assessments. To date, USDA has done a number of threat and vulnerability assessments. Highlights follow:

*USDA CARVER + Shock Assessments.*—USDA agencies have conducted threat and vulnerability assessments for food, animal, and crop products and programs under our jurisdiction. USDA agencies will update these assessments every 2 years. These agencies are also working with Federal, State, and local partners to aid the private sector, as industry conducts its own assessments.

*Farm Service Contract Requirements.*—Under USDA's Farm Service Agency (FSA) oversight, language has been incorporated into all Commodity Credit Corporation (CCC) Storage and U.S. Warehouse Act Licensing Agreements requiring agreement holders to conduct a facility vulnerability assessment and implement a security plan that includes measures to protect commodities handled and stored in their facility. FSA is also conducting training for agency staff that assess compliance. FSA is preparing to conduct a vulnerability assessment for commodity operations with specific emphasis on the vulnerability and risk of bulk grain, oilseeds, rice, and processed agricultural commodities to threats and attacks of deliberate contamination. This assessment will address the complexities of CCC-owned and farmer-owned marketing assistance loan collateral being commingled with bulk grain, oilseeds, and rice of other public owners during the storage, transportation, and distribution process. Additionally, USDA's Foreign Agricultural Service (FAS) has begun to work with the U.S. Agency for International Development and the State Department to develop and coordinate an international food aid plan. The focus of this cooperation is two fold: prevention by recognizing the most likely threats and vulnerabilities within the international food aid system (those that pose the biggest risk) and development of a Rapid Response Plan.

#### *Mitigation Strategies*

Mitigation strategies depend upon vulnerability and threat assessment findings and research and development capabilities. To date, USDA has addressed concerns of vulnerabilities within imported meat, poultry and egg products by developing standardized screening and inspection procedures. USDA is also conducting research and development concerning intervention steps to prevent contamination. Specifically, USDA is developing intervention steps to prevent transport of agents of concern from farm-to-table.

#### *Response Planning and Recovery*

In the event that preventive measures are unsuccessful, the Department must be prepared to respond to and recover from an incident. Therefore, USDA is focusing upon the national initiatives, the National Response Plan and the National Incident Management System, to ensure that the Department may respond appropriately to a catastrophic incident. Additionally, USDA is considering sector specific response and recovery initiatives. Highlights follow:

*National Response Plan (NRP).*—Implementing the NRP at USDA is essential to ensuring that the food and agriculture continuum is prepared for an event. Therefore, USDA staff offices are identifying and preparing revisions to existing regulations, policies and guidance to assure compliance with the NRP. FSIS is working with FDA and DHS, to develop a food and agriculture annex for the NRP. They established a cooperative agreement with the National Association of State Departments of Agriculture (NASDA), to "develop emergency preparedness/response best practices and guidelines for Federal-State response to incidents affecting the food supply."

*National Incident Management System (NIMS).*—Similarly, USDA is implementing NIMS. Agencies have completed the first phase of NIMS implementation plans, which include preparedness, prevention, response, and recovery aspects. USDA has compiled the plans into a department-wide response to DHS. The next step is for USDA to work individually with agencies to finalize their plans.

*National Plant Disease Recovery System (NPDRS).*—In the event of a large-scale disease outbreak, the food and agriculture sector must have plans in place for recovery. HSPD-9 specifically tasks USDA to develop such a plan for the plant production system. To date, USDA has led an interagency committee to develop a system to address the mechanisms and process for a recovery system for plants/crops. The system should be capable of responding to a high-consequence plant disease with pest control measures and the use of resistant seed varieties within a single growing season to sustain a reasonable level of production for economically important crops.

To date, the committee has established a steering committee and working groups to focus on specific diseases. The working groups are examining the highest priority crops and most potentially harmful diseases first. They are determining the likely outcome of an outbreak and the existing mitigations and the need for research and development to enhance recovery.

*Decontamination and Disposal.*—HSPD-9 also specifically tasks USDA to work with the Environmental Protection Agency (EPA) to consider decontamination and disposal roles and responsibilities. To date, EPA has led a collaborative effort with USDA, DHHS, and DHS to develop a plan that addresses how to handle decontamination and disposal issues post-event for inclusion in the Food and Agriculture Response Plan annex to the NRP.

#### *Outreach and Professional Development*

Since security is a relatively new concept for the food and agriculture sector, educating stakeholders is important to successfully implementing programs. The new need for security within this sector also raises a need for educated professionals capable of addressing security related issues—veterinarians trained in research for biological weapons is an example of a new need. To address these issues, USDA is building new partnerships and working to transition traditional professional programs into the security realm.

*Outreach via Food and Agriculture Sector Coordination.*—Forging strong relationships across Federal, State, local, and industry lines is key to addressing security within the food and agriculture sector, for most of it is privately held and or regulated at the State or local level. Both HSPD-7 and 9 require some form of enhanced relationship within the sector. Under the leadership of USDA, DHS, and FDA, Food and Agriculture Sector Coordinating Councils have been formed—one for the government, and one for industry. They meet in joint Council sessions quarterly and their leadership hosts conference calls twice monthly. The food and agriculture sector is the first to implement the NRP and the National Infrastructure Protection Plan and will serve as a model for others in organizing and implementing National programs.

*Higher Education Programs.*—USDA is providing capacity building grants to universities that provide interdisciplinary degree programs to prepare food defense professionals. A success story from this effort is seen in the recently developed Soybean Rust webpage and related educational materials that were developed by land grant universities in partnership with CSREES.

#### *Research and Development*

Current technologies do not provide USDA with the best possible tools for addressing our needs related to awareness, early warning, response or recovery. Therefore, USDA has a research and development program that focuses upon the highest priority needs. Key highlights follow:

*Food-related Research.*—USDA is developing techniques to maximize the probability of detecting threat agents in food. Specifically, USDA is developing rapid tests for threat agents in food matrices. These matrices are based upon vulnerability assessment findings. USDA is also developing processing techniques to destroy (pasteurize) threat agents in food.

*Agricultural Research.*—USDA is strengthening research on rapid response systems to bioterror agents, improving vaccines, and identifying genes affecting disease resistance. USDA is also supporting NPDRS by conducting research on protection of plants against 3 high priority threat agents (soybean rust, striped rust of wheat and downy mildew of corn). Additionally, USDA is hosting research to enhance the development of recombinant vaccine for Foot and Mouth Disease.

*BioSafety Level (BSL)-3 Facility.*—A priority for USDA is to complete the consolidated state-of-the-art BSL-3 animal research and diagnostic laboratory and quarantine facility at Ames, Iowa.

*Leveraging DHS Programs at the University Centers for Excellence.*—USDA is working closely with both the pre and post-harvest DHS Centers for Excellence staff to ensure that they are aware of on-going research and development activities at USDA. The Department is also working with the Centers to ensure that they are aware of our priorities and needs as they develop their agendas.

*Question.* We are providing significant funding for FADI, and large increases have been requested each year for the past several years. When will FADI be fully implemented? Should the Committee expect continued requests for increases in the years to come?

*Answer.* The FADI is an on-going initiative to ensure coordinated efforts across the Federal agencies responsible for agriculture and food security. Initially, The Department requested funding to establish new programs because our focus and mandate was on preventing unintentional contamination or addressing small-scale intentional contamination such as an act by a disgruntled employee. Since 9/11, the Department has begun to address intentional contamination. Our reason for doing so is based upon intelligence demonstrating that our enemy has both the knowledge and the access to agents that would be harmful to the food and agriculture sector. Therefore, the Department will continue to build upon our current security initiatives within the FADI and as intelligence and world events dictate, we will modify and enhance our efforts.

*Question.* How is USDA working with other agencies on FADI? Do you think the other agencies are paying a proportionate share of their cost for FADI, and how is that determined? Who makes that determination?

*Answer.* HSPD-9 sets clear expectations for how agencies will work together to achieve a strategy to defend the Nation's food and agriculture sector. The Department is working with our Federal, State, local, and industry partners to meet this mandate. Although HSPD-9 sets clear expectations for how the agencies will work together there is no such directive for determining which agencies will pay for which activities. This is determined by meetings held between the White House Security Council, the Office of Management and Budget and the Federal agencies involved in a particular activity.

#### USER FEES

*Question.* The budget request assumes more than \$177 million in new user fees in fiscal year 2006. Several of these, such as Food Safety and Inspection Service (FSIS) user fees, have been proposed time after time, and they are always rejected. If our Committee fully complies with this request, and provides \$710 million (a reduction of \$106 million from last year), the responsibility to achieve the fees then falls on you and the authorizing committees.

Has legislative language been submitted to the authorizing committees? If not, when will USDA submit this language?

*Answer.* Legislative language for the user fee proposals is being reviewed expeditiously and will be submitted to Congress as soon as the reviews are completed.

*Question.* How will you avoid downsizing FSIS if you are not successful with the authorizing committees? How will you absorb \$177 million in lost resources? Do you support the Committee proceeding with the President's appropriations proposal if the authorization committee has taken no action by the date the Committee reports out the fiscal year 2006 bill?

*Answer.* In 2006, the President's budget includes and requests the full amount of budget authority, \$850 million, needed to operate FSIS' inspection services. We are requesting authority to charge user fees, deposit the fees into special receipt accounts, and use the fees subject to appropriations. We continue to support the fee proposals as presented in the budget, which will shift the responsibility for funding these programs to those who most directly benefit.

#### SOYBEAN RUST

*Question.* This past year, soybean rust was detected in the southern United States and due to prevailing southerly winds, there is great concern this disease will spread to the other major soybean producing states. USDA actions to detect, halt, contain, and control soybean rust will require coordinated efforts of the research and regulatory mission areas, and perhaps others.

Do you believe soybean rust can be stopped from spreading to additional States or do you believe there is little USDA can do in this regard?

Answer. Soybean Rust (SBR) is a fungal disease that is spread primarily by wind-borne spores. Because it is wind-borne and easily travels long distances, there is no way to stop it from spreading. In fact, the pathogen is thought to have traveled from Asia to Africa in this way. Accordingly, USDA is focusing its efforts on assisting the States and soybean producers in preparing for the arrival of the disease in their areas.

USDA has tested fungicides and is seeking resistant varieties of soybeans. Resistant varieties will take time to develop as there appears to be limited genetic resistance.

*Question.* In what states, and regions of those states, has soybean rust been detected to date, and what are your projections for spread of this disease during the 2005 crop year?

Answer. SBR was detected for the first time in the continental United States in November 2004 in Louisiana and subsequently in eight other southern States: Alabama, Arkansas, Florida, Georgia, Mississippi, Missouri, Tennessee, and South Carolina. The series of hurricanes in fall 2004 was the likely cause of the spread of SBR into the United States and may have spread it throughout the Gulf Coast region.

In 2005, SBR has been detected in three counties in Florida on kudzu plants. Surveillance efforts are ongoing, and it is difficult to predict exactly where outbreaks will occur this year. However, USDA's SBR aerobiology modeling system indicates that SBR spores have already spread throughout the eastern half of the United States and likely into Canada by wind. APHIS and State departments of agriculture are implementing a monitoring and surveillance network utilizing sentinel survey plots and mobile monitoring teams to track outbreaks as they occur.

*Question.* Do you think it is more effective to concentrate USDA activities on those areas of the country where soybean rust has been detected or is most likely to appear rather than spread assistance over a larger area where it is unlikely soybean rust will appear?

Answer. Because the disease travels long distances by wind, APHIS officials believe that all major soybean-producing regions are at risk for the disease and need to be prepared for its arrival. The monitoring and surveillance network currently being implemented will allow APHIS and State cooperators to track SBR outbreaks as they occur in new areas and provide early warning to producers. SBR can be managed effectively with fungicides, but the fungicides are most effective when applied before the disease affects the plants.

*Question.* Please describe any activities, funding levels, and funding sources the USDA plans to use in fiscal year 2005 and 2006 relating to soybean rust.

Answer. USDA will be spending \$1.19 million on soybean rust surveillance and monitoring efforts and more than \$3.8 million is research in fiscal year 2005. The President's budget requests \$3.2 million for research in fiscal year 2006. Details follow below and have been provided for the record.

APHIS is using \$1.19 million from its contingency fund to implement the SBR monitoring and surveillance network and continues supporting the comprehensive USDA SBR website. APHIS is providing \$800,000 of the contingency funds to State cooperators for sentinel survey plots and \$180,000 to USDA's Cooperative State Research, Education, and Extension Service for 5 mobile monitoring teams. The remaining funds will support the website, which provides timely updates on the results of surveillance efforts.

ARS has initiated research programs that involve five research units in Illinois, Iowa, Maryland and Mississippi, plus cooperative agreements with several Land Grant universities. This research is designed to develop a better understanding of the way the disease attacks the plant, strains of soybeans resistant to the disease, a rapid detection test, and efficacy testing of various fungicide strategies to combat the disease.

In fiscal year 2005, fungicide trials involving eight chemicals have been conducted by ARS in South America and Africa where the disease was known to occur prior to its entry into the United States. ARS is working with EPA, states, and registrants to develop and expedite Emergency Exemptions for fungicides in the chemical class of "triazoles" which have been found effective against soybean rust in our studies in Africa and South America. These studies will continue in fiscal year 2006.

In fiscal year 2005, ARS scientists working closely with the Joint Genome Institute, Department of Energy in California, have partially sequenced the genome of the more virulent species of the soybean rust (*Phakopsora pachyrhizi*) and are preparing genetic maps for further diagnostic development. Genome sequence data from the soybean rust pathogen will be indispensable in identifying polymorphic DNA sequences with high potential for strain identification, and will be essential

to long-term genetic strategies for the identification of genes that regulate pathogenicity. These studies will continue in fiscal year 2006.

Fiscal year 2005 multi-year agreements are in place in Brazil, Paraguay, China, South Africa, Thailand and Vietnam 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. Over 170 soybean lines are being tested at these 6 international locations. These field sites will greatly facilitate progress toward selection of superior breeding lines for development of resistant varieties. In addition, ARS has proposed research to exchange and evaluate Vietnamese and other soybean germplasm for resistance to soybean rust in Vietnam and in other locations.

ARS funding for fiscal year 2005 is \$3,881,900; and fiscal year 2006 is \$3,188,600.

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#### QUESTIONS SUBMITTED BY SENATOR ROBERT C. BYRD

##### HUMANE ACTIVITY TRACKING

*Question.* Secretary Johanns, as you know, I am keenly interested in ensuring that food animals are treated in a humane manner prior to slaughter. I have included funding in the Food Safety and Inspection Service for the past several years to increase the number of food safety inspectors dedicated to making sure that humane animal handling is treated with the importance it deserves. I plan to continue focusing on this important subject, and I have several questions regarding how USDA is carrying out its mission in this regard.

Last year, I included a \$3 million increase for the Humane Animal Tracking (HAT) System, a component of the Field Automation and Information Management System (FAIM). It is my understanding that this funding was used to connect the HAT system into the FAIM architecture in 250 of the largest slaughter establishments. This allows one more component of information to be at the fingertips of Food Safety and Inspection Service personnel, which all taken together, is used to ensure that food animals are treated in a humane manner, and that the food they provide us remains safe.

Please discuss any potential benefits this increased funding for the HAT System has to improve food safety and security, as well as humane animal handling.

*Answer.* The increased funding has improved the enforcement of the Humane Methods of Slaughter Act (HMSA). The HAT system is being used to evaluate and verify important national and District trends to ensure appropriate actions are being implemented, and ensuring that enforcement of HMSA is consistent nationwide. The integration of HAT into the FAIM architecture also allows humane handling and slaughter verification data to be part of the same FSIS-wide communications infrastructure as food safety and food security activities, and will move us closer to the goal of real-time data sharing.

*Question.* What will be the maintenance costs to ensure the HAT system remains connected to the FAIM architecture?

*Answer.* With the \$3.0 million in funds made available to FSIS for implementation of HAT, FSIS has established high-speed lines in 200 of the more than 900 federally inspected establishments subject to HMSA to date. The Agency will connect an additional 50 establishments with high-speed lines in the immediate future. These establishments slaughter approximately 95 percent of the animals slaughtered in the United States. After funding for this activity expires, FSIS will use available funds to maintain the high speed connections in these establishments.

*Question.* What additional funding will be needed in order to connect the HAT System to the FAIM architecture in the remaining establishments?

*Answer.* The 2006 budget does not request additional funding for FSIS to connect the HAT system to the FAIM architecture in the remaining establishments. Any expansion of the system to additional establishments will be done within available funds.

*Question.* Under the current budget proposal for FAIM, what are the capabilities and shortfalls of this technology? In order to ensure that HAT information is received by FSIS in real time, as well as other food safety information, how would FAIM need to be changed or improved?

*Answer.* FSIS' FAIM project serves as the communications infrastructure for the Agency's food safety, food security, and humane handling and slaughter verification activities. Real-time communications provide a continuous flow of data that gives FSIS the capability to more rapidly detect and respond to abnormalities in food safety systems. Dial-up technology is less reliable, less efficient, and is not capable of handling the same volume of information as high-speed technology. Because a large



number of livestock slaughter establishments are located in rural areas that may be isolated, there are significant hurdles to overcome in order to establish high-speed connections so that Agency personnel throughout the country can fully utilize data and share food safety, food security and humane handling and slaughter information in real-time. The existing FAIM infrastructure is being improved to allow HAT data to be integrated with inspection data stored in other Agency databases, including data such as non-compliance records and food safety verification information. The integration of HAT into the FAIM architecture also allows humane handling and slaughter verification data to be part of the same Agency-wide communications infrastructure as food safety and food security activities, and will move us closer to the goal of real-time data sharing.

*Question.* Do the DVMS or anyone else at FSIS prepare reports based on the HAT data analysis, and can you provide those reports to the committee?

*Answer.* A variety of FSIS employees use HAT data and make reports on its contents. At this time, FSIS is in the process of developing a standard format for collecting and reporting data. Once these reports are developed and generated, I would be glad to provide a set to the Committee.

*Question.* Of the total number of plants subject to HMSA, after the \$3 million provided last year is spent, how many will remain to be hooked up to high speed connections? Of those not connected, what percentage of slaughter occurs there, and what has been the rate of HMSA compliance in those plants?

*Answer.* There are currently more than 900 federally inspected slaughter establishments subject to HMSA. To date, FSIS has established high-speed connections in approximately 200 livestock slaughter plants. An additional 50 slaughter establishments will be connected with high-speed lines in the immediate future. The establishments not connected with high-speed connections slaughter approximately 5 percent of the animals. The establishments with high-speed connections do not have a different rate of compliance with HMSA than other establishments.

In the event of a food safety emergency, I believe it is imperative that information is available to all who need it in real time, as opposed to taking days, weeks, or even months to gather pertinent and necessary information. However, I do not believe that this is currently the case, and I am very concerned that improving the communication system to provide real time information does not appear to be a priority of USDA and FSIS.

*Question.* What percentage of FSIS inspected plants still have dial up communications? What is the effect of having to use a dial up modem instead of a real time communication system in the event of a food safety, food security, or animal welfare emergency?

*Answer.* FSIS is currently implementing high-speed communications in 250 federally inspected establishments, which is approximately 11 percent of the 2,200 "base" establishments. A "base" establishment is an establishment from which food safety inspectors, including patrol inspectors, use as a base of operations for providing inspection service to all establishments on a daily basis, and includes both slaughter and processing establishments. Though dial-up is not as fast and reliable as high speed, it still allows inspectors to be reached and provided food safety information. High-speed technology would provide greater assurances that inspectors can be reached and provided with food safety information more rapidly than dial-up technology.

*Question.* In the event of an emergency, please describe how the situation would differ depending upon whether the problem occurred in a plant that still used slow, dial-up modems, as opposed to being able to provide information to FAIM in real time.

Further, I included report language in the Senate report regarding the potential of allowing additional FSIS personnel to work with the current District Veterinary Medical Specialists (DVMS), in order to ensure that DVMS are spending adequate time focusing on humane slaughter activities. The language continued and discussed several objective scoring techniques for FSIS personnel to document animal slaughter improvements or failures. Specific suggestions were given, and a report, which has been received, was due on March 1 of this year regarding those suggestions. I appreciate that the report was submitted on time; however, I do not believe that specific responses to each of the suggestions given in the report language was provided. For example, does USDA plan to allow the use of location or technological opportunities to make unannounced observations at slaughter plants?

*Answer.* In a food safety emergency, the primary difference between dial-up and high-speed technology would be the speed at which information, including the detection of a problem, instructions to inspectors, descriptions of product, test results, and other pertinent information would be collected and disseminated. High-speed connections would equip FSIS with a fully-integrated, real-time communications in-

frastructure, giving FSIS the ability to instantly detect and respond to abnormalities or weaknesses in the system to best ensure food safety, food security and humane handling and slaughter activities, particularly in the event of a food safety emergency.

To enforce provisions of the HMSA, FSIS personnel utilize unobserved locations for verifying humane handling and slaughter activities. Furthermore, District Veterinary Medical Specialists (DVMSs) and other in-plant inspection personnel conduct unannounced—including off-hour—visits to observe humane handling and slaughter activities by plant personnel. FSIS does not believe that video cameras are a substitute for the ongoing, intensive, and random verification of establishment humane handling and slaughter. The use of video surveillance from a remote location for HMSA enforcement would not be viable alternative for assessing the consciousness of animals.

*Question.* Please respond to each of the suggestions provided in the fiscal year 2005 Senate report.

*Answer.* I have asked FSIS to provide more detailed responses for the record.

[The information follows:]

*First Suggestion.*—The Committee strongly feels that a portion of that FTE increase should be used to allow additional FSIS personnel to work cooperatively with the existing District Veterinary Medical Specialists (DVMS), whose duties are specifically tied to HMSA enforcement, in order to increase the number of facility visits by FSIS personnel with special expertise in HMSA enforcement, and to allow each DVMS better opportunities to visit facilities in other FSIS districts to enhance communication and problem solving among all districts.

*Agency Response.*—FSIS' District Veterinary Medical Specialists utilize the Agency's Public Health Veterinarians and in-plant inspection program personnel extensively to ensure HMSA enforcement and compliance. The DVMSs conduct in-plant verifications on humane handling and slaughter, and are in regular contact with FSIS in-plant inspection program personnel regarding humane enforcement issues. As part of their routine, ongoing and continuous inspection and enforcement duties, all FSIS inspection personnel are expected to take appropriate actions, including suspending operations, if appropriate, of a livestock slaughter establishment if they observe any violations of HMSA. Further, all FSIS inspection personnel are trained and held accountable for enforcing HMSA during the slaughter process.

DVMSs, during their audits, work with FSIS in-plant personnel to identify observation locations from which FSIS officials can verify humane handling and slaughter activities of plant employees without knowledge of USDA's presence and observation. FSIS also continues to refine humane handling verification and tracking procedures for inspection program personnel. On February 18, 2005, the Agency issued FSIS Notice 12–05, to provide inspection personnel with additional information for humane handling and slaughter verification activities related to animal stunning and procedures for checking for conscious animals. The Notice also provides inspection personnel with clarification regarding the information they are to record in the HAT system, which are verified by DVMSs, and on noncompliance reports issued for humane handling violations. For veterinarians covering multiple plants as part of a patrol assignment, FSIS has assigned HAT activities to be conducted whenever these veterinarians have cause to visit these plants during their work day.

*Second Suggestion.*—The Committee expects FSIS to consider a number of objective scoring techniques to measure more precisely the extent to and the occasions in which regulatory actions may be appropriate, and means by which FSIS personnel can actually document improvements or failures in animal handling and slaughter operations. Further, the Committee believes other scoring protocols will serve as useful tools to the agency in directing limited resources. Such protocols may include assigning overall facility ratings in regard to layout and adoption by facility management of a systematic approach to monitor and comply with HMSA requirements.

*Agency Response.*—FSIS has considered scoring methods, but feels that scoring could jeopardize the Agency's zero-tolerance policy for violations of the HMSA. The Agency continues to encourage industry to implement good management practices for the humane handling of animals, and requires industry to abide by all of the requirements of USDA's regulations and HMSA. On September 9, 2004, FSIS published a Notice encouraging establishments to use a systematic approach to ensure that they meet the requirements of the law during handling and slaughter.

With a systematic approach, establishments focus on treating livestock in such a manner as to minimize excitement, discomfort, and accidental injury the entire time they hold livestock in connection with handling and slaughter. Also, establishments have been encouraged to design facilities and implement practices that will mini-

mize discomfort and injury in accordance with existing regulations. Plants should periodically evaluate their system for effectiveness and improve or adjust operations accordingly.

*Third Suggestion.*—The Committee encourages FSIS to enhance capabilities to observe animal handling and slaughter operations through the use of location or technological opportunities to make unannounced observations that will allow the initiation, when appropriate, of regulatory actions.

*Agency Response.*—The Agency supports use of unobserved locations for verifying humane handling and slaughter activities. DVMSs and other in-plant FSIS veterinary and inspection personnel conduct unannounced—including off-hour—visits to observe humane handling and slaughter activities by plant personnel. In addition, FSIS officials use observation points in which plant employees conducting slaughter activities are unaware of USDA's presence and observation. The DVMSs, during their audits, work with FSIS in-plant personnel to identify observation locations from which FSIS officials can verify humane handling and slaughter activities of plant employees without knowledge of USDA's presence and observation. Ongoing inspection, beyond routine antemortem inspection, and enforcement responsibilities pursuant to HMSA are routinely unannounced. Moreover, all FSIS livestock inspection program personnel are trained in humane handling, and understand that they are required and obligated to take immediate enforcement action when a humane slaughter violation is observed.

FSIS does not believe that video cameras are a substitute for the ongoing, intensive, and random verification of establishment humane handling and slaughter obligations as documented in this 3 month analysis. The use of video surveillance from a remote location for HMSA enforcement would not be viable alternative for assessing the consciousness of animals.

*Question.* Out of the total inspections that FSIS carries out in regard to humane slaughter, what percentage of them occur unannounced or without notice to the establishments?

*Answer.* The vast majority of humane handling and slaughter verifications conducted by FSIS inspection program personnel occur unannounced or without notice to the establishments. This is due to the fact that humane handling and slaughter verification activities are ongoing and continuous throughout the entire slaughter process, rather than at specific times or announced points in the process.

*Question.* What has been the effect of the September 9th notice that encouraged establishments to use a systematic approach in ensuring humane slaughter? In what ways has it changed industry operations regarding humane handling and slaughter of animals?

*Answer.* FSIS believes the Notice is having a positive effect in encouraging establishments to use a systematic approach to humane handling and slaughter activities. In addition, the Notice provides FSIS inspection personnel and industry with a common framework for discussion on how the Agency believes plants can be most successful in meeting their obligations under the HMSA.

*Question.* Other than publishing the notice on September 9 regarding humane slaughter, what else is FSIS doing to encourage industry to change and improve their practices regarding humane handling of animals?

*Answer.* FSIS conducts daily verification of humane handling through the HAT system and holds routine discussions with plant management during weekly meetings.

*Question.* Does FSIS monitor facility design and improvements to measure how the industry is changing in plant designs regarding humane handling? Are the plants' "periodic evaluations" made available to FSIS, and what are the results?

*Answer.* FSIS monitors facility design and improvements as part of the Agency's verification of facility regulatory requirements. The DVMSs also have access to an establishment's periodic evaluations during their audits. However, facility designs and establishment periodic evaluations are considered proprietary information and cannot be shared with the public.

*Question.* How many FTEs will be dedicated to humane handling in the fiscal year 2006 budget?

*Answer.* The Consolidated fiscal year 2005 Appropriations Act conference report requires that no fewer than 63 full time equivalent (FTE) positions above the fiscal year 2002 level be employed during fiscal year 2005 for purposes dedicated solely to inspection and enforcement related to HMSA. During fiscal year 2006, FSIS will more than meet this requirement for the number of FTEs.

## HMSA ENFORCEMENT

*Question.* In a January, 2004 GAO report regarding humane slaughter, GAO stated that they could not determine the amount of resources necessary to ensure humane handling of animals in all establishments. Since then, significant attention and funding has been provided to ensure that humane handling of animals is a priority of FSIS, and FSIS has announced several ways in which it is working to improve HMSA enforcement.

Taking into account all of the efforts, changes and increased funding for HMSA enforcement that have occurred since that GAO report, are you now able to provide a resource level you believe would be fully adequate to ensure HMSA enforcement throughout the country?

Answer. We believe we have adequate funding for HMSA enforcement.

*Question.* If you believe the current funding level is adequate, on what do you base that determination?

Answer. We continually evaluate data on HMSA enforcement to assess our performance. The DVMSs assess trends for non-compliance reports and track any trends in humane handling slaughter violations that result in suspension actions.

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 QUESTIONS SUBMITTED BY SENATOR TOM HARKIN

## CONSERVATION SECURITY PROGRAM

*Question.* Participation in the first CSP sign-up was much lower than NRCS expected, but they still spent \$40 million in 18 watersheds. This year with expenditures capped at \$202 million for contracts in 220 watersheds, there will be much less money per watershed for new contracts. The President's Budget proposes capping CSP at \$274 million next year. All of these numbers are far less than the farm bill provides for this program. As discussed at the hearing, you would respond for the record to the following questions.

How much of the \$274 million for 2006 would be available for new contracts and how much of it would go to making payments on contracts signed in 2004 and 2005?

Answer. NRCS estimates show that for fiscal year 2006, approximately \$110 million would be available for new contracts and \$123.2 million would be used for prior year contracts. The balance of \$41.4 million would be used for technical assistance by NRCS to deliver the program.

*Question.* How many new contracts will be signed in 2005, this year, and how many fewer contracts will be signed in 2006 with only \$274 million?

Answer. NRCS is estimating that more than 13,000 contracts will be signed in fiscal year 2005, and approximately 9,400 contracts will be signed in fiscal year 2006.

*Question.* It seems clear that if the President's Budget prevails, 2006 will be a year of substantially diminished new enrollments and expectations for CSP, correct?

Answer. The Administration's fiscal year 2006 Budget request reflects a strong future commitment to the CSP with a request of \$273.9 million, an increase of \$71 million, or 36 percent, over the fiscal year 2005 funding level.

## AMES ANIMAL DISEASE FACILITY

*Question.* Modernizing USDA's National Animal Disease facilities is of critical importance for animal health, animal agriculture and for human health as well. This work is under way, with \$404 million appropriated for the project thus far. The President's budget proposal calls for an additional \$58.8 million, indicating this amount of funds will complete the project. This remaining amount of funds is dedicated to completing the so-called low containment large animal facilities.

There are strong indications that this figure of \$58.8 million proposed in the budget is not adequate to complete these animal holding facilities properly. I understand that because of the shortage of funds, the Department has developed several options for asking for bids to construct only a part of the major lab building in this fiscal year.

I have had an extremely hard time getting to the bottom of this issue of what the correct figure is for the amount of funds needed to complete the modernization of these facilities properly. This renovation has to be done right, but my staff has been unable to get documents and information USDA has about what is really needed.

As discussed at the hearing, please furnish to the Subcommittee and to me, without delay, (1) a copy of the June 2003 program of requirements that laid out the requirements for the Ames animal disease facilities and (2) a copy of the full report

of the international review team in January 2001 that laid out their views of the adequacy of these facilities?

Answer. The President's budget proposes \$58.8 million to complete the National Animal Disease Center in Ames, Iowa. With the proposed level of funding, the facility will meet the original program requirements as outlined in the June, 2003 Program of Requirements (POR). A POR is an internal planning document that provides the costs of various options and alternatives which the Agricultural Research Service (ARS) uses to assist in defining research program needs and related technical requirements. The document serves as just one of several factors management considers in making final decisions on project scope, budget, and other project-related policy decisions. A copy of the POR was sent to the Subcommittee staff. A copy of the full report of the International Review Team has been provided for the record.

*Question.* Exactly how will the current plans for the low bio-containment holding facilities fall short of the June 2003 program of requirements?

Answer. The original program requirements have not been compromised. The low bio-containment holding facility will be completed to meet all original programmatic requirements.

*Question.* Also, as discussed at the hearing, please inform the Subcommittee promptly—that is prior to conference on this bill—(1) if the bids received for constructing the main laboratory building show that costs will exceed cost estimates used to this point and (2) if the Department is delaying any part of the bidding for constructing the main laboratory building because of cost concerns. What response to these questions can you provide at this time?

Answer. We fully expect that the Ames modernization will be completed within the total funding requested in the fiscal year 2006 budget. ARS expects to open bids on the first of several construction packages for the Laboratory/Office complex in the August-September, 2005 time frame. The Department will keep the subcommittee informed on the bidding process.

#### BIOBASED PRODUCTS PROCUREMENT

*Question.* I asked Chuck Conner at his confirmation hearing about the regulations that are long delayed for the Federal biobased purchasing preference program. He assured me that he would make it a top priority, which has not heretofore been the case.

I would like to know what biobased products USDA is purchasing right now to meet its statutory and leadership obligations? I know that the Beltsville ARS facility, for example, has been a leader in its use of biobased products—everything from biodiesel to cleaning products—but what is USDA doing right now, nearly 3 years after the passage of the farm bill, to actually buy products, and lead in this area as a model agency for all the others?

Answer. The biobased product procurement program is a priority for USDA. In addition to the well-known biobased purchasing efforts of the Agricultural Research Service's Beltsville facility, USDA is currently procuring biobased products in many areas. We have also completed many leadership activities to support the program and currently plan many more to increase the purchase and use of biobased products. Additional details are provided for the record below.

[The information follows:]

Some of the biobased products that USDA is procuring include, but are not limited to, the following:

- Soy-based inks in its printing plant;
- Biobased oils, lubricants and hydraulic fluids for its people movers (elevators, escalators, etc.) in the USDA headquarters building complex (solicitation is currently out for bid);
- Biobased signage to replace wooden signage made from traditionally harvested forest materials in national forests;
- Materials for the South Building modernization, such as polylactide fabrics, a corn product, for systems furniture, and laminated wheat board desktop workstations;
- Carpet with soy-based backing;
- Biobased ice melt; and,
- Biobased cleaning solutions.

Additionally, USDA has completed the following leadership activities to support the increased purchase and use of biobased products:

- Issued Secretary's Memorandum 1042-003 and Departmental Regulation 5023-2, which establish the USDA Biobased Products Leadership Council (BPLC) and basic USDA procurement policy on biobased products. The Deputy Secretary of Agriculture chairs the BPLC;

- Issued a final rule in the Federal Register on January 11, 2005 establishing the framework for biobased product designation;
  - Developed the Federal Acquisition Regulation (FAR) case for biobased products. The Civilian Agency Acquisition Council (CAAC) Law Team has assessed the case, and forwarded it to the Civilian Agency Acquisition Council and the Defense Acquisition Regulatory Council (DARC) for further review and initiation of the rule making process.
- During the remainder of calendar year 2005, highlights of planned USDA activities include:
- Publishing in the Federal Register the first proposed rule to designate items for preferred procurement, and pursuing the publication of a final rule;
  - Publishing two subsequent proposed rules to designate items for preferred procurement for which we have developed the required tests and analytical information (each with 10 items) and clearing them through USDA and OMB;
  - Publishing in the Federal Register the proposed rule for the voluntary labeling program;
  - Identifying existing biobased products available on General Services Administration schedule contracts and make them readily available for purchase by USDA purchase cardholders using the USDA Advantage! virtual storefront;
  - Developing a tabletop biobased products display to increase USDA employee awareness of these products, their benefits, and the need for USDA to take a leadership position in their purchase and use;
  - Developing and implementing an on-line biobased product awareness training module thru USDA's AgLearn e-learning system; and,
  - Pursuing the acquisition of undesignated products consistent with existing procurement law and regulation to show leadership as the product designation effort continues.

#### LIVESTOCK AND MEAT MARKETING STUDY

*Question.* On June 18, 2004, USDA announced that it had contracted with the Research Triangle Institute (RTI) to conduct its livestock and meat marketing study. This was roughly a year and a half after receiving funds to conduct the study from the fiscal year 2003 omnibus appropriations bill. It was my understanding that this study could not be started until the Office of Management and Budget (OMB) cleared the data collection packages to be used for the study. The comment period for the two data collection packages did not end until December 3, 2004.

At this time, has USDA received clearance from the Office of Management and Budget (OMB) for USDA and the Research Triangle Institute to begin data collection for the livestock and meat marketing study? If so, when was the start date?

*Answer.* No, USDA will submit the data collection plans to OMB for clearance in the near future.

*Question.* Please provide me a time frame and project completion date for the livestock and meat marketing study.

*Answer.*

[The information follows:]

#### TIMELINE FOR MAJOR STEPS FOR LIVESTOCK AND MEAT MARKET STUDY

##### 2003

Feb 20—\$4.5 million appropriated for study

Feb-May—Interagency working group (GIPSA, OCE, AMS, ERS, NASS, WAOB, DOJ, CFTC, FTC) defined scope of study necessary to meet Congressional objectives and comply with Information Quality Guidelines.

May 30—Published purpose and scope of study in Federal Register with 30-day comment period. Received 23 comments.

July—GIPSA reviewed and summarized comments. GIPSA worked with APHIS contracting office in Minneapolis to establish type of contract to award and to determine the contracting officer. Drafted AD-700 required to initiate contracting procedures.

July-Aug—Interagency working group reviewed comments and confirmed scope and objectives. GIPSA drafted Statement of Work (SOW).

Sep-Oct—Working Group reviewed and commented on SOW, GIPSA finalized. GIPSA worked with APHIS contracting personnel in Minneapolis to incorporate SOW into formal request for proposals (RFP) in accordance with FAR.

Nov 17—Pre-solicitation notice published in Federal Business Opportunities in accordance with FAR.

Nov-Dec—Transitioned from APHIS Minneapolis contracting officer to Riverdale contracting officer to expedite contracting process. GIPSA worked with OGC to es-

tablish initial protocols for confidentiality provisions and non-disclosure agreements. GIPSA and APHIS contracting officer finalized RFP.

Dec 3—APHIS published RFP in Federal Business Opportunities, GIPSA placed copy on agency Web page in accordance with FAR.

Dec 16—Contracting officer and GIPSA held pre-proposal conference with potential contractors in accordance with FAR.

Dec-Jan—GIPSA and contracting officer prepared responses to questions raised at pre-proposal conference and released responses as amendment to RFP. GIPSA and contracting officer prepared and published additional amendments to RFP to enhance confidentiality provisions with the Confidential Information Protection and Statistical Efficiency Act (CIPSEA).

#### 2004

Feb 9—Received proposals.

Feb 9—

Jun 14—Selection team from interagency working group reviewed initial proposals; offerors in competitive range submitted revised proposals; selection team evaluated revised proposals, negotiated with highest-ranked offerors on cost and deliverables to arrive at final proposal selection in accordance with FAR for competitive contracting procedures.

Jun 14—Award of \$4.3 million contract to RTI.

July-Aug—GIPSA established a peer review panel to review technical performance of contractor. RTI prepared initial data collection plans.

Sep 9—Published in Federal Register summary of data collection plans with 60-day public comment period in accordance with PRA requirements.

Oct-Nov—RTI pre-tested data collection plans consistent with PRA requirements. Peer review panel reviewed collection plan and offered comments to meet Quality of Information guidelines.

Nov 8—Extended comment period on Federal Register notice of data collection plans from Nov. 8 to Dec. 3 based on public requests.

Dec 3—Received 19 comments on data collection plans. Comments addressed burden/scope, authority to collect data, MPR data use, and security of data.

Dec-Mar—RTI revised data collection plans based on public and peer group comments.

#### 2005

March 21—Update Report sent to the House Appropriations Committee.

Nov-Mar—RTI conducted informal interviews of 27 entities to address objectives 1 and 2.

#### *Planned Activities*

May—Send final transactions and survey data collection plans to OCIO for submission to OMB, and publish notice in Federal Register.

May—OMB reviews data collection plans for the final report and makes plans available to public in accordance with PRA requirements.

Jun—RTI issues interim report on objectives 1 and 2.

Jul—RTI begins collection of transaction data from 400 largest entities.

Aug—RTI begins mail out survey of 6,800 entities.

#### 2006

Jun—RTI issues final report.

*Question.* In addition, why has development of the framework of this study taken so exhaustively long when funds were appropriated for it in February 2003?

*Answer.* Statutory and regulatory requirements including the Paperwork Reduction Act (PRA), the Information Quality Guidelines issued by the Office of Management and Budget (OMB), and Federal Acquisition Regulations (FAR) impose significant time-consuming requirements on implementing a study of this scope. The steps are outlined in the attached timeline, and are summarized below.

In order to insure that the study meets Congressional objectives and complies with the OMB Information Quality Guidelines, Grain Inspection, Packers and Stockyards Administration (GIPSA) formed an interagency working group consisting of five USDA agencies with unique areas of expertise in economics, marketing, research, and data collection-processing and three other departments with expertise in market regulatory issues: Office of Chief Economist (OCE); Agricultural Marketing Service (AMS); Economic Research Service (ERS); National Agricultural Statistics Service (NASS); the World Agricultural Outlook Board (WAOB); Department of Justice (DOJ); Commodities Futures Trading Commission (CFTC); and Federal Trade Commission (FTC).

Three months after the appropriation, GIPSA published a notice in the Federal Register that reflected the working group's interpretation of the scope of the study needed to effectively address the Congressional request. The public was given 30 days to comment on the scope of the study. GIPSA received comments from producers, packer trade associations, and universities. The working group considered the comments and refined the final scope into a request for proposals (RFP).

GIPSA published the RFP on December 3, 2003. In consultation with the APHIS contracting officer and to conform to FAR requirements, GIPSA allowed approximately 2 months until February 9, 2004 for potential submitters to review the initial RFP and subsequent amendments and prepare proposals. GIPSA also published a pre-solicitation notice to comply with Section 508 of the Rehabilitation Act, 29 U.S.C. § 794d. After GIPSA received the proposals, an evaluation committee composed of members of the working group reviewed and ranked the proposals. GIPSA gave the submitters of the highest-ranking proposals the opportunity to revise their proposals in accordance with FAR-established procedures. These proposals were then re-evaluated. The re-evaluation included negotiations between the evaluation committee and submitters of the highest-ranked proposals, during which the submitters responded to questions from the evaluation committee about the proposals.

Once the contract was awarded, GIPSA and RTI implemented the procedures required by the PRA for review and approval of the data collection plan. First, RTI developed an initial data collection plan. In accordance with PRA requirements, RTI published its plans in the Federal Register, and the public was given 60 days to comment on the plans. GIPSA extended the comment period after several potential respondents requested additional time to file comments. GIPSA received ten comments from packers and six comments from packers' trade associations. To meet Information Quality Guidelines Requirements, RTI pre-tested the plans with potential respondents during the comment period, and GIPSA's independent peer reviewers reviewed and commented on the plans. RTI then revised its initial plans after considering the public comments, comments from the peer reviewers, and the results of the pre-tests. The revised plans must be reviewed by OMB and published in the Federal Register for an additional comment period by the public.

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#### QUESTIONS SUBMITTED BY SENATOR BYRON L. DORGAN

##### BUDGET

*Question.* In an interview with the Des Moines Register on Sunday, you said this about the budget: "Bad budget policy is not good for agriculture no matter what the short-term gain is. It's not good for interest rates. It's not good for stability in the international marketplace. There's nothing good in it for agriculture."

I agree with you completely; bad budget policy is bad for agriculture. That's why I can't understand the President's fiscal year 2006 Budget request. The President's Budget would cut funding for food stamps and rural development programs. It would cut discretionary spending on conservation programs by \$185 million, and cut funding for the Resource, Conservation and Development Program by 50 percent.

The President's fiscal year 2006 Budget would impose a new, \$40 million-a-year tax on sugar processors, which would cost nearly \$6,500 each year to a farmer growing 500 acres of sugar beets, and it would cut \$5.7 billion in farm programs over the next 10 years. I asked the Congressional Research Service to calculate the impact of the President's Budget request on average North Dakota farms; they told me an average North Dakota farm would have its farm payments cut by as much as 29 percent.

Even though agriculture spending is less than 1 percent of the Federal budget, the Administration is trying to squeeze out 16 percent of its savings from agriculture programs.

Mr. Secretary, when I travel back home to North Dakota, I meet with family farmers who ask me the same question over and over again:

"What is the President trying to do to us with this budget? Doesn't he understand how difficult it is to stay on the farm, even without these budget cuts? So I would ask you the same question.

Answer. We both agree that good budget policy is good for agriculture and good for the Nation. And as I've noted before, agriculture is only one of several areas where the President has proposed reforms to reduce the budget deficit. I fully support the President's proposals. Certainly spending reductions can be painful in the short run, but the longer term benefits are worth some short term sacrifice. The President's proposals for agriculture are intended to spread the impact across the range of program participants in an equitable manner.



The proposals do leave the farm safety net in place, albeit at modestly reduced levels. While the reduction in loan deficiency payments could be significant in some years, as you note, total payments would be reduced by far less since the Administration proposes direct and countercyclical payments be reduced by 5 percent. Since the latter payments make up the bulk of the total payments which producers receive in most situations, the total reduction is likely to be much closer to 5 percent. And for the farm sector as a whole, I note that aggregate farm income is at record levels and the financial health of the sector is robust.

So I believe now is a good time to begin the task of reducing the deficit. I recognize that the proposals do involve sensitive issues as some suggest and I stand ready to work with the Congress to help contribute to "good budget policy" with some sensible and modest reforms which are consistent with "good agricultural policy."

#### CAFTA

*Question.* On Monday, you held a press conference with several agricultural organizations in support of the Central American Free Trade Agreement. But many in the agricultural community do not share your enthusiasm for this agreement. I have heard from cattle ranchers and wheat and corn and soybean producers in my State who think that the promises of a new market for our farm exports will never materialize. And I have heard from farm groups, like the National Farmers Union, the American Corn Growers Association, R-CALF USA, the National Family Farm Coalition, the American Sugar Beet Growers Association, the American Sugar Cane Alliance, and dozens more who think this agreement will hurt American agriculture. Additionally, the National Association of State Departments of Agriculture has taken a position against CAFTA.

So my question is, are all of these groups simply wrong?

*Answer.* The Department firmly believes that CAFTA-DR is a good agreement for American farmers and ranchers. This view is supported by numerous agricultural organizations, such as the American Farm Bureau Federation, National Association of Wheat Growers, National Cattlemen's Beef Association, American Soybean Association, and National Corn Growers' Association. All of these groups and scores more—56 leading food and agricultural organizations in all—wrote a letter to all Members of Congress on April 4, 2005, urging support for CAFTA-DR.

*Question.* Two weeks ago, you held a press conference on CAFTA at which you said: "There's one group that works hard on these trade agreements to defeat them. And that's the sugar industry. . . . Every which-way I look at this agreement I don't see that it has a negative impact on the sugar program."

As you know, the sugar program established in the 2002 Farm Bill only stays in effect as long as we import less than 1.53 million tons of sugar a year. If we ever import more than that, the sugar program is suspended, any excess sugar held by our producers gets dumped on the market, and the price of sugar plummets.

The only reason we're less than 1.53 million tons now is because we've not been importing very much sugar from Mexico. But the Mexican government is negotiating with us to increase their exports and, as soon as those exports pick up again, we'll be right at the 1.53 million ton limit. You've said before that CAFTA won't hurt our sugar producers.

But how do you reconcile that claim with the fact that CAFTA's sugar imports will put us over the limit and trigger the suspension of the sugar program once we resume full imports from Mexico?

*Answer.* The Department is fully implementing the sugar program, including the non-recourse loans which are its backbone. The price-supporting non-recourse loans will remain available regardless of the level of imports and regardless of whether or not domestic marketing allotments are in place. Furthermore, the CAFTA-DR agreement includes a mechanism for the United States to limit levels of sugar imports under the Agreement if needed to assist in managing the sugar program.

*Question.* Our trade negotiators are currently working on Free Trade Agreements with more than 20 other sugar-exporting countries. Most of these countries already enjoy guaranteed, duty-free access to the U.S. market under WTO rules. If CAFTA passes, each of those more than 20 sugar-exporting countries will expect to be treated just as generously as we've treated the CAFTA Nations.

How can Congress begin work on a new farm bill in 2007 if we don't know whether our sugar program is going to be negotiated away by our trade negotiators looking for the next big Free Trade Agreement?

*Answer.* The Administration consults with Congress on a continuing basis as we conduct all of our trade negotiations. In future trade agreements, we will continue

to be mindful of all of our domestic agricultural programs, and continue to seek to reach agreements that promote the interests of U.S. farmers and ranchers.

#### COUNTRY-OF-ORIGIN LABELING

*Question.* On Monday, April 4, Country-of-Origin labeling for seafood went into effect across the country. For the last week, anyone who has bought fresh or frozen fish or shellfish has been able to tell its country-of-origin. This is a wonderful thing. I have long thought that it is crazy that we can tell where our shirts and our shoes were made, but not where the food that we eat comes from. COOL for seafood has been in effect for the last week, and I have not heard the industry complaining that the cost of compliance is too high; I have not heard of any consumers saying that the price of seafood has gone through the roof in the past week. In fact, USDA's own estimate says that the price for consumers will probably only increase by about two-tenths of a cent per-pound. I know that USDA has long been opposed to country-of-origin labeling.

Will the success of this program for seafood finally convince USDA to embrace this program for meat and fruits and vegetables, too?

Answer. Congress passed the Country of Origin Labeling legislation that will become mandatory for the meat and produce industry in 2006. Although the Administration has been clear that it prefers a voluntary program, if the current law requiring mandatory labeling is not changed, USDA will faithfully implement the law for the remaining commodities.

#### JAPAN TRADE

*Question.* Taiwan recently announced that it was resuming imports of U.S. beef. This is good news. Before Taiwan closed its market to U.S. beef it was one of our largest export markets.

What is the progress of your efforts to convince Japan and South Korea to reopen their markets to U.S. beef?

Answer. We have been engaged with the Government of Japan at the technical and political level since it banned U.S. beef in December 2003. For the first time since the October agreement to resume trade, we are finally beginning to see signs of progress in Japan's rulemaking.

The first decision Japan had to make as a pre-condition to rulemaking on imports is eliminating animals under 21 months of age from its mandatory BSE testing requirement. Japan is finally ready to make that change. In late March, Japan's Food Safety Commission concluded the modification in Japan's testing regulations presents an acceptable level of risk. The decision to exempt animals under 21 months of age from testing is expected to be final sometime during May.

With the decision to exclude younger animals from mandatory testing behind us, this now clears the way for rulemaking on imports. Unfortunately, we do not have a timetable for a decision on imports but the next steps are now in place. In the coming weeks, the Ministry of Agriculture, Forestry, and Fisheries and the Ministry of Health, Labor, and Welfare will deliver the Beef Export Verification (BEV) program for Japan to the Food Safety Commission. The Commission will evaluate the program, and we expect there will be consultations and public meetings. Once they have finished that process, they will make a decision. Again, we do not know when Japan will complete this work and so we will continue to press Japan at every opportunity for a decision to resume trade.

To help Japan prepare for a decision to lift its ban on imports, Dr. Charles Lambert, Deputy Under Secretary for Marketing and Regulatory Programs, has led U.S. delegations of experts to Tokyo for technical discussions and outreach activities with Japanese press and consumer groups. The outreach activities include press briefings and roundtable discussions with the media, industry, and consumers to educate them on the safety of U.S. beef.

The delegation has also visited Korea for extensive technical discussions. The consultations have been led by experts from USDA and FDA who have reviewed U.S. BSE measures and U.S. beef safety with officials from the Korean Ministry of Agriculture.

#### BROADBAND FUNDING

*Question.* Last year Senator Burns and I met with Secretary Veneman about the fact that Congress was providing the RUS with funding for loans yet RUS was slow in getting the loans out the door. Secretary Veneman did report some improvement, and I hope that you will remain committed to this program and to achieving the meaningful deployment of broadband services, particularly since broadband deployment has been a goal expressed by this Administration.

Can you please walk me through your loan approval process? How long does it take the average borrower to make it through all the steps before getting final approval by USDA and provided with the actual money to build out the broadband service?

Answer. I will ask USDA's Rural Development staff to provide a detailed explanation.

[The information follows:]

Once the application is received, it goes through an initial review process with one of the following decisions being reached: (1) the application is considered complete and goes to the final review stage; (2) the application is returned and cannot be processed; or (3) additional information is requested before the application can be considered complete. Once the application is considered complete, it goes through an in-depth financial and engineering review. The loan is then presented to the Assistant Administrator's Loan Committee for approval. If approved, the loan will be reviewed by the Senior Loan Committee. When the loan is approved the loan documents are sent to the applicant for signature. Once the documents are signed, funds are then made available for drawdown.

In fiscal year 2003, 42 applications were received and returned with an average processing time of 7 months each; 31 applications were considered complete with an average processing time of 6 months each; and 26 applications were approved with an average processing time of 9 months each. Once the loans were approved, the average processing time of the loan was 6 months. Funds for 16 of these applications were made available to the borrower in an average of 14 months. Of the 16 applications, 10 have not completed the approval process. Of these 10, 8 are pending a borrower action and 2 are pending an RUS action.

In fiscal year 2004, 25 applications were received and returned with an average processing time of 4 months each; 14 applications were considered complete with an average processing time of 3 months each; and 11 applications were approved with an average processing time of 3 months each. Once the loans were approved, the average processing time of the loan was 7 months. Funds for 2 of these approved applications were made available to the borrower in an average of 11 months. Of the 11 approved applications, 9 have not completed the approval process. Of these 9, 7 are pending a borrower action and 2 are pending an RUS action.

So far during fiscal year 2005, three applications received have been returned with an average processing time of 1 month; 5 applications have been considered complete with an average processing time of 2 months; and one has been approved with an average processing time of 5 months. This application is pending both an RUS and a borrower action.

#### NATIONAL VETERINARY MEDICAL SERVICE ACT

*Question.* Many rural areas of this country face a severe shortage of veterinarians. I understand that there are one-half as many veterinarians available to respond in the event of an animal disease outbreak as there were 20 years ago. The National Veterinary Medical Act would help solve this shortage by providing loan repayments to veterinarians who agree to practice in areas with a serious veterinary shortage. At this time, USDA has not included for the National Veterinary Medical Act in its budget. I understand that the program could be administered on a trial basis with approximately 15–20 veterinarians for \$1 million.

Would you be willing to implement the National Veterinary Medical Act on a trial basis, in a limited number of states? Would you later consider expanding such a trial or pilot program if analysis proves the efficacy of the program in reducing veterinary shortage problem?

Answer. The President's budget does not include funding to implement the National Veterinary Medical Act, which seeks to place practicing veterinarians in rural areas.

#### RURAL DEVELOPMENT FUNDING FOR RURAL EMPOWERMENT ZONES AND OTHER GRANT PROGRAMS

*Question.* For the fourth year in a row, the Administration proposes no funding to follow through on the commitment that USDA made to rural empowerment zones. This year, the approach is a bit different by proposing to consolidate the program in the Administration's Strengthening America's Communities Initiative at the Department of Commerce but I believe the result for the rural empowerment zones will be the same—no funding next year. I have one of these zones in my state, the Griggs-Steele Empowerment Zone, focused on out migration—a very serious problem in North Dakota.

If the Administration's proposal was accepted, what guarantee-if any-would rural EZs have for funding in fiscal year 2006?

Answer. The President's Strengthening America's Communities Initiative will include eligibility criteria that will ensure funds are directed to those communities most in need of development assistance. We feel confident that rural communities will fare well when these criteria are used. We will continue to work with the Department of Commerce on the technical details of program delivery, particularly as it affects rural areas. Under the new Initiative, rural community organizations would have access to a substantial portion of a total program level exceeding \$3.5 billion.

*Question.* You also propose consolidating several other rural development programs besides rural empowerment zones including rural business enterprise grants and rural business opportunity grants.

What assurances can you give this Subcommittee that rural communities would be able to compete with urban ones for these grant dollars if we accepted the Administration's proposal to consolidate these programs into the Department of Commerce?

Answer. USDA is working with the Department of Commerce on the development of this initiative, which will include criteria to ensure that funds are directed to the most needy communities. Moreover, USDA's Rural Development field staff will be available to help rural communities qualify for assistance. We are confident that rural communities will receive a fair share of the funding under the initiative.

#### RESOURCE CONSERVATION AND DEVELOPMENT COUNCILS

*Question.* You have proposed reducing funding for the Resource Conservation and Development Program within NRCS by about 50 percent. I have heard from many RC&D Councils in North Dakota concerned about their viability if such a large cut is enacted.

Can you please tell me what the effect of this proposed budget would be on councils in my state?

Answer. Under the budget proposal, the Federal role of providing seed money or serving as an incubator will cease after 20 years of support in the interest of reducing the deficit and redirecting funds to other higher priority conservation work. In North Dakota, six of the eight RC&D areas have received Federal funding for more than 20 years and will graduate from the program. They include: Dakota Prairies, Lake Agassiz, Dakota West, Northern Plains, South Central Dakota, and Red River. While these affected councils will no longer receive Federal financial support, they will retain their Internal Revenue Service (IRS) non-profit status and may continue to function as designed RC&D areas, participating in other Federal, State, and local programs and with non-Federal entities in rural communities across the country.

#### ARS RESEARCH IN NORTH DAKOTA

*Question.* I see that virtually all of the congressional earmarked ARS research projects are eliminated again this year. This includes almost \$4 million in earmarks for the Fargo ARS and other ARS facilities in Mandan and Grand Forks.

What would you propose happen to the researchers who are working on projects such as sunflower research at the Fargo ARS proposed for termination?

Answer. ARS has requested the termination of ongoing, unrequested earmarks in the fiscal year 2006 budget to finance new and expanded priority research initiatives that target national agricultural and food needs. ARS impacted researchers will be reassigned to the new initiatives where possible or offered positions funded from existing vacancies located throughout the country.

*Question.* The Administration is requesting an increase of \$6.8 million for nutrition survey research and \$1.5 million for research to address the Obesity Epidemic and to Promote Healthier Lifestyles.

Can you please tell me what portion of these funds will be spent at the Grand Forks Human Nutrition Center, which is one of our Nation's most outstanding human nutrition research facilities?

Answer. Of the \$6.8 million increase requested for nutrition survey research, \$6.4 million will be allocated to Beltsville as it is the ARS nutrition center that is responsible for conducting nutrition monitoring. In addition, ARS plans to provide \$400,000 to the Grand Forks Human Nutrition Research Center to carry out research on obesity in Native Americans. The remaining \$1.5 million increase is requested for research on obesity prevention and will be allocated to nutrition centers in Little Rock, Arkansas; Davis, California; Boston, Massachusetts; and Houston, Texas.

## HATCH ACT FUNDING CUT

*Question.* The Administration also proposes a 50 percent cut in formula funds under the Hatch Act for agricultural research at the 1862 colleges (\$89.4 million) stating that "this is the first phase of a plan to shift funding from this program to competitively awarded grants." I am concerned that there are many policy flaws in this plan that haven't been considered by the Administration.

In 1887, Congress passed the Hatch Act which authorizes Federal research funds for the State agricultural experiment stations, such as NDSU, on a formula basis. The money is intended to solve problems for farmers by developing new technology, plant varieties and ways to combat crop pests and disease. Those funds pay salaries of scientists, something not possible with competitive grants because the money cannot be counted on year to year.

How does the Administration propose to deal with this problem if the President's proposal is accepted by this Committee?

*Answer.* Recipients of formula funds have considerable flexibility to use these funds to support research projects, infrastructure, and personnel. The allocation of formula funds to support personnel varies widely from institution to institution depending not only on the size and needs of the institution but also on the institutional management of financial resources from Federal and non-Federal sources. While the amount of formula funds available to institutions in fiscal year 2006 will be reduced and eliminated in fiscal year 2007, it will ultimately be up to each institution to determine how to allocate the resources available to support personnel. However, the fiscal year 2006 budget proposes full indirect cost recovery as part of competitive funding which will allow institutions to support faculty, staff, and other infrastructure needed to support agricultural science. In addition, the State Agricultural Experiment Station Competitive Grants Program proposed in the President's budget will provide a source of funding for functions currently supported by formula funds.

## 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?

*Answer.* The \$1.479 million in the fiscal year 2005 Appropriations Act will be administered by USDA's Rural Development mission area pending the establishment of the Authority. These funds are for activity by the Northern Great Plains Regional Authority in fiscal year 2005 and fiscal year 2006 and cannot be used until the Authority is established. Since the legislation authorizing this regional authority calls for the Federal members to be appointed by the President and confirmed by the Senate, the Presidential personnel staff is working to identify candidates for nomination.

*Question.* Also, when can we expect the fiscal year 2005 funding to be released? The legislation also calls for the appointment of a Federal and a tribal co-chair.

*Answer.* Funds cannot be released until the Authority is established, which cannot occur until the Federal and tribal co-chairs have been appointed. The authorizing legislation for the Authority calls for the Federal members to be in place before the Authority is officially established. The Presidential personnel staff is working on identifying candidates for nomination.

*Question.* Can you tell me what the process will be to make these appointments and what the status of this process is?

*Answer.* Since the legislation authorizing this regional authority calls for the Federal members to be appointed by the President and Senate-confirmed, the Presidential personnel staff is working to identify candidates for nomination.

## APHIS BLACKBIRD CONTROL

*Question.* What are WS methods for managing the blackbird problem for sunflowers? I understand one method, the Wildlife Conservation Sunflower Plots, are showing promise as a method of reducing damage and is supported by various ornithological groups. What resources would be needed to conduct a large-scale (100 20 acre plots) evaluation of this concept?

*Answer.* APHIS WS manages blackbird damage to sunflowers using various methods such as aerial application of aquatic herbicide on cattail-choked wetlands, which serve as roost sites for blackbirds. Additionally, WS provides technical assistance through information sharing and the loan or distribution of damage abatement equipment as well as through monitoring annual bird populations and annual sunflower damage assessments. WS is also involved in various research projects to

manage blackbirds, such as investigating blackbird migratory routes and evaluating blackbird repellants as well as the ability to divert blackbirds from commercial sunflower fields into 20-acre sunflower “lure plots.”

Research projects provide an incentive for local farmers to participate in the projects. Financial incentives are \$3,000 for each 20 acre plot, and therefore, 100 20 acre plots would require \$300,000.

*Question.* Through this Subcommittee, I have been successful in adding funding to enhance blackbird control efforts in North Dakota. I have been told that APHIS doesn’t see this action as enhancing their budget and funds have been directed away from blackbird control efforts in North Dakota such as the test plots to enhance APHIS’ base budget. Can you tell me if these funds have all been applied for blackbird control in North Dakota and what overhead APHIS charges for this work?

*Answer.* Each year since fiscal year 1989, APHIS appropriations included \$335,000 to North Dakota and \$33,000 to South Dakota for blackbird damage control activities. Since fiscal year 2002 an additional \$240,000 in annual funding has been provided to strengthen our control efforts in North Dakota.

In fiscal year 2005 North Dakota received \$257,000 of the \$335,000 provided by congressional earmark in the fiscal year 1989 appropriation and \$186,000 of the \$240,000 provided by congressional earmark in the fiscal year 2002 appropriation for blackbird control efforts. The balance of the earmarks is being used to fund program management and operations, agency-wide support activity assessments, and department-wide central charges. In addition, North Dakota received \$77,612 for cattail management efforts.

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#### QUESTIONS SUBMITTED BY SENATOR RICHARD J. DURBIN

##### BSE POLICIES

*Question.* In your February 3 testimony to the Agriculture Committee, you testified that “the single most important thing we can do to protect human health regarding BSE is the removal of SRMs (specified risk materials) from the food supply.”

I agree that the removal of these materials—SRMs—is essential to our Nation’s BSE prevention and control efforts. This is why I was concerned when I learned last December that the head of the food inspectors’ union had raised some very important questions about USDA policies for SRM removal. I sent then-Secretary Ann Veneman a letter SRM removal but have not gotten answers to some of my specific questions. USDA has also refused to meet with my staff about this issue.

Who is determining the age of cattle?

*Answer.* Slaughter establishments are required to identify the age of animals. FSIS’ scientifically trained Public Health Veterinarians and other similarly trained inspection personnel are responsible for verifying the development, implementation, and maintenance of establishment control procedures for determining the age of cattle. All FSIS inspection program personnel are fully authorized and expected to take immediate regulatory enforcement action in the event of noncompliance.

*Question.* Specifically, SRM removal requirements depend on the age of the animal: more types of tissues need to be removed from animals over 30 months of age, for example, then from cows younger than 30 months. Yet, it is not clear to me who is making this determination of cattle age, and what kind of training or qualification requirements this person must meet. Are slaughterhouse employees (rather than government inspectors) the ones who are determining the age of cattle at slaughter?

*Answer.* The January 2004 BSE regulations and notices to FSIS employees provide clear and specific direction to plants regarding their responsibilities to have written plans and procedures in place to identify age and ensure the removal of specified risk materials (SRMs). Failure to comply with these requirements is a violation of the Federal Meat Inspection Act. FSIS’ scientifically trained Public Health Veterinarians (PHVs) and other similarly trained inspection personnel are responsible for verifying the development, implementation, and maintenance of establishment control procedures for determining the age of cattle and ensuring the removal of SRMs.

*Question.* What minimum training and qualifications does USDA require for the people who are making this determination?

*Answer.* Establishments that slaughter cattle are responsible for having written plans and procedures for identifying the age of cattle at slaughter and ensuring the removal of specified risk materials (SRMs). Failure to comply with these requirements is a violation of the Federal Meat Inspection Act. FSIS’ scientifically trained

Public Health Veterinarians (PHVs) and other similarly trained inspection personnel are responsible for verifying the development, implementation, and maintenance of establishment control procedures for determining the age of cattle and ensuring the removal of SRMs.

PHVs are highly educated public health professionals. FSIS' entry-level PHV training includes 3 weeks of in-classroom training, followed by 3 weeks of on-the-job mentoring with a trained veterinarian, and 3 weeks of Food Safety Regulatory Essentials training. In addition, we are beginning to train PHVs with 4-week Enforcement, Investigations and Analysis Officer training.

PHVs also receive training that is specific to bovine spongiform encephalopathy (BSE). During February and March 2004, all PHVs assigned to beef slaughter plants were trained on Agency policies related to BSE. During the summer and fall of 2004, PHVs were trained for their role in the USDA BSE surveillance program. Finally, all entry-level PHV training now includes BSE training.

*Question.* Have there been problems with non-compliance?

*Answer.* FSIS has conducted an intensive review of its non-compliance data related to the SRM requirements, and has not identified a systemic problem or problems with particular plants, beyond a low level of non-compliance for which regulatory action was taken. These regulatory actions, occurring at a low level, account for less than 1 percent of overall compliance actions taken by FSIS.

*Question.* I understand that FSIS keeps a database documenting instances of non-compliance with policies such as SRM removal. I also have heard that the Inspector General is investigating FSIS' implementation and enforcement of the SRM removal policy.

How many instances of non-compliance have been reported since the policy was implemented (January 2004)?

*Answer.* FSIS is in the process of reviewing records identified as potential non-compliance records.

*Question.* Has FSIS located the non-compliance reports that show problems with SRM removal? Have all of these non-compliance reports been turned over to the Office of the Inspector General for its investigation into the issue?

*Answer.* FSIS is in the process of reviewing records identified as potential non-compliance records. The agency is cooperating fully with the Office of Inspector General (OIG), and has provided them with the information requested.

*Question.* Will you provide copies of these reports to my staff?

*Answer.* Copies of these records will be made available after the agency completes its evaluation of records indicating potential non-compliance.

*Question.* When will the Inspector General's report be completed?

*Answer.* According to OIG, the report is expected to be completed in early fiscal year 2006.

*Question.* Is USDA's investigation of union president Stan Painter retaliatory?

*Answer.* USDA's investigation into the validity of allegations that Specified Risk Material (SRM) regulations are not being effectively carried out or properly enforced was conducted solely to ensure the safety of our Nation's food supply.

*Question.* Stan Painter, the president of the food inspectors union, set forth a series of concerns about SRM removal in a letter to the agency in early December. I understand that FSIS has responded to the letter by launching a personal investigation of Mr. Painter. In January, for example, FSIS flew Mr. Painter to Washington DC and questioned him for 3 hours, to try to get him to divulge the sources of his information. However, FSIS has a database of non-compliance reports, which should document instances in which inspectors have reported non-compliance with SRM removal.

Why has FSIS chosen to investigate Mr. Painter personally instead of addressing the questions and concerns raised by his letter?

*Answer.* In a December 8, 2004, letter, the chairman of the National Joint Council of Food Inspection Locals made unsubstantiated and non-specific allegations that FSIS is not properly enforcing regulations requiring the removal of Specified Risk Materials (SRMs) from beef products. Because of the serious nature of the allegations contained in Mr. Painter's Letter, FSIS immediately initiated an inquiry into those allegations which included an informal interview of the union chairman. During that interview, Mr. Painter refused to provide specific information to support the letter's allegations. That inquiry subsequently resulted in a formal investigation by FSIS to determine the validity of the allegations. As part of that investigation, Mr. Painter was formally interviewed on two occasions in January. The FSIS investigation has been completed and the allegations concerning improper enforcement of SRM regulations were not substantiated. In addition, the OIG independently sent an investigator and an audit team to examine the allegations concerning SRM regu-

latory compliance. Their observations also concluded that the chairman's allegations were unsubstantiated.

*Question.* Why did FSIS pressure Mr. Painter to name his sources, instead of reviewing its database of non-compliance reports for the information it needed?

*Answer.* FSIS took these allegations seriously and sought specifics so the Agency could follow-up appropriately. To date, nothing communicated to FSIS through interviews or data analysis, supports the chairman's charge that BSE regulations are not being effectively carried out or enforced by FSIS inspection personnel.

#### 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. The recent rise of concerns about antibiotic resistance transferred from food animals to humans and mad cow disease underscore the need for change. Our Federal food safety statutes need to be modernized to more effectively ensure that food safety hazards are minimized and research and education programs are bolstered. I introduced a bill last week—S. 729—that would do just that.

President Bush and former Homeland Security Secretary Ridge have both publicly discussed the concept of combining Federal food safety responsibilities into a single agency, and outgoing HHS Secretary Tommy Thompson noted in December that he had trouble sleeping at night, worrying about attacks on our food supply.

Just last Thursday, the trade press reported that Gerald Masoudi, FDA's chief counsel, said the lack of coordination among the agencies with responsibility for beef safety as one of the greatest challenges to protecting the public against mad cow disease. Masoudi said: "The responsibility of contaminated food products is spread out among three Federal agencies that do not regulate the problem in a consistent manner."

With all these high-ranking officials raising concerns about the safety of the food supply, has USDA changed its position and decided to embrace the concept of a single food safety agency?

*Answer.* I believe that the Federal Government has a strong food safety system in place and that USDA has a critical role to play in protecting the U.S. food supply. I will work with my colleagues at the Department of Homeland Security, the Department of Health and Human Services, and other Federal and State agencies to maintain effective working relationships.

*Question.* What do you see as the disadvantages of combining the Federal food safety agencies into a single agency? Are there any advantages?

*Answer.* The ultimate goal for Federal food safety programs must be to improve food safety and public health. The food safety system could be redesigned in an endless array of forms, but if food safety and public health are not improved, it would be a failure.

*Question.* Do you believe the creation of the Department of Homeland Security could serve as a model for the creation of a single food safety agency?

*Answer.* There are many options that would need to be evaluated before concluding that food safety functions of the Federal Government need to be reorganized.

#### FOOD SAFETY USER FEES

*Question.* USDA's Food Safety and Inspection Service (FSIS) conducts mandatory inspection of meat, poultry, and processed egg products to insure their safety and proper labeling. The fiscal year 2006 FSIS budget includes a request for \$850 million in appropriations, some of which would be reduced by \$139 million in new user fees for salaries and expenses. Acting Under Secretary for Food Safety, Dr. Merle Pierson, told the House Appropriations Committee last month that the agency would have to lay off 2,000 people if Congress does not enact this user fee proposal.

Could you verify whether this is an accurate estimate of the number of layoffs that would occur without the new user fees and elaborate on which 2,000 jobs would be eliminated?

*Answer.* In 2006, the President's budget includes and requests the full amount of budget authority, \$850 million, needed to operate FSIS' inspection services. We are requesting authority to charge user fees, deposit the fees into special receipt accounts, and use the fees subject to appropriations.



*Question.* Since Congress has been skeptical to such user fee proposals in the past, what makes this proposal different? Will you be sending up legislative language on this user fee proposal?

*Answer.* We continue to support the fee proposals as presented in the budget, which will shift the responsibility for funding these programs to those who most directly benefit. The legislative proposal should be submitted to the Congress shortly.

#### FOOD SAFETY PERSONNEL

*Question.* The important food safety positions in the agency have been vacant for some time now. Specifically, there has been no Under Secretary for Food Safety since Elsa Murano left in December and there has been an acting FSIS administrator in place since last March.

What is your timeframe for permanently filling these important food safety positions?

*Answer.* We are working to fill these important positions as quickly as possible.

#### NATIONAL SCHOOL LUNCH PROGRAM

*Question.* The Child Nutrition and WIC Reauthorization Act was signed into law on June 30, 2004. It contained several provisions based on legislation I proposed in 2003, known as the Safe School Food Act. These provisions include doubling the number of school cafeteria inspections and requiring USDA to provide training to school officials on how to include food safety requirements in their food purchasing contracts. And yet, investigations by Dateline NBC and others continue to turn up problems with rodent infestations and unsafe food holding temperatures in our Nation's school cafeterias that threaten to sicken our children.

What is USDA doing to help school cafeterias improve school lunch safety, particularly in the areas of this law?

*Answer.* School food safety has always been a priority for the National School Lunch Program. The Child Nutrition and WIC Reauthorization Act of 2004 provides schools additional tools to improve the safety of school meals.

The Department will shortly issue interim regulations to implement the statutory requirement of two school food safety inspections per year. In addition, the Department has taken steps to link schools with food safety regulators to put schools on the way to compliance. Earlier this year, USDA contacted the associations representing State and local food safety inspectors to inform them about the new requirement and stress their important role in helping schools comply with the law. In June, staff from the Food and Nutrition Service will attend the annual conference of the National Environmental Health Association to discuss the school food safety inspection requirement and to seek their cooperation.

USDA is also working on the implementation of the provision that requires School Food Authorities (SFAs) to establish a food safety program based on Hazard Analysis and Critical Control Points (HACCP) principles. The Department has drafted guidance with input from the SFAs, State education agencies, State health agencies, the Food and Drug Administration, and other Federal and State collaborators to help SFAs develop food safety programs that meet the needs and capabilities of different types of school foodservice operations. This document will soon be under clearance and the Department plans to distribute it to SFAs this spring.

Furthermore, USDA will continue to develop technical assistance materials and training for school foodservice operators through Team Nutrition and the National Food Service Management Institute (NFSMI) to promote food safety in the National School Lunch Program. An example of food safety material developed in collaboration with the NFSMI is "Serving It Safe". This technical assistance publication explains why school food safety is important and gives practical guidance to foodservice personnel to prepare and serve safe meals.

*Question.* In your February budget outline, you note School Lunch participation is estimated to reach a record 29.8 million children each day next year. Are there adequate resources in the budget for this?

*Answer.* The fiscal year 2006 funding request is a 5.8 percent increase over the fiscal year 2005 funding level and will be sufficient to provide reimbursement for meal service currently projected for fiscal year 2006.

#### SAFE SCHOOL FOOD ACT

*Question.* The Safe School Food Act also calls for increased testing for pathogens like *E. coli*, *Salmonella*, and *Listeria* in uncooked ground meats, USDA to develop a database of information on food producers who provide food to schools, and all USDA to institute mandatory recalls of unsafe food being provided to schools.

Will you work with me to pursue these measures?

Answer. Although USDA has multiple measures in place to ensure that safe food is provided to schools, I am always happy to work with Congress on issues of importance to the Nation, such as food safety.

#### CHILDHOOD OBESITY

*Question.* Obesity rates have doubled for children in the last 25 years. In adolescents, the rates have tripled. We have to do something to change the way children learn about nutrition and the way they make food choices. In Illinois, several schools are working together to test a few different strategies for improving the way students eat and we expect to know more about what's working based on what these schools are doing. But in the meantime, our kids are eating all the wrong kinds of foods. I visited a school near Chicago last week and saw students eating tabasco-spiced cheese puffs and soda for breakfast. School administrators feel they have little choice but to provide what students want.

How do you think we can improve the food choices students make when they are at school?

Answer. Getting children to eat healthy food is always a challenge for parents, caregivers and educators, especially during the school year, when schedules are the busiest. Federal school meals programs offer a critical tool to help parents and other caregivers encourage healthy eating. USDA has been working closely with schools to help them prepare meals that look good, taste good, and meet national nutrition standards.

Yet the challenges of helping kids eat healthy reach beyond these USDA-supported meals. Children's preferences are shaped by innumerable influences in their environment as they learn and grow into adulthood. Many students, enticed by high calorie low nutrient foods, do not choose healthy meals. Improved school meals are undermined by competing food sales outside of the Federal program that feature high-calorie low nutrient foods and beverage items, and the intense advertising efforts for those items.

Parents, schools, and many others in local communities have important roles to play:

- Schools, parents and others in the community can use the new MyPyramid as a tool to educate children in making wise food choices. In April, 2005, USDA introduced MyPyramid, which replaces the Food Guide Pyramid introduced in 1992. MyPyramid is part of an overall food guidance system that emphasizes the need for a more individualized approach to improving diet and lifestyle. A child-friendly version of MyPyramid for teachers and children is being developed. This version of MyPyramid is intended to reach children 6 to 11 years old with targeted messages about the importance of making smart eating and physical activity choices. USDA hopes to have the children's version available next school year.
- Parents and caregivers can influence behavior at school by offering healthful meals and snacks at home, and by leading by example, since children learn from what parents do at least as much as what parents say. Parents should eat with their children and model good eating and activity practices.
- School food service professionals can make healthful meals more appealing to students using USDA resources such as our Fruits and Vegetables Galore kit, which offers strategies to incorporate more fruits and vegetables into school meals, and promote them to students.
- Teachers can use USDA educational materials to build nutrition education into their curricula.
- School administrators can encourage or require vending machine operators, school canteens, and a la carte meal services to improve their offerings. Our Making it Happen guide describes a wide range of successful efforts to improve the nutritional environments schools across the country.
- Parents, school administrators, teachers and local communities can promote children's health through new local wellness policies. Recent legislation will encourage the development of wellness committees to develop goals and plans for nutrition education, physical activity, and other activities. USDA is working with schools to get these policies in place over the next 2 years.
- Schools and community leaders can take on the HealthierUS School Challenge to make the school environment more supportive of healthy eating and active lifestyle choices. Schools that accept the challenge will be locally and nationally recognized by USDA as being certified as a Silver or Gold Team Nutrition School, based on school meal and other food and beverage sales on the school campus, to showcase their success, and encourage others to follow their lead.

The challenge of promoting children's healthy eating and physical activity is one we must face together. The USDA offers leadership and support for parents, schools and communities in this important effort.

#### INTERNATIONAL FOOD AID

*Question.* Your budget States we are going to provide an additional \$300 million for emergency food aid funding with AID. It also states we are going to depend more on locally grown commodities in other countries rather than in our own. American-grown food assistance has long been a powerful weapon against world hunger.

If we have surplus commodities and the world has urgent needs, why not continue to provide this U.S.-grown assistance?

*Answer.* American farmers will continue to benefit from our international food aid programs. However, given the widely differing emergency conditions faced in the countries where we provide food aid, we need the flexibility to respond quickly and appropriately. In many emergency situations, time is a critical factor and cash for local purchases will save lives.

The Administration appreciates the benefits our food aid activities provide to the agriculture industry, and the bulk of our programs will continue to benefit these groups as it has done in the past. We believe that the groups who have historically supported these programs will continue to see the value of promoting food security abroad. From a moral standpoint, the flexibility provided by this change will enable the United States to save more lives and respond more quickly to humanitarian crises which must continue to be the primary concern of this program.

It is important to note that in situations where commodities are not available for local purchase under appropriate market conditions in developing countries, the funding could be used to purchase commodities in the United States as is now done.

Our desire is not to entirely change the way that the United States approaches meeting food aid needs, but to enhance the variety of tools at our disposal so that we have multiple avenues to combat hunger in emergencies.

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#### QUESTIONS SUBMITTED BY SENATOR TIM JOHNSON

##### NORTHERN GREAT PLAINS REGIONAL AUTHORITY

*Question.* As a citizen of the Great Plains, you are well acquainted with the many economic challenges facing rural communities in States like South Dakota and Nebraska. In recognition of research demonstrating the benefits of regional strategies for promoting economic development, Congress established the Northern Great Plains Regional Authority in the 2002 Farm Bill. As you know, the Authority would help to coordinate policies affecting the region's economic performance. Unfortunately, our home States have still not seen more than a tiny fraction of the Authority's potential benefits.

Would you please clarify the Administration's position regarding the merits of regional development organizations such as the Northern Great Plains Regional Authority?

*Answer.* The President's 2006 budget shows that the Administration remains committed to providing the resources to meet the development needs of rural communities not only in South Dakota, Nebraska and the other Great Plains States, but in all parts of the country. Establishment of the Northern Great Plains Regional Authority that was authorized by the 2002 Farm Bill would not necessarily impact either the share of resources that the Great Plains States would receive or how effectively these resources would be used. Nevertheless, the Administration will continue to work toward establishing the Authority with funding provided in fiscal years 2004 and 2005.

*Question.* Would you also please explain how, and in what timeframe, the Administration intends to resolve the issues that have impeded the Authority's operations to date?

*Answer.* Since the legislation authorizing this regional authority calls for the Federal members to be appointed by the President and confirmed by the Senate before the Authority can be established, the Presidential personnel staff is working to identify candidates for nomination. The timeframe for announcing the nominations is not known.

##### RURAL BUSINESS INVESTMENT PROGRAM

*Question.* As you know, inadequate access to financing, including venture capital, is one of many factors that constrains economic growth in our region. In order to address this issue, Congress established the Rural Business Investment Program,

which is modeled on a successful program operated by the Small Business Administration. Though nearly 4 years have elapsed since the President signed the Farm Bill, which created the Rural Business Investment Program, rural entrepreneurs starved for capital are still waiting for the Administration to implement the program.

Could you please explain why it has taken so long to implement the program?

Answer. It is my understanding that the Rural Business Investment Program was difficult to implement largely because it constituted an entirely new type of assistance for USDA to provide—the guaranteeing of debentures for investment companies to finance rural entrepreneurs. However, I have been told that the program is now underway.

*Question.* Would you also please outline how, and in what timeframe, the Administration intends to resolve the factors that have delayed the program's implementation?

Answer. I will ask USDA's Rural Development staff to provide the details of the key steps that were taken in implementing the program.

[The information follows:]

*Publication of the Interim Final Rule and Notice of Funds Availability.*—The RBIP Interim Final Rule was published on June 8, 2004, in the Federal Register with a 30-day public comment period. On that same date, a Notice of Funds Availability (NOFA) applicable to the first competitive application round also was published in the Federal Register.

*Application Window Closed—September 17, 2004.*—The Small Business Administration (SBA) received five applications by the deadline from a geographically diverse group of applicants. In fiscal year 2005, SBA's Investment Division has completed their Initial Review Process and notified applicants of the results. On or before June 1, 2005, USDA and SBA expect to designate selected applicants as conditionally approved Rural Business Investment Companies (RBIC's) and each will be given 1 year to raise their private equity match requirement. After proof of the match and clearance of all requisite legal documentation, the conditionally approved RBIC's may be licensed and become eligible for program funds. We do not expect any investments to be made in rural enterprises until fiscal year 2006.

#### SUN GRANT INITIATIVE

*Question.* I know that you are a proponent of the increased use of biobased fuels. Are you familiar with the "Sun Grant Initiative," which provides an innovative approach for providing university-based bioproduct research and education programs at the State and local level?

Answer. Yes, I am aware of the Sun Grant Initiative.

*Question.* What is your opinion about possible collaborations between the Department and the Sun Grant Initiative to extend the Departments work in the area of bioproducts and the development of renewable fuels?

Answer. Funding for the Sun Grant Initiative is not in the President's Budget Proposal for fiscal year 2006. CSREES supports research on biobased products and bioenergy through the National Research Initiative and researchers could submit a proposal for university-based bioproduct research and education to this competitively awarded program to be considered for funding.

#### RESOURCE CONSERVATION AND DEVELOPMENT

*Question.* Resource Conservation and Development (RC&D) councils foster economic activity, using resources available to our rural communities. Constituents have voiced concern for the use of the Program Assessment Rating Tool (PART) in the evaluation of RC&Ds, questioning the applicability of the PART to RC&Ds given the quantitative nature of the assessment.

Would you please clarify why PART is used for the evaluation of RC&D councils?

Answer. The Performance Assessment Results Tool (PART) was developed to enable the Administration to assess the effectiveness of Federal programs and to help form management actions, budget requests, and legislative proposals directed at achieving results. The PART incorporates factors that affect and reflect program performance including program purpose and design; performance measurement, evaluations, and strategic planning; program management; and program results.

*Question.* Are other rating tools available aside from PART that may be more appropriate for the evaluation of RC&Ds?

Answer. USDA is in the final stages of completing a comprehensive program evaluation, as required by Section 2504 of the Farm Security and Rural Investment Act of 2002 for the RC&D program. The report findings are expected to be released by June 30, 2005, and may compliment the PART evaluation.

## FEDERAL FORMULA FUNDS

*Question.* One especially troubling proposal is the Administration's treatment of our Federal formula funds. South Dakota State University (SDSU), a land-grant university in Brookings, South Dakota, relies heavily on Hatch, McIntire-Stennis, and Animal Health Federal formula funds. The President's proposed budget would cut 45 faculty and staff at SDSU, with a 25 to 50 percent reduction in graduate students. These cuts will result in the closure of at least one SDSU research farm, and at least one SDSU public service laboratory. It is my understanding that other land-grant institutions across America are also concerned by the shift from Federal formula funds to competitive grants.

Would you please clarify how land-grant universities are expected to adjust to this funding change?

*Answer.* Recipients of formula funds have considerable flexibility to use these funds to support research projects, infrastructure, and personnel. The allocation of formula funds to support personnel varies widely from institution to institution depending not only on the size and needs of the institution but also on the institutional management of financial resources from Federal and non-Federal sources. While the amount of formula funds available to institutions in fiscal year 2006 will be reduced and eliminated in fiscal year 2007, it will ultimately be up to each institution to determine how to allocate the resources available to support personnel. However, the fiscal year 2006 budget proposes full indirect cost recovery as part of competitive funding which will allow institutions to support faculty, staff, and other infrastructure needed to support agricultural science. In addition, the State Agricultural Experiment Station Competitive Grants Program proposed in the President's budget will provide a source of funding for functions currently supported by formula funds.

## ANIMAL IDENTIFICATION

*Question.* I consistently hear from producers about the lack of transparency with USDA's proposed animal identification system, including cost, confidentiality, and incorporating practical methods of identification into a national system.

Would you please indicate how producer costs will be minimized, how producer confidentiality will be maintained, and how much flexibility will be afforded producers with existing methods of identification (i.e. branding)?

*Answer.* The National Animal Identification System (NAIS) will contain the minimum amount of information necessary for animal health officials to be able to track suspect animals and identify any other animals that may have been exposed to a disease. Animal identification and tracking systems maintained by the States or regional alliances will be an integral part of the overall NAIS information infrastructure. The State and regional systems will be able to collect and maintain more information than is required for the NAIS, yet only the required data need to be available for the national animal records repository.

In order to secure full participation from livestock producers, the USDA is pursuing legislation to establish a system for protecting information obtained through the animal identification system established by the Secretary of the USDA.

USDA understands that there is no "one-size-fits-all" identification technology. Rather than focus on a specific technology, the focus will be on the design of the identification data system; what information should be collected; and, when the data should be collected and reported. Once the identification system is designed, the market will determine which technologies will be the most appropriate to meet the needs of the system. As specific technologies are determined, the standards for those technologies will be established to ensure compatibility across all sectors of the industry.

Producers will be able to use the NAIS in coordination with production management systems, marketing incentives, etc., allowing for the transition to a "one number-one animal" system for disease control programs and other industry-administered programs. While animals must be identified prior to being moved from their current premises, producers can decide whether to identify their stock at birth or during other management practices.

The integration of existing branding procedures into the NAIS, while integrating animal identification technology standards (electronic identification, retinal scan, DNA, etc.) will be determined by industry to ensure the most practical options are implemented and that new ones can easily be incorporated into the NAIS.

Because the NAIS is being developed as an industry-government partnership, we expect that industry and the government will share the cost of the necessary elements. At the present time, we do not envision any significant Federal funding for individual animal tags or other such devices. However, funding of select electronic

readers could be accommodated under agreements with some cooperators. A variety of identification systems are currently used in the United States to identify various livestock species. USDA continues to seek technology solutions that have proven successful in the marketplace, and we continue to rely on stakeholders to determine which animal identification methods are the most practical and effective for each species in order to minimize the costs to the producer.

SUBCOMMITTEE RECESS

Senator BENNETT. Not at all.

Thank you, Mr. Secretary. It has been a very informative morning, and we appreciate your responsiveness.

The next hearing will be tomorrow afternoon, where we will hear from the Farm and Foreign Agricultural Services, the Natural Resources and Environment activity, Rural Development, and talk about Research, Education and Economics. Senator Craig made a comment to me as he left about research and the importance of that, and while I do not presume to speak for him, I do think we need to recognize that agricultural research in many ways is our seed corn, and we ought to take another look at some of the cuts that have been proposed there.

With that, again, thank you for your participation, and the hearing is recessed.

[Whereupon, at 11:18 a.m., Tuesday, April 12, the subcommittee was recessed, to reconvene subject to the call of the Chair.]

# **AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 2006**

**WEDNESDAY, APRIL 13, 2005**

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

The subcommittee met at 12:30 p.m., in room SD-192, Dirksen Senate Office Building, Hon. Robert F. Bennett (chairman) presiding.

Present: Senators Bennett and Kohl.

## **DEPARTMENT OF AGRICULTURE**

### **STATEMENTS OF:**

**KEITH COLLINS, CHIEF ECONOMIST**

**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**

**J.B. PENN, UNDER SECRETARY FOR FARM AND FOREIGN AGRI-  
CULTURAL SERVICES**

**DENNIS KAPLAN, OFFICE OF BUDGET AND PROGRAM ANALYSIS**

### **OPENING STATEMENT OF SENATOR ROBERT F. BENNETT**

Senator BENNETT. The subcommittee will come to order.

We want to thank you all for your accommodating us at this somewhat unusual hour. We were scheduled to go at 2:00 p.m., and we have had to move that because of Senate activity. And I understand that there is now a vote scheduled for 1:45 p.m.. So we will try to move through this in expeditious fashion.

I am glad to see the curtain is open. That means you are not important enough to be on television, but you brought your own crowd with you. So it is well attended here today, and we appreciate your being here.

This is our second hearing on the budget request. We heard from the Secretary yesterday. And today's witnesses are Dr. Keith Collins, the USDA's chief economist; Dr. J.B. Penn, who is the Under Secretary for Farm and Foreign Agricultural Services; Mark Rey, Under Secretary for Natural Resources and Environment; Gilbert Gonzalez, Acting Under Secretary for Rural Development; and Dr. Joseph Jen, Under Secretary for Research, Education, and Econom-

ics, and accompanied by Mr. Dennis Kaplan of the Office of Budget and Program Analysis. We appreciate your service and appreciate your being here today.

The witnesses today represent production agriculture, trade, conservation, rural development, and the research and education, all of which support USDA programs, and we appreciate your being here.

As I said, we are going to have a supplemental on the floor today. So I would suggest that Dr. Collins perhaps make some opening comments from his perspective as the chief economist. And then if the rest of you are willing to hold yourself in readiness, we go to questions.

And we will do our best to hear from all of you as we go through the question situation. If that would be acceptable, we will do that in the interest of time.

Senator Kohl.

Senator KOHL. I thank you very much, Senator Bennett.

And gentlemen, it is great to have you with us today. I also will withhold an opening statement in the interest of brevity and getting to your testimony and questions, and we appreciate your coming here very much.

Thank you, Senator Bennett.

Senator BENNETT. All right. Dr. Collins, you have the floor.

#### STATEMENT OF KEITH COLLINS

Mr. COLLINS. Thank you very much, Chairman Bennett and Mr. Kohl. For all of us here today, let me say thank you for inviting the Department up here to discuss our 2006 budget proposals.

I am going to start with a very brief overview of the general economic situation in agriculture, and I think that will help provide some context for the discussions that you will have with our under secretaries this afternoon.

To begin with, I would say that strong domestic and foreign economic growth are providing a foundation for U.S. farm and rural economies to continue the improved performances that we have seen over the past year and the year before. Markets for livestock and livestock products, which account for about half of the farm economy, continue to remain very strong despite the closure of our beef in Asian markets.

During the first quarter of 2005, in fact, fed cattle prices averaged \$89 a hundredweight, which was the second-highest quarterly price for cattle ever. With meat protein demand still firm, with cattle slaughter down, and live animal supplies expected to continue tight, I think average cattle prices are likely to remain historically strong for some time to come.

Likewise, hog, broiler, and milk returns all remain favorable as supply expansion thus far has been restrained, even in the face of growing demand.

Turning to major crops, stocks are up, and farm prices are down following last year's record production levels. However, farm cash receipts are being supported by the fact that farmers have more volume to market this year based on last year's record crops.

If you look at 2005, we believe U.S. crop production will decline. USDA's prospective plantings report, which was released a couple



of weeks ago, suggests lower acreage for wheat and for soybeans, about the same acreage for rice and cotton, and a modest increase for corn. If we have trend yields in 2005, production levels would decline for all major crops, with declines ranging from 8 to 9 percent for soybeans to 20 percent for cotton.

But even with such reduced production, our crop supplies would still be ample, and I believe little price appreciation seems likely, except for cotton.

Globally, export competition will remain intense this year. Wheat from the European Union and Black Sea region, corn from Argentina and China, soybeans from Brazil and Argentina, as well as oil and demand-driven increases in shipping costs will pressure U.S. prices despite the competitive benefits from the weaker dollar.

For fiscal year 2005, U.S. agricultural exports are forecast at \$59 billion, down from last year's record, but the second highest since 1996. And that is despite the continuing loss of beef export value.

With lower prices for program crops, Government payments are forecast to be a record \$24 billion in 2005, and that will offset the decline in cash receipts for major crops. Under Secretaries Penn and Rey can provide more information this afternoon on how our farm and conservation programs are assisting the farm economy.

Higher prices for fuel, fertilizer, and chemicals will likely push up production expenses in 2005. But those will be offset by lower expenses for farm origin inputs, such as feed. That should keep overall production expenses about the same as last year. And with gross income about the same as last year, that means that net cash farm income should likewise be about the same as last year's record high level.

The combination of the growing overall economy, strong rural job growth, and record net cash income is expected to boost average farm household income. And Under Secretary Gonzalez today can relate how our rural development programs are helping the performance of the rural economy.

With another sound income year in prospect, farm credit conditions are expected to remain favorable. Farm input sales should be good, and farm land values will likely rise again. Thus, cash flow and balance sheet prospects indicate a pretty solid footing for the farm economy in 2005.

While many farms will benefit from these income and balance sheet trends, high cost/lower margin farms or those adversely affected by weather may not see these benefits. And I think that is why it is so important, as Dr. Jen can explain, to have research programs that can help farms overcome barriers to profitability.

#### PREPARED STATEMENTS

Finally, let me say consumers will continue to have abundant, affordable food. Much smaller retail price increases are expected in 2005 for meat and for vegetable oils and for dairy products. That suggests retail food prices may rise between 2.5 and 3 percent in 2005, compared with about 3.4 percent in 2004.

That completes my statement, Mr. Chairman. We would be delighted to have your questions.

Senator BENNETT. Thank you very much. And for the record, all the statements submitted by all of the witnesses will be included in the record.

[The statements follow:]

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 recovery in the agricultural economy that began in 2003 is expected to continue in 2005. Net cash farm income set back-to-back record highs in 2003 and 2004. This record performance has led to general improvement in farm balance sheets. An important factor supporting the strong financial performance of the farm economy is the growth in U.S. agricultural exports. From fiscal year 2000 to fiscal year 2004, the value of U.S. agricultural exports rose by nearly \$12 billion.

Livestock prices continue to remain strong even though Japan and several other countries have failed to open their markets to U.S. beef following the discovery of a cow with Bovine Spongiform Encephalopathy (BSE) in December 2003. For most major crops, farm prices are down following last year's record production, but record government payments are forecast to about offset the decline in crop cash receipts. Higher prices for energy-related inputs will likely push up production expenses for fuel and fertilizer in 2005. However, lower production expenses for farm-origin inputs should keep overall farm production expenses about unchanged from last year. With gross income and total production expenses close to last year's levels, net cash farm income in 2005 is expected to be near last year's record. Cash flow and balance prospects indicate that the farm economy will remain on a solid footing in 2005.

*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 United States and world economies had back-to-back years of strong growth in 2003 and 2004. Both the United States and world economies are poised for strong growth in the year ahead, which will bolster the demand for U.S. agricultural products here and abroad.

In 2004, the U.S. economy grew 4.4 percent, up from 3 percent in 2003. Expansionary fiscal policy resulting from the budget deficit and the Jobs and Growth Act of 2001; the low interest rates; rising consumer income and spending; and increasing business fixed investment all boosted growth. In 2005, rising interest rates and energy prices are expected to slow the rate of economic growth in the United States to a more sustainable 3.7 percent.

The improving domestic demand base may be seen in the demand for food, which also drives demand for animal feed. Personal consumption expenditures on food rose a very strong 4.8 percent in 2004, in real terms. That compares with average growth of 3.8 percent in 2003 and less than 2 percent during the economic slowdown in 2001 and 2002.

In addition to rising food demand, domestic industrial demand for farm products is also increasing. As an example, ethanol production is setting new record highs almost every month. In 2005, U.S. ethanol production from corn will approach 4 billion gallons and is expected to account for over 13 percent of corn use.

Foreign economies had a very nice recovery in 2004, growing 3.7 percent after a sustained period of substantially lower average growth. The fitful performance of foreign economic growth had been a factor in the slow growth in U.S. farm exports since the mid-1990s. For 2005, lagging performance in Europe and Japan and slower growth in former Soviet countries and a number of developing economies are expected to reduce foreign economic growth to 3 percent. China, a \$6 billion market for U.S. farm products in fiscal year 2004, is pegged to grow at 8.7 percent.

By December 2004, the agricultural trade-weighted dollar had depreciated almost 18 percent from its peak in February 2002. Over the same period, the depreciation compared with competitor agricultural exports was over 36 percent. While the dollar has already depreciated considerably, it may depreciate further in 2005 due to the historically large current account deficit. The depreciation in the dollar and robust foreign economic growth helped push U.S. agricultural exports to a record \$62.3 billion in fiscal year 2004.

U.S. agricultural exports are forecast to decline to \$59 billion in fiscal year 2005. The primary factors leading to the decline in exports include record global grain, soybean and cotton supplies, increased foreign competition and lower prices. This export forecast reflects, in part, the assumption that the markets that are now closed to U.S. beef and poultry exports because of BSE and Avian Influenza will re-

main closed in 2005. This is not a forecast of what foreign countries will do. It simply reflects our standard forecasting procedure to assume the current policies of foreign countries remain in place until they are changed.

U.S. 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 loss of over 80 percent of U.S. export markets for beef and related products in 2004. U.S. poultry exports were flat, as outbreaks of Avian Influenza in several States resulted in a number of countries placing restrictions on poultry imports from the United States. But, U.S. pork exports rose by 27 percent last year, as trade restrictions on U.S. beef and poultry created additional export opportunities for pork. In 2005, poultry exports are forecast to increase by 5 percent and pork exports could be up 16 percent. Beef exports are forecast to increase by 37 percent in 2005, reflecting the resumption of trade with Mexico. Despite the projected increase, U.S. beef exports are projected to be only one-quarter of pre-BSE levels.

#### *Outlook for Major Crops*

For major crops, production is expected to outpace demand for the first time in several years leading to a modest rebound in global stocks and some decline in market prices for the 2004/2005 crops. However, global grain stocks as a percent of total use remain low by historical standards. In addition, foreign economic growth appears sound. With relatively low world stocks, the potential for reduced crop production in 2005 due to a return to trend yields and economic growth continuing to support the demand for agricultural products, crop prices could move higher over the coming months.

In 2004/2005, total supplies are generally exceeding total use of major crops, leading to higher world and United States carryover. World wheat stocks at the end of the 2004/2005 marketing year are expected to increase 12 percent from a year earlier. World coarse grain stocks are forecast to be up 27 percent, world oilseed stocks are forecast to increase 40 percent, and world cotton stocks are forecast to increase 34 percent. These increases would result in global carryover stocks at their highest level in 2 years for wheat and in 3 years for coarse grains and for cotton. Reflecting the strong expansion in soybean production in South America in recent years, the forecast global oilseed stocks would be a record high at the end of 2004/2005.

For wheat, plantings in 2004 declined by 2.4 million acres to 59.7 million acres. This decline and lower yields reduced U.S. wheat production from 2.35 billion bushels in 2003 to 2.16 billion in 2004. U.S. wheat carryover is forecast to decrease by only 5 million bushels, as total use is forecast to decline by 119 million. Larger foreign wheat production in several traditional importing and major competitor countries is forecast to lower U.S. wheat exports by 109 million bushels in 2004/2005. For the current marketing year, the farm price of wheat is forecast to average \$3.35–\$3.45 per bushel compared with last season's \$3.40.

For 2005/2006, wheat planted area is expected to be down about 2 percent, based on 4 percent lower winter wheat plantings last fall and farmers' intentions to increase spring wheat planted area. With this acreage, the lowest since 1972, and trend yields, 2005 wheat production would be about 2.1 billion bushels, about 50 million bushels below 2004. Large global supplies are expected to keep exports under pressure, thus 2005/2006 carryover stocks could rise and farm wheat prices decline slightly from 2004/2005.

U.S. rice acreage was up 11 percent in 2004, as rice producers responded to a strong recovery in prices and returns in 2003. Stocks at the end of the current marketing year are forecast at 37 million cwt, up from 24 million cwt from a year earlier and the highest as a percent of total use since the 2001/2002 marketing year. Despite the sharp increase in carryover, the farm price of rice is forecast to average \$7.30–\$7.50 per cwt this marketing year, compared with \$8.08 per cwt in 2003/2004, as stronger world prices are helping to bolster the United States price.

In 2005, farmers indicated plans to seed 3.36 million acres, about the same as in 2004. With trend yields, U.S. rice production would decline to about 226 million cwt, but still the second largest crop ever. A modest rise in exports and domestic consumption are expected in 2005/2006, implying that rice carryover stocks and farm prices are likely to be very similar to the levels for 2004/2005.

In 2004, the corn crop was a record 11.8 billion bushels as producers harvested a record 160.4 bushels per acre, exceeding the previous record set last year by over 18 bushels per acre. The sharp increase in total supply is forecast to lead to lower prices and increasing carryover. Higher feed and industrial use is forecast to increase total use by 328 million bushels, not enough to prevent a 1.3-billion-bushel increase in carryover stocks. In 2004/2005, the use of corn for ethanol production is forecast to increase 20 percent to a record 1.4 billion bushels. This marketing

year, the farm price of corn is projected to average \$2.00–\$2.10 per bushel, compared with \$2.42 per bushel last season.

Farmers indicated plans to plant 81.4 million acres to corn in 2005 during the USDA planting intentions survey, up less than 1 percent from 2004. This level was lower than generally expected, as producers planned to switch fewer acres away from soybeans than expected and producers in the Dakotas preferred to increase area with other oilseeds, such as sunflowers and canola. High fertilizer and fuel prices may also be a factor in the limited increase in corn area. With intended acreage and trend yields, 2005 corn production would be 10.8 billion bushels, 1 billion less than the 2004 crop. However, total use is expected to about match this production, leaving carryover stocks and farm prices for 2005/06 about the same as for this marketing year.

Soybean production reached a record 3.1 billion bushels in 2004, contributing to higher domestic use, exports and carryover stocks. Soybean crush is forecast to increase by 120 million bushels to 1.65 billion and soybean exports are forecast to increase by 195 million bushels to 1.08 billion. Both crush and exports are forecast to be the second highest on record. United State carryover stocks are forecast to increase to 375 million bushels, which would be the highest carryover as a percent of total use in 6 years. In February 2005, USDA forecast Brazil's soybean production at 63 million metric tons for 2004/2005, up from 53 million metric tons a year earlier. However, USDA is currently projecting Brazil's soybean crop at 54 million metric tons.

The Brazilian crop potential has been reduced by drought, helping to bolster U.S. soybean prices. The farm price of soybeans is projected to decrease from last season's average of \$7.34 per bushel to \$5.25–\$5.55 per bushel this marketing year.

In 2005, farmers indicated in USDA's recent survey that they would plant 73.9 million acres to soybeans. Although down 2 percent from 2004, this acreage level generally exceeded expectations. The declines are largest in the south, where Asian rust was a factor and in the northern plains, where shifting to other oilseeds is expected. USDA's survey indicated that 11 percent of soybean producers had adjusted their planting intentions due to the presence of Asian rust in the United States. This low figure combined with the modest decline in intended acreage nationally suggests Asian rust is not likely to be a major factor in determining this year's United States planted acreage. With this acreage and trend yields, 2005 soybean production would drop back to 2.9 billion bushels, about equal to projected use, and leave carryover stocks about unchanged. Prices in 2005/2006 are projected below 2004/2005 when drought reduced carryin stocks.

In 2004, U.S. cotton production reached a record 23.1 million bales, up from 18.3 million in 2003. Larger supplies coupled with lower exports and domestic use have increased expected carryover and pushed prices lower this season. U.S. exports of cotton are forecast to drop from last year's record high 13.8 million bales to 13.2 million in 2004/2005, as production in China, our largest export market, is up from a year ago. Carryover stocks at the end of this season are projected to increase to 7.1 million bales, the highest in 3 years. During the first 7 months of the current marketing year, cotton prices have averaged 43 cents per pound, compared with last season's average of 61.8 cents per pound.

For 2005, producers indicate plans to plant 13.8 million acres to cotton, up slightly from 2004. In the Delta States, where Asian rust in soybeans is of increased concern, intentions are up 12 percent, led by Louisiana's 24 percent. With trend yields, this acreage would produce a 2005 crop of 18.1 million bales, down 5 million from last year. Although domestic use is expected to continue its trend decline under pressure from imported textiles and apparel, good export prospects and lower production would reduce 2005/2006 carryover stocks substantially.

A persistent concern in U.S. agriculture is whether we are losing our competitiveness in bulk commodities in world markets. The United States share of global exports has been declining for decades for wheat, coarse grains, rice and soybeans, and only turned up recently for cotton in recent years as increased imports of textiles and apparel shifted U.S. textile production overseas, creating higher foreign demand for our cotton. Brazil, Argentina, China, India and the former Soviet countries have increased agricultural exports by either expanding arable land, increasing productivity or altering internal policies. The share of global export markets of these countries rose from 2 percent of world grain and soybean exports in 1994 to a peak of 30 percent in 2002. But their share of world trade in 2004/2005 is expected to be 20 percent, the same as last year.

In the future, we continue to believe that China will be a steadily increasing importer, that India will consume its own grain, and that gains for the former Soviet countries, while expected to continue, will not come as easily as recent gains; an inhospitable climate may also make them an irregular competitor. Thus, while com-

petition will be strong, there is every reason to think that the United States will be a strong competitor as well.

China remains an especially important factor in bulk commodity trade. China's role as a United States competitor in grain markets continued to decline in 2004/2005. China's net imports of wheat are expected to reach 6.5 million metric tons, up from less than 1 million in 2003/2004. Their net exports of coarse grains are also expected to fall from 6.2 million tons in 2003/2004 to 3.2 million in 2004/2005. In addition, China's 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 2005/2006. USDA forecasts U.S. agricultural exports to China will fall from last year's record of \$6.1 billion to \$4.6 billion in fiscal year 2005. The drop primarily reflects much lower United States prices for cotton and soybeans. China is expected to remain the fifth largest U.S. agricultural export market.

Horticultural markets have become an important contributor to farm income for all size producers. For 2005, cash receipts from fruits, vegetables and greenhouse and nursery crops are forecast to be \$45.3 billion, down 2 percent from last year. With average weather, farm receipts for fruits and nuts are expected to decline as production rebounds, leading to generally lower prices. Exports for horticultural crops for fiscal year 2005 are forecast to reach \$14.5 billion, up substantially from last year's \$13.3 billion.

In recent years, strong demand for imported products has increased the sector's trade deficit which is forecast at \$11.1 billion in fiscal year 2005. During the last 10 years, domestic production growth has averaged only 0.5 percent, compared with import growth of 4.4 percent. And with commercial and government interest in increasing the role of fruits and vegetables in the American diet, the sector's trade deficit likely will continue to grow to meet expanding demand.

#### *Outlook for Livestock, Poultry and Dairy*

Reduced supplies of red meat and nearly stable milk production combined with increasing demand led to record-high fed cattle, broiler and milk prices in 2004. Hog prices were also up sharply, pushing livestock cash receipts to a record \$122 billion, a 16-percent increase from the previous year. While several traditional beef importers have failed to open their markets to U.S. beef following the single BSE incident in late December 2003, market fundamentals generally remain quite strong. In addition, lower feed costs in 2005 are also helping to bolster the returns of livestock and dairy producers.

Beef production dropped 6.4 percent in 2004. The drop in production reflected tight domestic cattle inventories, following several years of herd liquidation, and the continued closure of the border to Canadian cattle imports. In addition to the drop in production, strong consumer demand for meat protein, the improving restaurant and hotel business, and improved diversity and quality of retail beef products have also helped support beef prices. During 2004, the price of choice steers averaged a record \$84.75 per cwt.

Cattle herd liquidation ended in 2004 as the U.S. cattle inventory on January 1, 2005, was 1 percent higher than a year earlier. This was the first increase in herd size since January 1996. Herd rebuilding is expected to be slow as the calf crop in 2004 was almost 1 percent smaller than the previous year, leaving a small base from which to retain heifers in 2005. USDA's April cattle market forecast assumes that live cattle imports from Canada will resume during the second half of 2005 and that fed cattle prices will average \$83–87 per cwt. Prices could be substantially stronger if Japan and other Asian countries open their markets to U.S. beef.

In 2004, pork production increased 2.8 percent to a record 20.5 billion pounds. Despite the increase in pork supplies, the price of slaughter hogs averaged \$52.51 per cwt in 2004, up from \$39.45 in 2003, as tight supplies of beef boosted the demand for pork. In addition, U.S. pork exports were record high in 2004 as demand has been strong in markets that banned beef imports because of BSE or banned broiler imports because of Avian Influenza. Other factors contributing to the growth in pork exports are the weaker United States dollar and improved global economic performance, especially in Mexico.

Despite high hog prices last year, hog producers have been cautious about expanding, as indicated in farrowing intentions surveys. In 2005, pork production is forecast up 1.2 percent. Hog slaughter will increase as a result of the recent International Trade Commission finding that removes duties placed on Canadian hogs and encourages imports of Canadian feeder pigs and slaughter hogs. Hog prices are forecast to average \$48–\$50 per cwt in 2005. While down from a year ago, hog prices would still be about \$10 per cwt higher than during 1998–2003.

Broiler production increased 4.0 percent to a record 34.1 billion pounds in 2004. Higher prices for competing meat products and an improving domestic economy pushed whole-bird broiler prices to a record 74.1 cents per pound in 2004, up from 62.0 cents in 2003. Broiler exports fell 3 percent in 2004 as several countries restricted imports of U.S. poultry following outbreaks of Avian Influenza in Delaware, New Jersey, Pennsylvania, Texas and Maryland.

Broiler production is forecast to increase about 3 percent in 2005, as producers respond to the increase in broiler prices. Continued strong prices for competing meats and a rebound in U.S. broiler exports are expected to maintain broiler prices at near last year's level. Lower broiler part prices compared with mid-2004 should stimulate sales, and several countries have either fully lifted the trade ban on U.S. poultry following last year's outbreaks of Avian Influenza or allowed the importation of U.S. poultry from selected States.

In 2004, milk production increased by just 0.2 percent, as cow numbers fell by 0.8 percent and milk production per cow increased by 1.1 percent. Over the past 2 years, milk production has increased by less than 0.5 percent, marking the slowest growth in milk production over a 2-year period since the mid-1980s. Many factors have contributed to this sluggish growth, including tight supplies of good quality hay, the discovery of BSE in Canada and the subsequent suspension of imports of dairy cows and heifers from that country, limitations on the availability of bovine somatotropin (rBST), the National Milk Producers Federation's CWT program which pays producers to reduce milk production, and weak milk prices during 2002 and the first half of 2003. Tightening milk supplies caused the all-milk price to average a record \$16.03 per cwt in 2004, up from \$12.55 per cwt in 2003.

During most of 2004, the Commodity Credit Corporation (CCC) continued to purchase nonfat dry milk under the price support program despite a record-high milk price. In 2004, CCC purchased 278 million pounds of nonfat dry milk, down from the 635 million pounds purchased in 2003. The CCC did not purchase any butter or cheese under the milk price support program in 2004. Tightening domestic and international milk supplies are keeping nonfat dry milk prices above support. Since mid-November, the CCC has not purchased any nonfat dry milk.

Higher milk prices in 2004 reduced payments under the Milk Income Loss Contract (MILC) program. In 2003, MILC payments were triggered during January through August and the MILC payment rate averaged \$1.09 per cwt over the entire year. The MILC payment rate averaged \$0.22 per cwt in 2004 with payments being triggered during January through April. So far this year, no payments have been made under the MILC program.

Milk production is forecast to increase by 1.6 percent in 2005, as production per cow recovers from 2 years of anemic growth. Monsanto has announced that it is increasing the supply of rBST, and lower feed costs should boost milk production per cow. The all-milk price is projected to average \$15.00 per cwt in 2005, which would be the fourth highest on record.

#### *Outlook for Farm Income*

In 2004, farm cash receipts, net farm income and net cash farm income all registered historic high. Farm cash receipts reached a record \$235 billion in 2004 as both livestock and crop receipts were record highs. Livestock receipts rose by \$16.7 billion in 2004, reflecting strong prices for cattle, hogs, poultry and milk. Prices for major crops generally exceeded year-earlier levels through the first 9 months of 2004, allowing producers to sell the remainder of the large harvests from the fall of 2003 at unusually favorable prices. These higher prices were largely responsible for a \$7-billion increase in crop receipts in 2004. Net cash farm income reached a record \$77.8 billion in 2004, up from the previous record of \$68.6 billion in 2003.

In 2005, both crop and livestock receipts are forecast to decline from last year's record high. Despite the drop, farm cash receipts in 2005 are projected to be the second highest on record, surpassing \$222 billion. Higher government payments are forecast to offset the drop in farm cash receipts in 2005. The record crops harvested in 2004 have lowered prices for major crops, triggering additional government payments under the 2002 Farm Bill. In addition, producers affected by adverse weather in either 2003 or 2004 will be eligible to receive disaster payments in 2005. In 2005, government payments are forecast to reach \$24 billion, exceeding the record of \$22 billion in 2000. With higher government payments offsetting lower cash receipts, net cash farm income is forecast to remain very near last year's record. While most producers will face these generally favorable conditions, some, such as high cost producers or those affected by adverse weather, will not see these income benefits.

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. As markets have

strengthened, payments based on prices have declined, so that more of net cash income is now coming from market sales. In 2004, net cash income excluding government payments increased to \$63.3 billion. In 2005, net cash farm income excluding government payments is projected to fall to \$54 billion. While below this past year, net cash farm income excluding government payments remains well above the cyclical low in 2000.

Farm production expenses are expected to be about unchanged in 2005 following a \$13-billion increase last year. Higher prices for feed, feeder livestock, labor, fuel, fertilizer and other inputs pushed up production expenses in 2004. In 2005, lower feed and feeder cattle prices are expected to about offset increases in energy-based input costs, such as fuel and fertilizer.

The income earned by farm operator households in 2005 is expected to continue the increases of recent years. Average farm household income is forecast at \$73,059, up nearly 3 percent from 2004. A 3.4 percent increase is expected in off-farm income, a modest rise from 2004, but more than enough to offset the also modest reduction in net farm income from 2004.

With another sound income year in prospect, farmland values may rise 4–5 percent in 2005. This increase would maintain the improvement in the farm sector balance sheet that we saw in 2003 and 2004. After ranging between 14.8 percent and 15.2 percent during 1992–2002, the farm debt-to-asset ratio fell to 14.2 percent last year and expected to remain steady in 2005. Recent increases in debt have been offset by larger gains in farm asset values. As a result of farm real estate values rising faster than farm mortgage debt, the degree of farmland leverage declined slightly. This has provided farmland owners with an added equity cushion to lessen the impact of any short-term declines in income or asset values. While uncertainty remains over the sustainability of the global economic recovery, the value of the dollar, issues raised by the Federal budget deficit, trade negotiations, emerging competitors, animal diseases, and oil prices, U.S. agriculture appears poised for another sound financial year in 2005.

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	2003/04E	2004/05F
Wheat	\$/bu	2.65	2.48	2.62	2.78	3.56	3.40	3.35-3.45
Corn	\$/bu	1.94	1.82	1.85	1.97	2.32	2.42	2.00-2.10
Soybeans	\$/bu	4.93	4.63	4.54	4.38	5.53	7.34	5.25-5.55
Rice	\$/cwt	8.89	5.93	5.61	4.25	4.49	8.08	7.30-7.50
Cotton	cents/lb	60.20	45.00	49.8	29.8	44.5	61.8	43.0 1/
		1999	2000	2001	2002	2003	2004	2005F
Hogs	\$/cwt	34.00	44.70	45.81	34.92	39.45	52.51	48-50
Steers	\$/cwt	65.56	69.65	72.71	67.04	84.69	84.75	83-87
Broilers	cents/lb	58.10	56.20	59.10	55.60	62.00	74.10	71-75
Milk	\$/cwt	14.38	12.40	15.04	12.18	12.55	16.03	14.75-15.25
Gasoline 2/	\$/gallon	1.18	1.53	1.47	1.39	1.60	1.89	2.07
Diesel 2/	\$/gallon	1.12	1.49	1.40	1.32	1.50	1.81	2.04
Natural gas (w/ld) 2/	\$/K cu. ft.	2.19	3.70	4.01	2.95	4.89	5.49	5.02
Electricity 2/	\$/kwh	8.16	8.24	8.62	8.45	8.70	8.91	9.20
Ag. Trade (Bil. \$)	FY98	FY99	FY00	FY01	FY02	FY03	FY04	FY05F
Total exports	53.6	49.1	50.7	52.7	53.3	56.2	62.3	59.0
Asia	19.7	18.5	19.7	20.1	19.4	21.6	24.3	20.7
Canada	7.0	7.0	7.5	8.0	8.6	9.1	9.5	10.2
Mexico	6.0	5.7	6.3	7.3	7.1	7.7	8.4	8.5
Total imports	36.8	37.3	38.9	39.0	41.0	45.7	52.7	58.0
Farm Income (Bil. \$)	1998	1999	2000	2001	2002	2003	2004	2005F
Cash receipts	196.8	187.6	192.0	200.1	195.1	211.6	235.4	222.4
Gov't payments	12.4	21.5	22.9	20.7	11.0	15.9	14.5	24.1
Gross cash income	222.5	224.0	228.6	235.6	222.0	243.9	266.1	263.4
Cash expenses	165.5	166.6	172.1	176.0	171.3	175.4	188.3	185.3
Net cash income	57.0	57.5	56.5	59.5	50.7	68.6	77.8	78.1

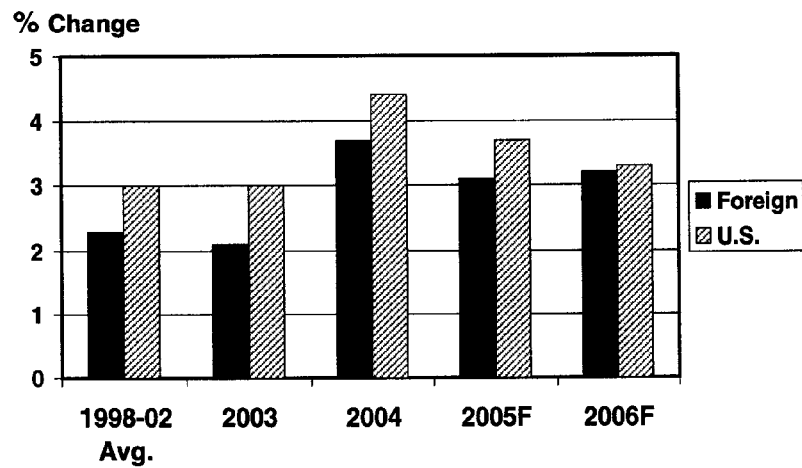
E=estimate; F=forecast.

1/ August through February average.

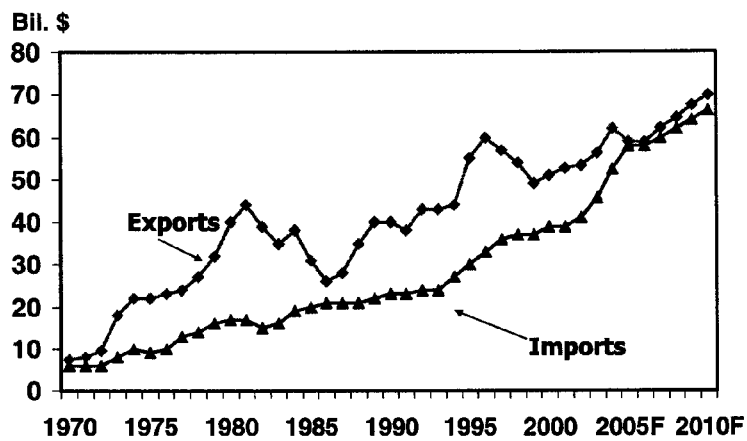
2/ Source: Energy Information Administration, Short Term Energy Outlook, March 9, 2005.



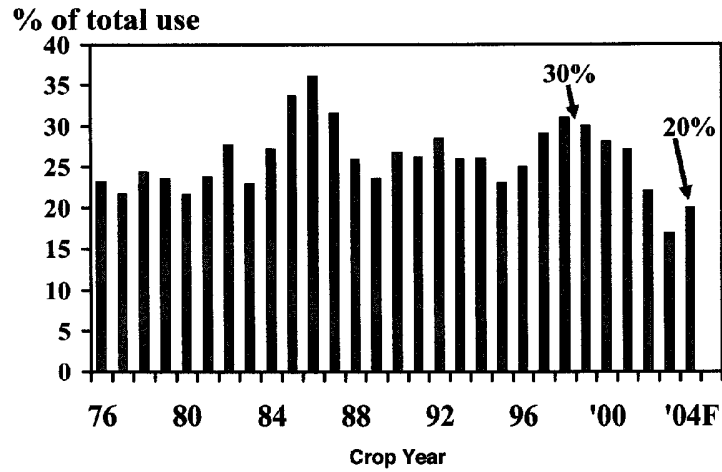
## U.S. & Foreign GDP Growth Rates



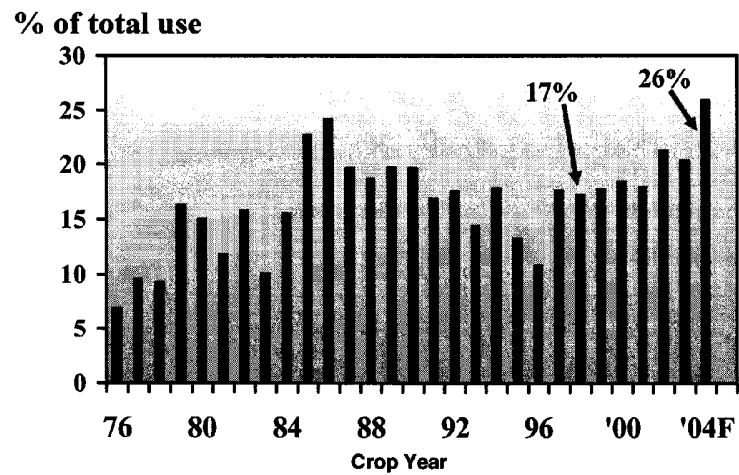
## U.S. Agricultural Exports & Imports



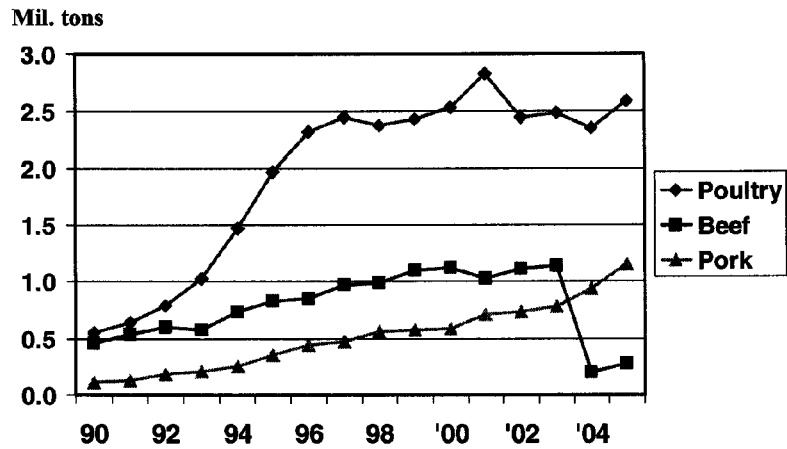
## World Wheat and Coarse Grain Stocks



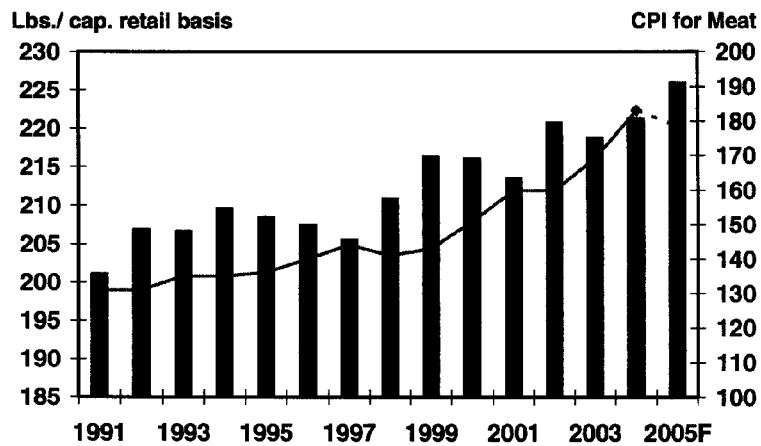
## World Soybean Stocks



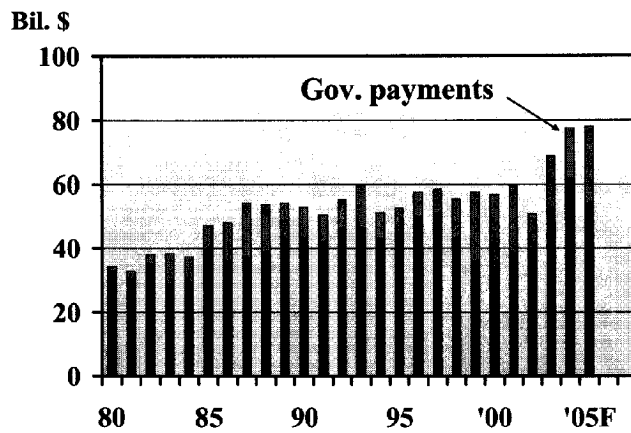
## U.S. Meat Exports



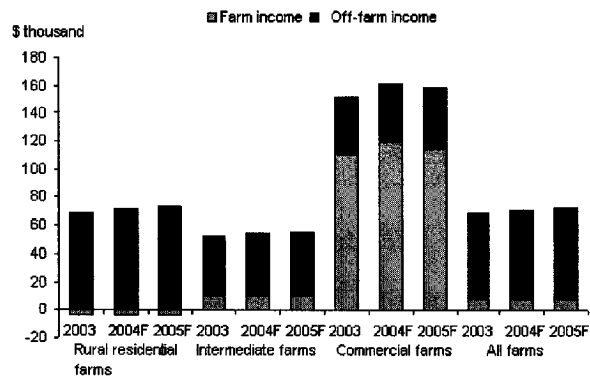
## Retail Meat Consumption & CPI for Meat (red line)



## U.S. Net Cash Farm Income ... Records in 2003, 2004 & 2005F

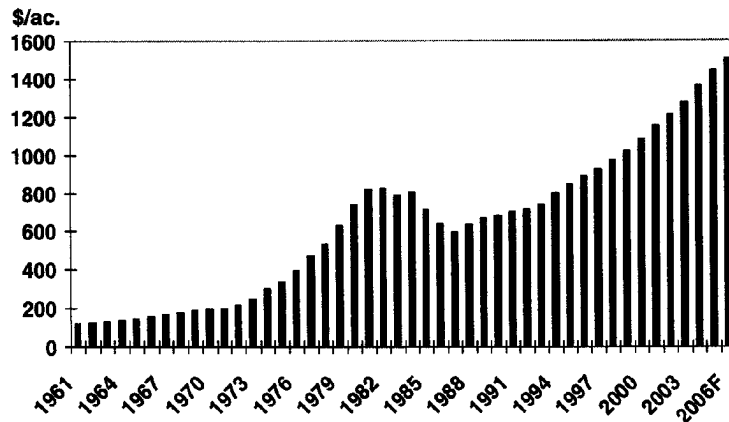


## Farm Operator Household Income



Source: 2003 USDA *Agricultural Resource Management Survey*  
Economic Research Service, USDA

## Value of Farm Real Estate (Jan. 1)



### PREPARED STATEMENT OF MARK REY

Mr. Chairman and members of the Subcommittee, I am pleased to appear before you today to present the fiscal year 2006 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 the ongoing support of private lands conservation and the protection of soil, water, and other natural resources.

Farmers, ranchers, and other private landowners across America play a vital role in conserving our Nation's soil, water, air, and wildlife resources while producing abundant food and fiber. This year, NRCS celebrates its 70th Anniversary. I am proud to say that even though the issues facing farmers and ranchers have grown more complex, NRCS has risen to the challenge to help agriculture become even more vibrant and productive while helping to protect our private land natural resource base.

#### *Fiscal Year 2006 President's Budget*

The President's fiscal year 2006 Budget request for NRCS provides resources for the ongoing mission of NRCS while ensuring that new challenges faced by landowners can be addressed.

Because of the overriding need to reduce the deficit, NRCS, like every Federal agency, will share in the responsibility of controlling Federal spending. There are proposals in the budget that will produce savings in both the mandatory and discretionary accounts. These savings will enable the Administration to target funding based on need and reward performance. It also allows the Administration to commit limited resources to the highest priorities, such as accelerating technical assistance to help agricultural producers meet regulatory challenges, particularly in the area of helping to manage livestock and poultry waste.

With that said, the President's fiscal year 2006 Budget request for NRCS recognizes the vital role that natural resource conservation plays in securing America's national security. Without productive soil, clean water and air, and farmers and ranchers who can make a living off the land, the United States would not be the strong Nation it is today.

The budget includes key increases within the Conservation Technical Assistance (CTA) account—an additional \$37.2 million to help producers comply with Animal Feeding Operations/Confined Animal Feeding Operations regulations, and \$10 million to control invasive species. This year, total NRCS funding for both discretionary and mandatory programs is proposed at \$2.7 billion.

### *Building Strong Accountability Measures*

In the current budget environment, it is more important than ever to continue working diligently in accountability and results measurements for the funds provided by Congress. Mr. Chairman, I am proud of the great strides NRCS has made in the past year on performance and results, as well as making NRCS information more accessible to farmers, ranchers, and the general public. NRCS has taken bold steps to address all the challenges identified as a result of the Program Assessment Rating Tool (PART) score for the base agency program of CTA.

Meeting the President's Management Agenda is very critical to all of us at USDA. Linking program requirements and program allocations to performance and accountability measures helps both the Administration and Congress make budget decisions. I am proud to report that this year was the first year that NRCS could track direct charge through an entire budget development cycle. Direct charge has improved the ability of NRCS to directly track how NRCS employees spend every day and how the technical assistance workload is distributed among programs. This is a critical management tool, and will allow the Agency to prioritize work and provide even greater accountability to the taxpayers and members of Congress.

In addition, as a result of the accountability management processes, NRCS has established national CTA program priorities for fiscal year 2005. These priorities include development of Comprehensive Nutrient Management Plans (CNMPs) to assist landowners needing to comply with the Environmental Protection Agency's Concentrated Animal Feeding Operation Rule; reduction of non-point source pollution, such as nutrients, sediments, pesticides, or excess salinity in watersheds; reduction of emissions that contribute to air quality impairment; reduction in soil erosion and sedimentation from unacceptable levels on agriculture lands; and promotion of habitat conservation for at-risk species.

I am encouraged to report this direct link between performance and priority setting and look forward to reporting further on the results of this effort.

### *Cooperative Conservation*

At the heart of delivery of voluntary conservation programs is cooperative conservation. Cooperation in the delivery of programs at the Federal, State and local levels with landowners, tribes, government agencies and nongovernmental organizations is critical to providing accountable, quality land care assistance. In August 2004, the President issued an Executive Order on Facilitation of Cooperative Conservation. Through this directive, the President has sent a clear message that we can look forward to greater cooperation among Federal agencies on natural resource issues. The order instructs Federal departments and agencies to enter into conservation partnerships, and to empower local participation in programs and projects that protect and conserve natural resources and the environment. The Department of Agriculture has embraced this concept, and is working with other Federal agencies to highlight the successes of our joint efforts.

### *Looking Ahead*

As the NRCS prepares to celebrate its 70th Anniversary this spring, we have much to be proud of in private lands conservation. It is rewarding to see the changes on the landscape that those early pioneers in soil conservation envisioned—conservation terraces that stop sheet and rill erosion, streamside vegetative buffers, acres of wetland habitat, and healthy grazing and forest lands. Even with all those changes, the next 3 years (fiscal year 2005 through fiscal year 2007) promise to be record years for conservation implementation and spending. This effort will continue to change the face of our Nation's private lands landscape. Now more than ever, the field staff of NRCS are focused on working with farmers, ranchers and other conservation partners to get the job done.

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. I believe that the Administration's fiscal year 2006 Budget request reflects sound policy, and will provide stability to the vital mission of conservation on private lands. The budget request reflects sound business management practices and the best way to work for the future and utilize valuable conservation dollars.

I thank members of the Subcommittee for the opportunity to appear, and would be happy to respond to any questions that Members might have.

PREPARED STATEMENT OF BRUCE I. KNIGHT, CHIEF, NATURAL RESOURCES  
CONSERVATION SERVICE

Thank you for the opportunity to appear before you today to discuss our fiscal year 2006 Budget request for the Natural Resources Conservation Service (NRCS).

As we look ahead to fiscal year 2006, and the contents of the Administration's Budget request, I want to take a moment to reflect upon all of the changes that have taken place within NRCS over the past year. Since I last appeared before this Subcommittee, a great deal of organizational change, streamlining, and improvements have taken shape.

To begin, we have a new Associate Chief of NRCS, Dana D. York. Dana began her new position in August, and is a wonderful addition to our management team. She has spent more than 28 years working for NRCS at every level, including experience as a District Conservationist in the field. She also has a breadth of experience on managing organizational change, which is a timely skill, given the major organizational changes that NRCS has embarked upon over the past 18 months.

AGENCY REORGANIZATION

Mr. Chairman, since our last hearing with this Subcommittee, we also have three Regional Assistant Chiefs on board at NRCS National Headquarters. Richard Coombe is heading up operations for the East Region; Merlin Bartz for the Central Region, and Sara Braasch for the West Region. The Regional Assistant Chiefs are providing leadership excellence in management for their respective States. They are also providing a critical link directly between the functions of National Headquarters and our Agency field activities.

Overall, the NRCS reorganization is strengthening our support to States, better aligning expertise with applied conservation, and making NRCS a more efficient and effective organization. In September, we launched our three new National Technology Support Centers in Greensboro, North Carolina; Fort Worth, Texas; and Portland, Oregon. The Centers are providing integrated technological support and expertise for field conservationists. We have also reorganized National Headquarters to ensure that comparable functions are appropriately assigned to staff with similar expertise. For example, we now have a single Easement Programs Division, and a single Financial Assistance Programs Division to ensure that we have the right people working together to meet common program objectives. In general, these changes are helping to ensure that hard work from our staff is translating to work on the ground.

I am proud of how NRCS staff, at all levels, has responded to the major organizational changes made over the past year. More than 130 employees impacted by the reorganization have moved into their new assignments. Although this process was not easy, and required many careful steps and planning, it has gone remarkably well. We are now in a position to realize the benefits of the new organizational structure.

Like most Federal agencies, NRCS faces a retirement bulge with 35 percent of our natural resource professionals eligible to retire in the next 5 years. To ensure we have capable professionals in the future, we piloted the Conservation Boot Camp. New employees spent six weeks learning conservation planning and application skills. We plan three additional pilots this year. The goal of the pilots is to enable the agency to maintain its cadre of professional employees well into the future.

PERFORMANCE UNDER PRESSURE

Given the shifts that have taken place over the past year, I think the agency's accomplishments are all the more impressive. Last year, NRCS and our partners:

- Provided technical assistance on over 27 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 6,100 Comprehensive Nutrient Management Plans and applied 3,400;
- Served nearly 3.8 million customers around the country;
- Completed or updated soil survey mapping on 28 million acres;
- Executed over 47,000 Environmental Quality Incentives Program agreements;
- Enrolled over 3,000 Wildlife Habitat Incentives Program agreements;
- Helped land managers create, restore, or enhance wetlands through more than 1,000 contracts;
- Implemented the new Conservation Security program under a tight deadline;
- Facilitated over one million hours of Earth Team volunteer service; and

—Brought the number of proposed, interim final, and final rules issued for implementation of the Farm Bill to 21.

As we move forward in fiscal year 2005, there are numerous challenges and opportunities ahead, with NRCS playing a central role in meeting the Administration's conservation objectives. We 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 continue to look to non-Federal partners and private technical service providers (TSPs) 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 March 2005, there are 2,201 TSPs registered with NRCS. Last year, we set the goal to use \$40 million in TSP assistance. NRCS surpassed this goal for fiscal year 2004 and obligated \$49.2 million for TSPs. In fiscal year 2005, our goal is to reach \$45 million for TSPs, or an equivalent of 428 staff years.

#### TRANSPARENCY

Transparency of agency operations is an area that I have highlighted in the past, and I want to be clear that it remains a key focus of NRCS. NRCS has made tremendous gains in providing complete access to program information, allocations, backlog, and contracting data to the public. Our goal has been to ensure operational processes are completely open to customers and stakeholders. On the NRCS website, the Agency provides the following information:

- State rankings for funding in conservation programs;
- State Field Office Technical Guides;
- Program performance data; and
- Public input sessions to gather feedback on Farm Bill program operation and priority setting.

NRCS has also taken strides to improve access to information in foreign language formats, including many publications offered in Spanish.

#### DISCRETIONARY FUNDING

The President's fiscal year 2006 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 2006 Budget request for Conservation Operations (CO) proposes a funding level of \$767.8 million, which includes \$625.6 million for Conservation Technical Assistance (CTA). The CTA budget will enable NRCS to maintain funding for ongoing high-priority work. In addition, the President's Budget request includes an increase of \$37.2 million for technical assistance to agriculture producers facing significant regulatory challenges. This budget initiative would be targeted toward animal feeding operations in need of Comprehensive Nutrient Management Planning (CNMP) assistance. The Budget request does not fund continuation of fiscal year 2005 congressional earmarks.

Mr. Chairman, for years we have stated that CTA is a program that is at the heart of everything our Agency does. But as an Agency, we have had a great deal of difficulty, up to this point, describing the program's scope and effect and providing clear guidelines to our frontline conservationists on its implementation.

I am pleased to report that NRCS was successful this year in issuing a formal program policy for CTA. For the first time in 70 years, CTA has the same kind of official program guidance and specific implementation framework as our other programs. We are also working to revise the allocations process for CTA in order to ensure that we reflect the values in the CTA program policy by placing our dollars where the needs are. It is key that allocations reflect natural resource conditions and the drive to meet our strategic planning objectives and accountability. Our aim is to have the new allocation formula in place upon enactment of the fiscal year 2006 Appropriations Bill.

We have made great strides in developing an effective accountability system with the support of Congress. This system has allowed us to accurately track our accomplishments and costs. As Undersecretary Rey outlined in his statement, this is the first budget that truly integrates an entire cycle in terms of utilization of our direct charge data. Based upon the current mechanisms in place for funding discretionary and mandatory program technical assistance, it is necessary to have sound data for workload in field offices. Our direct charge accounting, along with the workload as-



assessment tools that we have in place, are providing the solid data to help us make program management decisions and to assist in the budget development process. For instance, with this data we can tell you that the cost of technical assistance per active participant in the Farm Bill Programs has decreased 13 percent from fiscal year 2002 to fiscal year 2005.

#### *Watershed Surveys and Planning*

The Watershed Surveys and Planning (WSP) account helps communities and local sponsors assess natural resource issues and develop coordinated watershed plans that will conserve and utilize their natural resources, solve local natural resource and related economic problems, avoid and mitigate hazards related to flooding, and provide for advanced planning for local resource development. This includes Floodplain Management Studies, Cooperative River Basin Studies, Flood Insurance Studies, Watershed Inventory and Analysis, and other types of studies, as well as Public Law 566 Watershed Plans.

Over 65 percent of these plans are used to guide local planning efforts. The other 35 percent guide experts and sponsors in the implementation of watershed projects to solve natural resource problems.

The President's fiscal year 2006 Budget proposes to focus funding on ongoing WSP efforts and includes \$5.1 million to help approximately 40 communities complete their watershed planning efforts.

#### *Watershed and Flood Prevention Operations*

The Administration proposes to terminate funding for Watershed and Flood Prevention Operations (WFPO) in fiscal year 2006 for several reasons.

The Administration compared the benefits and costs of three Federal flood damage reduction programs operated by NRCS, the Corps of Engineers, and the Federal Emergency Management Agency.

The analysis found that the WFPO program provided the least net flood damage reduction benefits.

This decrease in funding in WFPO account will enable the Administration to divert limited resources to other priorities such as accelerating technical assistance to help agricultural producers meet regulatory challenges, particularly in the area of helping them to manage livestock and poultry waste.

Mr. Chairman, I would note that the projects that were earmarked for this program had funding requests that exceeded the amount appropriated, which has removed the Department's ability to effectively manage the program. The intense level of Congressional directives does not permit the Agency to prioritize projects based upon merit and local need. The fact that the program is entirely earmarked also makes it impossible for the Department to attempt to coordinate program efforts and implement work that will meet overall strategic natural resource goals.

#### *Watershed Rehabilitation*

The President's Budget funding request for fiscal year 2006 includes funding for Watershed Rehabilitation activities involving aging dams. These projects involve dams with a high risk for loss of life and property. To date, 134 watershed rehabilitation projects have been funded and 37 have been completed. Sixty-six dams have rehabilitation plans authorized and implementation of the plans is underway.

The Administration requests \$15.1 million to address critical dams with the greatest potential for damage.

#### *Resource Conservation and Development*

The purpose of the Resource Conservation and Development (RC&D) program is to encourage and improve the capability of State, 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. Over half of the 375 RC&D areas have received Federal support for at least 20 years. At this point, most of these communities should have the experience and capacity to identify, plan for, and address their local priorities. The President's fiscal year 2006 Budget, therefore, proposes to phase out Federal support for local planning councils after 20 years of funding assistance after which the local councils should have the capability to carry out much of the program's purpose themselves. The overall proposed budget for RC&D in fiscal year 2006 is \$25.6 million.

## FARM BILL AUTHORIZED PROGRAMS

*Environmental Quality Incentives Program*

The purpose of Environmental Quality Incentives Program (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. The budget proposes a level of \$1 billion for EQIP.

Over the past year, NRCS fully implemented a new agency developed system, ProTracts, to speed up the processing of conservation contracts with farmers and ranchers. ProTracts, which came about as part of the West Texas Telecommunication Pilot, has allowed the Agency to streamline the contracts process and, for the first time, see the ongoing status of contracts, not just the payments. ProTracts allows program managers to manage payments and obligations for a portfolio of different contracts. We estimate savings of \$5 to \$10 million annually in administrative costs that can be used to get financial assistance to farmers to implement conservation programs. Because the contract process is now electronic instead of paper, it speeds up the time between contract application and approval. While reducing errors and omissions, NRCS worked with the Office of the Chief Financial Officer to link ProTracts to prior-year EQIP payments. The Agency is currently migrating and reconciling EQIP contracts.

*Wetlands Reserve Program*

Wetlands Reserve Program (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. The fiscal year 2006 Budget request estimates that about 200,000 additional acres will be enrolled in fiscal year 2006, an appropriate level to keep NRCS on schedule to meet the total acreage authorization provided in the Farm Bill.

I would note, Mr. Chairman, that on Earth Day last year, President Bush announced a new policy: "Instead of just limiting our losses (of wetlands), we will expand the wetlands of America." "No-net loss of wetlands" on the part of agriculture is a landmark achievement, and a testament to the kinds of investments made in wetlands conservation on private lands. I am proud that NRCS' wetland conservation efforts are at the core of this initiative, and I look forward to working with the Subcommittee toward achieving the goals.

*Grassland Reserve Program*

The 2002 Farm Bill authorized the Grassland Reserve Program (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 fiscal year 2003-fiscal year 2007. Because we estimate that GRP will reach the statutory funding cap by the end of fiscal year 2005, the fiscal year 2006 Budget assumes that the program will have exhausted its funding and not be able to enroll new contracts next year.

*Conservation Security Program*

Conservation Security Program (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.

Last year, we conducted a successful program signup in 18 watersheds across 22 States. Nearly 2,200 farmers and ranchers entered contracts that covered 1.9 million acres of privately-owned land. We are now offering the program in 220 new watersheds across the country in addition to the 18 that were eligible in 2004. Each State has at least one participating watershed. The President's fiscal year 2006 Budget requests \$273.9 million in program funding to continue to expand the program and enroll excellent conservation stewards.

*Wildlife Habitat Incentives Program*

Wildlife Habitat Incentives Program (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

Through the Farm and Ranch Lands Protection Program (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 \$83.5 million for FRPP in fiscal year 2006.

#### *Measuring Outcomes not Outputs*

One of the most common questions that I have answered during my tenure as Chief is about measuring the natural resource outcomes of NRCS efforts. Rightfully so, policy-makers, such as Members of this Subcommittee, as well as conservation and farm organizations, have voiced a need for better information about the kinds of changes in water and soil quality that are as a result of the investments we have made.

Six months ago, we launched an exciting endeavor to better quantify the on-the-ground effects of our conservation work. The Conservation Effects Assessment Project (CEAP) is a 5-year effort to better quantify the outcomes of our programs. Through CEAP, NRCS is partnering with the Agricultural Research Service (ARS), the National Agricultural Statistics Service (NASS), Farm Service Agency (FSA), and other agencies to study the benefits of most conservation practices implemented through the Environmental Quality Incentives Program, Wetlands Reserve Program, Wildlife Habitat Incentives Program, Conservation Reserve Program, and the Conservation Technical Assistance program. This project will evaluate conservation practices and management systems related to nutrient, manure, and pest management, buffer systems, tillage, irrigation, and drainage practices, as well as wildlife habitat establishment, and wetland protection and restoration.

CEAP will provide the farming community, general public, legislators, and others with a scientifically based estimate of environmental benefits achieved through conservation programs.

#### *Conclusion*

As we look ahead, it is clear that the challenges before us will require the dedication of all available resources—the skills and expertise of the NRCS staff, the contributions of volunteers, and continued collaboration with partners and Technical Service Providers.

I am proud of the dedicated work ethic our people exhibit day in and day out as they go about the work of getting conservation on the ground. We have achieved a great deal of success. We need to focus our efforts and work together, 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.

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#### PREPARED STATEMENT OF GILBERT G. GONZALEZ

Mr. Chairman, Members of the Committee, it is a pleasure to present to you the fiscal year 2006 President's Budget request for USDA Rural Development.

I am honored to serve as Acting Under Secretary of Agriculture for Rural Development, 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. I believe that given the opportunity, Americans will create strength through investments in their own economic futures. And I believe it is our role at Rural Development to stimulate these efforts in ways that will maximize the benefits of local economies.

With the assistance of this subcommittee, the Bush Administration has established a proud legacy of accomplishments in rural areas, and will work to continue to enhance that legacy.

Overall, 800,000 jobs have been created or saved through combined business, housing, utility, and community development investments by USDA Rural Development over the last 4 years. Leveraging of these investments with private sector investments are helping to spur economic growth throughout rural America.

The Bush Administration has committed over \$50 billion in rural development investments in the last 4 years to support rural Americans' pursuit of economic opportunities and an improved quality of life.

Rural Development delivers over 40 different programs enhancing business development, housing, community facilities, water supply, waste disposal, electric power, and telecommunications. Rural Development also provides technical assistance to rural families, and business and community leaders to ensure 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 \$87 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, particularly the 60 million rural residents who are not involved in production agriculture.

Rural Development is a catalyst. We focus on our grassroots delivery mechanism, building partnerships that will act to strategically place Federal resources to serve as catalysts for spurring private investment. Partners in this effort include: the Department of Housing and Urban Development, the Department of Energy, the Environmental Protection Agency, the Minority Business Development Agency, 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 to partner with Rural Development to also support local community and economic development.

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.

#### RESPONSIBILITIES

Rural Development provides rural individuals, communities, businesses, associations, and others with financial and technical assistance needed to increase economic opportunity 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 of rural areas.

#### VISION

To realize our vision of creating greater economic opportunities and improved quality of life for rural citizens, we need to structure the delivery of Rural Development programs in a way that can ensure those who are most qualified become aware of our programs and receive needed investment assistance. Rural Development has to do a better job of outreach and education on what programs are available. To accomplish this goal, we have embarked upon an aggressive outreach and marketing effort that focuses on the programs appropriated, rather than on the names of individual agencies. This is a key priority that we believe will reduce confusion about who to contact for assistance and help ensure more efficient utilization of program investment dollars by those who are most qualified. We are also working to better communicate with minority sectors, analyze program delivery, and improve the overall knowledge of what USDA Rural Development can provide to rural citizens and communities.

#### RURAL DEVELOPMENT BUDGET REQUEST

The President's commitment to rural America is strong, and this request will support a total program level of loans and grants of \$13.5 billion. Mr. Chairman, this Rural Development request is one component of the President's overarching budget. The budget reflects the difficult choices that had to be made among funding opportunities for a variety of meritorious programs.

Over the last 4 years (fiscal year 2001-fiscal year 2004) with your assistance, Rural Development has delivered over \$50 billion in loans and grants to rural Americans. Through this infusion of infrastructure investment and local area income stimulus, many rural areas are attracting an increase in private sector investment. These Federal investments are being returned many times over in the form of increased local tax base and new private ventures, with their associated multiplier effects on household incomes and local quality of life.

I will now discuss the requests for specific Rural Development programs.

#### RURAL HOUSING PROGRAMS

The budget request for USDA Rural Development's housing programs totals just under \$6.5 billion. This commitment will improve housing conditions, continue to promote homeownership opportunities for minority populations, and initiate our multi-family housing program revitalization initiative. Initially, this will put in place a program of tenant protection for our multi-family housing residents.

Rural Development's multi-family housing program includes about 17,000 properties and 470,000 units, with a loan portfolio value approaching \$12 billion. Many of the properties exceed 20 years in age and face substantial rehabilitation needs. A substantial number of owners wish to prepay their loans and remove properties from the program. Rental assistance, a vital component of the program, has steadily risen. Faced with this reality, this Administration acknowledged the need to evaluate tenant protections, the portfolio, and program, and identify alternatives to ensure the program's long-term viability and continued supply of affordable rental housing in rural areas.

Last year, Rural Development engaged private industry experts to:

- Review and define potential approaches to protect tenants;
- Review issues and develop solutions directly pertaining to the market demand for such housing;
- Analyze and develop solutions for the increasing rehabilitation and recapitalization requirements of the aging existing properties; and
- Perform a comprehensive property assessment.

A statistically representative sample of the portfolio was selected and reviewed. Based on that review and analysis by outside experts and Rural Development staff, a comprehensive tenant protection and revitalization initiative is being developed. This budget reflects the first component of that initiative, which provides protection for the very low-income tenants residing in the projects. We are requesting \$214 million to fund a rural housing voucher program, which will ensure that very low-income and elderly tenants are protected in the event of project prepayment.

A comprehensive legislative proposal is under development to protect tenants and address the issues of rehabilitation needs and prepayment. This proposal will embody the Administration's multi-year initiative to ensure adequate rental housing options remain available for very low-income rural residents and return the multi-family housing program to sound footing.

Pending the outcome of the comprehensive multi-family property assessment, Rural Development did not request funding for section 515 new construction. As a result of the study, we again are not requesting new construction; we are seeking \$27 million in the section 515 program loan level for repair and rehabilitation only. New construction needs will be met through the section 538 guaranteed program, which we are requesting to double to a \$200 million loan level.

We are also requesting rental assistance of \$650 million to support needed renewals, preservation, and a farm labor housing program level comprised of \$42 million in loans and \$14 million in grants. Rental assistance contracts should be maintained at the current 4 year term to underscore our commitment to our private partners that future rental assistance income streams will be supported.

The request for single-family direct and guaranteed homeownership loans approaches \$5 billion, which will assist about 40,400 rural households who are unable to obtain credit elsewhere. In addition, \$36 million is requested for housing repair loans and \$30 million for housing repair grants, which will be used to improve existing single family houses mostly occupied by low-income elderly residents.

The community facilities request totals \$527 million, including \$300 million for direct loans, \$210 million for guaranteed loans, and \$17 million for grants. It is expected that a portion of the direct loan program will continue to support homeland security and 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. Rural Utility Programs

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 request exceeds \$5 billion, which is comprised of \$2.5 billion for electric loan programs, \$669 million for rural telecommunication loans, \$25 million for distance learning and telemedicine grants, \$359 million in loans for broadband transmission, over \$1 billion for direct and guaranteed water and waste disposal loans, \$377 million for water and waste disposal grants, and \$3.5 million for solid waste management grants.

The Rural Telephone Bank (RTB) was established in 1971 to provide a supplemental source of credit to help establish rural telephone companies. Efforts have been underway to privatize the bank. In fiscal year 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. However, recent analysis has shown that there are private lenders available to fulfill rural telecommunications lending needs. In addition, funding for this program has exceeded demand.

In fact, there is about \$300 million in unadvanced loan balances for loans available for 5 years or more. This indicates that there is little demand for a privatized RTB. The fiscal year 2006 budget reflects the Administration's proposal to establish the process and terms to implement dissolution of the RTB. Dissolution will result in the government being repaid for all outstanding government stock and the borrower receiving a cash payout for their outstanding stock. Additional funds are requested for the regular telecommunications program to maintain and enhance the level of Federal support available to rural telecommunications. The fiscal year 2006 budget proposes \$359 million in new discretionary program funding. This, coupled with \$1.6 billion in carryover funds, will provide for almost a \$2 billion program level.

#### RURAL BUSINESS-COOPERATIVE PROGRAMS

Since fiscal year 2001, USDA Rural Development has provided about \$4 billion for rural business development in the form of loans, grants and technical assistance. Funds assisted with the start up, expansion or modernization of businesses and cooperatives in rural areas that have helped create or save over 56,400 jobs.

The Rural Development business and cooperative program budget request for fiscal year 2006 totals about \$1.3 billion, the bulk of which is comprised of \$900 million for the business & industry (B&I) loan guarantee program.

The rural business enterprise grant, rural business opportunity grant, economic impact initiative, and the empowerment zone and enterprise community programs have been included in the President's new initiative to help strengthen American's transitioning communities, while making better use of taxpayer dollars.

These grant programs will be consolidated and transformed into a new, two-part program: (1) The Strengthening America's Communities Grant Program, a unified economic and community development grant program; and (2) The Economic Development Challenge Fund, an incentive program for communities, modeled after the Millennium Challenge Account.

We are requesting \$34 million for the intermediary relending program, \$25 million for rural economic development loans, \$5.5 million for rural cooperative development grants, and \$15.5 million of discretionary funding for the value-added producer grant program.

The \$10 million of discretionary budget authority for renewable energy will support \$286 million in guaranteed loans and \$5 million in grants. This program 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. This is important for rural communities and our country's ability to rely less on imported energy. The President is committed to this program and the benefits it holds for America.

During this Administration Rural Development has invested over \$190 million in Bioenergy/Biomass ventures including \$80 million in value-added and business ventures and \$114 million in renewable energy utility upgrades and expansions. Under the Farm Bill section 9006, \$44.9 million in grant funds have been provided for 281 applicants for wind power, anaerobic digestion, solar, ethanol plants, direct combustion and fuel pellet suppliers, and other bioenergy related systems.

#### 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 2004, Rural Development's annual delivered program level increased by 111 percent. Over that same period, Rural Development's Salaries and Expenses (S&E) appropriation increased only 17 percent. In fiscal year 2001, Rural Development was able to deliver \$19 program dollars (loans and grants, plus servicing the ever-growing portfolio) with one dollar of S&E. By fiscal year 2004, Rural Development delivered \$23 program dollars with every S&E dollar. Over 4 years we

were able to increase efficiencies, to deliver 21 percent more program dollars with each S&E dollar. Rural Development has the staff and the local distribution mechanism to meet the ambitious program targets outlined earlier, but adequate administrative support must be made available. To maintain our high level of efficiency requires continued improvements which must be based on continuous effort and investment of administrative resources.

With an outstanding loan portfolio exceeding \$87 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. New, more sophisticated and complicated programs provided through the fiscal year 2002 Farm Bill (broadband, renewable energy, value-added, etc.), demand increasing technical expertise of our aging workforce.

Limited S&E funding could jeopardize our ability to provide adequate underwriting and loan servicing to safeguard the public's interests.

For fiscal year 2006, the budget proposes a total of \$682.8 million for Rural Development S&E or an increase of \$58.4 million over fiscal year 2004. Of this increase, \$13.3 million will fund salary costs and related expenses; \$20 million supports Information Technology (IT) needs, including the web farm and data warehousing, continued expansion and upgrading of systems supporting the evolving multi-family housing program, e-Gov, IT security, and essential licensing and maintenance agreements; \$4 million for human capital investments, principally training; and \$7.6 million to continue relocation of facilities and operations from downtown St. Louis, Missouri.

Mr. Chairman, Members of the Committee, this concludes my formal statement. We would be glad to answer any questions you may have. Thank you for the opportunity to appear before you to discuss the Rural Development fiscal year 2006 budget request.

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PREPARED STATEMENT OF RUSSELL T. DAVIS, ADMINISTRATOR, RURAL HOUSING SERVICE

Mr. Chairman and Members of the Subcommittee, thank you for the opportunity to present the fiscal year 2006 President's budget for the USDA Rural Development rural housing programs.

As an integral part of Rural Development, the 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.

The proposed budget for the rural housing program in fiscal year 2006 supports a program level of approximately \$6.49 billion in loans, loan guarantees, grants, and technical assistance. It also maintains the Administration's strong commitment to economic growth, opportunity, and homeownership for rural Americans. We believe that our efforts, combined with the best of both the non-profit and private sectors, will ensure that this budget makes a tremendous difference in rural communities. The fiscal year 2006 budget also includes a major initiative to revitalize the rural rental housing programs.

Let me share with you how we plan to continue improving the lives of rural residents under the President's fiscal year 2006 budget proposal for our rural housing programs.

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. Our existing portfolio provides decent, safe, sanitary, and affordable residences for about 470,000 tenant households.

The total program level request is \$1.16 billion. This represents an increase of 30 percent from last year's request. Six hundred and fifty million dollars will be used for rental assistance (RA) for contract renewals, farm labor housing, and preservation. These funds will renew more than 46,000 4-year RA contracts. We estimate using \$27 million for MFH direct loans to meet our preservation responsibilities including prepayment prevention incentives.

### *Revitalization Initiative*

In November 2004, we released a report titled the “Multi-Family Housing Comprehensive Property Assessment and Portfolio Analysis.” This report analyzed the issues associated with the preservation of the portfolio and provided recommendations for changes to the MFH program. The fiscal year 2006 budget addresses the immediate need to provide assistance for tenants of projects that prepay and leave the program. Included is \$214 million for the initial stage of the multi-family housing Revitalization Initiative that establishes a tenant protection program. Later this year, the Administration will propose legislation to ensure that projects remain in the program and that they are properly maintained. The authority to make rural housing vouchers is contained in the Housing Act of 1949. Regulations will need to be developed in order to use this authority.

The report recommended three primary strategies to revitalize our aging portfolio, which continue to play a critical role in delivering affordable rental housing to rural communities across the nation:

#### *Allowing Prepayment While Protecting Tenants*

While a significant segment of the portfolio has the legal right to prepay, the report concluded that prepayment is economically viable for only about 10 percent of owners. Recent court decisions require that owners of projects that are eligible to prepay under the terms of their loans, be allowed to do so. This would leave the tenants of these projects at risk of significant rent increase and potential loss of their housing. Therefore, we are proposing that all tenants of these projects be adequately protected through the use of housing vouchers.

#### *Creating an Equitable New Agreement With Project Owners Electing to Stay With the Program*

The report recommended that new agreements be reached with project owners to keep their projects in the program and, thus, be used for housing low income families. This new agreement would allow owners and project managers to exercise their entrepreneurial planning and management skills. Performance expectations and performance-based incentives would be provided so that high-performing owners and project managers are rewarded. Conversely, owners and property managers performing poorly would be subject to sanctions.

#### *Using Debt Relief as the Primary Tool to Stabilize Projects at Risk of Physical Deterioration*

The report also recommended that a majority of the existing MFH portfolio is in need of additional financial assistance to achieve long-term viability. The report recommended our using debt restructuring as the primary tool. Additional financial assistance would be provided in exchange for the owner's commitment to providing long-term affordable housing.

The Administration continues to evaluate the costs and benefits of various options to address items (2) and (3). We expect to complete this evaluation and to propose legislation later this year. However, the fiscal year 2006 budget includes \$27 million for direct loans that are to be used to meet immediate revitalization needs.

We anticipate our revitalization efforts will span the next several years and have initiated a demonstration program to test the viability of the revitalization concepts. In addition, we will be initiating a demonstration program for making loans through the use of revolving funds for preservation purposes, as provided for in the fiscal year 2005 Appropriations Act.

### *Section 538 Guaranteed Rural Rental Housing Program*

The fiscal year 2006 budget request will fund \$200 million in section 538 guaranteed loans, funds that may be used for new construction. The section 538 guaranteed program continues to experience ever-increasing demand, brisk growth, and is rapidly becoming recognized within the multi-family housing finance, development, and construction industry, as a viable conduit to facilitate the financing of housing projects. In fact, Rural Development received an overwhelming response to the latest Notice of Funding Availability with over 150 applications received.

In fiscal year 2004, we distributed more than \$99 million in guarantees to fund housing projects with over \$243 million in total development costs. The risk exposure to the government continues to be very low, as loan guarantees to total development costs are well under 50 percent. We also have a delinquency rate of zero. A “notice to proceed” was given to 44 applicants with an average loan guarantee request of \$2.2 million and an average total development cost of \$5.5 million. Thirty-five out of the 44 applications given the approval to proceed included the use of Low-Income Housing Tax Credits from the various State governments where the projects will be located.



Since inception of the program, the section 538 guaranteed program has closed 71 guarantees totaling over \$171 million. The program also has an additional 89 loans in process and not yet closed, totaling over \$352 million. The seventy one closed guarantees will provide over 4,200 rural rental units at an average rent per unit of approximately \$500 per month.

The rural housing program recently published a final rule to address program concerns from our secondary market partners and make the program easier to use and understand. We look forward to administering the fiscal year 2006 proposed budget of \$200 million, which will enable Rural Development to fund a significant number of additional guaranteed loan requests.

The fiscal year 2006 budget also request funds \$42 million in loans and \$14 million in grants for the Section 514/516 farm labor housing program, \$2 million in loans for MFH credit sales, and \$10 million for housing preservation grants.

#### SINGLE FAMILY HOUSING PROGRAMS

The Single Family Housing (SFH) programs provide several opportunities for rural Americans with very low- to moderate-incomes to purchase homes. Of the \$4.7 billion in program level requested for the SFH programs in fiscal year 2006, \$3.7 billion will be available as loan guarantees of private sector loans, including \$207 million for refinancing more affordable loans for rural families. Also, with \$1 billion available for direct loans, our commitment to serving those most in need in rural areas remains strong. This level of funding will provide homeownership opportunities for 40,400 rural families.

Effective outreach and an excellent guarantee, coupled with historically low interest rates have increased the demand for the section 502 guaranteed program. Approximately 2,000 lenders participate in the guaranteed SFH program. The competitive low-interest rate environment has enabled the rural housing program to serve low-income families that would typically receive a Section 502 direct loan with a guaranteed loan instead. In fiscal year 2004, approximately 32 percent of guaranteed loans were made to low-income families.

##### *Section 523 Mutual and Self-Help Housing*

The President's fiscal year 2006 budget requests \$34 million for the mutual and self-help housing technical assistance program.

The fiscal year 2004 ended with over \$35 million awarded for contracts and 2-year grants. There were 39 "pre-development" grants awarded in fiscal year 2004, including many first-time sponsors, several faith-based groups, 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.

The fiscal year 2006 proposed budget also includes \$36 million in program level for home repair loan funds and \$30 million for grants to assist elderly homeowners. It also includes \$5 million in loan level for each of two site loan programs, \$10 million in loan level for sales of acquired properties, and \$1 million for supervisory and technical assistance grants.

#### COMMUNITY PROGRAMS

The Community facilities budget request will provide essential community facilities, such as educational facilities, fire, rescue, and public safety facilities, health care facilities, and child care centers in rural areas. 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 partnership with local governments, State governments, and federally recognized Indian tribes, the fiscal year 2006 budget will support more than 240 new or improved public safety facilities, 105 new and improved health care facilities, and approximately 80 new and improved educational facilities to serve rural Americans.

In fiscal year 2004, we invested over \$130 million in 113 educational and cultural facilities serving a population totaling over 3.3 million rural residents, over \$97 million in 338 public safety facilities serving a population totaling over 1.7 million rural residents, and over \$304 million in 141 health care facilities serving a population totaling over 3.2 million rural residents. Funding for these types of facilities totaled \$531 million. The remaining balance was used for other essential community facilities such as: food banks, community centers, early storm warning systems, child care centers, and homeless shelters.

## PROGRAM HIGHLIGHTS

I am pleased to provide you with an update on several highlights from our major programs, as well as key initiatives being undertaken.

*Rental Assistance*

We have continued to improve the internal controls in the Rental Assistance (RA) program and plan to implement a number of new initiatives in this regard with the recent publication of a comprehensive revision of our regulations. The new initiatives include an increased emphasis on verification methods and procedures for certifying income reported by tenants and improving management of tenants with no reported income. We are currently in discussions with the Department of Health and Human Services concerning USDA receiving access to the National Directory of New Hires database. This will enable us to match the data in the national directory against the information provided by the tenant, and therefore reduce fraud and abuse within the program. Additional training of borrowers and property managers will also be the key to reducing errors when certifying tenants for residency in MFH properties.

The automated RA forecasting tool is now in place and operational. The forecasting tool was used to develop the fiscal year 2006 RA budget and is able to forecast when RA contracts will either exhaust funds or reach their 4-year term limit. The forecasting tool can also develop the cost of new contracts based on an actual RA usage rate or a selected inflation rate. The fiscal year 2006 RA budget, an inflation rate of 2.4 percent was used, as recommended by the General Accounting Office. We will continue to provide State offices with additional guidance on the transfer of RA units and will centralize the redistribution of unused RA.

*Automation Initiatives*

Last year, we reported that the rural housing program was developing a data warehouse for MFH and SFH loans to improve our reporting capabilities. I am pleased to report that we are currently utilizing our data warehouses, making needed improvements, and training staff on how to expand their reporting capabilities. Our Multi-Family Information System (MFIS) database is now in Phase 5 of development, following a very successful completion of Phase 4, which integrated electronic debiting and crediting of borrowers accounts and eliminated funds handling in area offices. We now have a website available to the public to locate all MFH properties, with property and contact information. Also implemented is the Management Agent Interactive Network Connection (MAINC), which allows property managers to transmit tenant and property data electronically to MFH via the Internet. This data goes directly into the MFIS database and the data warehouse.

Last year, we also reported that an Automated Underwriting System (AUS) was being developed that would allow lenders to input SFH customer application data, pull credit, and determine immediately whether the rural housing program would issue a commitment. The AUS should be fully operational by next winter.

In December 2004 our Centralized Servicing Center (CSC) in St. Louis, Missouri began the centralization of loss claims submitted by lenders under our SFH guaranteed program. As of September 30, 2004, CSC provided loss mitigation for approximately 110,000 guaranteed loans. CSC is also supporting the rollout of the Lender Interactive Network Connection (LINC), which is an Internet-based alternative for lenders to submit loss claims electronically. Centralization will improve efficiency, consistency, customer service to lenders, and provide better management data to program officials.

## USDA'S FIVE STAR COMMITMENT TO INCREASE MINORITY HOMEOWNERSHIP

The rural homeownership rate continues to outpace the national rate. In 2004, it stood at 76.1 percent compared to the national rate of 69.2 percent. But, while rural America has the highest percentage of homeownership, we are committed to do more, particularly to assist more minority families in living the American Dream. For USDA's part, we developed a Five-Star Commitment to increase minority homeownership opportunities.

*Reducing Barriers to Minority Homeownership*

Origination fees can now be incorporated into the loan amount. Through reduction of such barriers the program guaranteed a total of \$3.18 billion in loans in fiscal year 2004, a record for the program.

*Doubling the Number of Self-Help Participants by 2010*

Over 54 percent of the families who participate in this program are minorities. In fiscal year 2004, we helped over 1,100 families build their own home.

*Increasing Participation by Minority Lenders Through Outreach*

Rural Development offices across the country have developed a marketing outreach plan to increase participation in the guaranteed loan program by lenders serving rural minorities.

*Promoting Credit Counseling and Homeownership Education—Critical to Successful Homeownership*

Since the signing of an agreement with the Federal Deposit Insurance Corporation to promote and utilize their “Money Smart” training program, nearly 700 Rural Development field staff received training and will deliver the training to others. Over a third of our State offices have already made the Money Smart Program available to non-English speaking groups.

*Monitoring Lending Activities to Ensure a 10 Percent Increase in Minority Homeownership*

USDA has jointly developed with the Departments of Housing and Urban Development (HUD) and Veteran Affairs (VA) an internal tracking system to measure the success of each of the 53 States and territories we serve. Overall, the number of loans to minorities has increased by more than 1,000 per year—an increase of more than 12 percent.

*Improving Successful Homeownership*

We are also pleased to report our achievement in helping our customers remain successful homeowners. Rural Development has lowered its direct loan housing program gross delinquency rate by 35.6 percent and new loan delinquency rate by 61.8 percent over the past 5 years. As of today, our gross delinquency rate is 12.85 percent and the new loan delinquency rate is 1.92 percent. Our portfolio recently outperformed the delinquency rate for sub-prime mortgage loans as tabulated by the Mortgage Bankers Association’s National Delinquency Survey.

To ensure that we were also providing a high level of customer service, a satisfaction survey was recently completed. This was our first independent homeowner survey and established a benchmark for customer satisfaction. The survey was conducted by an outside contractor and showed an average homeowner satisfaction rate of 8.6 on a scale of 1 to 10. The study used the J.D. Power 2004 home mortgage study to compare these results to the results of other organizations providing financial services. The J.D. Power survey includes such well known and respected major lending institutions as Bank of America, Wells Fargo, and Chase. The average satisfaction level for the organizations included in the survey is 7.2 with the highest rating going to USAA (a private mortgage corporation) at 8.6. USDA Rural Development is at the top of the list for customer satisfaction at 8.6 percent.

*Rural Partners*

In fiscal year 2006, we will continue to stretch the rural housing program’s resources and its ability to serve the housing needs of rural America through increased cooperation with HUD and other partners. We are committed to working with these partners to leverage resources for rural communities. For example, we are working with HUD and expect to adopt their “TOTAL” scorecard, modified for SFH guaranteed loans. This cooperation between USDA and HUD will save time and money in system development. Additionally, Rural Development information technology staff and the CSC worked with HUD and VA to develop a one-stop web portal, [www.homesales.gov](http://www.homesales.gov), to market government homes for sale.

In our MFH program, HUD has been extremely helpful in sharing data for development of our Comprehensive Property Assessment and in providing knowledgeable, professional staff from their Office of Affordable Housing Preservation to consult with before making determinations on our rural portfolio. This eliminates duplicative work and ensures better consistency.

CONCLUSION

Through our budget, and the continued commitment of President Bush, rural Americans will have the tools and opportunities they can put to work improving both their lives and their communities. We recognize that we cannot do this alone and will continue to identify and work with partners who have joined with the President to improve the lives of rural residents.

I would like to thank each of you for your support of the rural housing program’s efforts. I look forward to working with you in moving the fiscal year 2006 rural housing program budget forward, and welcome your guidance as we continue our work together.

PREPARED STATEMENT OF PETER THOMAS, ADMINISTRATOR, RURAL BUSINESS—  
COOPERTIVE SERVICE

Mr. Chairman and Members of the Subcommittee, thank you for the opportunity to present the fiscal year 2006 President's Budget for USDA Rural Development's business and cooperative programs.

This is my first opportunity to appear before you as administrator of the rural business and cooperative programs USDA 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.

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 programs help close the gap in opportunity for under-served rural areas and populations, moving them toward improved economic growth by providing capital, technology, technical assistance, and an improved quality of life. The \$1.279 billion program level requested in this budget for the rural business and cooperative programs will assist in creating or saving 56,400 jobs.

BUSINESS PROGRAMS

*Business and Industry Guaranteed Loan Program*

For the business and industry (B&I) program, the fiscal year 2006 budget includes \$44 million in budget authority to support \$900 million in guaranteed loans. We estimate that the funding requested for fiscal year 2006 will create or save about 24,560 jobs and provide financial assistance to 489 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 our programs work together to assist rural businesses. Unicep Packaging, Inc. is located in City of Sandpoint, Idaho. The area has been affected by the decline in the logging industry and has an increasing reliance on the tourism industry for its economic base in addition to light manufacturing.

Dr. John Snedden started his business in 1990 in a Sandpoint business incubator. In 1995, with the help of a USDA Rural Economic Development Loan made through Northern Lights, Inc., the electric cooperative in the Sandpoint area, the company constructed its initial 9,500 sq. ft. manufacturing plant, becoming the first company to "graduate" from the incubator. The business' original focus was manufacturing professional tooth whitening products. Since then it has shifted to unit-dose packaging and expanded its product lines and manufacturing capacity to include custom packaging and contract manufacturing for medical, dental, pharmaceutical, cosmetic, nutraceutical, and industrial customers.

The B&I guaranteed loans of \$2,150,000 to Unicep Packaging, Inc. and \$2,410,000 to Dr. John and Mary Jo Snedden financed a major expansion completed in 2003, with the manufacturing facility now encompassing 64,000 square feet. Dr. Snedden and his wife own the land and building and lease the property to their business, Unicep Packaging, Inc. Originally projected to create 62 additional jobs, the expansion has resulted in the creation of 68 jobs. In addition, the project has saved 58 jobs. On November 10, 2004, Unicep Packaging, Inc., received the Business of the Year award from the Bonner County Economic Development Corporation (BCEDC).

*Intermediary Relending Program*

The fiscal year 2006 budget includes \$14.7 million in budget authority to support \$34 million in loans under the intermediary relending program (IRP). The proposed level of funding will create or save an estimated 26,172 jobs over the 30-year period of this year's loans.

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. To illustrate the benefits IRP provides to rural America, I would like to share with you a success story from rural Maine.

Wrabacon, Inc. was established in 1986 to design and build food and drug packaging systems for customers throughout the United States. It is located in a rural community with a population of less than 6,000 and a 5.8 percent state unemployment rate and a 7.1 percent town unemployment rate. Wrabacon, Inc. employs

about 13 highly skilled engineers and technicians with an annual payroll in excess of \$600,000. The economic slow-down of 2001 had a deep effect on the company's sales and cash flow. Recently, with the economic recovery, the company is experiencing increased orders and sales.

Using IRP funds received from Rural Development, the Kennebec Valley Council of Governments provided a \$150,000 gap loan to bring Wrabacon's accounts payable under control and to fund a part of the company's operations. As a result of the loan, Wrabacon was able to approach a commercial lender and received a \$245,000 line of credit. The combination of financing tools enabled Wrabacon to obtain needed working capital, continue its growth, and maintain its level of success. While retaining their existing employees, Wrabacon is now anticipating the construction of a 30,000 square foot addition to their existing facility for storage and expanded manufacturing. This is expected to produce an additional 10 to 15 new jobs.

#### *Rural Business Enterprise Grant Program and Rural Business Opportunity Grant Program*

No funding is requested for the rural business enterprise grant and rural business opportunity grant programs. For grants like these that are for community organizations to stimulate economic development, the President's fiscal year 2006 Budget proposes to consolidate them into a new economic and community development program to be administered by the Department of Commerce. The new program would be designed to achieve greater results and focus on communities most in need of assistance.

#### *Rural Economic Development Loan and Grant Programs*

The fiscal year 2006 budget includes \$25 million in rural economic development Loans (REDL) and \$10 million in rural economic development grants (REDG). These programs represent a unique partnership, since they directly involve an Rural Development electric and telecommunications borrower in community and economic development projects. We provide zero-interest loans and grants to intermediaries, who invest the funds locally. The return on our equity from rural America is strong.

The following is an example of how one REDLoan was utilized to expand capacity and create jobs with higher than average wages in Kentucky. P.J. Murphy Forest Products Corporation received a \$250,000 loan through the South Kentucky Rural Electric Cooperative Corporation. The family owned business, located in Bowling Green, produces bedding for laboratory animals and wood flour which is used as filler in the plastics industry. Demand for the company's products exceeded its production capacity. The company built a new facility in Wayne County, a designated Empowerment Zone, with an unemployment rate of 6.6 percent at the time of the loan, as compared to the national unemployment rate of 6 percent at the time of the loan. The \$250,000 loan will be used to purchase new equipment for the new facility. By locating the new facility in the Empowerment Zone, the company will reduce its transportation and shipping costs and create up to 15 new jobs in Wayne County. These new jobs are expected to pay up to 1.8 percent above the current average per capita income for the county, demonstrating the Administration's commitment to increasing economic opportunities in isolated rural areas.

#### *Renewable Energy Grants Program*

The fiscal year 2006 budget for the renewable energy systems and energy efficiency improvements program proposes \$10 million of budget authority to support a \$5 million grant program and a \$286 million guaranteed loan program. Fiscal year 2006 will be the first full year of implementation of this combined loan and grant program. We anticipate publishing a final rule to implement the program on a permanent basis by August 2005. To date, we have relied on annual notices of available funding, a procedure that is generally limited to grant making.

These programs support the President's Energy Policy by helping to develop renewable energy supplies that are environmentally friendly. In addition, they contribute to local rural economies through the creation of jobs and the provision of new income sources to rural small businesses, farmers, and ranchers. We anticipate 292,000 households will be served, and 3 million-kilowatt hours of energy generated while reducing greenhouse gasses by 6.3 metric tons.

In fiscal year 2004, for example, a \$10,000 grant was provided to a farmer in Cassia County, Idaho. The farmer purchased and installed a 20kW wind turbine which began producing power in June of 2004. The turbine produces power that is sold to Idaho Power. It also is expected to supply the majority of the power consumed by the farmer's farm machinery repair shop as well as his residence. The program directly supports the President's goals of decreasing reliance on foreign oil, increasing the use of renewable energy, and reducing toxic emissions into the atmosphere.

## COOPERATIVE PROGRAMS

The cooperative form of organizational governance continues to be a cornerstone of business development in our rural communities. From the large agricultural marketing cooperatives that bring additional value to its members' products, to the small rural telephone cooperative that brings broadband technology to its community's businesses and residents, cooperative organizations provide our rural residents with new and exciting job opportunities, enhanced educational and health care opportunities, and the products and services that enable viable rural communities to compete with their urban and suburban counterparts.

The participatory, self-help foundation upon which cooperative organizations are based is evidence of the very grass roots effort that made our Nation great and continues to serve our rural communities well. The mission of Rural Development's cooperative programs is "to promote the understanding and use of the cooperative form of business as a viable organizational option for marketing and distributing agricultural products." Cooperative program staffs successfully carry out their mission by providing an array of educational and technical assistance, research, and funding services to cooperatives, their members, directors, and managers. Cooperative program staffs identify and respond to the opportunities and challenges facing rural cooperatives and agricultural producers, with a special emphasis on helping its cooperative clientele adjust to the continually changing economic forces in which they operate and compete in today's global marketplace. The cooperative programs are relatively modest in size, yet provide opportunities to encourage farmers and rural residents to organize cooperatives as a way to expand their income base.

*Value-Added Producer Grant Program*

For fiscal year 2006, the budget requests \$15.5 million for the value-added producer grant program. The value-added producer grant program encourages independent agricultural commodity producers to further refine or enhance their products, thereby increasing their value to end users and increasing the returns to producers. Grants may be used for planning purposes such as conducting feasibility analyses or developing business plans, or for working capital accounts to pay salaries, utilities and other operating costs. Program revisions were made in fiscal year 2005 that target grant funds to smaller, more economically challenged independent producers. In so doing, not only is Rural Development poised to infuse capital to meet rural America's most critical needs, but it is able to assist more producers by funding additional projects. With this budget request, Rural Development will be able to fund approximately 60 projects.

The successful blending of modern technology with age-old tradition is evident in Northern Iowa and Southern Minnesota where Amish dairy farmers are producing and marketing blue cheese. With a \$500,000 value-added producers grant for marketing expenses, the Golden Ridge Cheese Cooperative was able to turn a first place tie at the American Cheese Society's 2004 contest into a profitable business opportunity. After winning for its Schwarz und Weiss natural rind blue cheese at one of world's most prestigious contests for specialty cheeses, "Cheese is now flying out of here." Forming a cooperative to produce cheese in a modern plant was a difficult decision for the group because Old Order Amish do not use modern machinery. However, the group went forward with the modern cheese plant in order to preserve their way of life for their families to enjoy. The plant now uses about 5,000 pounds of milk a day that is purchased from the cooperative members and processed into the Schwarz und Weiss cheese, as well as two other brands of blue cheese. The plant employs about 20 full-time staff.

Since the passage of the Farm Bill in 2002, funding for the Agricultural Marketing Resource Center (AgMRC) has been set at 5 percent of the funding made available to the other value-added programs. Therefore, \$775,000 of the \$15.5 million budget request will fund the AgMRC's activities. AgMRC is an electronically based information center that creates, processes, analyzes, and presents information on value-added agriculture. The center is housed at Iowa State University and has partners at Kansas State University and the University of California—Davis. The center provides producers, processors, and other interested parties with critical information necessary to build successful value-added businesses.

*Rural Cooperative Development Grant Program*

For fiscal year 2006, the budget requests \$5.0 million for the rural cooperative development grant program. The rural cooperative development grant program provides funds to establish and operate centers for developing new cooperatives and improving the operations of existing cooperatives, with the primary goal of improving the economic conditions of rural areas. This program complements our national and State office technical assistance efforts by increasing outreach and developing feasi-

bility studies and business plans for new cooperatives and assisting existing cooperatives in meeting the demands of today's ever-changing global economy. With this budget request, Rural Development will be able to fund additional 3 or 4 centers.

A rural cooperative development grant made in 2003 enabled a rural Missouri cotton growers' cooperative to participate in today's emerging global markets. With assistance from the Missouri Enterprise Business Assistance Center in Rolla, Missouri, Delta Fibers, located in Caruthersville, Missouri, was introduced to Porter Tech, a Mexican import company. After visiting the Delta Fibers site, officials from Porter Tech entered into an agreement with Delta Fibers and in the summer of 2004, Missouri cotton began shipment into Mexico.

#### *Cooperative Research Agreements*

For fiscal year 2006, the budget requests \$500,000 for cooperative research agreements to encourage the study of those issues essential to the development and sustainability of cooperatives. Because so much of rural America's business endeavors are cooperatively formed, their continued success is critical for the continued sustainability of the Nation's rural communities. Through cooperative research agreements, Rural Development can continue to develop and maintain the information base vital for innovative, creative, and prudent decision making.

#### CONCLUSION

Mr. Chairman, and Members of the Subcommittee, this concludes my testimony for the Rural Development fiscal year 2006 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.

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#### PREPARED STATEMENT OF CURTIS M. ANDERSON, ACTING ADMINISTRATOR, RURAL UTILITIES SERVICE

Mr. Chairman, Members of the Subcommittee, thank you for the opportunity to present the fiscal year 2006 President's Budget for Rural Development utilities programs.

A strong rural America is important for a strong Nation. We consider the rural utilities programs an important part of the USDA Rural Development mission. 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 market structure combined with an aging utility infrastructure is occurring in the electric, telecommunications and water sectors. Without the help of USDA Rural Development's rural utility programs, rural citizens face monumental challenges in participating in today's economy as well as maintaining and improving their quality of life.

The \$40 billion RUS loan portfolio includes investments in 7,500 small community rural water and waste disposal systems and approximately 2,000 electric and telecommunications systems serving rural America. This local/Federal partnership is an ongoing success story. Eighty percent of the Nation's landmass continues to be rural, encompassing 25 percent of the population. For an economy to prosper, we need infrastructure investment to spur economic growth, create jobs and improve the quality of life in rural America.

#### ELECTRIC PROGRAM

The electric program budget proposes \$6 million in budget authority to support a program level of \$2.52 billion. The President's budget requests \$920,000 in budget authority for a hardship program level of \$100 million and over \$5 million in budget authority for a \$100 million program level for municipal rate loans. The direct Treasury rate loan program level is proposed to be \$700 million provided for with a budget authority of \$70 thousand. The guarantee of Federal Financing Bank (FFB) direct loans is proposed at a program level of \$1.62 billion with no budget authority required. The FFB loans are made at the cost of money to the Federal Government plus one-eighth of a percent. As a result, no budget authority is required for this part of the FFB electric loan program. Over the past 4 years, we have eliminated most of the backlog of loan applications and we strongly believe that the President's budget request will meet the demand during the fiscal year 2006.

The electric program provides financing for rural electric cooperative to expand and upgrade the transmission and distribution systems needed to meet the demands of economic growth across our Nation.

#### ADVANCED TELECOMMUNICATIONS IN RURAL AMERICA

The area of rural telecommunications is the most rapidly changing aspect of rural utilities infrastructure. Job growth, economic development, and continued quality of life in rural America require access to today's high speed telecommunications.

At the forefront of our telecommunications program is the broadband program created by the 2002 Farm Bill. 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. As you can imagine, these factors contribute to increased review and processing efforts.

In fiscal year 2004, the agency made 33 loans totaling \$602.9 million which will serve 535 communities. This means those communities are connected to global business opportunities, improved quality education and modern health care that was not available without those high speed telecommunications connections. Since 2001, telecommunications loan programs have provided funding to make available internet access to 1.3 million rural residents.

In order to balance fiduciary responsibility with mission delivery, USDA is focusing on "quality loans." 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. We will strive to do our part for rural America in fulfilling the President's promise of bringing broadband service to millions of citizens.

#### TELECOMMUNICATIONS BUDGET

The fiscal year 2006 budget proposes a broadband loan program level of \$359 million driven by \$10 million in budget authority. This replaces the mandatory funding provided in the Farm Bill. In addition, \$1.6 billion in unused loan authority that the Farm Bill provided remains available.

Included in the discretionary broadband loans is \$30 million in direct 4 percent loans requiring \$2.4 million in budget authority; \$299 million in direct Treasury rate loans requiring \$6.4 million in budget authority and \$30 million in guaranteed loans requiring \$1.1 million in budget authority.

In the regular telecommunications program, the fiscal year 2006 Budget calls for a program level of \$669 million. Included is \$145 million in direct 5 percent loans, \$424 million in direct Treasury rate loans, and \$100 million in Federal Financing Bank (FFB) direct loans guaranteed by RUS. All of this is driven by \$212,000 thousand in budget authority.



The budget also reflects the Administration's commitment to resolve the complicated issues involving the administration of the Rural Telephone Bank by proposing dissolution. When the Rural Telephone Bank was created in 1971, there was no lender other than what was available through the USDA. However, there are now major lenders that provide a commercial source of rural telecommunications financing. In addition, funding for this program has exceeded demand. There are about \$300 million in unadvanced loan balances for loans available for 5 years or more. Dissolution will result in the government being repaid for all outstanding stock and the borrowers receiving a cash payout for their outstanding stock. Since the Administration is recommending dissolution, the budget does not request any budget authority to support RTB lending for fiscal year 2006. To ensure that rural telecommunications providers have access to adequate levels of financing, the budget requests that the standard RUS telecommunications loan programs be increased by \$175 million.

#### DISTANCE LEARNING AND TELEMEDICINE

Distance learning and telemedicine technologies are having a profound impact on the lives of rural residents. Helping rural schools and learning centers to take 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 (DLT) 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 2005. The Budget proposes to zero out the loan program, simply because the nature of the prospective applicants, schools and hospitals, have placed the ability to repay loans out of reach.

#### WATER AND ENVIRONMENTAL PROGRAMS

The water and environmental programs provide the most basic of infrastructure needs for rural citizens: clean, safe, affordable drinking water and ecologically sound waste disposal. No element is more vital to human life and dignity as clean, safe water. Rural communities are challenged to provide this vital service while facing increasing regulatory requirements and persistent drought conditions across a large area of the country.

The budget request seeks \$449.6 million in budget authority for a program level of \$1.455 billion in loans and grants. The proposed loan levels are \$1 billion in direct loans and \$75 million in loan guarantees for water and waste disposal programs. The direct loan program requires \$69 million in budget authority. To augment the loan programs, the budget request includes \$377 million in grants. In addition, the budget requests an additional \$3.5 million in solid waste management grants.

#### SUMMARY

Rural utility infrastructure programs are interwoven in the fabric of USDA Rural Development programs. To provide safe, clean, water; modern communications; and reliable electric power means businesses can develop, homes can have light and heat, and markets can be opened to the rest of the world.

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#### PREPARED STATEMENT OF JOSEPH J. JEN

Mr. Chairman, members of the Subcommittee, it is my pleasure to appear before you to discuss the fiscal year 2006 budgets for the Research, Education, and Economics (REE) mission area agencies of the USDA. I have with me today Deputy Under Secretary Rodney Brown, Administrator of the Agricultural Research Service (ARS) Edward Knipping, Administrator of the Cooperative State Research, Education, and Extension Service (CSREES) Colien Hefferan, Administrator of the Economic Research Service (ERS) Susan Offutt, Administrator of the National Agricultural Statistics Service (NASS) Ronald Bosecker, and Office of Budget and Program Analysis' (OBPA) Deputy Director for Budget, Legislative, and Regulatory Systems Dennis Kaplan. Each Administrator has submitted written testimony for the record.

Before addressing the fiscal year 2006 budget, I want to express my appreciation for the support received from Congress in our appropriations for fiscal year 2005. We fully understand the pressure the Congress, in addition to the Executive branch, is under to keep a tight reign on the budget and control the Federal deficit. As much as that was needed in developing the budget for fiscal year 2005, it is even more true for the fiscal year 2006.

As you know, the President is committed to cutting the Federal deficit in half over the next 5 years. Reducing the Federal deficit is critical for continuing the current strength of the economy. As Secretary Johanns said in his testimony before this subcommittee, "no department can opt out of helping in Federal deficit reduction. USDA must play its role as much as any department." In the same way, REE is not exempt from helping USDA achieve this government-wide goal.

The President's fiscal year 2006 budget proposes \$2.320 billion for the four REE agencies, \$347.2 million less than the fiscal year 2005 appropriations, and close to the fiscal year 2005 President's proposed budget of \$2.403 billion. The importance of research in promoting a competitive and secure food and agriculture sector, safe food, and a healthy population, remains critical, even under constrained budgets. Recently at the Agricultural Outlook Forum, Secretary Johanns said, "Advances in science and technology have always been a part of our success and they will continue to be." The phenomenal increases in agricultural productivity over many decades in this country are the product of science and technology. The same can be said for the increasingly environmentally-friendly production practices used across the Nation. Much of the improvement in our food safety system can be attributed to research, and the recently released Dietary Guidelines for Americans 2005 are firmly based on up-to-date research findings. The bottom line is that science and technology are the foundation of the American food and agricultural system.

REE agencies are at the center of the research system, supporting the food and agricultural sector. They have a proud history over many decades of finding solutions to the challenges confronting farmers, ranchers, and others involved in agriculture, resulting in a high return on the Federal investment to our Nation, which enjoys a plentiful, affordable, and safe food supply. This remarkable history of success continues today, yielding new knowledge, technologies, statistics, and analysis for effectively addressing today's problems and building the scientific and technological foundation for addressing tomorrow's problems and opportunities.

However, high quality and relevant research cannot guarantee a successful, competitive food and agricultural sector. Natural events, market conditions, and resistance to the adoption of new technologies can be barriers to the translation of new knowledge and technology into business 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.

A most notable example of addressing today's problems relates to the recent arrival of soybean rust on our shores. For some time scientists have been saying that this plant disease would inevitably arrive in the United States, carried by winds from South America where the disease has been residing for several years. REE agencies, their partners in other USDA agencies, the research and scientific community, State departments of agriculture, and soybean industry organizations, have been preparing for this anticipated event that became a reality last November in Louisiana. There are now 29 confirmed cases in nine States.

Effective management and control of soybean rust relies on early detection, correct identification, and proper and timely application of fungicides. Starting in 1998, REE agencies have played a critical leadership role with the ultimate goal of providing producers with effective disease management options. For example, ARS scientists have developed a real-time rapid detection test that has been adopted by the Animal and Plant Health Inspection Service (APHIS). It will provide a quick, easy and accurate means to detect soybean rust as part of a national surveillance system. CSREES has been at the forefront of training first detectors. In June of 2004, a regional soybean rust teleconference attracted nearly 1,000 participants who grow or service nine million acres of soybeans. CSREES, in collaboration with APHIS, has also been instrumental in establishing a National Plant Diagnostic Network of strategically located university-based laboratories that support APHIS laboratories, facilitating rapid and accurate detection.

In September 2004, ERS published an article on the economic risks of soybean rust in the United States in its publication, *Amber Waves*. The article indicated that the economic effects of the pathogen's entry into the United States could vary considerably, depending on growing conditions, the severity and spread of the disease, and producers' responses. This analysis presented policymakers and the soybean industry with information to make more informed decisions in responding to the detection of the soybean rust in 2004.

Similar to our work on soybean rust, the REE agencies and their partners in the research community are also collaborating effectively in genomics research. 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 and genetic markers hold the promise of a whole new generation of agricultural products that are nutrition-

ally enhanced, disease resistant, and less dependent on fertilizers and herbicides. Genetic research is also central to the development of rapid diagnostic tests, such as the ones used by APHIS to identify avian influenza and exotic Newcastle disease.

Genomics is a prime example of research that takes years to complete and years to realize many of the benefits, but that fact makes it no less valuable. The ARS budget proposes an increase of \$12.8 million for animal and plant genomics and related research and preservation of animal and plant genetic resources. Under CSREES' National Research Initiative (NRI), \$11 million is proposed for agricultural genomics research focused on the maize and swine genomes.

Another pioneering research direction, such as nanotechnology, provides a new approach for addressing perennial challenges in agriculture and capitalizing on new possibilities. Nanotechnology refers to research and development at the atomic, molecular or macromolecular levels, in the length scale of approximately 1 to 100 nanometer range. The technology takes advantage of novel properties and functions of systems and structures because of their size. Already used in both the medical and environmental arena, we are only beginning to explore the promise this technology holds for agriculture. For example, it could be used to develop healthy and tasty foods and products that can be identified and tracked based on nanoscale bar codes. Eight million dollars of the proposed increase in NRI funding will be allocated to nanotechnology.

I would like to highlight three high priority programs in which the REE agencies have a major role that would be enhanced with additional funding in the President's proposed budget.

*Food and Agriculture Defense Initiative.*—The interagency Food and Agriculture Defense Initiative, now in its second year, focuses on strengthening the Federal Government's capacity to identify and characterize bioterrorist attacks. The USDA component specifically relates to protecting the food supply and agricultural production, protecting USDA facilities, and ensuring USDA staff preparedness for a potential event. The fiscal year 2006 budget provides increased program funding of \$35 million and \$26 million for ARS and CSREES, respectively, to expand their participation in this initiative. This investment is just another step in President Bush's commitment to protect homeland security.

The ARS increases will allow the agency to expand the National Plant Disease Recovery System designed to ensure that disease resistant seed varieties are continually developed and made available to producers in the event of a natural or intentional catastrophic disease or pest outbreak. The increased funds will also support the strengthening of ongoing ARS research on rapid response systems to selected agents, improved vaccines, and identification of genes affecting disease resistance.

A \$59 million request in the ARS buildings and facilities account will complete the modernization of the National Centers for Animal Health in Ames, Iowa. This consolidated ARS and APHIS facility will house and support an integrated, multidisciplinary scientific capability, combining animal disease research with the development of diagnostic tools and vaccines. Including its biosecurity level two (BSL-2), BSL-3, and BSL-3 Ag spaces, the Centers will be a state-of-the-art facility, unique in the world.

The budget provides CSREES with \$30 million, an increase of \$21 million, to maintain and enhance the National Diagnostic Laboratory Network of public agricultural institutions that serves as a backup to APHIS' diagnostic laboratories for both animals and plants. The network is playing an important role in the detection and control of soybean rust and sudden oak death. The network laboratories are now in a position to do confirmatory tests of soybean rust at the county and farm level and are ready to detect and track the rust in the coming growing season. The diagnostic laboratory network has also been important in identifying sudden oak death on nursery stock before being sold to the public. The initiative also includes \$5 million for a CSREES competitive program that would promote the training of food system defense professionals who are critically needed in securing our Nation's agricultural and food supply.

*BSE Related Activities.*—Bovine Spongiform Encephalopathy (BSE) continues to be a challenge for the livestock sector. While no new BSE has been detected in the United States since the first case in December 2003, two cases have been identified in Canada. Building on its current BSE and related prion research program, the budget provides ARS with an additional \$7.5 million to further our scientific understanding of the disease and develop technology needed by regulatory agencies to establish science-based policies and control programs.

*Nutrition Research and Education.*—Concern continues regarding the epidemic of obesity in our Nation. Particularly disquieting is the incidence of obesity in children, estimated to be approximately 15 percent and essentially doubling between 1980 and 2000. At any age and for any group, the causes of obesity are many and com-

plex. They include reduction in physical activity, greater reliance on convenience foods and restaurants, and more basically, the consumption of more calories. The reasons behind these behavior choices are complicated and not well understood. Moreover, without a better understanding of the drivers of these behaviors, it will be difficult to design effective types of interventions, such as education programs, public information announcements, or community campaigns, to help individuals and families achieve and maintain healthy weights.

USDA, with its food assistance, nutrition education, and nutrition research programs, plays an important role in promoting healthy nutrition and weight, in general, and in addressing the obesity, in particular. Contributing to the President's Healthier United States initiative, the fiscal year 2006 budget proposes increases for ARS, CSREES, and ERS that will strengthen the Department's capacity to address this major national health problem and associated issues. The increases will focus principally on gaining a better understanding of the factors influencing food consumption patterns and the development of effective interventions to promote healthy dietary choices and prevent obesity.

An ARS increase of \$6 million will improve the accuracy and ethnic representation of "What We Eat in America," a component of the National Health and Nutrition Examination Survey (NHANES). This joint USDA/Centers for Disease Control and Prevention survey is the principal source of Nation-wide information on individuals' food consumption and associated health status. An additional \$2.3 million will be used for nutrition research on obesity and nutrition survey research on the energy and nutrient content of food consumed by minority populations.

The CSREES increase of \$7.5 million in the NRI will focus on understanding the environmental and social factors influencing behaviors leading to childhood obesity.

A \$0.6 million increase in the ERS budget will support a behavioral economic research program to identify strategies for developing effective nutrition messages that motivate consumers to adopt more healthful diets.

The Expanded Food and Nutrition Education Program (EFNEP) in the CSREES budget works directly with low-income individuals to help them better manage food budgets, gain skills in safe food preparation, and improve their diets. The program has a very impressive track record of achieving positive, sustained behavioral changes related to food and diet. The fiscal year 2006 proposed budget provides EFNEP an increase of \$4.5 million to \$63 million, reaching a legislatively required funding level needed for the 1890 Land-Grant Institutions to participate in the program. The increase allows the program to reach more people in more counties.

Before turning specifically to the REE agency budgets, I would like to discuss a specific proposal found in the CSREES budget. The Administration strongly believes that competitive research programs provide the best mechanism for ensuring the allocation of funds to the highest quality projects. Consistent with this policy position, this year's CSREES budget proposes the redirection of funds from the Hatch and McIntire-Stennis formula research programs to competitively awarded grant programs over the next 2 years, and the reallocation of Animal Health research formula funds in fiscal year 2006. A new State Agricultural Experiment Station (SAES) Competitive Grants Program of \$75 million will support the same types of research at Agricultural Experiment Stations that are currently supported by formula funds. The budget also proposes eliminating the cap on indirect costs for CSREES grants. Instead, the indirect cap for grants will be at a negotiated level for each institution, a practice consistent with most other Federal research grant programs.

Finally, all four REE agencies are currently initiating or strengthening a formal process framed by the criteria of relevance, quality and performance called for in the President's Management Agenda initiative on research and development programs. These agency processes are centered on reviews by external scientists that provide valuable objective insights and recommendations for the programs, as well as ratings that are used in the Program Assessment Rating Tool (PART) employed by the Office of Management and Budget under the President's Management Agenda. I am pleased to report that the three REE agency programs that were reviewed under the PART in fiscal year 2004 received scores of moderately effective, and we continue to improve agency performance measures as part of a larger effort to enhance the effectiveness of the REE programs.

#### REE AGENCY FISCAL YEAR 2006 BUDGETS

I would now like to turn briefly to the budgets of the four REE agencies.

*Agricultural Research Service.*—As the principal intramural biological and physical science research agency in USDA, ARS plays a critical role for the Department and the larger agricultural community in conducting research to develop new sci-

entific knowledge and technologies to solve high priority agricultural problems of broad scope. It also is home to the National Agricultural Library (NAL), the Nation's major information resource in the food, agricultural and natural resource sciences. The fiscal year 2006 budget requests \$1.1 billion for ARS. Within that total, \$996 million is proposed for research and information programs, approximately \$100 million less than was appropriated in fiscal year 2005. The \$65 million proposed for buildings and facilities is principally directed to complete the modernization of the National Centers for Animal Health in Ames, Iowa.

The ARS budget proposes increases totaling \$97 million for high priority program areas of national and regional importance, such as food safety, emerging and exotic diseases, BSE, human nutrition/obesity, genomics and genetic resources, and climate change. To offset these increases the budget proposes the elimination of approximately \$175 million in Congressional earmarks and \$28 million in other project terminations.

In addition to those previously described, the ARS budget proposes increases for controlling emerging diseases and invasive species affecting animals (\$8.6 million) and plants (\$17.7 million), a significant portion of which is included in the Food and Agriculture Defense Initiative. Targets for the fiscal year 2006 animal protection research program include developing systems for rapid response to selected agents and implementing a vaccine research program for control and eradication of biological threat agents. Plant protection research targets for fiscal year 2006 include developing and releasing to producers new varieties of plant stock with insect and disease resistance. An increase of \$15.3 million in food safety research is proposed to develop surveillance, sampling, and detection methods to rapidly detect and identify foodborne pathogens as part of the Food and Agriculture Defense Initiative.

High energy prices, instability in petroleum exporting countries, environmental concerns, and the potential for new markets for agricultural products have generated great interest in the development of bioenergy. ARS continues to conduct research to generate scientific knowledge and technologies to support production of affordable bioenergy products. An increase of \$2.5 million will be used to accelerate this bioenergy research and technology program, as well as other biobased products research. Fostering increased use of renewable fuels and decreasing our dependence on foreign oil is a key component of the President's energy plan.

Agricultural production 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. These environmental changes also offer opportunities for agriculture to help address the undesirable accumulation of greenhouse gasses. An increase of \$3.2 million in the President's budget for the Climate Change Research Initiative will support research providing information on balancing carbon storage, emissions, and agricultural productivity in different agricultural systems across the Nation. In particular, the research will generate new knowledge on how to manage livestock, manures, fertilizers, biological nitrogen fixation, and soils to minimize emissions and increase sinks for greenhouse gasses. Other increases will support research on agricultural air quality (\$0.9 million) and water protection and management (\$0.9 million).

In the age of digital information, NAL is providing national leadership through the development of the National Digital Library of Agriculture. The requested increase of \$1.9 million will allow NAL to enhance development and delivery of content for the digital library, as well as continue to integrate the AGRICOLA database into the digital library.

Advances in information technology (IT), including the ability to store and share information, are enabling agencies, such as ARS, to gain great efficiencies and collaborative power in conducting research. These advances, however, also make ARS' IT infrastructure more vulnerable to cybersecurity attacks. The safety of sensitive research information from unauthorized intruders is critical to the agency's research program. As part of the USDA Homeland Security request, the fiscal year 2006 budget proposes \$3.6 million to strengthen ARS' cybersecurity program by increasing the number of cybersecurity officers and securing and implementing new cybersecurity tools.

*Cooperative State Research, Education, and Extension Service.*—The President's fiscal year 2006 budget provides just over \$1 billion for CSREES. Compared to fiscal year 2005, the budget includes an increase of \$38 million in on-going programs and the elimination of \$181 million in unrequested increases. 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 producers and consumers.

As described above, the budget proposes shifting the research formula funds under the Hatch Act, Cooperative Forestry Research Program (McIntire-Stennis), and Animal Health and Disease Research programs to competitive programs over the next 2 years. The proposal for fiscal year 2006 redirects half of the Hatch and McIntire-Stennis funds and all of the Animal Health and Disease funds. State Agricultural Experiment Stations will be eligible to apply for grants under the new State Agricultural Experiment Station (SAES) Competitive Grants Program funded at \$75 million. Other formula funds will be shifted to the NRI which would be funded at \$250 million, an increase of \$70 million over the fiscal year 2005 appropriation level. The details of the new SAES program will be developed by CSREES in consultation with the land grant institutions and other stakeholders.

Administration of research previously funded under the competitive 406 integrated program has been moved to the NRI and SAES Competitive Grants Program, where the same range of research will be supported. Finally, the budget proposes eliminating the current indirect cost cap for CSREES grants, currently set at 20 percent. Instead, the cap will be negotiated for each institution, following the standard practice of most other Federal competitive research programs. Lifting the cap responds to frequently voiced concerns that researchers in some institutions are discouraged from applying for NRI grants because the 20 percent cap does not cover true indirect costs to the grantee institution.

The NRI, the agency's flagship competitive program, continues to be a very valuable avenue for supporting cutting-edge research conducted by the finest scientists across the country. The \$70 million increase in the NRI for fiscal year 2006 will support new research in genomics, nanotechnology for functional foods and food safety, and emerging issues in food and agricultural defense. The investment in food and agricultural defense will help fill critical knowledge gaps in real time or near real time rapid detection tests and monitoring surveillance systems of animal and plant disease. Extensive efforts are underway in several agencies to produce rapid, sensitive detection tools. However, their value relies on their being used correctly to help minimize the probability that animal disease outbreaks in the United States may spread widely before containment procedures begin. CSREES will support research that fills this critical knowledge gap on the use of these tests in real time or near real time detection and monitoring.

The budget calls for an increase of \$1.5 million in the CSREES Graduate Fellowship Grant Program. Despite recent gains in support for minority-serving institutions and programs encouraging diversity in higher education and the workforce, the Nation faces chronic challenges in promoting human capital development that enables all citizens to realize their educational potential. The food and agricultural system would benefit from an expanded base of skilled scientists, technicians, and other professionals as the baby-boomers begin to retire. 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.*—ERS is provided \$80.7 million in the President's fiscal year 2006 budget. As the Department's principal intramural economics and social science research agency, ERS conducts research and analysis on the efficiency, efficacy, and equity aspects of issues related to agriculture, food safety, human nutrition, the environment, and rural development. Its programs and products are shaped principally to serve key decision-makers who routinely make or influence public policy and program decisions.

The budget provides an increase of \$5.8 million to continue the development of ERS's Consumer Data and Information System, a data and analysis framework of the post-farm gate food system. It is designed to identify, understand and track changes in food support and consumption patterns for use in policy decisions in the food, health, and consumer arenas. Fiscal year 2005 appropriations provided funds for implementing one component of the system, the Flexible Consumer Behavior Survey Module (FCBSM). The survey will be coordinated with the NHANES survey managed by the National Center for Health Statistics of the Centers for Disease Control and Prevention, in order to link data on individual's knowledge and attitudes about dietary guidance and food safety with data on food intake, dietary status, and health outcomes.

The increased funds will support a second component, a Rapid Consumer Response Module that will provide real-time information on consumer reactions to unforeseen events and disruptions, current market events, and government policies. The funds will also be used to create a Food Market Surveillance System of surveys and analyses to identify food consumption patterns and how consumers respond to changes in the food market place and in customers' lifestyles over time.

The data and analytical capacity made possible through the proposed Consumer Data and Information System is crucial to understanding the quickly evolving consumer-driven food and agricultural system. The information from this system will help producers and processors to continue competing effectively in domestic and global markets and will help policymakers to identify and develop strategies addressing nutrition and obesity issues at different levels of the food system.

*National Agricultural Statistics Service.*—NASS' budget requests \$145.2 million, an increase of \$16.7 million over fiscal year 2005. NASS' comprehensive, reliable, and timely data are critical to policy decisions, maintaining stable agricultural markets, and ensuring a level playing field for all users of agricultural statistics.

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 \$1.8 million will incrementally improve statistically defensible survey precision for small area statistics that are used by the Risk Management Agency and the Farm Service Agency in USDA, among others.

The Census of Agriculture, conducted by NASS, provides comprehensive data on the agricultural economy on a 5-year cycle. In the fiscal year 2006 budget, NASS is requesting an increase of \$6.5 million to prepare for the 2007 Census, including finalizing, field testing and evaluating the questionnaire.

#### SUMMARY

In summary, I want to reinforce the message that, while developed within the context of the need to reduce the Federal deficit, the REE budget reflects a continuing commitment to investment in high priority agricultural research, statistics, education, and extension programs. As such, it supports the Federal commitment to solving today's problems and challenges faced by agricultural producers and to developing the knowledge and tools of cutting-edge science to address future problems and explore new scientific advances. This concludes my statement. Thank you for your attention.

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#### PREPARED STATEMENT OF DR. EDWARD B. KNIPLING, 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 2006. The President's fiscal year 2006 budget request for ARS' research programs is \$996.1 million, a net decrease of \$105.9 million from the fiscal year 2005 funding level. The budget recommends \$87.9 million in new and expanded research programs which address the Nation's highest food and agriculture priorities. Nearly half of the increase requested, \$42.6 million, is in support of the Federal Government's initiative to strengthen the Nation's homeland security. ARS homeland security research focuses on the areas of food safety, emerging and exotic diseases of animals and crops, and the National Plant Disease Recovery System. There are also new and expanded initiatives in critical research areas, such as Bovine Spongiform Encephalopathy (BSE), invasive species of animals and plants, and obesity. Other ARS program initiatives include research on genetics and genomics, biobased products and bioenergy, air and water quality, and climate change. The Agency is also requesting an increase of \$9.3 million to finance pay costs required in fiscal year 2006.

The budget again proposes the termination of unrequested research projects and resources appropriated in recent years. The appropriations associated with the proposed project terminations total \$203.1 million. The savings to be achieved through the proposed terminations will be redirected to finance the higher priority research initiatives proposed in ARS' budget, as well as to help reduce overall Federal spending.

The ARS budget also includes \$64.8 million under the Buildings and Facilities account for the design, modernization, and construction of ARS facilities. In particular, the budget requests \$58.8 million for the completion of the modernization of the National Centers for Animal Health at Ames, Iowa.

#### PROPOSED PROGRAM INCREASES

*Food Safety (\$15.3 million).*—Ensuring the safety of the Nation's food supply is essential and vitally important to U.S. Homeland Security. Bioterrorism against our food supply would affect the health and safety of consumers and their confidence in the safety of the food they consume. It would also have far-reaching impacts on

the country's economy, given that U.S. agriculture contributes over \$1 trillion to the gross domestic product. ARS research will focus on assessing the vulnerabilities of the food supply, strengthening and expanding laboratory preparedness, and developing technologies that rapidly identify suspected food pathogens and toxins. ARS will work in these areas of prevention, detection, and response with the Food Safety and Inspection Service and other USDA agencies through programs such as the Collaboration for Animal Health and Food Safety Epidemiology.

*Emerging and Exotic Diseases of Animals and Plants (\$19.5 million).*—The United States is increasingly vulnerable to emerging animal and plant diseases which could threaten the country's Homeland Security. The threat of new diseases—whether they are a result of bioterrorism or of naturally occurring epidemics—is an urgent and growing challenge to livestock producers. Bovine Viral Diarrhea in cattle, Porcine Reproductive Respiratory Syndrome in swine, and Marek's disease virus in chickens are examples of these exotic diseases. Harmful animal diseases introduced into the United States in recent years from foreign countries include Avian Influenza and Exotic Newcastle Disease. Brucellosis, Leptospirosis, and West Nile Virus are still other examples of zoonotic diseases that pose a threat not only to animals but to humans as well. Similarly, exotic and emerging plant diseases—wheat and barley rusts, citrus canker, and corn viruses—present a potential threat to the Nation. With the proposed increase, ARS will develop vaccines, intervention strategies, and diagnostics for the prevention, detection, identification, control, and eradication of biological threat agents. ARS will also strengthen its collaborative partnerships at the national and international levels to obtain access to essential agents and data.

*National Plant Disease Recovery System (\$4.2 million).*—The emergence or spread of certain plant diseases, such as soybean rust, citrus variegated chlorosis, or bacterial wilt, could seriously harm America's agriculture. Recovery from a significant disease outbreak requires a national system to manage host/pathogen interactions and deploy resistant plant resources using cultural, biological, and chemical control strategies. Homeland Security Presidential Directive (HSPD-9) has charged ARS with the responsibility for leading this effort with the Cooperative State Research, Education and Extension Service (CSREES), the Animal and Plant Health Inspection Service (APHIS), and others. ARS will use the proposed increase to minimize the impacts of devastating crop diseases by documenting and monitoring plant diseases, developing germplasm and plant varieties with improved disease resistant characteristics, implementing integrated pest management approaches, and transferring genetic resources (i.e., disease resistant plant varieties) to its customers.

*Bovine Spongiform Encephalopathy (\$7.5 million).*—BSE is a progressive, degenerative, fatal disease affecting the central nervous system of adult cattle. It is believed that eating contaminated beef products particularly from BSE-affected cattle causes a variant form of Creutzfeldt-Jacob Disease in humans. The first case of BSE was identified in the United States on December 23, 2003. We must discover the cause of BSE and develop diagnostic tools to protect the U.S. food animal industry and human health. The proposed increase will allow ARS scientists to enhance the implementation of a national, coordinated research program (with European scientists and others) in BSE pathogenesis, diagnostics, and intervention.

*Invasive Species (\$6.8 million).*—The security of the U.S. livestock and poultry industries is threatened by the emergence of animal parasites. Of particular concern is the worldwide emergence of drug resistant nematodes and protozoa. Plants are also at risk. Sudden Oak Death has had negative effects on California's plant nurseries. Salt Cedar and Yellow Starthistle (invasive weeds) have caused agricultural and environmental damage in several western States. Lobate Lac Scale, Asian Longhorned Beetle, and Emerald Ash Borer (invasive insects) have caused damage to a wide range of plant species. ARS will use the proposed increase to target its research on controlling Sudden Oak Death, Salt Cedar, Yellow Starthistle, Lobate Lac Scale, Asian Longhorned Beetle, and Emerald Ash Borer. It will also develop control technologies for invasive drug resistant nematodes and protozoa of livestock and poultry. These new technologies will help facilitate trade of U.S. commodities and reduce the risk of new harmful species being inadvertently introduced into the United States.

*Genomics (\$9.2 million).*—Genomics holds the key to maintaining America's agricultural competitiveness in global markets. Advances in genomics research can improve the production and quality of food products, prevent animal and plant diseases, and produce foods which are richer in nutrients. ARS needs to continue its work on characterizing, identifying, and manipulating the useful properties of genes and genomes. In this regard, ARS will use the proposed increase to identify genes that influence animal and plant growth and quality, disease resistance, and other economically important traits. ARS will continue to coordinate its genomics research



with NIH's National Human Genome Research Institute, CSREES, and the National Science Foundation.

*Genetic Resources (\$3.6 million).*—The rate of extinction of lines and strains of food animals and plants is rapidly accelerating. The Nation needs a more comprehensive program to maintain threatened germplasm to prevent the loss of genetic diversity. An adequate supply of useful genes is essential in the event of bioterrorism or other crises (e.g., Foot and Mouth Disease, Exotic Newcastle Disease, etc.). With the proposed increase, ARS will enhance its ability to collect, identify, characterize, and incorporate plant germplasm into centralized gene banks. The additional funding will help sustain ARS' National Plant Germplasm System repositories. The additional funding will also enable further development of cryopreservation technologies for the long-term storage of important animal germplasm (i.e., of poultry, aquaculture, cattle and swine).

*Human Nutrition/Obesity Research (\$8.3 million).*—Obesity is one of this country's fastest growing public health problems. It contributes to heart disease, cancer, diabetes, and other illnesses resulting in hundreds of billions of dollars in health care costs each year. Understanding food consumption trends and the factors that influence dietary choices is critical for developing strategies for preventing and mitigating obesity. ARS will use the proposed increase to conduct nutrition surveys and research to prevent obesity in children, middle-aged adults and others.

*Biobased Products/Bioenergy Research (\$2.5 million).*—Soaring energy prices, environmental concerns, and depressed agricultural commodity prices highlight the need to develop alternative domestic sources of energy. In addition, chemical and energy companies are seeking renewable feedstocks for the production of chemicals and materials that are currently made from petroleum feedstocks. The Biomass Research and Development Act of 2000 promotes the use of biobased industrial products, and the Food Security and Rural Investment Act of 2002 encourages the development and use of bioenergy. ARS will focus its research on: (1) improving the quality and quantity of agricultural biomass feedstocks for the production of energy, (2) developing technologies to produce biofuels from agricultural commodities, and (3) developing technologies leading to new value-added products from food animal by-products. Increased development of bioenergy and biobased products will expand market opportunities for U.S. agriculture and reduce the Nation's dependence on petroleum imports from unstable regions.

*Air and Water Quality (\$1.8 million).*—Millions of Americans are exposed to air pollution levels that exceed the Environmental Protection Agency's air quality standards. Agricultural activities, such as animal production operations, which produce ammonia, particulate matter, and volatile organic compounds, can adversely affect air quality. Another concern is the Nation's 11,000 small watershed dams that no longer meet current safety standards and need to be updated. ARS will use the proposed increase to develop new technologies that reduce gaseous and particulate matter emissions from animal feeding operations. It will also improve water quality and environmental benefits through agricultural systems research, as well as develop technologies which can be used to rehabilitate the Nation's aging watershed dams.

*Global Climate Change (\$3.2 million).*—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 (i.e., 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: (1) 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, (2) expand the existing network of ARS sites conducting measurements of greenhouse gas fluxes between the atmosphere and the land, and (3) identify ways to decrease methane emissions associated with livestock.

*National Digital Library for Agriculture and Improved Agricultural Information Services (\$1.9 million).*—In 2001, both a "Blue Ribbon Panel" and an advisory board concluded that NAL needed increased resources to meet its potential, taking advantage of technological innovations for timely information access and retrieval. The proposed funding will support the development of additional information content for emerging diseases effecting crops and continue the revitalization of NAL, enabling it to better deliver relevant information products, satisfy increasingly complex customer demands, and provide leadership as the premier agricultural information resource of the United States.

*Information Technology (\$4.2 million).*—ARS information technology (IT) systems and networks are exposed to an unprecedented level of risk. Of particular importance is safeguarding the agency's pathogenic, genomic, and other sensitive research information from being acquired or destroyed by unauthorized intruders through unprotected or undetected cyber links. Agencywide centralized security measures are needed to counter security threats. ARS must also ensure that its IT infrastructure (i.e., computers, network hardware, etc.) is up-to-date and reliable. ARS will use the proposed increase to replace, upgrade, and secure its IT equipment and systems.

#### PROPOSED OPERATING INCREASES

In addition to the proposed research initiatives, ARS' fiscal year 2006 budget provides funding to cover costs associated with pay raises. An increase of, \$9.3 million, is critically needed to avoid erosion of the agency's base resources. Absorption of these costs reduces the number of scientists and support personnel essential for conducting viable research programs.

#### PROPOSED PROGRAM DECREASES

ARS' budget proposes a decrease of \$203.1 million that currently finances unrequested or lower priority research projects added in recent years. The fiscal year 2006 budget requires that we exercise fiscal discipline to live within available resources. Within those resource levels, the Administration has had to exercise its judgment about what is needed to fund the highest priority programs. The initiatives described earlier meet that test. Therefore, other programs, such as those not previously requested by the Administration, could not be funded within the Budget.

#### PROPOSED FUNDING FOR BUILDINGS AND FACILITIES

The fiscal year 2006 budget recommends \$64.8 million for ARS' Buildings and Facilities account. Most of the proposed funding, \$58.8 million is for the National Centers for Animal Health in Ames, Iowa. The National Centers for Animal Health are critical to supporting American agriculture from both domestic and foreign diseases intentionally or unintentionally introduced. The new facility combines ARS' National Animal Disease Center with the Animal and Plant Health Inspection Service's National Veterinary Services Laboratory and the Center for Veterinary Biologics. The Centers will provide an integrated, multidisciplinary scientific capability, combining animal disease research with the development of diagnostic tools and vaccines. This request will provide the remaining funds necessary to complete this state-of-the-art complex.

ARS is also recommending \$3 million for the planning and design of new, up-to-date containment facilities at the Foreign Disease Weed Science Research Laboratory at Ft. Detrick, Maryland. ARS scientists at this facility conduct research on foreign plant pathogens that must be kept under containment and pose a potential threat to American agriculture.

In addition, ARS is recommending \$3 million for continuation of repairs to the National Agricultural Library. Constructed in 1968, many of the building's systems and structures require replacement. In fiscal year 2006 ARS plans to finance the replacement of windows and to complete the repairs to the brick veneer.

Mr. Chairman, this concludes my presentation of ARS' budget recommendations for fiscal year 2006. I will be happy to respond to any questions the Committee may have.

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#### 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 2006 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 2006 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 to advance knowledge for agriculture, the environment, human health and well-being, and communities. 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 fiscal year 2006 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, CSREES conducts periodic portfolio reviews by external experts to monitor overall program progress, suggest alternative approaches, and propose management improvements.

The CSREES fiscal year 2006 budget proposal supports the Administration's commitment to competitive programs, in which awards are made based on an objective peer-review process, and to streamlining program delivery. Over the past several years, CSREES has demonstrated the capacity to reshape competitive programs to address not only fundamental science through individual investigator research, but also programmatic, multi-institutional efforts aimed at short to intermediate term problem solving, while maintaining the highest standard of peer-review. We believe this is the most effective way of achieving quality results that respond to critical program needs. Therefore, the fiscal year 2006 budget proposes to: (a) phase out funding for the Hatch Act and McIntire-Stennis Cooperative Forestry programs within 2 years; (b) eliminate the Animal Health and Disease, Section 1433 Research Program; and (c) redirect funding for Section 406 activities, formerly supported under the Integrated Activities account, to the Research and Education account. Activities for these programs will be supported through the National Research Initiative (NRI) and the new State Agricultural Experiment Station (SAES) Competitive Grants Program. This shift of funding will allow greater flexibility and responsiveness to critical agricultural issues.

CSREES continues to provide new opportunities for discoveries and advances in knowledge through the NRI program. The fiscal year 2006 budget request of \$250 million for the NRI is a significant step towards reaching the authorized level of \$500 million, and it is a strong statement of the importance that the Administration places on competitively awarded grants to advance knowledge for agriculture. The NRI will continue to support current high priority programs with an emphasis on critical issues. Through the NRI Coordinated Agricultural Project (CAP), multi-million dollar awards support multi-year large-scale projects to promote collaboration, open communication, and coordinate activities among individuals, institutions, States, and regions to address priority issues of national importance. A \$5 million CAP award supports research to improve rice crops by using new genomic-based tools. The support included a multidisciplinary team of 14 institutions that will engage rice extension and industry personnel in agricultural genomics research to explore the potential of the technology. Extension personnel also will educate the public on the merits of applying genome information to improve agricultural crops. Another \$5 million CAP award is being led by the University of Maryland and includes researchers and extension specialists representing 17 States. It is expected that the research and education from this project will help prevent and control avian influenza, a disease that continues to threaten the commercial poultry industry with millions of dollars in losses.

Expanded partnerships with other Federal agencies on research topics of mutual interest will be possible with the increase in the NRI funding. For example, research on the maize genome will be supported through partnership with the National Science Foundation and the U.S. Department of Energy. A comprehensive sequence resource will be developed for the maize genome, providing the scientific community with accurate and detailed information in a timely and cost-effective manner. This information will include a complete sequence of all maize genes and the full integration of the sequence with genetic and physical maps leading to improved maize varieties. The NRI also will support research on swine genomics. The Interagency Working Group on Domestic Animal Genomics has identified the swine genome as a high priority. The complete genomic sequence of swine is needed to provide the basic information to pursue studies of gene function and marker-assisted selection of animals for genetic improvement of swine in production systems. We are requesting an increase of \$11 million in the NRI to support genomics research.

An increase of \$4.6 million is proposed to address emerging issues in food and agricultural defense under the NRI. The requested funding will support research, education, and extension activities to increase the safety and security of U.S. agriculture and food systems to minimize threats to domestic plants and animals posed by infectious diseases and invasive species.

In fiscal year 2006 an increase of \$8 million is proposed under the NRI for nanotechnology for functional foods and food safety. The requested funds will support innovative research in nanoscale science and engineering that will have specific applications to agriculture and food systems. Nanotechnology studies will lead to nutrient dense, healthful and flavorful foods with consumer appeal. Food function will be enhanced by using nanotechnologies to facilitate the delivery of health-providing bioactive nutrients to consumers.

Under the NRI, an increase of \$7.5 million is proposed in fiscal year 2006 for nutrition and obesity studies with emphasis on research and evaluation methods to prevent childhood obesity. Research efforts will be specifically aimed at understanding the environmental and social factors influencing behaviors leading to childhood obesity and how to change them to reduce and prevent obesity. In addition, requested under the NRI is an increase of \$39.3 million for ongoing research and integrated research and education projects that focus on water quality, food safety, and pest-related programs formerly funded under the Integrated Activities account.

The fiscal year 2006 budget also proposes a change to the general provisions of the fiscal year 2005 Consolidated Appropriations Act to increase from a maximum of 20 percent to a maximum 30 percent the amount provided for the NRI that may be used for competitive integrated activities.

As part of a coordinated plan to shift formula funding to competitively awarded grants and replace some of the multistate efforts currently supported by formula funds, CSREES requests \$75 million for the new SAES Competitive Grants Program. As with the current multi-State program, funding would be available to all State Agricultural Experiment Stations. This program will support systemwide research planning and coordination, as well as regional, State, and local research in such areas as new products/new uses, social sciences, and the environment, including ecosystem management. In fiscal year 2006, it is proposed that research programs focused on methyl bromide and organic transition could be supported through this program. However, we will work closely with the SAES to ensure that this program also is responsive to their needs.

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, strategically located 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. For example, within a few weeks after soybean rust was first detected in Louisiana, private interest disease surveillance activities were conducted by first detectors. Samples submitted to diagnostic laboratories, as a result of these first detectors, identified soybean rust in Mississippi, Florida, Georgia, Alabama, Arkansas, Missouri, South Carolina, and Tennessee. The budget proposal requests an increase of \$21.1 million for a total of \$30 million to maintain the national diagnostic laboratory network. The proposed increase also will allow the optimization of the security value of the diagnostic network which includes: a coordinated ground surveillance and response component with appropriate educational and training programs, a more extensive plant and animal disease and pest diagnostic capability, upgraded and enhanced equipment, increased information technology, expanded connectivity of State laboratories, and targeted research to develop improved diagnostic and treatment capabilities. The network will continue its link with the Extension Disaster Education Network (EDEN) to disseminate information to producers and professionals at the State and county level, and to expand these activities to provide more current and timely educational resources.

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 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.

Also within the fiscal year 2006 budget request is a proposed increase of \$4.5 million for the Expanded Food and Nutrition Education Program (EFNEP). The EFNEP program reaches predominantly minority, low-income youth and families with nutrition education that leads to sustained behavior changes. EFNEP works with various partners in providing its services, including collaborating with the National Institute of Health on the 5-A-Day program promoting increased consumption of fruits and vegetables, and with 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. Funding at this level will allow participation by 1890 institutions who are uniquely positioned to reach those in need of nutrition education.

CSREES continues to expand diversity and opportunity with activities under 1890 base and educational programs, and 1994 and Hispanic-Serving Institutions educational programs. In fiscal year 2006, the budget requests an increase of approximately \$1.5 million for both the research and extension 1890 base programs. Funding for our 1890 base programs provides a stable level of support for the implementation of research and extension programming that is responsive to emerging agricultural issues. 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 continue to effectively reach underserved communities through sustained support for the Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers Program (OASDFR). CSREES will fund 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.

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 2006 budget provides a \$1.5 million increase in the Food and Agricultural Sciences National Needs Graduate Fellowship program. This program prepares 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 forestry, and human health and nutrition, including problems related to obesity such as diabetes and cardiovascular health. 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 expand their programs.

CSREES is committed to improving the management of resources through the development and implementation of an electronic grants application and reporting system and the Research, Education, and Economics Information System (REEIS). The fiscal year 2006 budget proposes increases of \$0.2 million and \$0.3 million, respectively for these efforts. Currently, CSREES receives approximately 6,000 proposals annually, resulting in about 2,000 grants and cooperative agreements. These numbers are expected to grow with the proposed program increases in the fiscal year 2006 budget. We are committed to streamlining the process through participation in a common Federal electronic application and report system. We are rapidly developing and enhancing the capability to electronically receive, process, and award proposals, including electronic distribution to reviewers nationwide, and support for electronic financial and technical reporting on awards. We are implementing and expanding the capability of REEIS as a platform to link some 40 different databases and to serve as a single source of information on issues related to accountability, strategic planning, and performance assessment.

CSREES also is requesting funds to accelerate and innovate the e-Extension network that will offer Americans unparalleled access to scientifically-derived and unbiased information, education, and guidance about the things that matter the most in their lives. The fiscal year 2006 budget proposal includes \$3 million for the New Technologies for Ag Extension Program to support systems that will make available research-based education offered by the e-Extension network.

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. Based upon its broad scope, including the expanded integrated authority, and proposed funding increase, alternative funding from the NRI could be used 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 and food safety are within the program areas of the NRI. In order to ensure the highest quality research which addresses national needs within available funding, the fiscal year 2006 budget has therefore proposed to eliminate earmarked projects.

The fiscal year 2006 budget proposes changes in the general provisions including, as previously mentioned, increasing the amount provided for the NRI that may be used for competitive integrated activities from up to 20 percent to up to 30 percent. Also proposed is the elimination of the cap on indirect costs for competitively awarded grants. In the past indirect cost rate caps have resulted in recipients' inability to recover legitimate indirect costs, thus penalizing recipients who choose to do business with CSREES. This elimination allows full indirect cost recovery under competitive awards and places CSREES competitive programs on an equal footing with other Federal assistance programs.

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.

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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 2006 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 2006 is \$80.7 million. The agency is requesting a \$5.8 million increase to continue the development of an integrated and comprehensive data and analysis framework of the food system beyond the farm-gate that will provide a basis for understanding, monitoring, tracking, and identifying changes in the food supply and in consumption patterns.

CONSUMER DATA AND INFORMATION SYSTEM

In fiscal year 2006, ERS is requesting an increase of \$5.8 million to fully fund the Consumer Data and Information System which was partially funded in fiscal year 2005. The new data would be used 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.

Understanding consumer behavior is critical for addressing many of the Nation's problems related to eating behavior. Obesity, in particular, has become a major problem by increasing the risk for chronic diseases, increasing medical costs, and reducing productivity. Studies estimate that obesity is responsible for 365,000 deaths annually, costs society \$92.6 billion in increased medical expenditures, and taxpayers finance half of these costs through Medicare and Medicaid. Additionally, research is pointing to a decline in life expectancy in the United States caused by the dramatic rise in obesity, especially among young people and minorities. Many people believe that formulating more effective programs and policies to end obesity hinges on a clearer understanding of eating behaviors. This initiative will support

research that will provide the information and knowledge to develop, implement, and target improved nutrition programs and policies to reduce obesity.

Understanding consumer behavior is also critical for policy-making, and program development and implementation in many other USDA program areas. USDA officials require up-to-the-minute information on food prices, product movements, and potential consumer reactions to events to effectively make commodity support decisions, provide nutrition education, and ensure the safety of our food. This initiative will provide USDA with current food prices, sales volumes, food purchases, a data base on consumer characteristics and purchasing behavior, and the ability to quickly survey consumer reactions, knowledge, attitudes, and awareness on a host of issues.

The Consumer Data and Information System has three major components providing intelligence across and within the food and agricultural complex. ERS has initiated work on the first component, a very limited version of the Food Market Surveillance Report, which will be issued quarterly to USDA officials. These quarterly reports will provide the Department with the most up-to-date information on food prices, purchases, and sales data publicly or privately available. This information is critical to improve USDA decision-making and to provide data for understanding consumer purchasing behaviors. Additional funding is necessary for full implementation that will integrate food-away-from-home consumption patterns and associated markets into the system.

The second component, a new Rapid Consumer Response Module, will provide real-time information on consumer reactions to unforeseen events and disruptions, current market events, and government policies. The questions in the module will be asked to members of several proprietary consumer data panels currently maintained by private vendors. The first proposed module is a special survey that will provide a baseline for measuring consumer nutrition knowledge and implementation of the new Dietary Guidelines. A follow-up survey of the same respondents will provide information on consumer reaction to the guidelines. An examination of the respondents purchase records would reveal if dietary changes have actually occurred. Information will be used to better implement dietary guidance strategies and will provide policymakers with up-to-the-minute information and analyses. Another planned survey will measure consumer knowledge of BSE and quantify the relationships between knowledge levels and meat purchases.

Using fiscal year 2005 funding, ERS has initiated development of the third component, a Flexible Consumer Behavior Survey (FCBS) that will complement data from the National Health and Nutrition Examination Survey (NHANES). The FCBS will provide information needed to assess linkages among individuals' knowledge and attitudes about dietary guidance, and food safety, their economic circumstances, their food-choice decisions, and their nutrient intakes. Combining the NHANES with this new survey allows analysis of how individual behavior, information, and economic factors affect food choices, dietary status, and health outcomes. A team of representatives from government and non-governmental entities is developing and implementing the survey. Additional funding will provide data and research to link food prices with the NHANES and FCBS data.

Two additional components of the budget request are (1) additional staff to ensure the successful design and implementation of the Consumer Data and Information System and (2) a research grants program to complement and augment the ERS research program. A targeted research program will provide outside expertise to assist with the complex task of integrating survey information as well as provide seed funds for innovative nutrition and obesity studies using the data system. The design and implementation of this information system is currently being accomplished using existing staff through the reallocation of resources.

#### 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 structures in rapidly globalizing, consumer-driven markets by analyzing the linkages between domestic and global food and commodity markets, as well as 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. 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 2005, several initiatives are increasing the timeliness and availability of data and information, while simultaneously saving staff time. We are increasing the transparency of our commodity projections processes, automating calculations where possible, and embedding them within databases. Our goals are to: (1) make the work transparent, inviting critique from both internal and external users; (2) transition to fewer outlook analysts as retirements near, and (3) increase timeliness in the release of data. We will have databases available for all major crop and livestock commodities within the next 2 years.

ERS provides assessment of the effects of farm policy on the food and agricultural sector. The agency led the development of analytical studies that responded to requests to USDA for studies in the 2002 Farm Act. For example, the 2004 USDA report, *Economic Effects of U.S. Dairy Policy and Alternative Approaches to Milk Pricing*, provides a comprehensive assessment of the effects of current U.S. dairy programs that takes into account the ongoing structural change in consumer demand, farm structure, and the processing industry.

China is one of the top 10 markets for U.S. agricultural exports and is the world's largest producer and consumer of a range of commodities. ERS research continues to examine key factors that will shape the size and pattern of China's agricultural trade: water scarcity, implementation of WTO commitments, changes in Chinese consumers' demand for food, and factors influencing these changes, including the declining role of subsistence farming, effects of urbanization, and the rising demand for convenience. ERS' China briefing room ([www.ers.usda.gov/briefing/china](http://www.ers.usda.gov/briefing/china)) provides access to reports that cover both specific market conditions and policy developments.

ERS continues to expand research on how the dynamics of consumer demand, notably the growing consumption of and trade in high value products, are shaping global markets. The United States has one of the most complex trade patterns for high value food products, including strong growth in imports. This is attributable to its large productive capacity, high-income consumers, and its heavy involvement in overseas investment in food processing and brand licensing. Research to understand the relative importance of these and other factors builds on recently completed studies and takes advantage of newly available global data sets on the food retail industry.

Organic farming continues to be one of the fastest growing segments of U.S. agriculture and can potentially enhance environmental protection, as well as economic opportunities for producers. Appropriations received in fiscal year 2005 allow ERS to continue 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. In 2004, ERS co-sponsored a workshop with the Farm Foundation and Giannini Foundation that brought together industry leaders, academics and government agency staffers to identify research needed to understand the potential oversight role of government relative to various types of differentiated products, and the implications of alternative public or private regulatory approaches. In 2005, ERS is adding a targeted sample of organic dairy producers to USDA's annual Agricultural Resources Management Survey (ARMS). Survey data for both organic and conventional operations will enable, for the first time, a side-by-side comparison of the economic, structural, and production characteristics of these farms.

Food price determination is increasingly important for understanding domestic and international markets and for seizing opportunities to promote U.S. agriculture. 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. ERS has begun to use micro-level household and store scanner data to measure the impact of changing store formats on food prices in order to focus on the changing economic environment and how these changes could affect customers' retail food purchasing habits.

In 2005, ERS will publish a series of reports on the impacts of concentration and consolidation along the food marketing chain. One report focuses on the dramatic change in the competitive dynamics of retail markets, measuring the price impact of Wal-Mart's success in marketing food. Another report examines supermarkets' re-



sulting consolidations and measures the extent by which associated increases in the efficiency of supermarket operations would reduce food prices. Another report summarizes research on consolidation and structural change in the following food industries: meat packing, meat processing, poultry slaughter and processing, cheese, fluid milk, flour milling, feeds, and oilseed (corn, cottonseed, and soybean) processing. Findings to be published in 2005 suggest that even industries with growing demand experienced consolidation, and that technological change was the primary driver of consolidation from 1970–90. In addition, during the period under investigation, firms tended to acquire highly productive plants and then improve their performance. The evidence refutes the claim that mergers and acquisitions lead to worker dislocations and lost wages.

For producers, contracting can reduce income risks of price and production variability, ensure market access, and provide higher returns for differentiated farm products. For processors and other buyers, vertical coordination through contracting is a way to ensure the flow of products, obtain differentiated products, ensure traceability for health concerns, and guarantee certain methods of production. ERS continues to conduct research to improve understanding by decision-makers of changes in the agricultural sector's 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. At the farm level, the new Family Farm Report—Structural and Financial Characteristics of U.S. Farms, which was published in March 2005—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. This report is based on analysis of 2001 ARMS data. A shorter Family Farm report based on 2003 ARMS data will be released later in 2005.

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. The demands of developing countries for sharp cuts in domestic agricultural policies, along with exemptions that would limit the opening of their markets, serve as stumbling blocks to reaching an agreement in current WTO negotiations. While ERS analysis of the global benefits of trade liberalization shows potential gains for all types of countries, developing countries remain skeptical. Two common critiques are that the analysis does not include potential market effects of decoupled payments and does not include preferential market access by developing countries to developed country markets. Current ERS research addresses these questions with reports forthcoming in 2005 on the effects of farm programs and an analysis of preferential trade programs.

Since 1980, legislation has encouraged patenting and license agreements by Federal laboratories as a means of technology transfer. The ERS report, Government Patenting and Technology Transfer, which will be released in 2005, examines issues raised by government patenting behavior through a case study of the Agricultural Research Service. The report describes trends in patent use and considers its effectiveness toward this policy goal. The report compares patenting with alternative methods of technology transfer—such as scientific publication—and analyzes factors that determine the most effective means of promulgating the results of public research. Among the findings are that increased patenting and licensing by USDA has supplemented, not supplanted, the traditional instruments of technology transfer such as scientific publications.

Data from ARMS underlie important estimates of farm income and well-being, and constitute an essential component in much of ERS' research. In 2004, 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 2004, 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 easy to use. Implemented in 2004 in both public and restricted-access web versions, this system retrieves 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 affect economic opportunity and quality of life for rural Americans. 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 assesses rural needs by examining the changing demographic, employment, education, income and housing patterns of rural areas. 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 2005, the agency is continuing its series of publications that report 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: 2005*, *Rural Transportation at a Glance*, *Rural Children at a Glance*, and *Rural Minorities at a Glance*, all designed for a policy audience, will summarize the most current information relevant information on these topics.

In fiscal year 2005, ERS will disseminate research findings from an ERS—Cornell University conference on “Population Change and Rural Society,” held in January 2004. 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 geographic patterns of chronic disadvantage and emerging growth. The compendium of papers marks the first comprehensive look at rural America based on data from the 2000 Census.

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 August of 2004, ERS released a new 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. In fiscal year 2005, ERS will publish a series of policy briefs that will 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 is at the forefront of analysis assessing the critical role of education in local, regional, and national economic development. The No Child Left Behind Act of 2002 created a new era of increased school accountability to ensure that our public schools adequately prepare students for the increasingly high-skill “new economy” in which we now live. However, rural schools and communities present a distinct set of challenges to education reform. In 2005, findings from a conference sponsored by ERS and the Southern Rural Development Center will be published as special issues of two academic journals, the *Review of Regional Studies* and the *Journal of Research in Rural Education*. Research findings will focus on student achievement in rural schools, and the linkages among schools, rural communities, and the labor market.

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.

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. In 2005, ERS will publish a study of the changing nature of the rural low-skill labor force and its implication for the economic well being of rural areas.

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 through targeted economic analysis. In 2005, ERS will continue to work with Rural Development staff and cooperators at the University of Missouri to develop measurable performance indicators for USDA rural business programs. In addition, ERS is now focusing greater attention on the effects of Federal farm policy on rural areas and farm households in preparation for the upcoming debate over the 2007 Farm Bill. A 2005 conference, jointly sponsored by ERS and the National Center for Food and Agricultural Policy, will help provide policymakers with a better understanding of the linkages between farm policy, farm households, and rural communities. A new ERS briefing room on our website will be continually updated during 2005 to provide an economic assessment of the implications of farm policy reform and adjustment for agriculture and rural America.

*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 the 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.

As part of several national homeland security activities, ERS continues to develop the capacity to assess the impact of accidental and intentional disruptions to our food and agricultural system. ERS staff are prepared to conduct the complex economic analysis needed to assess the cost of securing our food supply, which includes protecting production, processing, distribution, and consumption of food and agricultural products. ERS is working with the Animal and Plant Health Inspection Service (APHIS) and the Food and Drug Administration (FDA) to improve tools for the analysis of disruption and disease mitigation strategies that require both sound biological and economic analysis.

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. ERS and researchers from Harvard and the University of Wyoming are collaborating to develop new methodologies for more accurately eliciting and measuring the value of reductions in health risk associated with foodborne pathogens. Results from both studies are expected in 2005.

ERS is heading a project supporting the Department's reevaluation of the appropriate roles for performance versus process standards in enhancing food safety. Recent massive recalls of beef and poultry products, the creation of international food safety standards, and a recent court ruling rejecting failure to meet *Salmonella* standards as a legal basis for closing a meat-processing plant have created concern about the basic principles behind U.S. food safety regulation. This project analyzes the costs and benefits of food safety performance standards and develops guidelines for the application of such standards. Preliminary results indicate that recent advances in testing technology provide more accurate results, shorter time to result, greater ease of use, and lower costs than in the past.

In the event that unsafe food enters the marketplace, public health officials and food safety regulators ultimately rely on records maintained by private industry and retailers to track the manufacture and distribution of that food. Privately maintained traceability bookkeeping records provide investigators with information on the extent and distribution of a contaminated product—and on how to remove such a product from distribution channels efficiently. The strength of private traceability systems and the readiness of the food industry to track and recall a contaminated product is important for safeguarding the Nation's food supply. In 2005, ERS is working with agricultural economists from the University of Arkansas to investigate how various food companies in different industries handle product recalls, the operation of designated recall teams, and the frequency and results of mock recalls. The research will examine the type and scope of information collected from auditing and certification activities, characteristics of firms with recall practices, and the proportion of firms in given sectors participating in auditing and certification activities.

In response to increased risks to the Nation's agriculture and food supply due to bio-terrorism, ERS embarked on an ambitious project known as Geo-Spatial Economic Analysis (GSEA). The GSEA system merges an extensive Geographic Information System with the analytical expertise of ERS's economists and the Security Analysis System for U.S. Agriculture (SAS-USA), which is a framework to tie systematically all food supply processes from farm production, food manufacturing, distribution of food products, to food consumption in every region of the country. The GSEA system is designed to serve as a platform for collaborative analysis across agencies in USDA and with appropriate groups in FDA and the Department of Homeland Security (DHS). These capabilities mean that emergencies can be managed efficiently and expeditiously by assessing vulnerabilities and predicting outcomes. In 2005, the GSEA team expects to launch joint projects with the Army Corps of Engineers and several national labs to improve our ability to measure the economic consequences in the food and agricultural industries caused by disruptions in other critical infrastructures. In support of broad USDA initiatives such as the National Plant Disease Recovery System, the GSEA system will serve as a tool to improve economic assessments of crop and animal disease outbreaks using alternative control strategies.

*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, age, 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. Reducing obesity through 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 2005, ERS is investigating the factors that influence consumers' food choices when eating away from home using the NHANES data. This research will focus on discovering consumer preferences, such as convenience and entertainment that compete with healthy eating. Information about these factors help social marketers design effective campaigns to influence consumers' away from home eating behavior.

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 continues 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 measures the number of U.S. households that face difficulties in putting enough food on the table. A new ERS effort, in cooperation with USDA's Food and Nutrition Service, is designed to assess and strengthen food security measurement by providing support for a National Academy of Sciences panel. The panel is reviewing methods and procedures that underlie the current measure and will consider various approaches to enhance these methods for monitoring, evaluation, and related research purposes.

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 was compiled, and the first stage of the data review was a workshop held in the spring of 2004. A final report will be issued by the Committee in 2005.

*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 the development of Federal farm, conservation, and environmental 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 Farm Security and Rural Investment (FSRI) Act of 2002, USDA looked to ERS to provide comprehensive, detailed, and 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 Farm Bill 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. In 2004, ERS contributed substantially to the NRCS benefit-cost assessment for CSP. For instance, ERS helped to prepare the NRCS report, *Conservation Security Program: Benefit Cost Analysis* released in June 2004. ERS analysts played a central role in both conceptualizing and developing a model of CSP participation that is recognized by NRCS and others within USDA as an important contribution to USDA's analytic capability with respect to conservation programs. ERS assisted FSA with the implementation of the CRP program by providing input data and suggesting ways to improve the Willingness-to-Bid model used by FSA to set an environmental benefits index (EBI) cutoff for enrollment in the twenty-ninth signup. ERS also participated in forward-looking planning exercises concerning major CRP enrollment/reenrollment decisions expected in 2007.

The FSRI sharply increased conservation funding and earmarked most of it for working lands conservation rather than for farmland retirement. The ERS report, "Flexible Conservation Measures on Working Land: What Challenges Lie Ahead?" to be released in 2005, tackles the issues and complexities that pertain to the design of working-land payment programs (WLPPs). Program design and implementation will largely determine the extent to which environmental goals are achieved, and whether they are achieved cost-effectively, i.e., at a minimum cost to society. A cost-effective program: (1) anticipates economic and environmental outcomes associated with enrolling specific producers; and (2) attracts and enrolls producers that are most likely to deliver the desired outcomes. The report analyzes the critical role of program design in gathering information (from producers in a bidding process) and using that information to identify and enroll producers who, collectively, are most likely to achieve program objectives cost-effectively. Empirical analysis also shows how the environment, commodity prices, and farm incomes could be affected by alternative designs.

In 2004, ERS transmitted to Congress the report, *The Conservation Reserve Program's Economic and Social Impacts on Rural Counties*, as mandated by the FSRI, as well as the public version released in October 2004, *The Conservation Reserve Program: Economic Implications for Rural America*. These reports address a number of concerns about the unintended consequences of high levels of enrollment in the CRP. Our research 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.

In the course of the production of food and fiber, agriculture also produces many by-products (externalities) such as open space, recreational amenities, scenic views, groundwater recharge, and wildlife habitat. Historically, the standard policy practice has been to address each externality through a separate policy instrument. However, when the transaction costs of administering policies (e.g., information gathering, contract formulation, enforcement) are positive, using one instrument to address each externality or objective may not be optimal. Using an empirical analysis focusing on the CRP, the ERS report *The Multiple Objectives of Agri-Environmental Policy*, to be released in 2005, explores the extent to which environmental attributes may be jointly produced, e.g., efforts to reduce soil erosion may also reduce nutrient runoff and increase soil carbon, with implications for simultaneously targeting multiple environmental and cost objectives. The report also provides an in-depth look at the costs, benefits, and tradeoffs associated with the use of indices (such as the EBI used to implement the CRP) for simultaneously targeting multiple environmental and cost objectives.

Furthermore, applying environmental policies in an uncoordinated fashion fails to account for interactions among environmental mediums (i.e., air, land, water). This can result in conflicting policies, in that addressing one environmental problem can

make another worse. The ERS report, *Manure Management for Multimedia Environmental Improvement: A Comparison of Single Media versus Multi-Media Policy Optimization*, to be released in 2005, provides a concrete example of the tradeoffs of alternately and simultaneously meeting air and water quality objectives, in terms of farmers' costs, production decisions, and environmental indicators, by focusing on livestock and poultry production. Among the results in the report is that, if enacted, restrictions on ammonia emissions from concentrated animal feeding operations could increase the cost of meeting Clean Water Act regulations for spreading manure.

Many economists, ecologists, and wildlife biologists have argued that less productive agricultural lands are environmentally sensitive. If true, then this would have important implications for agricultural policy. For instance, programs that stimulate production may cause farmers to bring the relatively less productive lands that are environmentally more sensitive into production. Using data from the USDA's National Resources Inventory, the ERS report to be released in late 2005, *Land-Use Change and the Environment at the Extensive Margin of Cropland*, finds that there is a general relationship between lower productivity and environmental sensitivity in terms of several agri-environmental indicators examined, but this relationship does not hold within all locations.

In fiscal year 2004, ERS continued the Program of Research on the Economics of Invasive Species Management (PREISM) that was initiated in fiscal year 2003. PREISM supports 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. Program priorities have been selected through extensive consultation with APHIS, the Office of Budget and Program Analysis (OBPA) and other agencies with responsibility for program management. In 2004, APHIS used an ERS-supplied pest ranking decision tool to determine which pests would be on its 2004 Federal-State Cooperative Agricultural Pest Survey list, making transparent the basis for selecting the pests for which State cooperators could receive targeted pest surveillance and detections funds. The recent and rapid spread of the pathogen, soybean rust (SBR), in South America prompted ERS, in April 2004, to publish a study of the economic and policy impacts of its windborne entry into the United States, *Economic and Policy Implications of Wind-Borne Entry of Asian Soybean Rust into the United States*. This study quantifies the potential economic impacts in the United States in both the first year of SBR's entry and subsequent years when producers have adapted to this new pest. On November 10, 2004, APHIS confirmed the presence of SBR on soybean leaf samples taken from two plots associated with a Louisiana State University research farm. The already published ERS analysis was used by the USDA in refining rapid response strategies in anticipation of SBR entry to North America.

In addition to ERS-led analysis of invasive species issues, PREISM has allocated over \$2.4 million in extramural research cooperative agreements through a peer-reviewed competitive process. To share review progress made by cooperators who received PREISM funding, and to provide a forum for dialogue on economic issues associated with agricultural invasive species, ERS organized a workshop in August 2004 with 90 attendees from academia and Federal agencies. Among the projects funded in fiscal year 2004 were a GIS-based decision support tool to help forest land managers prioritize their efforts to eradicate or control invasive species, and a decision tool for establishing efficient border protection controls against potentially damaging species under conditions of extreme uncertainty and limited budgets.

#### *Customers, Partners, and Stakeholders*

The ultimate beneficiaries of ERS' programs are the American people, whose well-being is improved by informed public and private decision-making that leads 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.

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PREPARED STATEMENT OF R. RONALD BOSECKER, ADMINISTRATOR, NATIONAL AGRICULTURAL STATISTIC SERVICE

Mr. Chairman and members of the Committee, I appreciate the opportunity to submit a statement for this Committee's consideration in support of the fiscal year 2006 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.

MAJOR ACTIVITIES OF THE NATIONAL AGRICULTURAL STATISTICS SERVICE (NASS)

The continual progression of American farms and ranches to make greater use of agricultural science and technology, coupled with the growing complexity of global marketing, increases the need for modern and reliable statistical information. The periodic surveys and censuses conducted by NASS contribute significantly to economic decisions made by policymakers, agricultural producers, lenders, transporters, processors, wholesalers, retailers, and ultimately, consumers. Voids in relevant, timely, and accurate data contribute to wasteful inefficiencies throughout the entire production and marketing system.

The Farm Security and Rural Investment Act of 2002 created the need for several new data series. For example, the 2002 Census of Agriculture data were used to help prepare the first annual report to Congress on USDA program participation of socially disadvantaged farmers and ranchers. Census data on race, ethnicity, and gender were used at the county level in preparing the report. These Census of Agriculture data are the only source of comprehensive information available on the agricultural sector. The 2002 Farm Bill also 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 may have resulted in a change of more than \$110 million in counter-cyclical payments during 2004. Similarly, large payment changes also apply for the other program crops. These are only a few specific data needs required by the Statute, but they clearly highlight the importance of a strong, reliable agriculture statistics program.

NASS works cooperatively with each State Department of Agriculture throughout the year to provide commodity, environmental, economic, and demographic statistics for agriculture. This cooperative program, which began in 1917, has served the agricultural industry well and is often cited by others as an excellent model of successful State-Federal cooperation. This joint State-Federal program helps meet State and national data needs while minimizing overall costs by consolidating both staff and resources, eliminating duplication of effort, and reducing the reporting burden on the Nation's farm and ranch operators. NASS' 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 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, minimizing price fluctuations for U.S. producers. Measures relating to the competitiveness of our Nation's agricultural industry have become increasingly important as producers rely more on world markets for their sales.

NASS statistical reports are critically important to assess the current supply of and demand for agricultural commodities. 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, the U.S. cattle and hog industries requested joint reports of United States and Canadian livestock. The resulting publications provide composite information on potential supplies and inventories of cattle and hogs. This information can be used to make informed decisions, such as marketing, expansion, or contraction, in today's global economy. Without these data, the United States would be at a disadvantage in glob-

al trade discussions and would find it very difficult to secure global contracts and develop strong, reliable relations with our trading partners.

NASS has been a leader among Federal agencies in providing electronic access to information. All reports issued by NASS' Agricultural Statistics Board are made available to the public at a previously announced release time to ensure that everyone is given equal access to the information. All of NASS' 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.

NASS released the results of the 2002 Census of Agriculture in the Spring of 2004. The Census of Agriculture is taken every 5 years and provides comprehensive data at the national, State, and county level on the agricultural sector. 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 database for developing public policy for rural areas. The 2002 Census of Agriculture included for the first time data on demographic information for up to three operators, enhanced data on agricultural activity on American Indian Reservations, acreage of organically produced crops, and information on production contracts used in agriculture. Additionally, agriculture census results reflected the status of all U.S. farms instead of only those represented on the census mail list as was done previously. New statistical methodology was employed to provide the most complete picture of U.S. agriculture in many years. Census data were also released for agriculture census programs in Puerto Rico, Guam, and the Commonwealth of the Northern Mariana Islands. All of these results are available on the NASS Website.

Statistical research is conducted to improve methods and techniques used for collecting and processing agricultural data. This research is directed toward achieving 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 officially deployed its Electronic Data Reporting (EDR) system in 2004, which provides respondents with the ability to electronically complete the data collection process and thus reduces reporting burden. Plans are to complete the system with the electronic availability of the 2007 Census of Agriculture. 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 electronic data reporting, and exploiting computer intensive processing technology enables NASS to keep pace with an increasingly complex agricultural industry.

The fiscal year 2005 budget included \$2.7 million for agricultural estimates restoration and modernization. These funds provided the continued development of a foundation for quality improvements in forecasts and estimates. The 2005 funds are being used to improve the precision level from commodity surveys conducted by NASS. The majority of the funding is being allocated to increasing sample sizes and the data collection activities of local interviewers throughout the Nation.

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.

Approximately 65 percent of NASS's staff are located in the 46 field offices; 21 of these offices are collocated with State Departments of Agriculture or land-grant universities. NASS' State Statistical Offices issue approximately 9,000 different re-



ports each year and maintain Internet 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 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 database. 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.

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 138 special surveys in fiscal year 2004 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.

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, El Salvador, Guatemala, Kazakhstan, Mexico, Nepal, Russia, and the Ukraine. In addition, NASS conducted training programs in the United States for 219 visitors representing 24 countries. These assistance and training activities promote better quality data and improved United States 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 2006 PLANS

The fiscal year 2006 budget request is for \$145.2 million. This is a net increase of \$16.7 million from fiscal year 2005.

The fiscal year 2006 request includes increases to continue restoration and modernization of NASS' core survey and estimation program (\$7.0 million); improvement in the statistical integrity and standardization of the data collection and processing activities of the Local County Agricultural Estimates program (\$1.9 million); cyclical activities associated with preparing and conducting the Census of Agriculture (\$6.5 million); and funding for increased pay costs (\$1.3 million).

An increase of \$7.0 million and 10 staff years are requested to fund the continuation of the restoration and modernization of NASS' 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 necessary levels of precision for State, regional, and national estimates. Decisions af-

fecting billions of dollars in the U.S. food and agricultural sectors are facilitated in both public and private venues through access to reliable statistical information. The USDA NASS statistical program serves most agricultural commodity data needs in the United States, as well as supplying important economic, environmental, and demographic data that are used to impact lives of rural residents. Escalating survey expenses, staff costs, and operating expenses, including higher contract costs, forced detrimental adjustments to many of the Agency's survey and estimates programs. These actions over time led to reductions in the quality of the survey data on which NASS estimates are based. Funding received in fiscal year 2004 and fiscal year 2005 was part of this multi-year initiative to restore survey accuracy to previous levels. These changes were designed to increase precision at the State and regional levels to promote the NASS goal for fiscal year 2005 of reaching precision target levels at least 75 percent of the time for major survey indications. The additional funding requested in fiscal year 2006 will allow continued improvements and provide the necessary resources to reach precision target levels an estimated 83 percent of the time.

An increase of \$1.9 million and 4 staff years are requested to provide for data acquisition for the annual integrated Local County Agricultural Estimates 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. Current estimates are derived through a survey process that does not support scientific probability design to produce statistically defensible survey precision. 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 commodity transport firms utilize county level data to make informed business decisions.

An increase of \$6.9 million and 15 staff-years is requested for the Census of Agriculture. The Census of Agriculture budget request is for \$29.1 million. This includes a cyclical program cost increase of \$6.5 million and \$389,000 for employee compensation. The available funding includes monies to prepare for the 2007 Census of Agriculture and to conclude analysis and publication of the Census of Aquaculture in December 2006. The increase will be used to finalize questionnaire content for the 2007 Census of Agriculture. Mail list development activities will continue during fiscal year 2006 with the assistance of locally employed enumerators. Contract employees will aid in updating and streamlining census processing systems needed for conducting the Census of Agriculture and its follow-on surveys. Finally, hardware and software will be upgraded to allow for testing and implementation of the processing systems.

This concludes my statement, Mr. Chairman. Thank you for the opportunity to submit this for the record.

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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 2006 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 2006, 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, the programs and services of the FFAS mission area provide the foundation for the Department's efforts to "enhance economic opportunities for American agricultural producers", one of the five primary goals in the Department's strategic plan. The wide range of services provided by our agencies—price and income support, farm credit assistance, risk management tools, and trade expansion and export promotion programs—are the bedrock for ensuring the economic health and vitality of American agriculture.

FFAS also plays an important role in protecting and enhancing the Nation's natural resource base and environment, another of the Department's strategic goals, by providing critical support for improved management of private lands.

The 2006 President's budget supports continuation of these diverse activities and ensures our continued efforts on behalf of America's agricultural producers. Although the budget does contain proposals for savings in both discretionary and mandatory programs as part of government-wide efforts to reduce the deficit, it fulfills our priorities of promoting and enhancing the economic opportunities of our farmers and ranchers and for protecting the environment.

#### FARM SERVICE AGENCY

The Farm Service Agency (FSA) is our lead 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 counter-cyclical 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 prime 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 FSA to undertake the massive task of implementing a complex set of new farm programs within a short time period, and the agency met that challenge successfully and with distinction. With the major workload associated with Farm Bill implementation having been completed, FSA recently has faced other program implementation challenges that have required the full commitment of agency resources. Last October, the President signed a disaster assistance bill that included more than a dozen programs and \$2.9 billion for farmers and ranchers who were affected by drought and other weather-related problems in 2003 and 2004. Sign-up for crop disaster assistance began March 14th, and payments began by March 30th. FSA also has implemented an emergency relief program, supported with \$600 million of section 32 funds, for Florida's citrus, nursery, and vegetable growers who were affected by three hurricanes last year.

Also enacted last October was legislation containing the so-called tobacco buy-out provisions that has major consequences for the Federal tobacco program. Under those provisions, transition payments will be made to tobacco quota holders and producers, ending all elements of the Federal tobacco price support program effective with the 2005 crop. FSA is now actively engaged in the steps needed to implement the legislation as quickly and efficiently as possible. Sign-up for the transition payment program began on March 14th and will continue through June 17th.

The 2006 budget is designed to ensure the agency's efforts can move forward. It provides a total program level for FSA salaries and expenses of nearly \$1.4 billion, a net increase of \$70 million above 2005. The requested level will support a ceiling of about 5,500 Federal staff years and 10,300 non-Federal staff years. Staff levels have been reallocated among FSA's program activities to reflect the decreased workload associated with farm income program support and other areas, while accommodating rising workload needs for conservation and other programs. Permanent full time non-Federal county staff years are estimated to remain unchanged from this year's level, while temporary staff years are reduced with the completion of disaster assistance activities.

FSA is taking other actions designed to improve their services on behalf of America's producers. Among the most important of these are information technology (IT) improvements, including the adoption of web-based applications that allow farmers to sign up for programs, as well as receive payments, on line. This reduces the paperwork burden significantly and provides for more timely receipt of payments. By 2006, FSA expects all of its major programs will be web-based and available on-line.

FSA also continues to implement Geospatial Information Systems (GIS) and Global Positioning System technology that will provide increasingly better services in the future and should result in significant long-term savings. Funding for FSA IT modernization and related GIS initiatives has been provided in the Common Computer Environment account managed by the Department's Chief Information Officer.

Finally, FSA is making considerable progress in reaching out to its small farm and minority constituency base. In January, final guidelines were implemented that provide reforms to ensure fair representation for socially disadvantaged farmers and ranchers in county committee elections. This has been complemented by expanded communication and outreach activities to increase the number of minority and women nominees in the election process.

### *Commodity Credit Corporation*

Domestic farm commodity price and income support programs are financed through CCC, a Government corporation for which FSA provides operating personnel. CCC also provides funding for conservation programs, including the CRP and certain programs administered by the Natural Resources Conservation Service. In addition, CCC funds most of the export programs administered by the Foreign Agricultural Service.

In 2004, as a result of strong prices and a healthy farm economy, CCC net expenditures declined 39 percent below the previous year to \$10.6 billion. For 2005 and 2006, CCC outlays are expected to increase significantly due to recent large crops that have contributed to growing supplies and weakened prices. CCC outlays are now projected to reach \$24.1 billion in 2005 and then decline to \$19.8 billion in 2006.

The President's budget includes a number of proposals to reduce the level of farm spending consistent with the government-wide goal of reducing the Federal deficit. These proposals are designed to work within the existing structure of the 2002 Farm Bill and achieve savings over the next 10 years. The proposals, which are spread across the entire agricultural production sector, include reducing commodity payments across the board by 5 percent; basing marketing loan benefits on historical production; tightening payment limits; lowering dairy program costs while extending the Milk Income Loss Contract program for 2 years; and reinstituting a 1.2 percent marketing assessment on sugar processors.

These proposals are expected to save \$587 million in 2006 and \$5.7 billion over 10 years. The majority of the savings is achieved through the across-the-board reduction in program payments.

The budget also proposes to limit the CCC bioenergy incentive program to \$60 million, similar to the limitation of \$100 million that applies to the 2005 program. An assessment of this program has found that additional incentives for ethanol are less critical than other Federal assistance, including tax credits and production mandates and that greater emphasis should be placed on incentives for biodiesel production rather than ethanol.

### *Conservation Programs*

The 2002 Farm Bill provided for significant growth in the Department's conservation programs. The CRP, which is funded by CCC and administered by FSA, is the Department's largest conservation/environmental program. The Farm Bill extended CRP enrollment authority through 2007 and increased the enrollment cap by 2.8 million acres to a total of 39.2 million acres.

As of the end of December, CRP enrollment totalled 34.7 million acres. Another 1.2 million acres were accepted in the 29th general signup in 2004 and will be enrolled once contracts are finalized. Once that step is completed, the CRP will have reached more than 90 percent of the total acreage authorized in the Farm Bill.

Our current baseline assumptions are that CRP acreage will increase gradually to 39.2 million acres by 2008 and remain at that level through 2015.

### *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 2006, 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 2006 budget includes funding for about \$937 million in direct loans and \$2.9 billion in guarantees. We believe these proposed loan levels will be sufficient to meet demand in 2006.

The 2006 budget also 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 2005. This reduction is due to the successful completion of eradication efforts in several areas. The amount requested is expected to fund fully those eradication programs operating in 2006. For emergency disaster loans, the budget requests \$25 million. About \$175 million is currently available for use in 2005, and a portion of that is likely to carry over into 2006. The combined request and anticipated carryover are expected to provide sufficient credit in 2006 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 provides 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 2004, the crop insurance program provided about \$46 billion in protection over 221 million acres, which is about 3 million acres more than were insured in 2003. Our current projection is that indemnity payments to producers on their 2004 crops will be about \$2.9 billion which is about \$1 billion less than in 2003. Our current projection for 2006 shows a modest decrease in the value of protection. This projection is based on the Department's latest estimates of planted acreage and expected declines in market prices for the major agricultural crops, and assumes that producer participation remains essentially the same as it was in 2004.

The 2006 budget requests an appropriation of "such sums as are 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.

Despite the successes of the crop insurance program, more can be done to improve its effectiveness. One of the overarching goals of the crop insurance program has been the reduction or elimination of ad hoc disaster assistance. However, in recent years Congress has passed four disaster bills covering 6 crop years and costing the Government about \$10 billion. Therefore, the budget includes a proposal to link the purchase of crop insurance to participation in farm programs, such as the direct and counter-cyclical payment programs. This proposal would require farm program participants to purchase crop insurance protection for 50 percent, or higher, of their expected market value or lose their farm program benefits. This level of coverage is nearly double the amount of protection provided at the catastrophic level.

Additionally, participants in the Federal crop insurance program would contribute to the President's deficit reduction program. The budget includes several proposals that would reduce subsidies paid to producers and approved insurance providers. In total, these changes are expected to save about \$140 million annually beginning in 2007.

In addition, the budget includes a general provision that would provide \$3.6 million in mandatory funds to continue data warehousing and data mining activities authorized in the Agricultural Risk Protection Act of 2000 (ARPA). ARPA provided \$23 million in mandatory funds for a variety of purposes, including data mining; however, that funding expires in 2005. Data mining is an instrumental part of the Department's efforts to combat fraud, waste, and abuse in the crop insurance program. In its first year of operation, data mining is estimated to have prevented the payment of about \$94 million in potentially fraudulent claims and assisted in the identification and recovery of about \$35 million in claims that should not have been paid.

#### *Salaries and Expenses*

For salaries and expenses of the Risk Management Agency (RMA), \$88 million in discretionary spending is proposed, an increase of \$17 million from the 2005 level of about \$71 million. This net increase includes additional funding for IT, increased staff years to improve monitoring of the insurance companies, and pay costs.

RMA has an aging IT system; the last major overhaul occurred about 10 years ago. At that time, the crop insurance program offered seven plans of insurance covering roughly 50 crops and providing about \$14 billion in protection. In 2004, protection was offered through 20 plans of insurance covering 362 crops, plus livestock and aquaculture, and providing over \$46 billion in protection.

Several major changes also have occurred over the years 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. RMA has implemented several new livestock price protection products. 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 an 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 oper-

ations. 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 because 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 the budget for RMA includes a request for 17 additional staff years. This increase will provide RMA with the additional resources necessary to monitor the financial and operational condition of the companies participating in the crop insurance program. In 2002, American Growers', the Nation's largest crop insurance company, failed. RMA, in concert with the Nebraska Department of Insurance, did a tremendous job of ensuring that both the producers' and the Government's interests were protected, indemnities paid, and policies transferred to other insurance providers. The additional staffing will help to ensure that a similar failure does not occur in the future.

#### FOREIGN AGRICULTURAL SERVICE

I would now like to turn to the international programs and activities of the FFAS mission area. As Secretary Johanns highlighted in his recent testimony before the Committee, expanding trade is critically important for the economic health and prosperity of American agriculture. Expanding international market opportunities and promoting trade are among the most important means the Department has to enhance economic opportunities for our farmers and ranchers.

We have made solid progress during the past year in our market expansion activities. Central to these efforts is the Framework Agreement on agriculture that was reached last July by Members of the World Trade Organization (WTO) as part of the current round of multilateral trade negotiations. The agreement incorporates key U.S. objectives for the negotiations and provides strong principles for further liberalization of agricultural trade. Much work remains to be done to translate those principles into actual reform commitments, however, and we are working very diligently to achieve consensus among WTO Members on as many areas as possible by this summer. This should pave the way for a successful WTO Ministerial meeting next December in Hong Kong.

Regional and bilateral trade agreements provide another important avenue for opening new markets, and we continue to participate in the ambitious agenda that has been established for the negotiation of such agreements. During the past year, agreements were concluded with Australia, Morocco, Bahrain, five Central American countries, and the Dominican Republic. Negotiations are continuing with Panama, Thailand, three Andean countries, the five members of the Southern African Customs Union, the United Arab Emirates, Oman, and 34 countries that will comprise the Free Trade Area of the Americas.

Our efforts to maintain and expand market access are not limited to the negotiation of new agreements, however. Trade agreement monitoring and compliance activities are vital if we are to protect U.S. trade rights.

During the past year, among our highest priorities has been our work to recover access to markets for U.S. beef that were closed due to the December 2003 discovery of one case of bovine spongiform encephalopathy (BSE) in the United States. To date, we have recovered markets worth \$1.2 billion, based on 2003 values. Most recently, Egypt opened its market to U.S. beef and beef products from animals less than 30 months of age.

The current focus of our efforts is restoring access to the Japanese market, and we are committed to reaching a resolution of this matter as soon as possible. In October, the United States and Japan reached agreements on the terms by which trade in U.S. beef would resume. Since that time, U.S. experts have traveled to Japan to provide additional technical explanations. We have worked across the Administration to apply pressure to convince the Japanese that they must open their market expeditiously. Last month, their Food Safety Commission adopted a new domestic standard excluding cattle 20 months of age and younger from mandatory testing. This is progress. We now need an expedited import review process to get the market reopened.

#### *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 78 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.

As the Committee may be aware, FAS is currently undergoing an extensive review of its activities, organization, and operations. Many factors have prompted this assessment, including the changing nature of the global agricultural trade and trade-related issues; the need for greater efficiency in the delivery of services to the public; and budgetary constraints stemming in large part from significantly increased overseas operating costs. Recent declines in the value of the dollar relative to other currencies, coupled with local wage and price increases at overseas posts, have created major challenges in managing the agency's overseas presence.

FAS has already taken steps to respond to these challenges. Earlier this year, the agency exercised buy-out and early-out authorities, approved by the Office of Personnel Management, to reduce staff levels at headquarters. In addition, its travel budget has been reduced by 50 percent, and promotional activities carried out by FAS overseas staff and other international programs have been sharply curtailed.

Even with the actions that have been taken thus far and further steps that are likely to result from the current organizational review, FAS will continue to face fiscal hurdles as it strives to maintain the services it provides to American agriculture. These factors were taken into account during development of the 2006 budget, with particular attention given to maintaining FAS' overseas presence so the agency can continue to represent and advocate for U.S. agricultural interests on a global basis.

The budget provides a program level of \$152 million for FAS activities in 2006, an increase of just over \$11 million above 2005. This includes funding to meet higher operating costs at the agency's overseas posts, including increased payments to the Department of State for administrative services that State provides at overseas posts.

Funding also is provided for FAS' contribution to the Capital Security Cost Sharing program. Under that program, which is being implemented this year, agencies with an overseas presence in U.S. diplomatic facilities will contribute a proportionate share of the costs of the construction of new, safe U.S. diplomatic facilities over a 14-year period.

The budget also requests funding to support an FAS presence in the new embassy in Baghdad, Iraq, as well as funding for increased agency personnel costs.

#### *Export Promotion and Market Development Programs*

FAS administers the Department's export promotion and market development programs which play an important role in our efforts to assist American producers and exporters take advantage of new market opportunities overseas.

The CCC export credit guarantee programs provide payment guarantees for the commercial financing of U.S. agricultural exports. Those guarantees facilitate exports to buyers in countries where credit is necessary to maintain or increase U.S. sales, but where financing may not be available with CCC guarantees. For 2006, the budget projects a program level of \$4.4 billion for CCC export credit guarantees.

For the Department's market development programs, including the Market Access Program and Foreign Market Development Program, the budget provides funding of \$173 million. This is somewhat below the 2005 current estimate reflecting a proposal to limit the Market Access Program to \$125 million. That proposal is intended to achieve savings in mandatory spending and contribute to government-wide deficit reduction efforts.

The budget also includes \$52 million for the Dairy Export Incentive Program and \$28 million for the Export Enhancement Program.

#### *International Food Assistance*

The United States continues to be the world's leader in global food aid efforts, providing over one-half of world food assistance. In support of our commitment to help alleviate hunger and malnutrition in developing countries, the supplemental appropriations package submitted by the President on February 14th includes a request for \$150 million to support additional Public Law 480 Title II food donations to meet critical needs in Sudan and other emergency situations. It also requests funding for recovery and reconstruction activities in tsunami-affected countries and allows a portion of those funds to cover the cost of Public Law 480 Title II commodities used to respond after the tsunami.

For 2006, the budget continues our support for these efforts by providing a program level of approximately \$1.8 billion for U.S. foreign food assistance activities, including \$300 million that is being requested in the Foreign Operations Appropriations Bill.

The Public Law 480 programs remain the primary vehicle for providing U.S. foreign food assistance. The 2006 budget provides funding that would support a Title I credit and grant program level of \$145 million. For Title II donations, funding is provided to support a program level of \$964 million. These estimated program levels

include unobligated funds carried over from previous years and projected reimbursements from the Maritime Administration for costs associated with meeting U.S. cargo preference requirements in prior years.

In the case of Title II, the level of appropriated funding requested has been reduced by \$300 million below the level requested in recent annual budgets, and an equivalent level of funding is being requested in the Agency for International Development's (AID) International Disaster and Famine Assistance account to support emergency food assistance activities that will be administered separately by AID. This change is intended to expedite the response to emergencies overseas by allowing food aid commodities to be purchased more quickly and closer to their final destination, while increasing the total amount of commodities that can be procured to meet those emergencies.

For the McGovern-Dole International Food for Education and Child Nutrition Program, the budget provides appropriated funding of \$100 million, an increase of 15 percent above the 2005 enacted level. That funding will be supplemented by anticipated reimbursements from the Maritime Administration, and the total combined program level of \$106 million is expected to support assistance for as many as 2.6 million women and children.

The budget also includes an estimated program level of \$137 million for the CCC-funded Food for Progress program, which supports the adoption of free enterprise reforms in the agricultural economies of developing countries. The budget also assumes that donations of nonfat dry milk will continue under the authority of section 416(b) of the Agricultural Act of 1949. The total value of the commodity assistance and associated costs is projected to be \$151 million.

#### *Trade Adjustment Assistance*

The budget includes \$90 million for the Trade Adjustment Assistance (TAA) for Farmers Program, as authorized by the Trade Act of 2002. This program provides assistance to producers of raw agricultural commodities who have suffered lower prices due to import competition, and to fishermen 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. In addition, a determination must be made that increases in imports of like or competitive products "contributed importantly" to the decline in prices.

During 2004, the first full year of implementation, 12 petitions for TAA assistance were approved. Commodities that were certified for assistance included blueberries, Pacific salmon, shrimp, catfish, and lychees. The total program costs for 2004 are estimated at \$16 million.

The deadline for submission of petitions for 2005 TAA assistance closed on January 31st. Thus far, TAA assistance has been certified for Pacific salmon fishermen in 2 States, shrimpers in 7 States, Concord juice grape producers in 3 states, black olive producers in California, and potato producers in Idaho. Additional petitions are currently under review, and decisions on their eligibility should be announced in the near future.

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.

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#### 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 2006 budget for the Farm Service Agency (FSA). Since we met last year, I am pleased to report that FSA has made substantial progress in a number of areas to enhance customer service. We are putting in place an infrastructure that will help us quickly respond to new legislation and provide better access to our programs and data for our customers and business partners. We have made great strides in reaching out to our small and disadvantaged constituency base and engaging our stakeholders to help us develop a new Strategic Plan that is aligned with the Secretary's plan, all designed to support productive farms and ranches that are competitive in global markets; promote a secure and affordable food and fiber supply; and conserve natural resources and enhance the environment.

This budget is fiscally responsible and proposes several measures to achieve savings in farm programs. It also includes a number of projects and initiatives designed to achieve substantial and systemic improvements that will position us for prompt implementation of the next farm bill or any other enacted legislation. Your support for the budget request will enable FSA to meet the challenges of a shifting economic environment and the influence of natural and man-made disasters. Before I begin



addressing the details of the budget, I would like to comment on some of our recent successes, some of the initiatives we currently have underway, and some of the challenges we face.

#### *Disaster Assistance*

The past year provided us with tremendous challenges from Mother Nature, with record rainfall in parts of the country, a pervasive drought in the West, and the worst hurricane season in decades. In all cases FSA showed its colors and responded proactively to provide support in record time. The disaster assistance bill signed by the President on October 13, 2004, included more than a dozen programs and \$2.9 billion for farmers and ranchers who have been affected by drought and other weather-related problems in 2003 and 2004, including damage caused by the devastating 2004 hurricanes and tropical storms that ravaged Florida, the Southeast and Eastern shore. Delivery of these programs has been a massive undertaking, which included implementing the Emergency Conservation Program in 12 days following passage of the bill that provided new funding. In total, this important legislation provided relief for losses of crops, livestock, dairy, cottonseed, and trees, including orchards, timber and pecans. In addition, FSA implemented an emergency relief program utilizing over \$600 million from Section 32 funds for Florida's citrus, nursery, and vegetable growers who were especially impacted by back-to-back hurricanes Charley, Frances and Jeanne.

FSA is working diligently to implement all of these disaster programs as soon as possible. Signup for the Section 32 initiative began last October, with more than \$315 million already paid out. Various other programs are being phased in; for example, the Tree Assistance Program began February 7 and the major Crop Disaster Program began March 14. I am pleased to note that these delivery times are consistent with previous ad hoc disaster programs, which have generally been implemented within 5½ months of enactment.

In addition, we continued the very successful Nonfat Dry Milk (NDM) Livestock Feed Assistance Initiative, which provided drought relief to foundation livestock producers in States hardest hit by drought. Surplus Commodity Credit Corporation (CCC) stocks of NDM, which have been denatured to prevent human consumption, are provided to participating States at a greatly reduced cost. Under the 2004 initiative, 135.8 million pounds of NDM, including some of the unused NDM from the 2003 initiative, was made available to eligible producers in 96 counties in Arizona, Idaho, Montana, Nebraska, Nevada, New Mexico, Oregon, Utah, and Wyoming.

#### *Tobacco Transition Program*

On October 22, 2004, President Bush signed into law the American Jobs Creation Act of 2004, which includes the Fair and Equitable Tobacco Reform provisions commonly referred to as the Tobacco Buyout. Under this statute, payments will be made to tobacco quota holders and producers, ending all aspects of the Federal tobacco support program, including marketing quotas and non-recourse marketing loans, effective with the 2005 crop. This is an historic event, Mr. Chairman, since the tobacco price support program has been in place since the 1930's and has defined a way of life for many of our Nation's small family farmers.

Current tobacco program requirements for the 2004 marketing year will remain in effect through the end of the 2004 marketing season, which ends June 30, 2005, for flue-cured tobacco and September 30, 2005, for all other types of tobacco. The funds required to pay for the transition, estimated to total \$10.14 billion over a 10-year period, will be obtained through assessments on manufacturers and importers of all tobacco products sold in the United States. The payments to producers will be made in 10 equal annual installments beginning in 2005 and ending September 30, 2014.

A sign-up period began on March 14. Tobacco quota holders will receive payments of \$7 per pound based on their basic quota at the 2002 marketing year level. Producers of quota tobacco will receive payments of \$3 per pound based on their shares of risk in the 2002, 2003, and 2004 crops of quota tobacco. FSA is working aggressively to implement this historic piece of legislation as quickly and effectively as possible. We are also working diligently to put in place a comprehensive communication and educational strategy to ensure all farmers, especially minority and disadvantaged farmers, are aware of the program and informed about how to sign up and obtain their benefits.

#### *Technology Modernization*

Over the past year, FSA has moved aggressively and collectively to a more streamlined environment using state-of-the-art information technology. FSA made significant progress in moving our systems to a web-based environment, improving the way we do business, providing better access to our data for our customers and

business partners, and improving customer service. In keeping with the President's Management Initiatives on making programs more accessible using today's technology, last April Secretary Veneman unveiled the USDA Customer Statement, which enables producers to view all their program information through one Web portal. According to the 2002 Census of Agriculture, approximately 48 percent of all farmers have access to the Internet, enabling them to check on their CCC payments, collections, debt, and IRS reporting, via the Web. FSA Web-based applications also allow farmers to sign up for the Direct and Counter-cyclical Payment Program on line and receive their loan deficiency payments on line, significantly reducing the paperwork burden and providing benefits more timely. In addition, other partners are being provided electronic access. For example, participating U.S. banks and exporters can now electronically submit registrations, evidence of exports, and notices of default under the General Sales Manager's Export Credit Guarantee Program.

To take advantage of USDA's and FSA's electronic commerce (e-commerce) programs, the FSA is encouraging all producers to sign up for the capability. Over the next several months, we will be conducting an extensive public relations campaign to promote e-commerce and its benefits. Through a substantial modernization effort, FSA expects that by 2006 all of its major programs will be Web-based and available on line to our customers and partners.

In addition to e-commerce, FSA, along with other USDA agencies, continues to implement Geospatial Information System (GIS) and Global Positioning System (GPS) technology. GIS and GPS are helping FSA staff more efficiently measure land features by allowing computer-generated maps to interact with databases that store information about the land and its characteristics and background. In collaboration with the Risk Management Agency (RMA), FSA has digitized 80–90 percent of our most critical component of GIS—the Common Land Unit, which is the smallest land unit or field. This is the first major step toward creating a common management information system that can be shared by FSA and RMA and tremendously reduce redundancies.

#### *Conservation*

This past year, FSA set new standards for the Conservation Reserve Program (CRP), which is the Federal Government's largest private lands conservation program, assisting farm owners and operators in conserving highly erodible and other environmentally sensitive land to improve soil, water quality, air quality, and wildlife resources. I will talk more about the Conservation Reserve Program in the "Budget Requests" section of this statement.

#### *Program Outreach*

Over the last year, FSA made great strides in reaching out to its small farm and minority constituency base with support from Secretary Veneman. Most importantly, on August 17, 2004, Secretary Veneman published in the Federal Register Proposed Uniform Guidelines for conducting FSA County Committee (COC) elections. The guidelines mandated reforms intended to ensure fair representation of socially disadvantaged farmers and ranchers on COCs. Detailed actions contained in the guidelines include improved outreach and communications; improved election procedures; nominations by the Secretary; and additional reporting and accountability requirements, which were implemented for the 2004 COC elections held December 6, 2004. FSA also launched a massive communications campaign in partnership with many minority and small farm organizations, with the specific goal to increase the numbers of minority and women nominees on COC election ballots. Analysis of the election data is under way, and FSA anticipates some positive results. In keeping with congressional intent, USDA will continue to review the results of the elections and determine what next steps are needed to ensure adequate minority representation on COCs.

Last year, FSA and the USDA Office of Civil Rights crossed a major milestone when it implemented the Minority Farm Register and sponsored several listening sessions to allow minority farmers to interact with top Agency officials to discuss their problems and ways to improve customer service. FSA has teamed with the Cooperative State Research, Education, and Extension Service (CSREES) to train minority-serving institutions to teach minority producers how to apply for farm loans and operate their farms more efficiently. The partnership between FSA and CSREES has been extremely proactive and should prove very beneficial in helping improve FSA's program delivery.

#### *Budget and Performance Management System*

As part of FSA's vigilance towards our mission and meeting the President's Management Agenda focusing on improved customer service, FSA has developed the framework for a new performance-based, results-focused Strategic Plan. Known as

the Budget and Performance Management System (BPMS), this framework aims to improve Agency and individual performance, accountability, and decision-making; fully comply with President's Management Agenda objectives; and ensure a customer focus to all activities. To accomplish all this, FSA formed a BPMS Core Team representing all major Agency functions. The Core Team looked at everything FSA does to help farmers, ranchers, and agricultural partners as well as how FSA manages its employees. Over 450 external and internal stakeholders participated in the plan's development. The Strategic Plan focuses on what FSA will do; BPMS focuses on how the Agency will get it done. The BPMS involves a range of activities to ensure taxpayer dollars are directed to efficient and effective programs that get results. The cornerstone of BPMS is the new Strategic Plan.

BPMS is the vehicle that will help FSA meet its performance goals. Technology changes associated with BPMS will integrate all aspects of budget and performance and associated costs for improved decision-making and accountability to stakeholders and taxpayers. FSA has begun to examine requirements for fully costing the performance measures it uses to deliver results.

#### *Organizational Efficiency*

FSA is actively engaged in a comprehensive review of its operations and organization at all levels, including headquarters, State offices, and our 2,400 service centers. This review is necessary to better understand how to meet the demands of a dynamic and ever changing United States and world agricultural marketing system. FSA needs to better utilize current technology, encourage e-government and web-based programs, and expand GIS capabilities to improve customer service across all business lines. Our review is examining ways to make access to and delivery of our programs more efficient and at less cost, with the help of technology and a streamlined infrastructure.

#### *Fiduciary Accomplishments*

Fiscal year 2004 marks the third consecutive year in which FSA and CCC earned unqualified (clean) audit opinions for their activities, which have program levels exceeding \$25 billion.

### BUDGET REQUESTS

Turning now to the specifics of the 2006 Budget, I would like to highlight our proposals for the commodity and conservation programs funded by the Commodity Credit Corporation (CCC); the farm loan programs of the Agricultural Credit Insurance Fund; our other appropriated programs; and administrative support.

#### COMMODITY CREDIT CORPORATION

Domestic farm commodity price and income support programs are administered by FSA and financed through the CCC, a government corporation for which FSA provides operating personnel. Commodity support operations for corn, barley, oats, grain sorghum, wheat and wheat products, soybeans, minor oilseed crops, upland cotton and extra long staple cotton, rice, 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 2005, \$2.11 billion will be transferred to other agencies.

The CCC is also the source of funding for the Conservation Reserve Program 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 2006 budget estimates largely reflect supply and demand assumptions for the 2005 crop, based on November 2004 data. CCC net expenditures for fiscal year 2006 are estimated at \$19.8 billion, down about \$4.3 billion from \$24.1 billion in fiscal year 2005. If the President's proposals for farm program savings are enacted, CCC outlays would decline by an additional \$587 million in fiscal year 2006.

This net decrease in projected expenditures is attributable to decreases for crop, tree and livestock disaster payments, loan deficiency payments, and the Noninsured Assistance Program, partially offset by an increase in counter-cyclical payments.

#### *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 2004 losses, CCC was reimbursed \$12.5 billion in fiscal year 2005.

#### *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 authorized enrollment under this program from 36.4 million acres to 39.2 million acres. Under the general signup that ended September 24, 2004, FSA accepted offers to bring nearly 1.2 million acres into the CRP. Also under the 2004 continuous and Farmable Wetlands Program (FWP) signup, a combined total of 275,000 acres was enrolled. We issued incentive payments totaling approximately \$85 million under continuous signup, Conservation Reserve Enhancement Program (CREP), and FWP under the incentives program that began in May 2000 to boost participation. As of April 5, 2005, total CRP enrollment is 34.8 million acres, nearly 90 percent of the 39.2 million acres authorized under the Farm Bill.

However, a challenge lies ahead. In 2007, 16 million acres currently under CRP contracts are scheduled to expire, followed by another 6 million acres in 2008, 4 million acres in 2009, and 2 million acres in 2010. To ensure that the benefits of CRP continue, in August 2004 the President declared the Administration's commitment to full CRP enrollment and announced that FSA will offer early reenrollments and extensions of existing contracts. In addition, FSA encouraged public comment on CRP through a Federal Register notice. Over 5,100 comments were received, and FSA expects to complete its analysis and announce reenrollment and contract extension provisions later this year.

President Bush also announced the Northern Bobwhite Quail Initiative, aimed at creating 250,000 acres of habitat for the northern bobwhite quail and other upland bird species, and a wetland restoration initiative to restore up to 250,000 acres of wetlands and playa lakes located outside the 100-year floodplain.

The CREP is also a major initiative under CRP that seeks to address recognized environmental issues of States, Tribes, and the Nation. CREP is a voluntary program implemented through Memoranda of Agreement with partners, such as States, Federal agencies, and private groups. FSA currently has 30 CREP agreements with 25 States with over 1.7 million acres reserved for enrollment. The program is very popular with environmental and wildlife groups, in addition to States and private landowners. More than 600,000 acres are currently enrolled in CREP nationwide. Most recently, in March 2005, FSA launched a second new CREP project in Nebraska.

The fiscal year 2006 budget assumes general signups in fiscal years 2005 and 2006 to enroll approximately 1.0 million acres and 1.3 million acres, respectively. In each of fiscal years 2005 and 2006, 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 year 2005 and 60,000 acres in fiscal year 2006.

Overall, CRP enrollment is assumed to gradually increase from 34.7 million acres at the end of fiscal year 2004 to 39.2 million acres by fiscal year 2008, and to remain at 39.2 million acres through fiscal year 2015, maintaining a reserve sufficient to provide for 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 2006 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 the neediest 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 approximately 14,775 loans to family farmers.

For guaranteed farm ownership loans in fiscal year 2006, 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 2006 program level of approximately \$1.5 billion to assist over 8,500 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. In fiscal year 2004, there was an increase in the percentage of 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 tribe land acquisition loans and \$60 million for boll weevil eradication loans. For emergency disaster loans, our budget proposes a program level 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 mediation programs certified by FSA may request grants of up to 70 percent of the cost of operating their programs. Legislative authority expires at the end of fiscal year 2005; the Department plans to propose extending the program through fiscal year 2010.

For fiscal year 2005, grants have been issued to 34 States. With the requested \$4.5 million for fiscal year 2006, we anticipate that between 30 and 34 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 2 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 provided \$11.9 million for use in southern California only. The Military Construction and Emergency Hurricane Supplemental Appropriations Act of 2005, Public Law 108-324, provided \$150 million for ECP—\$100 million in direct appropriation and \$50 million transferred from CCC. These funds are available until expended and will be used to provide emergency cost-share assistance to producers who suffered losses due to natural disasters such as droughts; Hurricanes Charley, Frances, Ivan, and Jeanne; and tornadoes. As of April 5, \$153.8 million has been allocated to 45 States. The fiscal year 2006 budget proposes no 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 April 5, we have paid fiscal year 2005 DIP claims totaling \$35,089 in four States.

The fiscal year 2006 appropriation request of \$100,000, together with unobligated carryover funds expected to be available at the end of fiscal year 2005, 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.

#### 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 2006 Budget requests \$1.37 billion from appropriated sources including credit reform transfers, for a net increase of about \$70 million over the fiscal year 2005 level. The request reflects increases in pay-related costs to sustain essential program delivery and increases in information technology investments to continue and enhance the modernization of FSA program and administrative systems. These increases are offset by decreases in both Federal and non-Federal county office staff years and operating expenses.

The fiscal year 2006 request reflects a ceiling of 5,474 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 2005 level of 1,250 due to completion of disaster activities. Permanent non-Federal county staff years are estimated to remain at the 2005 level.

Federal staff years have a net decrease of 24 staff years. FSA has taken aggressive actions since fiscal year 2004 to reduce discretionary spending in order to live within available funding. In fiscal year 2005 these measures were supplemented by a reduction in the hiring ceiling which will culminate in a reduction of 39 staff years in fiscal year 2006. This reduction is offset by an increase of 15 staff years which will be devoted to outreach activities aimed at increasing program participation of underserved customers, with special emphasis on socially disadvantaged and/or limited resource farmers, women, and members of minority groups such as African Americans, Asian-Pacific Americans, Hispanics, and Native Americans.

Before closing I would like to note that support of FSA's modernization effort is also 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 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.

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#### 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 2006.

To help position our agency to meet the challenges of the future, we are going through an intensive self-assessment. Many factors have driven our review. For example, the outbreaks of bovine spongiform encephalopathy (BSE) and, to a lesser extent, avian influenza (AI) have made us keenly aware of the changing nature of the trade issues that we confront on a daily basis. Since the Uruguay Round Agreement on Agriculture, trade disruptions have shifted from tariffs and quotas to a host of more complex issues requiring scientific expertise along with diplomacy. Issues surrounding biotechnology have underscored the need for different skills in order to be effective in negotiating and maintaining market access for our products.

The Administration's strategy of competition for trade liberalization has also greatly affected our work. Last summer, the Doha Development Agenda talks got back on track. We now have a blueprint for completing a final agreement on agriculture that lays out strong principles for liberalizing trade. Putting details to this blueprint is not easy. There will be several critical negotiating sessions in 2005, with a goal to achieve consensus on as many areas as possible by July. We recognize that we have a lot of ground to cover in the negotiations, but we are determined to take advantage of this once-in-a-generation opportunity for fundamental trade reform.

In addition to multilateral negotiations in the World Trade Organization, we are also negotiating several important regional and bilateral agreements. Last year alone, agreements were concluded with Australia, Morocco, Bahrain, five Central American countries and the Dominican Republic. We continue negotiations with Panama, Thailand, three Andean countries, the five members of the Southern African Customs Union, the United Arab Emirates, Oman, and the 33 countries that will be part of the Free Trade Area of the Americas.

We are also working to incorporate the principles of the President's Management Agenda into our strategic and operational plans with the goal of making FAS more results oriented. We are reviewing how we manage our workforce, what we can do to make our programs more accessible electronically, and how we can improve our financial management and performance at all levels of the agency.

Finally, fiscal realities have dictated that we conduct a top-to-bottom organizational review. The combination of rising expenses for our overseas offices as a result of the declining value of the dollar, increased Capital Security Cost Sharing assessments imposed by the Department of State (DOS), and the need to absorb rising salary costs has left us with a significant budget shortfall in fiscal year 2005.

To address this shortfall, we requested and received authority from the Office of Personnel Management for early-outs and buy-outs to reduce staff levels in headquarters. With this action, we have been able to reduce headquarters civil service staff levels by 6 percent. We have also imposed a 50-percent reduction in travel and sharply reduced our promotional activities conducted by FAS overseas staff and other international programs.

Thus, a combination of factors has created an opportunity to take a serious and extensive look at the work of our agency and how we can best meet the needs of our customers. We have consulted with Congress, our stakeholders, other government agencies, and our employees to set a new vision for the agency. We know that FAS needs to change to remain relevant in a dynamic global environment.

As part of our ongoing assessment, we are charting a course for FAS for the next 5 years. If we are successful, we envision that in 2010 FAS will be a leader in developing market priorities and strategies for our most important markets, both from a competitive perspective and from a market potential perspective.

Given our resource constraints we need to define what the agency will look like. We know that the agency's most distinct asset continues to be our overseas presence. Our overseas staff provides invaluable service through their in-depth knowledge of the country, its government, the market for our products, and the competition. As government officials, we have the unique capability to gain access to foreign officials on behalf of American agriculture.

But by 2010, FAS will be a smaller agency, sharply focused on market access and market intelligence. Our offices overseas will be smaller and may be in different locations. Even more than is the case now, offices will cover more than one country, and we will make better use of technology to improve our responsiveness and communications. Market access will be even more technical and scientific in nature than it is today, and market intelligence will be more targeted and forward looking.

FAS will continue to be USDA's lead agency for agricultural trade negotiations. We will focus on non-tariff trade barriers and continue to monitor other countries' compliance with international agreements. To build on our market intelligence and development strengths, we will position our resources strategically to support U.S. trade interests. Our trade capacity building activities will be targeted not only to facilitating trade and economic development, but also to promoting agricultural and food security worldwide.

In keeping with the President's Management Agenda, we are assessing our activities, both overseas and at headquarters, to determine which are inherently governmental and provide the maximum value to our customers. Our country-by-country review has a goal of prioritizing markets and activities and identifying where we can absorb reductions with the least impact. We are looking at market potential, market competition, the ease of doing business, the cost of each office, and appropriate staff levels. It is essential that we continue to work in areas where it is most difficult for our private sector to do business. We expect to announce the results of this review shortly. We are confident that the end result of our organizational review will be better, more effective service to U.S. constituents, our agricultural industry and producers.

#### *Budget Request*

Mr. Chairman, as I indicated earlier, FAS continues to experience significant fiscal pressures resulting from the declining value of the dollar abroad and rising staff costs.

However, the levels proposed in the President's budget will allow FAS to maintain current service levels and move toward our 2010 vision without degradation of service provided to our customers.

Our fiscal year 2006 budget proposes a funding level of \$152.4 million for FAS and 982 staff years. This is an increase of \$11.2 million above the fiscal year 2005 level and represents the funds 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 \$8.8 million for support of FAS overseas offices. The FAS network of 78 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 base costs to increase sharply. Since 2002, the dollar has fallen 9 percent against currencies of our major markets.

Specifically, this increase includes:

- \$5.4 million to maintain current services at the 78 FAS offices around the world, including \$2.4 million for wage increases for locally employed staff; \$900,000 for higher rents; and \$900,000 for increases in all other in-country expenses including security, repairs, travel, and supplies. Additionally, an increase of \$1.2 million will be required to meet higher ICASS payments to DOS.
- \$2.7 million for the fiscal year 2006 Capital Security Cost Sharing Program assessment. In fiscal year 2005, DOS implemented 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 personnel 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 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 \$12 million. This level is assumed to remain constant at that point for the following 9 years.
- \$650,000 to support the FAS presence in the soon-to-be constructed embassy in Baghdad, Iraq, after an absence of nearly 20 years. FAS will have the lead on all USDA activities and projects in support of Iraq and its agricultural development. This will entail the entire range of market development, market access, and market intelligence tools available to FAS and its industry partners.

The budget also includes an increase of \$2.4 million to cover higher personnel compensation costs associated with the anticipated fiscal year 2006 pay raise. Pay cost increases are non-discretionary and must be funded. Absorption of these costs in fiscal year 2006 would primarily come from reductions in agency personnel levels that would significantly affect FAS's ability to contribute to USDA's strategic goal of enhancing economic opportunities for agricultural producers.

#### *Export Programs*

Mr. Chairman, the fiscal year 2006 budget proposes \$6.1 billion for programs 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 \$4.4 billion for export credit guarantees in fiscal year 2006.

Under these programs, which are administered by FAS in conjunction with FSA, the Commodity Credit Corporation (CCC) provides payment guarantees for the commercial financing of U.S. agricultural exports. As in previous years, the budget estimates reflect actual levels of sales expected to be registered under the programs and include:

- \$3.4 billion for the GSM-102 program;
- \$5.0 million for the GSM-103 program;
- \$1.0 billion for Supplier Credit guarantees; and
- \$20.0 million for Facility Financing guarantees.

#### *Market Development Programs*

Funded by CCC, FAS administers a number of programs to promote the development, maintenance, and expansion of commercial export markets for U.S. agricultural commodities and products. For fiscal year 2006, the CCC estimates include a total of \$173.0 million for the market development programs, \$15 million below fiscal year 2005 levels and includes:

- \$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 2006 budget continues the worldwide leadership of the United States in providing international food aid. In this regard, the fiscal year 2006 President's budget includes \$1.8 billion for U.S. foreign food aid programs, including \$300 million requested in the Foreign Operations Appropriations Bill. Programs funded through the Department of Agriculture include:

- \$1.1 billion for Public Law 480 which is expected to support approximately 2.2 million metric tons of commodity assistance. For Title I, the budget supports a program level of \$145.0 million, which includes \$80 million in new appropriations. The balance will be provided through unobligated carryover balances and projected Maritime Administration reimbursements. The total program level will support approximately 540,000 metric tons of commodity assistance based on current price projections. For Title II donations, the budget provides for a program level of \$964 million, which is expected to support 1.7 million metric tons of commodity donations. This includes an appropriation request of \$885 million and \$79 million in projected Maritime Administration reimbursements. While the fiscal year 2006 appropriation request has been reduced by \$300 million from last year's request, an equivalent funding level has been included in the U.S. Agency for International Development's (USAID) disaster assistance account to support emergency food assistance activities. This change will allow food aid commodities to be purchased locally which will allow for a more flexible and timelier response to emergencies. Further, the resultant savings in ocean freight and distribution costs is expected to increase the total amount of commodities that can be procured.
- \$137.0 million for CCC-funded Food for Progress. Funding at the proposed level is expected to support 300,000 metric tons of commodity assistance.
- \$151.0 million for donations of CCC-owned nonfat dry milk under Section 416(b) authority. Under this authority, surplus commodities that are acquired by CCC in the normal course of its domestic support operations are available for donation through agreements with foreign governments, private voluntary organizations and cooperatives, and the World Food program. For fiscal year 2006, current CCC baseline estimates project a limited supply of surplus nonfat dry milk that could be made available for programming, and the budget assumes that 75,000 metric tons will be programmed.
- \$106.0 million for the McGovern-Dole International Food for Education and Child Nutrition Program. This represents an increase of \$15 million over the fiscal year 2005 current estimate and includes \$100 million in new appropriations and an estimated \$6 million in projected reimbursements from the Maritime Administration. Funding at this program level will assist an estimated 2.6 million women and children.

#### *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. The budget includes:

- \$28.0 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 2006 budget assumes a continuation of EEP at the fiscal year 2005 level. The 2002 Farm Bill does include the maximum annual EEP program level of \$478.0 million allowable under Uruguay Round commitments, which could be utilized should market conditions warrant.
- \$52.0 million for the Dairy Export Incentive Program (DEIP), \$46.0 million above the fiscal year 2005 estimate of \$6.0 million. This estimate reflects the level of subsidy currently required to facilitate export 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*

Authorized by the Trade Act of 2002, the Trade Adjustment Assistance for Farmers program 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.

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

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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 2006 budget for the Risk Management Agency (RMA). The Federal Crop Insurance Program plays an important role in assisting farmers to manage financial risks associated with yield and revenue shortfalls due to bad weather or other natural disasters. RMA continues to evaluate and provide new products and to promote the adoption of crop insurance as a risk management tool so that the Government can further reduce the need for ad-hoc disaster payments to the agriculture community. In 2006, current projections are that the program is expected to provide producers with more than \$41 billion in protection on approximately 220 million acres through about 1.2 million policies.

The growth and effectiveness of the Crop Insurance Program is dependent on a reliable delivery system, insurance products that meet the needs of producers, investment in information technology to ensure the delivery system is timely, accurate and dependable, and adequate funding to support compliance and program integrity, product evaluation, maintenance and administration, and new product development.

To meet Crop Insurance Program requirements in fiscal year 2006, RMA has requested a budget that will provide the necessary funding to continue the growth of the program and ensure its effectiveness to meet the agricultural community crop insurance requirements and assure fiscal responsibility in the application of taxpayer's dollars. RMA's total fiscal year 2006 budget request is \$3.3 billion. The funding level proposed for the Federal Crop Insurance Corporation (FCIC) Fund is \$3,162,979,000 and for the Administrative and Operating Expenses, the request is \$87,806,000.

*FCIC Fund*

The fiscal year 2006 budget proposes that "such sums as may be necessary" be appropriated to the FCIC Fund. This ensures the program is fully funded to meet the contractual obligation to pay claims, to reimburse the private sector for expenses incurred in delivering insurance to farmers and ranchers, to provide premium subsidies to make crop insurance affordable, and to encourage the purchase of higher levels of protection. Of the total amount requested for fiscal year 2006, 67 percent is slated for premium subsidies. The current estimate of funding requirements is based on USDA's latest projections of planted acreage and expected market prices. The budget request includes \$2.2 billion for Premium Subsidy, \$781.4 million for Delivery Expenses, \$137.5 million for estimated excess losses based on an overall projected loss ratio of 1.075, and \$78.1 million for Agricultural Risk Protection Act of 2000 (ARPA) activities which includes \$3.6 million to continue funding of Program Integrity initiatives under a General Provision in the 2006 Budget. ARPA provided RMA with mandatory funding to implement data mining and data warehousing to improve compliance and integrity in the crop insurance program. We estimate, in the first year of operation, data mining helped prevent nearly \$94 million in improper payments and helped recover approximately \$35 million in improper indemnities. The authority to use mandatory funds for data mining expires in fiscal year 2005. Therefore, the 2006 Budget includes language to provide \$3.6 million to continue data mining and data warehousing activities.

To strengthen crop insurance, promote program expansion, and limit ad-hoc disaster payments, the 2006 Budget includes a proposal for legislation to take effect in 2007 that requires those that receive direct farm payments to purchase crop insurance. The proposal requires farmers growing program crops who receive farm program benefits to purchase insurance protection at a 50 percent, or higher additional coverage level, of their expected market value, or lose their farm program benefits. This change ensures a farmer's loss in a disaster will not be greater than 50 percent. This proposal will further reduce premium subsidies to crop insurance policyholders, as well as subsidies in total to the participating insurance companies. These changes will encourage greater personal responsibility of those who buy crop insurance to pay for their risk management tools and will encourage the companies to deliver crop insurance more efficiently. This Budget proposal is estimated to realize \$140 million in savings to the crop insurance program beginning in 2007. The increased self-reliance encouraged by this proposal and the linkage of the availability of crop insurance to farm program payments are intended to enhance the operating efficiency of the program and reduce the need for ad-hoc disaster payments.

This proposal is expected to be submitted along with the other mandatory proposals for farm programs that support the President's Budget.

*Administrative and Operating Expenses (A&O)*

RMA's fiscal year 2006 request of \$87.8 million for Administrative and Operating Expenses represents an increase of about \$16.3 million from fiscal year 2005. This budget supports an increase for information technology (IT) initiatives of \$12.2 million.

RMA's corporate IT systems need updating and other enhancements to take advantage of the latest technology and to ensure the IT component of the delivery system is reliable, accurate, and accessible. Billions of dollars in indemnity payments, premium subsidy, producer-paid premiums, and administrative reimbursement payments pass through this antiquated IT system each year. Therefore, I am duty-bound to continue to request increases in IT funding because the current IT infrastructure is long past its life cycle and is increasingly costly to run, cumbersome to maintain; and makes it difficult to ensure the security mandated by Federal law. 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 validating, receiving and remitting reinsurance subsidy and other 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 since then, but the program has grown and evolved dramatically in the timeframe, and business process analysis and re-engineering of the entire business delivery system are needed to support current and future program growth. As stated in previous testimonies, without adequate funding of the IT requirements, the Agency cannot safely sustain additional IT 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 2006 Budget is \$1.0 million to expand the monitoring and evaluation of reinsured companies. RMA is, again, 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 effective internal and management controls are in place and operating for each reinsured company's business operations.

The 2006 Budget requests \$1.8 million to support an increase of 17 staff years. This will raise RMA's employment ceiling from 568 to 585. A requested increase of 15 staff years is included to support the increased workload for the Compliance function. 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 dollars 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, 2 staff years are requested for the Office of Insurance Services to support good farming practice determinations and to support the process of evaluating claims resulting from questionable farming practices. ARPA requires RMA to establish a process to reconsider determinations of good farming practices. The Regional Offices of RMA's Insurance Services Division are in a unique position by virtue of their background in production agriculture, agronomy and related fields, and knowledge of local crops and growing conditions to effectively carry out the important function of managing the process by which good farming practices determinations are made. RMA data indicate assessments are infrequently made for 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 increased quality of loss adjustment, particularly in the good farming practices area to ensure that payments for losses are consistent with the requirements of Federal Crop Insurance Act. Again, it is expected the additional staffing in this area will be more than paid for by ensuring that loss payments are made in accordance with the requirement that good farming practices be used.

Lastly, an increase of \$1.3 million is requested for pay costs. These funds are necessary to maintain required staffing to carry out RMA's mission and mandated requirements.

## PROGRAM MANAGEMENT

Now, I would like to provide an update on some of our key initiatives and products:

- FCIC Board Activities
- Standard Reinsurance Agreement
- Pilot Programs
- Product Development and Non-Insurance Risk Management Tools
- Education and Outreach Program
- Agricultural Management Assistance
- Comprehensive Information Management System
- Program Integrity
- Other Initiatives

Under the direction of the FCIC Board of Directors (Board), RMA continues to promote an agenda to bring new and innovative insurance products to the agricultural community, to validate the utility of current insurance products, to ensure outreach to small and limited resource farmers, to promote equity in risk sharing, and to guard against waste, fraud and abuse within the program.

Through the private sector delivery system in crop year 2004, RMA provided approximately \$46.7 billion of protection to farmers, and expects indemnity payments for crop year losses of approximately \$3.1 billion. The participation rate for major program crops was approximately 83 percent. RMA continues to improve and update the terms and conditions of all crop insurance policies to better clarify and define insurance protection and the duties and responsibilities of the policyholder and insurance providers. The Board actions to accomplish program expansion have been somewhat restricted by budget constraints affecting available IT resources and additional staffing required to meet new administrative and program requirements brought on by ARPA. Given this constraint, within the funding appropriated for fiscal year 2004, the Board considered 44 action items during nine (9) meetings. There were six (6) new program submissions and 19 program modifications to existing insurance products. For example, the Board authorized the expansion of the Adjusted Gross Revenue—Lite (AGR-Lite) plan of insurance to all counties in Alaska, Idaho, Oregon, Washington State and North Carolina beginning with the 2005 crop year. Also, the Board approved the implementation of the Silage Sorghum Pilot and the Sugar Beet Stage Removal Option Pilot.

*Standard Reinsurance Agreement (SRA)*

The new SRA has been put in place, effective for the 2005 crop year. Key changes included a lowering of the A&O expense reimbursement, which will be implemented over the 2005 and 2006 reinsurance years. In addition, RMA has tightened the monitoring of SRA holders with respect to financial solvency and is strengthening ties with state regulators and the National Association of Insurance Commissioners (NAIC).

It should also be noted that, for reinsurance year 2005, RMA approved three new SRA holders, bringing the current number of reinsured companies to 16. Thus, 2005 has seen an increase in the insurance writing capacity of the Federal crop insurance program.

*Pilot Programs*

For crop year 2005, RMA has 36 pilot programs being offered. A list of those pilots programs is attached to my testimony (Exhibit 1). As these programs gain experience, RMA conducts evaluations to determine whether they may be converted to permanent programs and offered in counties where the crop is routinely grown. During 2004, RMA completed evaluations on seven (7) pilot programs including: cabbage, crambe, cultivated wild rice, mint, mustard, Group Risk Plan (GRP), rangeland and sweet potatoes. After consideration by the FCIC Board, cabbage, cultivated wild rice, mint and mustard pilots were approved for conversion to permanent programs. The Board directed RMA to revise the GRP, rangeland and sweet potato programs, which has been done, and both were approved as new pilot programs for the 2005 crop year. In addition, RMA currently is contracting for an evaluation of the Adjusted Gross Revenue pilot program.

*Product Development and Non-Insurance Risk Management Tools*

During fiscal year 2004, RMA awarded over \$12 million in contracts to further program goals of expanding the number of crop insurance tools available to growers in the United States. Many of these contracts are directed at specialty crops which supports one of RMA's top priorities to develop effective risk management products for pasture, rangeland, and forage. In January 2004, RMA released a contract for research and development for pasture, rangeland, and forage, with the aim of serving

the vital needs of livestock producers. RMA awarded four contracts to develop new approaches in various areas of the country to address this potential market.

The contracts encourage use of new and innovative technology, including a satellite based vegetative index; a satellite-based remote sensing imagery that will describe the seasonal growth dynamics of vegetation; and the use of a seasonal growth constrained rainfall index based on a combination of a weighted warm-season/cool-season indexing periods and the National Oceanic and Atmospheric Administration rainfall data system. These programs are targeted for Board consideration in 2005 and 2006, and potential availability for the 2006 and 2007 crop years.

Also, RMA has several active contracts underway which are focused on providing new crop insurance programs for some of the most significant non-insured specialty crops. Some of these include a new program for Florida Fruit Trees; a Christmas tree program feasibility study; development for fresh vegetables including asparagus, broccoli, carrots, cauliflower, celery, garlic, artichoke, lettuce-head, lettuce-leaf, lettuce-romaine, and spinach; Hawaii Tropical Fruits and Trees development is currently under consideration by the FCIC Board; feasibility of a revenue maple syrup program; a study by USDA's Economic Research Service evaluating the unique risks of the organic industry; research to determine the potential for development of a risk management tool for producers of crops subject to quarantine restrictions by a state or Federal agency; and research into the feasibility of developing a crop insurance program for Small Value Crops with an annual value of less than \$50 million.

These are just a few of the product development initiatives underway to expand and improve the risk management tools for American agricultural producers.

#### *Education and Outreach Program*

For our educational efforts in 2004, a total of \$4.5 million in cooperative agreements were established with state departments of agriculture, universities and non-profit organizations to benefit states that have been historically underserved in the Crop Insurance Program. Crop insurance education will be delivered to producers in Connecticut, Delaware, Maine, Pennsylvania, Rhode Island, Maryland, Massachusetts, Nevada, New Hampshire, New Jersey, New York, Utah, Vermont, West Virginia, and Wyoming. These cooperative agreements will expand available risk management information; promote risk management education opportunities, inform agribusiness leaders; increase emphasis on risk management; and deliver training on risk management to producers with emphasis on reaching small farms.

Additional education efforts were dedicated to reaching producers of specialty crops. A total of 41 partnership agreements were established at a cost of \$5.3 million in 2004. These agreements will provide outreach to specialty crop producers to broaden their risk management education.

Also, outreach efforts were directed to providing risk management technical assistance to women, small and limited resource farmers, and ranchers. A total of 60 projects were funded in 2004 at a cost of \$5.2 million.

#### *Agricultural Management Assistance*

In 2004, RMA provided \$4.2 million in financial assistance to producers purchasing spring buy-up crop insurance policies in 15 targeted States. The primary goal of the program was to encourage producers to purchase higher levels of coverage, and to provide an incentive for new producers to insure. In 2004, RMA paid up to 15 percent of producers' out-of-pocket premium costs to encourage increased participation.

Overall, in the targeted States RMA has seen an increase in policies earning premium of about 7 percent. In addition, RMA estimates that the average coverage level elected by most targeted States is 70 percent, in contrast to 65 percent, for those states without a financial assistance program.

#### *Comprehensive Information Management System*

RMA is actively working on a project to implement Section 10706 of the 2002 Farm Bill to assist with the development of a Comprehensive Information Management System (CIMS) which will simplify and improve the storage and access to data on programs administered by RMA and the Farm Service Agency (FSA). This project will provide a management information system that allows RMA, FSA and other USDA entities and insurance providers to process, share and report on approved common information.

The CIMS will be designed to: improve access by agricultural producers to RMA and FSA programs; improve and protect the integrity of the information collected; meet the needs of the agencies that require the data in the administration of their programs; improve the timeliness of the collection of the information; contribute to the elimination of duplication of information collection; lower the overall cost to the

Department of Agriculture for information collection; and achieve such other goals as the Secretary considers appropriate for the Agriculture community.

A contract has been issued for the system development; identification of business processes and data elements of RMA and FSA is in the final stage. The next phase involve the design and implementation the information system for storing, maintaining, accessing, and retrieving approved information by RMA, FSA, and USDA. The design will leverage and comply with USDA's enterprise architecture and common infrastructure.

#### *Program Integrity*

Risk Compliance managers have been concentrating on the mission-critical tasks of evaluating and improving new processes to prevent and deter waste, fraud, and abuse in the crop insurance program. Significant effort is dedicated to building and adapting, reporting and tracking feedback systems to complement and integrate the oversight mandates established by ARPA. During 2004, Risk Compliance initiated operation reviews of insurance providers to capture a program error rate and to assess reinsured company activities under the Standard Reinsurance Agreement. The Office of Management and Budget and the USDA, Office of Chief Financial Officer are in agreement that a quantifiable program error rate is a key measure in assessing program compliance/integrity.

Additional efforts have been dedicated to integrating data mining projects; exploring avenues to expedite the increase in sanction requests; and continuing to improve the Compliance case management and tracking system. These areas of responsibility have created a challenge for Compliance to accomplish current activities along with new requirements mandated by ARPA without the benefit of additional resources. Therefore, the fiscal year 2006 Budget includes 15 additional staff years for Risk Compliance to strengthen the front-end oversight of approved insurance providers and to address outstanding Office of Inspector General recommendations to improve oversight and internal controls over insurance providers. Also, included in this budget is a request for \$1 million to establish a systematic process of auditing insurance providers to detect and correct program vulnerabilities to preclude the payment of improper indemnities.

In addition, given the success of the data mining and data warehousing activities to date, a provision is included in the 2006 Budget for \$3.6 million to continue funding of data mining and warehousing activities. Under current ARPA legislation, funding provided to develop the data mining and warehousing systems expires in 2005. The 2006 Budget includes a General Provision to authorize funding under the FCIC Fund to support annual maintenance costs and upgrades in fiscal year 2006. As previously stated, approximately \$94 million in improper payments were determined and \$35 million in improper indemnities were received with the assistance of data mining and data warehousing capabilities.

#### *Other Initiatives*

Some of the other initiatives RMA began or accomplished in 2004 are: completion of the Basic Provisions; development of the Written Agreement Handbook; implementation of changes to Livestock Risk Protection for feeder cattle, fed cattle, and swine; and development of a handbook for Good Farming Practices.

#### CONCLUSION

RMA continues to make crop insurance protection useful to producers, research way to address multi-year losses, expand risk management education opportunities, provide outreach to limited resource farmers, stimulate development of insurance products and improve program integrity. Crop Insurance is a primary system of support to producers when natural disasters strike. This was made very evident when Florida experienced four hurricanes. In response to this situation, FCIC-approved insurance providers mobilized immediately to ensure timely payments of claims.

I urge you to approve this budget as submitted to allow RMA to continue to improve a Crop Insurance Program that is actuarially sound, meets producers' risk management needs at a cost which is fair to taxpayers, affordable to farmers and sufficient for delivery of the program through the private sector as established by Congress.

Mr. Chairman, this concludes my statement. I would be happy to respond to any questions.

## EXHIBIT 1.—FCIC: CROP YEAR 2005 PILOT CROPS

CROPS			PLAN		Comment
	Name	Code	Name	Code	
1	Alfalfa Seed .....	0107	APH	90	Also identified as: Forage seed
2	All Other Citrus Trees .....	0211	TDO	40	Florida
3	Avocado .....	0019	ARC	46	California
4	Avocado .....	0019	APH	90	Florida
5	Avocado Trees .....	0212	TDO	40	Florida
6	Barley .....	0091	IP	42	
7	Cabbage .....	0072	APH	90	
8	Carambola Trees .....	0213	TDO	40	Florida
9	Cherry .....	0057	FD	51	
10	Chili Pepper .....	0045	FD	51	
11	Clams .....	0116	AQDOL	43	
12	Corn .....	0041	IP	42	
13	Corn .....	0041	IIP	45	
14	Cotton .....	0021	IP	42	
15	Cultivated Wild Rice .....	0055	APH	90	
16	Fresh Market Beans .....	0105	DO	50	
17	Grain Sorghum .....	0051	IP	42	
18	Grapefruit Trees .....	0208	TDO	40	Florida
19	GRP Rangeland .....	0148	GRP	12	New crop code in 2005
20	Lemon Trees .....	0209	TDO	40	Florida
21	Lime Trees .....	0210	TDO	40	Florida
22	Mango Trees .....	0214	TDO	40	Florida
23	Mint .....	0074	APH	90	
24	Multiple Crops .....	.....	AGR	63	But not AGR-Lite
25	Mustard .....	0069	APH	90	
26	Navel Oranges .....	0215	FD	51	California
27	Orange Trees .....	0207	TDO	40	Florida
28	Processing Cucumber .....	0106	FD	51	
29	Raspberry and Blackberry .....	0108	FD	51	Several other berries are 'types' in this policy
30	Silage Sorghum .....	0059	IAPH	96	
31	Soybean .....	0081	IP	42	
32	Soybean .....	0081	IIP	45	
33	Strawberries .....	0110	FD	51	
34	Sweet Potatoes .....	0185	APH	90	New crop code in 2005
35	Wheat .....	0011	IP	42	
36	Winter Squash .....	0065	DO	50	

## Notes:

1. RMA will revise this list to reflect new or discontinued pilot programs.
2. Crop policies originally approved via the 508(h) mechanism are not considered pilots. Thus, CRC, RA, and GRIP are not considered pilots.

## AGRICULTURAL ECONOMY

Senator BENNETT. Sounds pretty good, Dr. Collins. Does that mean that the Federal Government can spend less money?

Dr. COLLINS. Unfortunately, it does not, Mr. Chairman. Part of the reason it sounds pretty good is a very large increase in Government payments is built into this assessment of the farm economy.

Last calendar year, we spent about \$14 billion in direct payments to farmers. This calendar year, we expect about \$24 billion. So Government spending is up. That is helping the prosperity.

Senator BENNETT. Ten billion dollars?

Dr. COLLINS. About \$10 billion, yes, sir. Likewise, we see that in our estimates of the Commodity Credit Corporation budget, which you have. Last year, the CCC budget was about \$10.5 billion. This fiscal year, the CCC budget will be about \$24 billion. So that is up roughly \$14 billion.

And that simply reflects the fact that our farm programs generally are price sensitive. Counter cyclical payments, marketing assistance loans depend on price levels. Price levels are down from last year's fairly high levels, and much of the increase is in marketing assistance loan spending.

I might add one final point to that——

Senator BENNETT. I won't take the time to get into that.

Dr. COLLINS. The numbers I have just given you for the CCC are in the President's budget. I might say that since the President's budget was developed, price prospects do look better for American agriculture. And I think we are running on a track to spend less on marketing assistance loans and counter cyclical payments than we had projected several months ago.

#### CAFTA

Senator BENNETT. Okay. Dr. Penn, CAFTA has stirred up a lot of passion. Do you want to make any comments about CAFTA and its benefits to U.S. agriculture? How would you address specifically the concerns raised by the sugar producers?

Dr. PENN. Thank you, Mr. Chairman, Senator Kohl. It is a pleasure to be with you again this year.

I appreciate the opportunity to say a couple of words about CAFTA because it is a trade agreement is very important in and of itself, and it is also very important for the long-term prosperity of U.S. agriculture. Should we fail to approve this agreement, it will cast a long shadow over our opportunities to expand market access through other trade agreements in the future.

This is one of those rare trade agreements where virtually every sector of agriculture stands to benefit. In essence, this agreement is leveling the playing field. As has been pointed out over and over, our markets are already open to the Central American countries and the Dominican Republic. Ninety-nine percent of all of their food and agricultural products already enter our market duty free.

So this agreement says that we are going to greatly reduce and eventually eliminate the tariffs on our products as they move into those markets. And, the benefits are widespread—across the grains, the oil seeds, the livestock sectors, virtually every segment of agriculture stands to benefit.

Now, concern has been expressed by our friends in the sugar industry, and they have made allegations that including sugar in this agreement would threaten the operation of the domestic sugar program. And, we just simply disagree with that. We think that is not the case.

We are, in this agreement, allowing a very small amount of additional sugar to enter the United States, 110,000 tons in the first year. That is about 1 percent of the total United States consumption of sugar. We consume something on the order of 10 million tons. That would let in 110,000 tons. And, that in no way jeopardizes the operation of the premium market that we have for our own growers in the United States.

The world price of sugar today is well under 10 cents a pound. The market in the United States is anywhere from 18 to 22 cents a pound. And admitting this additional sugar would not cause any



decrease in the price, nor would it otherwise jeopardize the operation of the program.

So we think the concerns by the sugar industry are overblown, that this is a good agreement for agriculture. It is a good agreement for our country because it does provide opportunities for economic growth and development in some fledgling democracies right here in our hemisphere. We think that that is very important for our national security.

So we believe it is a good agreement overall, and it is one that I think you will see that most of the agriculture sectors support very broadly. Some 60 groups are actively supporting the passage of this agreement.

#### USDA PRESENCE IN IRAQ

Senator BENNETT. Okay. It is a very small item in the overall budget, but you have got \$650,000 to establish a presence in Iraq. It has been 20 years since the USDA was in Iraq. What will the role be, just out of curiosity? I think that is an item that will attract some attention.

Dr. PENN. As you know, the U.S. Government is establishing a new embassy in Baghdad. And given the current situation there, this will be the largest embassy that the United States has in the world, given the nature of the security situation and the economic situation.

Senator BENNETT. We keep getting reminded of that when we look at the number.

Dr. PENN. Iraq was once a very attractive market for U.S. agriculture. In the late 1980s, before the earlier war in the Gulf region, we were exporting something approaching a billion dollars worth of food and agricultural products to Iraq. This included grains, oil seeds, poultry products, vegetable oils, dry beans.

We are slowly regaining some of that market. We have exported something on the order of 350,000 tons of wheat since hostilities ended the second time. And just this week, we announced that we have had reported to us the sale of 65,000 tons of rice. So we are very slowly making inroads into that market again, and we hope that those sales will continue.

The money that you note specifically is to establish a presence for the Foreign Agricultural Service in this new embassy in Baghdad. Under the new rules by the State Department, all agencies that have a presence in the embassy have to pay part of the capital cost—

Senator BENNETT. I see.

Dr. PENN. [continuing]. Part of the operating cost, and this would support two or three Americans and the foreign nationals that round out the complement.

#### CONSERVATION ASSISTANCE

Senator BENNETT. I see.

Secretary Rey, first, I want to thank you on behalf of the people of Utah for the work that you have done with respect to the flood recovery in Washington County. We are facing another round of that. The normal flow-off is about 66,000 acre feet, and there are

240,000 acre feet in storage that could come down in the next 2 weeks. So——

Mr. REY. Almost makes you wish for fire season.

Senator BENNETT. Yes. Well, unfortunately, we had a fire, which denuded the watershed just before we had all of the rain. So we are grateful. And we thank you also for your efforts on the threatened and endangered species issues that we have to deal with out in the West. And you have been responsive, and I want the record to show that.

Now the President's budget requests a \$37 million increase to help farmers and ranchers address regulatory burdens, primarily coming from EPA. And you and the NRCS has been in the position of being the main agency that confronts this. Should EPA bear some of these costs? Should we try to find a way to shift budget a little on this one?

Mr. REY. I think our joint recommendation—that is, both NRCS's and EPA's—would be that the NRCS staff has the technical capability and the better grassroots delivery system to assist farmers and ranchers to do this work. And whoever ends up bearing the cost of the work, the most effective way to deliver the services or the most cost-effective way to deliver the services is, I think, through NRCS's delivery system.

#### INVASIVE SPECIES

Senator BENNETT. Okay. Tell me about invasive species.

Mr. REY. The Administration's budget request includes a \$10 million increase to use specifically for invasive species work. The Western States are a focus of that work, although it is not going to be exclusively in the West. And there are a couple of key species, like star thistle and salt cedar, where the focus that has been developed in coordination with all of the other agencies in the Inter-agency Invasive Species Working Group have agreed to.

Senator BENNETT. Are we winning that fight?

Mr. REY. I think on some species we are, and others we are not. I think the investment that we are proposing to you for 2006 will help materially on the species that we have selected for priority. But there are other concerns out there as well.

#### RESEARCH COORDINATION

Senator BENNETT. Okay. Dr. Jen—ARS, one of the most popular and attractive programs that USDA oversees. So you get to be the one everybody likes. They have got 22 national programs, some 1,200 research projects in this country and overseas. The research is related not only to USDA programs, although there are some that is exclusively there. But some to activities in the other parts of the Federal Government, such as food safety and nutrition and climate change and environmental programs.

Tell us about what you are doing to make sure there is not duplication between what you do and other university research activities and research in the other Federal agencies.

Dr. JEN. Mr. Chairman and Senator Kohl, thank you for the opportunity to be here.

In terms of trying not to have duplication of research effort, we operate under the National Science and Technology Council, which

has a committee of science, committee of technology, and inter-agency work groups that coordinate the various type of Federal research among the department. So we participate in most of those activities and discussions that promote interagency cooperation.

More specifically, we cooperate with the National Science Foundation, NIH, and NASA, for example, to address various issues of common interest.

Within USDA, we have program areas in CSREES and ARS that are planning together, so that the ARS research activity and the university grants from CSREES are complimentary.

#### RURAL HOUSING PREPAYMENTS

Senator BENNETT. Thank you.

Secretary Gonzalez, I think you will probably hear from Senator Kohl about some of the rental assistance and activities in the rural areas. He has a great interest in that. So I will pass over it fairly quickly.

But I want to focus on one aspect. The recent report to the administration on the condition of Section 515 housing indicates that most of the units are not in danger of prepayment, but they do need repair and renovation. And the total, according to the report, is \$2.6 billion.

Do you anticipate that any of the funds sought for vouchers will be used for future renovations of these projects? If not, why not?

Mr. GONZALEZ. Thank you, Chairman Bennett, and thank you, Senator Kohl.

There are two new developments in our multi-family program from the time we met last year. First the courts have made a determination that the owners have a right to prepay. Fortunately, Rural Development took the initiative by initiating the comprehensive property assessment, which we have shared with the committee on both the House and the Senate side.

Essentially what the study did was look inside the multi-family portfolio and specifically look at a sample of the 17,000 properties that are out there, and determined that about 10 percent of those properties could potentially prepay.

In addition to that, we looked at market conditions and property conditions. We did look at capitalization requirements in the future. We looked at the propensity to prepay. But specifically what we are focused in on right now in the 2006 budget is the \$214 million, which is to establish a new tenant protection voucher for the tenants.

If you take that 1,700 properties that could prepay, you are talking about 50,000 families that essentially could be displaced from the properties as a result of market increases in rent. And so, the voucher program is designed specifically to protect the tenant either in the existing property if the owner prepays or at another property that is in our portfolio.

So the \$214 million is designed specifically to meet what we estimate are one third of the 50,000 units, in 2006, that we expect to prepay. Those families potentially could be subject to market rent increases and, as a result, could be out on the street without housing.

Senator BENNETT. So you are not anticipating the money going for renovations?

Mr. GONZALEZ. No, sir.

Senator BENNETT. I see. Senator Kohl.

#### RENTAL ASSISTANCE PROGRAM

Senator KOHL. Thank you, Senator Bennett.

Mr. Gonzalez, I would like to talk a little bit more about the subject raised by Senator Bennett. I believe the landscape seems to be shifting here, and I am very troubled by what I believe I see happening.

First, as you know, developers have gone to court and won the right to prepay loans and convert low-income rental housing to market prices, which will effectively force rural poor, the people who are barely getting by as it is, out into a market where their housing costs will go up. And now USDA comes forward with a voucher program.

If we approve your voucher plan—and I don't think we will—USDA will, in effect, be giving a green light to those developers who want to hand tenants a voucher, tell them to find another place to live, and kick them out of their present housing. I understand that well enough. I don't intend to let that happen.

In 2003, I requested a GAO report about your rental assistance program, which found lots of problems, and we have been working together to fix that. And now you are going to turn into an uncharted area, where the rural housing service has no experience. I have to tell you I don't think this committee has enough confidence at this time to start off in a new direction, especially one about which I am concerned as much as I am about this program.

Furthermore, from what I have learned from you so far—and I have tried to get information about this without a great deal of success—it doesn't seem that you have much idea how this voucher program is going to work. It is not authorized. There is no detailed plan, and it looks like a \$215 million carrot to shove low-income people into the street and let their homes go to more affluent families that can afford to pay market prices.

What is more, it appears that this proposal would let these vouchers be used anywhere. A person in rural Wisconsin, for example, could be given one of these vouchers, move to New York City, which isn't exactly a rural area, and use this voucher, funded through USDA's rural development programs. At least I see nothing that proves otherwise.

I always thought that USDA was there to help poor families in rural areas instead of working against them. So could you explain a little bit more what this program is, why it is being implemented, and what you are trying to do?

Mr. GONZALEZ. Yes, Senator. I will share with you the two new developments that I shared with Chairman Bennett. The courts have determined the owners have a right to prepay. The comprehensive property assessment did look inside the portfolio of the 17,000 properties to examine market conditions, property conditions, capitalization requirements for the future, and also the propensity to prepay.

Earlier, GAO had come out with a report indicating that closer to 25 percent of those properties could prepay. Our number, based on a sample of 333 properties, is lower at 10 percent. So you are looking at 1,700 properties versus the 4,000 properties GAO estimated potentially could prepay. Our number is rather conservative in terms of that. GAO has agreed on our number.

Our primary concern is protecting those tenants from being displaced by an increase in market rents. There is no program that has been established like this within Rural Development to protect tenants from and absorb that type of market rent increase.

Regarding rental assistance we have brought a forecasting tool online at the agency to greatly improve the accuracy of our forecasting. Those numbers are a lot more reliable, a lot more accurate. I would be glad to demonstrate the tool to staff and to you, Senator, and to the committee.

We do have a tool that is online now that improves the accuracy of the rental assistance forecasting.

Senator KOHL. But I don't see you disagreeing with the assertion that these properties are going to be converted into market price rental properties and that, as a result, those tenants are going to be forced out. I mean, that is a statement of fact, isn't it?

Mr. GONZALEZ. Well, based on the study, 10 percent of those properties are commercially viable and at least 50,000 families could be subject to being displaced.

Senator KOHL. Well, how is that a good thing?

Mr. GONZALEZ. It is not a good thing, but the voucher is designed specifically, to protect those tenants from being subject to that risk.

Senator KOHL. So they get a voucher, and they have to go and find housing elsewhere?

Mr. GONZALEZ. The voucher can be used in that property that was prepaid, or it can be used in another property within our portfolio.

Senator KOHL. What is the size of the voucher?

Mr. GONZALEZ. I believe I would have to get you the details on the size of the voucher. But I believe it is about \$12,000 to \$13,000.

Senator KOHL. Well, if you are not able to testify on the size of the voucher and its adequacy, then how could we discuss this program in light of these families that are going to be displaced and their ability or inability to find satisfactory housing?

Mr. GONZALEZ. Our primary focus is the accuracy of the study. We brought in an outside consulting group to look inside this portfolio. They determined that at least 10 percent is commercially viable and that could prepay, subjecting to 50,000 families to being put out in the street. That is a concern for this agency, and it is a concern for this Administration to protect those tenants.

#### HOUSING REVITALIZATION BUDGET REQUEST

Senator KOHL. Now I understand there is some kind of a consulting fee, \$10 million in consulting fees that you are going to be spending. Please can explain to us what those fees are for, to sell what I regard as a bad idea. How do you intend to spend every penny of the \$214 million that we are talking about?

Mr. GONZALEZ. Up to \$10 million can be used to establish the Office for Revitalization and provide administrative support. That is

up to \$10 million. The balance of the \$214 million will be spent on vouchers to protect the tenants.

Senator KOHL. And what is the \$10 million going to be spent on?

Mr. GONZALEZ. To establish the Office of Revitalization for this multi-family portfolio and for administrative support.

Senator KOHL. Well, as you can tell from my comments, we are going to need to talk about this program in much greater detail before the 2006 mark-up, and I will look forward to working with you on ways in which we can at least satisfy my office and Senator Bennett's that we are heading off into a direction which is satisfactory. And I look forward to working with you on it.

Mr. GONZALEZ. Thank you, Senator.

#### MILK PRICES

Senator KOHL. Dr. Collins, when the Congressional Budget Office prepared its January baseline, it assumed \$13.90, as you know, as the average all-milk price for 2005. On that basis, CBO estimated that the MILC program would cost \$606 million in fiscal year 2005. The administration came up with an estimate of about \$500 million. More recent data leads me to believe that those numbers are overstated. In your testimony, you predict an all-milk price of \$15 rather than the \$13.90.

We only have 5 months left in our fiscal year, and it seems very likely that the cost of milk will be much lower than either the CBO or OMB predictions. So what was the all-milk price assumption that resulted in the administration's January price estimate of \$500 million for milk, and what market fundamentals have changed since that time?

Dr. COLLINS. That is a very good question, Mr. Kohl. Those estimates were based on November supply and demand conditions. I cannot remember the exact milk price that was back in the November forecasts of the department. But I think you are accurate in suggesting that the market has gotten a little tighter since then, and milk price prospects look better.

You indicated a CBO price forecast in a \$13 per hundredweight range, and our forecast for 2005 is now up to \$15 per hundredweight, which would make it the third- or fourth-highest price in history. Unfortunately, when we score budget proposals, we score them off the President's budget, just as CBO scores budget proposals off its March baseline. We always pick a point in time and stick with that throughout the entire reconciliation process.

So even though I think that markets look a little better than they did back in November of 2004, we will continue to score the MILC program extension off the President's February budget baseline.

#### VALUE-ADDED PROGRAMS

Senator KOHL. All right. For anybody and all on the panel, in spite of the trend toward market dominance by a handful of companies, a growing number of small, independent farmers are turning to the historic role of farmers as business men and women who are finding value-added niche markets, producing specifically to those markets, and finding it is not so much the size of the operation as it is the quality of the operation.

Does your department recognize that these opportunities for farmers exist? And if so, what are the farm credit, rural development, and research and extension agencies doing to support these niche developments and operations?

Dr. PENN. I can offer the perspective of our program area, Senator Kohl, in the Farm Service Agency. As you know, we have a very extensive farm loan operation, and there is a portion of the loan funds that is set aside by statute for small and disadvantaged farmers, for beginning farmers, and for minority farmers.

This is a program that is especially well suited to operations of the kind that you describe, those that have found a niche in the marketplace and realize that they can fill that niche without having to grow as large or operate like the commercial mainstream field crop or livestock operations. So those programs are almost ideally suited to the kinds of operations that you are describing.

Mr. GONZALEZ. Rural Development has for the last 3 years, as a result of the Farm Bill, a value-added producer grant program that essentially is creating new market opportunities for farmers and ranchers in terms of taking those raw commodities and adding value and, at the same time, increasing the bottom line, creating jobs, and helping diversify rural economies.

#### DIRECT MARKETING OF FARM PRODUCTS

Senator KOHL. All right. Gentlemen, I know that marketing falls under jurisdiction of Agricultural Marketing Service that will be represented here tomorrow. But for small farmers, especially those seeking these niche markets, marketing can make all the difference in the world in terms of success and failure.

Do you think direct marketing of farm products is a viable way to diversify rural investment? What are the keys to success in this style of marketing?

Dr. COLLINS. All right, Senator Kohl, I would be happy to take a shot at that.

#### VALUE-ADDED PROGRAMS

First of all, let me say on this whole question of value added in niche markets, the Department did send up a report on its value-added programs to the Congress. It was required in last year's appropriations bill, and we sent it up, I believe, in January of 2005. And it profiles across the Department all the different value-added programs we have.

If my recollection is correct, we have roughly \$350 million a year in value-added programs, and we view value-added marketing just as you described it, from the research programs right through to the marketing programs of the Agricultural Marketing Service or the programs in Mr. Gonzalez's area.

Also as part of value added, we include our bio-energy and our bio-product work, which is substantial. It is not fully included in that \$350 million, but our bio-energy work and bio-product work is running about \$250 million, with Dr. Penn's area accounting for a big portion of that with the CCC bio-energy program.

## DIRECT MARKETING OF FARM PRODUCTS

Specifically related to direct marketing—by “direct marketing,” I think you mean farmers markets and things like that—certainly we have seen an explosion in growth of farmers markets over the past decade. And it has represented an excellent opportunity for producers to go directly to the consumer and get that additional value that might otherwise go to a middleman or to a processor.

And what we are seeing with the producers is quite a range of products that are being offered directly to the consumer. At USDA, we have a farmers market once a week in one of our parking lots, and we can see firsthand. We get farmers from Virginia and Maryland and surrounding areas that come in and directly market to USDA and other Federal employees where we are.

I think the number of farmers markets is now in the range of 3,000 across the United States, and we have seen a tremendous growth in that. So it is an opportunity, particularly for producers who can provide unique services to consumers.

I know I have met with farmers who have come in to USDA who, for example, have programs where they bring classrooms to their farms. And that acquaints students and students’ parents with what they have on their farms, and then they market directly to the community, and that becomes a marketing vehicle for them.

So we are seeing a lot of ingenuity on the part of small and medium-size farmers to extract a higher value. If you have a small acreage, the only way you can get more income is to increase the margin. One way to increase the margin is to increase the price relative to the cost of production. The way you increase the price is by you, as the farmer, adding value. And that is what direct marketing can do.

## SPECIALTY PRODUCTS

Senator KOHL. That is great. In Wisconsin, dairy farmers are forming, as you know, cooperatives to develop specialty cheese products. And this committee has provided funding to help these cooperatives establish marketing policies.

Aside from programs like the value-added agricultural product market development grants program of which I believe the President proposes to cancel \$120 million in this next fiscal year, how can the department work with farm groups to promote specialty products and create new markets for these products? Tell me some of your own thoughts and experiences here.

Dr. COLLINS. Well, one thing I would offer is the efforts that the Department has made to promote the consumption of fresh fruits and vegetables. We have done that in a variety of ways. For example, through the school lunch program, we have had pilot fresh fruit and vegetable programs to increase the consumption of that.

You are going to hear from Under Secretary Bost tomorrow, and I think he could give you a range of activities that he has been involved in to try and promote the consumption of fresh fruits and vegetables. Again, going back to USDA as a firsthand experience, in our own cafeteria, we have replaced most of the vending machines that used to sell highly processed products, and we now



have fruit and vegetable available in vending machines and fruit juice vending machines and so on.

So I think that there is—through our food assistance programs, we are making a substantial effort to try and promote increased consumption of such specialty products.

#### FARM PRODUCT EXPORTS TO CHINA

Senator KOHL. Good. I thank you. Senator Bennett?

Senator BENNETT. Dr. Collins, talk to us about China. That is a topic on everybody's mind. Sometimes they get demonized. You mentioned that in fiscal 2004, it was a \$6 billion market for U.S. farm products. Where do you see that going? And specifically, what farm products do we export to China?

Dr. COLLINS. Well, specifically, we export a wide range of products. The biggest ones probably are soybeans and cotton. China has built a huge vegetable oil processing capacity over the last decade. They are now the world's largest soybean importer. This year, we estimate that they will import about 22.5 million tons of soybeans. We will—

Senator BENNETT. Are they attempting to grow any themselves?

Mr. COLLINS. They do grow soybeans. Their production has been increasing, but at a slow rate and cannot nearly keep up with their consumption, which is going to vegetable oil consumption and going to improving the feed rations of their livestock.

We expect that this year, we will set a record in soybean exports to China, probably in the neighborhood of 12 million tons, which is half of their total imports. And they account for one third of the world's imports of soybeans.

In addition to that, another issue that you mentioned, China being demonized, part of that has been related to the huge overall trade deficit we have with China. It is our largest single-country trade deficit. A part of that also relates to the huge increase we are seeing in imported textiles and apparel from China since January 1, when the Uruguay Round Agreement on textiles was fully implemented.

But that gives us another opportunity. China is an enormous consumer of cotton. This year, we think that they will import about 8 million bales of cotton. Over the next several years, we expect that that might grow to 10 to 12 million bales of cotton. They are our largest market for cotton, which is a high-value commodity, and so that represents a tremendous opportunity for our producers as well.

Yes, we are losing our domestic cotton consumption. Our textile mill capacity is slowly going overseas. But we are replacing that with increased exports of cotton.

I remember years ago, I didn't think we would ever see 10 million bales of cotton exported, and this year, I think we are going to do about 14 million bales. So it has been tremendous for the cotton industry to be able to capture that growing market in China.

China also this year is the world's largest importer of wheat. This is a commodity that they didn't generally import. In China, wheat has become a staple in the northern part of China. Rice is really the staple food in the southern part of China. And yet we

have seen them become the world's largest importer of wheat, and we are supplying some of that.

Rice, as I said, is considered a staple in the southern half of China. That is a commodity they are probably most sensitive about preserving self-sufficiency in, and they have been right on the threshold of becoming a sizable importer of rice. They have had difficulty expanding their rice acreage. I don't foresee them becoming a big rice importer. It is possible on the margin they could increase their imports some, but I think you are going to see domestic efforts in China to increase their rice production.

So we have a broad range of commodities. We are providing some horticultural commodities to China as well. So there is quite a range of things that we are providing.

Dr. Penn reminds me that number-one item, hides and skins to China. So they are a market on the livestock side as well.

#### TEXTILE EXPORTS AND JOBS

Senator BENNETT. Okay. My own observation in another life here with the Joint Economic Committee, I think the textile manufacturers that we are going to lose have already been lost. And interestingly, what I think is happening is that China is taking jobs away from the Dominican Republic and Mexico and other places where they had taken these factories from us. And now the Chinese are undercutting them.

Dr. COLLINS. This is exactly what we are hearing from Caribbean area countries, for example. They fear the impact of China on their exports to the United States. They have had trade preferences with us in textiles. And now with the elimination of all quotas, those preferences disappear. Country of origin rules disappear, and they are very worried that China is going to displace their textiles in the United States market.

From a cotton point of view, China accounts for about 15 percent of our cotton textile and apparel imports. So it is not a huge player right now, but it is going to grow fairly sizably, I believe, over the next couple of years. I agree with your point that much of what potentially could be lost has already been lost. We lost the apparel industry a long time ago, the high labor cost industry.

Senator BENNETT. Yes.

Mr. COLLINS. And we do have a solid core of textile companies that produce very high-quality, high-value, technically advanced product. I can remember early in my career visiting a textile plant, and you could see the parking lot was full of cars. You go to a textile plant today, and there are three cars in the parking lot. You know, it is highly automated, and it has been able to improve its efficiency.

So we are going to have some market for U.S. textiles, but there is no question that the Chinese market share in our market will grow. And it will largely come at the expense of other countries around the world. And this is an issue for putting safeguards on Chinese textiles as well. Because when you do that, we might reduce the imports of China, but they might find their way into the United States through other countries.

Senator BENNETT. Yes. Well, you raise an interesting question. If China is a major importer of cotton, as they begin to take some

of this work away from the Caribbean, are we going to see drop-off in our cotton sales in the Caribbean?

Mr. COLLINS. That is the worry, that we will see some decline in our exports of cotton.

Senator BENNETT. What is the net number? Is China going to import more than the Caribbean loses, or are we just going to shift?

Dr. COLLINS. I think right now we are expecting our exports will continue to grow, and that is because world consumption of cotton textiles will continue to grow. The size of the pie is going to get bigger.

#### CONSERVATION RESERVE PROGRAM

Senator BENNETT. I see. Well, that is good.

Dr. Penn, let us talk about CRP, and there are tens of millions of acres under the Conservation Reserve Program that have contracts that are set to expire in the next few years. What is FSA doing to make re-enrollment a smooth kind of process? Do you see any kind of bureaucratic bottlenecks or problems as those expirations come along?

Dr. PENN. Well, the situation is exactly as you note. I can't remember the exact numbers, but there is a relatively small amount of CRP acreage that expires in fiscal year 2006. But then I believe in 2007 and 2008, over 22 million acres begin to expire, and that is out of something on the order of 34 to 35 million that are enrolled now.

We have been thinking about this very seriously, noting that this is both a challenge and an opportunity. We have such a large amount of acreage coming out of the CRP and then needing to re-enroll or extend acreage to continue the 39.4 million acre mandate that was included in the 2002 farm bill. The question becomes do we want to change the profile, the character, or the nature of the land that is to be re-enrolled into this program?

We had a major conference last year in which a lot of these questions were raised. What is the objective of the CRP now in terms of its role in rural America, its role in protecting wildlife, its role in environmental enhancement? So there are a lot of objectives, and these continue to shift over time since the beginning of this program in 1985.

There is to be another major conference later this year to further explore these questions, to give all of the stakeholders—the people who are concerned about soil erosion, water quality, wildlife habitat, and agricultural production—an opportunity to state what their views are with respect to how to effectively manage this program. We have also put a notice in the Federal Register in asking for comments on options that we could consider as we begin to re-enroll this large acreage.

The President has made a commitment to keep the CRP fully enrolled as the statute allows, and the question then becomes: exactly how you want to manage the program, what are the objectives of the program, and where the land will come from. So we are exploring all of these questions that you raise as we get closer to the date when this large amount of acreage will expire.

## PLANNING RESEARCH PROGRAMS

Senator BENNETT. All right. I applaud you for that. Whatever we can do to make the re-enrollment as smooth and seamless as possible. And that sounds like you are of the same mind.

Now, Dr. Jen, you may be the one to ask this question to, or others. The budget calls for a number of increases in areas of research and then eliminates \$175 million in projects requested by Congress, many of which are research projects. In some places, the budget proposes increases in cuts to the same subject.

I will give you some examples. A \$2 million increase in bio energy research is offset in part by cuts in bio mass and ethanol research. You have a \$4.7 million increase in genomics while cutting livestock and fish genome mapping and soybean and cotton genetics. \$15.3 million in food safety while cutting projects that deal with salmonella, Listeria, and E. coli. \$1.5 million increase for obesity and healthier lifestyle, but \$6.9 million in cuts for research in those same areas regarding child and elderly nutrition.

Share with us how you establish or how you set your priorities and why you had the particular set of winners and losers that you had. Was it just that if it came from the department, you like it, and if it came from Congress, you don't?

Dr. JEN. Absolutely not, Mr. Chairman.

Senator BENNETT. Oh, okay. I wanted to get that on the record.

Dr. JEN. Yes. We probably should get on the record that the department supports a portfolio of all types of research programs. Sometimes when you see the shifting from one area to another, it is somewhat misleading. We set our research agenda mainly on what is most important for the Nation.

Often, the title of the project, including other research that you say is cut is moved into a different program or within that program. So it is really not as clear cut as it appear. For example, for genomics or obesity, the total budget request for both these areas has increased in the President's 2006 budget.

Genomics research and obesity research are increased in the national research initiative. So the budget did not show very clear-cut increases in those areas. In terms of priority setting, we have a tremendous number of stakeholder listening sessions and interactions with industry, with university community and with Congress, congressional staff, and all the other stakeholders to set our priorities.

Senator BENNETT. You will not be particularly surprised if the committee adds some congressional earmarks, will you?

Dr. JEN. No, sir.

Senator BENNETT. Okay. All right. I will leave that.

Senator Kohl, do you have any additional questions?

Senator KOHL. Thank you very much.

## BUDGET DECREASES

Mr. Gonzalez, this year, as before, the President proposes to cut direct loans and grants, which, as you know, target low-income communities, and increase guaranteed loan programs, which serve more moderate income communities. This proposal effectively cuts vital services to our country's poor citizens by reducing direct loans

and grants for multi-family housing, water and waste, broadband grants, and other rural development programs.

USDA justifies this shift through its budget by emphasizing lower interest rates and a resulting lower subsidy. On its face, this sounds like a good idea to keep costs down. But America's most needy rural communities are too poor and neglected to participate in guaranteed programs. Furthermore, the public policy underlying direct loans and grants is precisely to support the Nation's most vulnerable rural communities.

Now with interest rates rising, will it not be more difficult for small rural communities to take on additional debt in lieu of grant funding? Did your proposal anticipate the possibility of higher interest rates? What effect does higher interest rates have on the ability to serve low-income families in the 502 guaranteed program?

Mr. GONZALEZ. Yes, Senator. I believe our direct program is down about \$100 million. But our guaranteed program is up about \$400 million. This demonstrates our commitment, the Administration's commitment to a home ownership society.

We are qualifying more people from our direct program and also graduating people from our direct program into our guaranteed program in the case of single-family housing.

In terms of our multi-family housing program, that number, in terms of direct loans, is down. We obviously are focusing right now on tenant protection. The other component on our guaranteed side is our 538 multi-family housing program has been doubled from \$99 million to about \$200 million. Combining that with tax credits, we feel we can still serve the low-income market.

Those are just examples of areas that even though there have been some reductions on the direct side, we still are adequately servicing residents in rural areas with our guaranteed programs.

#### NUTRIENT MANAGEMENT LAB IN MARSHFIELD, WI

Senator KOHL. All right. A question for Secretaries Jen and Rey. Along with volatile dairy prices, another major concern of dairy farmers is the cost of compliance with State and Federal environmental regulations. Two years ago, I helped bring together the ARS, NRCS, and the University of Wisconsin College of Agriculture and Life Sciences in a collaborative effort to meet this very challenge.

As a result, this committee has provided funding to establish a nutrient management laboratory at Marshfield, Wisconsin. Part of the construction of this facility is complete, and I hope we can provide funding for the last construction phase this year.

We have also encouraged the ARS Dairy Forage Laboratory and NRCS to work together as partners at the Marshfield facility to develop management practices and implement them at the farm level.

Mr. Jen or Mr. Rey, can you provide an update on this partnership between these research and conservation agencies?

Mr. REY. We have just developed a cooperative agreement for fiscal year 2005, to develop the laboratory, and we can submit a copy of that for the subcommittee's hearing record. On the NRCS side, we will continue to provide resources to the effort out of our base

2005 budget, and we will spend at least a half a million dollars to support the continuation of the project this year.

We will also provide staff support, with the aim of integrating animal diet and feed management technologies into overall conservation practices.

Dr. JEN. In terms of the Dairy Forage Research Laboratory, we have completed feasibility studies for the renovation/reconstruction of a new facility through the 2004 budget. We forwarded the report to the Congress.

Senator KOHL. Gentlemen, I understand that a draft memorandum of understanding between ARS, NRCS, and the Wisconsin College of Agriculture and Life Sciences has been forwarded to Washington. Has either agency taken further action on approval of this memorandum of understanding? And will you please notify me when such action is taken?

Mr. REY. After we complete the work, we will notify you and bring a copy up.

Senator KOHL. I would appreciate that very much. I thank you very much.

Senator Bennett, I have no further questions.

#### WATERSHED AND FLOOD PREVENTION OPERATIONS

Senator BENNETT. Okay. Secretary Rey, watershed and flood prevention operations zeroed out in the President's budget. You say in fiscal 2004, it provided nearly \$1.5 billion in monetary benefits, created, enhanced, or restored 7 million acres of upland wildlife habitat, benefitted nearly 48 million people.

Okay. I realize this is a program that gets heavily earmarked up here, and that does have an impact on NRCS's ability to make decisions. But why do you want to zero it out?

Mr. REY. I think calling this program heavily earmarked is a bit of an understatement. It ranged in the last couple of years between being 100 percent and more than 100 percent earmarked. In the latter case, through an arithmetical error that required us to distribute the earmarks on a discounted fashion.

It is also a program that harkens back to the 1950s. A lot of watershed structures have been constructed during that period of time, and very little programmatic oversight has been provided to the program in perhaps the last 15 years. Running this program has become a considerable challenge to us. We don't always have the right staff with the right backgrounds and expertise in our State offices where the earmarked projects are provided.

So we think this program has reached a point where stepping back and taking a broader programmatic look at it is long overdue. That is something we would like to work with the Congress about. But, you know, to continue to administer it in this fashion is perhaps not the best use of what is admittedly tight budgets in a very difficult budget environment.

Senator BENNETT. Will you be surprised if there are some earmarks in this year's—

Mr. REY. I would be surprised if there weren't.

Senator BENNETT. Okay.

Mr. REY. That having been said—

Senator BENNETT. Yes.

Mr. REY [continuing]. The point—

Senator BENNETT. Can we work together a little more I think is what you are saying.

Mr. REY. Right.

Senator BENNETT. So that the earmarks are tied more to a budget plan or management plan that you might have in mind. Is that what you—

Mr. REY. Yes, and a programmatic look at where these two programs should go in the future. I don't think that their past performance, in terms of the construction of structural watershed improvements, is necessarily where their future should go.

Senator BENNETT. All right. I think that kind of dialogue is useful, and we will keep that in mind as we go forward.

Senator Kohl, you had one more question?

Senator KOHL. I thank you very much, Senator Bennett.

#### TRANSFER TO THE DEPARTMENT OF COMMERCE

Secretary Gonzalez, I see another part of the President's budget where you want to get rid of four Rural Development programs and send them over to the Department of Commerce. At Commerce, they will be lumped with 14 other programs from all over the Government, with one third less money than they now have. The Administration justifies this by saying the programs are duplicative, ineffective, and unaccountable.

Secretary Gonzalez, I understand you have been working with these programs for a number of years. Do you think, for example, that the Rural Business Enterprise Grant Program under your management has been ineffective? Because, frankly, your own press releases on the successes of these programs, this particular program, leave quite a different impression.

Mr. GONZALEZ. Thank you, Senator Kohl.

These programs obviously were "PARTED", were scored over the last year by OMB, and most of these four programs under Rural Development did not demonstrate results and, in some cases, were duplicative. I support the President's Strengthening America Communities Initiative in terms of consolidating the 18 programs administered by the five agencies. It makes a lot of sense, and it stands to benefit rural areas when you look at the larger pot of money that is being consolidated. Rural areas will have access to a substantial portion of a program level of \$3.75 billion.

We have been working with the Administration, the White House and Department of Commerce to ensure that rural areas do have greater access to a larger pool of money. And, we have established—at least Commerce has established an advisory committee, people working to flesh out the details to make sure rural areas are well served. We had been working closely on this initiative. I am confident and have been assured by the Administration that rural areas will have a greater access to a larger pool of funding—not just \$75 million, but \$3.75 billion.

Senator KOHL. Well, I will respond to that. I believe this is, to some considerable extent, a shell game. As I see it, you all think that while you are moving all these pieces around, hopefully, no one is going to see that they are being gutted, and their traditional

constituencies are going to have to start fighting each other. It will be Rural Development against CDBG and on and on.

Even if we let you merge these programs, a cut is a cut, no matter how deep, and someone is going to be a big loser. And as you know, these programs are quite important to poor rural communities. There seems to be a theme throughout the rural development budget that these type of communities are going to be singled out for continuing cuts. What is your response?

Mr. GONZALEZ. Sir, I can just assure you that we are, working with Commerce on this specific initiative, to ensure that rural areas are well served and they stand to benefit from this initiative. This is an opportunity for rural areas, as I see it. Rural Development being the advocate that it is, there is an opportunity here to provide the resources to rural areas.

I have offered up and proposed to the Department of Commerce our delivery system. It is unmatched. When the question becomes what can Rural Development do in terms of its infrastructure and delivery system, we can help promote and deliver this initiative. We can help educate communities on this initiative and help communities, provide technical assistance to make sure they do have access to this larger pool of money.

Senator KOHL. Well, if these programs are to be moved to Commerce, do you know for a fact that every single authorized activity at USDA will still be an authorized activity at Commerce? As you know, these are well-established programs at USDA, and how will you be able to know that they will continue to serve their traditional constituencies as they have in the past if, in fact, they are gone from your jurisdiction?

Mr. GONZALEZ. We are in the process of crafting legislation with Commerce and the Administration on this initiative. And we will be at the table with them to ensure that rural areas are addressed.

#### ADDITIONAL COMMITTEE QUESTIONS

A template for urban isn't a template for rural communities, and that is why we are at the table in terms of making sure we address issues like business formation. If there is an educational aspect to it, like No Child Left Behind Initiative or broadband access, we are going to be there to make sure that the right criteria are being used for rural communities.

Senator KOHL. I hope so.

Thanks, Mr. Chairman.

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

#### QUESTIONS SUBMITTED TO MARK REY

#### QUESTIONS SUBMITTED BY SENATOR ROBERT F. BENNETT

##### WATERSHED SURVEYS AND PLANNING PROGRAM

*Question.* The President's Budget has proposed \$5,141,000 for the Watershed Surveys and Planning program. What will that level of funding allow NRCS to do?

*Answer.* This level of funding will allow NRCS to continue to fund the highest-priority ongoing studies and plans in each of the States. It will allow for completion of approximately 20 watershed studies and plans.

*Question.* Will new projects be initiated?



Answer. Initiation of new plans and studies will, at most, occur on a limited basis. If new plans or studies are initiated, they will be selected based on a ranking and funding process that evaluates the plans and studies according to their support of the NRCS Strategic Plan.

*Question.* Will existing projects be completed at this level of funding?

Answer. Again, this level of funding will allow NRCS to continue to fund the highest-priority ongoing studies and plans in each of the States. It will allow for completion of approximately 20 watershed studies and plans. There are over 130 studies and plans that have already been initiated.

*Question.* What level of funding would be required to complete all initiated work?

Answer. Planning costs can vary widely, depending on the complexity of the plan or study. It would require over \$45 million to complete all studies and plans which have already been initiated.

*Question.* How many fiscal year 2005 watershed funding requests did NRCS receive for projects that were ready to be installed (local sponsors had obtained land rights, permits, etc. and NRCS was prepared with designs and ready for construction)?

Answer. In fiscal year 2005, NRCS received 278 funding requests from project sponsors totaling \$201 million on projects ready for construction.

*Question.* Please provide the Committee with a list of all the watershed projects that have been planned and authorized for implementation, along with the dollar amount needed to provide the Federal technical and financial share of the costs.

Answer. The attached provides the requested funding total of \$1.9 billion to complete the currently authorized watershed projects.

[The information follows:]

State	Program	Watershed project name	Requested funding
Alabama .....	Public Law 566 .....	Pine Barren Creek .....	\$2,000,000
Alabama .....	Public Law 566 .....	Powell Creek .....	500,000
Alabama .....	Public Law 566 .....	Big Nance Creek .....	2,000,000
Alabama .....	Public Law 566 .....	Choccolocco Creek .....	3,765,000
Alabama .....	Public Law 566 .....	Wilkerson Creek .....	312,000
Alabama .....	Public Law 566 .....	Kelly-Preston Mill Creek .....	20,000
Alabama .....	Public Law 566 .....	Harrison Mill-Panther Creeks .....	200,000
Alabama .....	Public Law 566 .....	Camp Branch .....	300,000
Alabama .....	Public Law 566 .....	Dry Creek .....	400,000
Alabama .....	Public Law 566 .....	Pates Creek .....	180,000
Alabama .....	Public Law 566 .....	Whitewater Creek .....	100,000
Alabama .....	Public Law 566 .....	Short-Scarham Creeks .....	212,000
Alabama .....	Public Law 566 .....	Town Creek-Dekalb .....	185,000
Alabama .....	Public Law 566 .....	South Sauty Creek .....	100,000
Alabama .....	Public Law 566 .....	Northeast Yellow River .....	1,000,000
Total .....	.....	.....	11,274,000
Alaska .....	Public Law 566 .....	Delta Clearwater .....	5,951,600
Arizona .....	Public Law 566 .....	Buckhorn-Mesa .....	2,560,100
Arizona .....	Public Law 566 .....	Apache Junction-Gilbert .....	1,792,000
Arizona .....	Public Law 566 .....	Williams-Chandler .....	1,280,000
Arizona .....	Public Law 566 .....	White Tank Mountains .....	1,681,700
Arizona .....	Public Law 566 .....	Eloy .....	2,630,409
Arizona .....	Public Law 566 .....	New Magma .....	2,078,981
Arizona .....	Public Law 566 .....	Hohokam .....	4,341,423
Arizona .....	Public Law 566 .....	West Maricopa .....	755,044
Arizona .....	Public Law 566 .....	Maricopa-Stanfield .....	5,148,479
Arizona .....	Public Law 566 .....	San Carlos Watershed .....	5,819,964
Total .....	.....	.....	28,088,100
Arkansas .....	Public Law 566 .....	Big Slough .....	17,036,000
Arkansas .....	Public Law 566 .....	North Fork Of Ozan Creek .....	1,211,000
Arkansas .....	Public Law 566 .....	Fourche Creek .....	841,000
Arkansas .....	Public Law 566 .....	South Fourche .....	3,627,000
Arkansas .....	Public Law 566 .....	Poinsett .....	2,919,000
Arkansas .....	Public Law 566 .....	Upper Petit Jean .....	12,017,000
Arkansas .....	Public Law 566 .....	Flat Rock Creek .....	1,779,000

State	Program	Watershed project name	Requested funding
Arkansas .....	Public Law 566 .....	Ozan Creeks .....	6,563,000
Arkansas .....	Public Law 566 .....	Little Red River .....	279,000
Arkansas .....	Public Law 566 .....	Gould Portion Of Grady-Gould .....	1,400,000
Arkansas .....	Public Law 566 .....	Buffalo River Tributaries .....	2,634,000
Arkansas .....	Public Law 566 .....	Departee Creek .....	2,060,000
Total .....	.....	.....	52,366,000
California .....	Public Law 566 .....	Central Sonoma .....	3,700,000
California .....	Public Law 566 .....	Marsh-Kellogg Creek .....	3,750,000
California .....	Public Law 566 .....	Beardsley .....	50,000
California .....	Public Law 566 .....	Lower Llagas Creek .....	2,550,000
California .....	Public Law 566 .....	Upper Llagas Creek .....	150,000
California .....	Public Law 566 .....	Carpinteria Valley .....	1,000,000
California .....	Public Law 566 .....	Lower Silver Creek .....	16,300,000
California .....	Public Law 566 .....	Upper Stony Creek .....	125,000
California .....	Public Law 566 .....	Indian Creek .....	50,000
California .....	Public Law 566 .....	Elkhorn Slough .....	960,000
California .....	Public Law 566 .....	Mccoys Wash .....	6,800,000
Total .....	.....	.....	35,435,000
Colorado .....	Public Law 566 .....	Wolf Creek-Highlands .....	20,000
Colorado .....	Public Law 566 .....	Trinidad Lake North .....	240,000
Colorado .....	Public Law 566 .....	Limestone-Graveyard Creeks .....	340,000
Colorado .....	Public Law 566 .....	Highline Breaks .....	1,560,000
Colorado .....	Public Law 566 .....	Holbrook Lake Ditch .....	1,440,000
Colorado .....	Public Law 566 .....	Six Mile-St. Charles Watershed .....	2,640,000
Total .....	.....	.....	6,240,000
Connecticut .....	Public Law 566 .....	South Branch Park River .....	75,000
Connecticut .....	Public Law 566 .....	Norwalk River .....	11,567,800
Connecticut .....	Public Law 566 .....	Mill-Horse Brook .....	6,760,000
Connecticut .....	Public Law 566 .....	Yantic River .....	4,526,200
Total .....	.....	.....	22,929,000
Delaware .....	Public Law 566 .....	Upper Nanticoke River .....	25,000
Florida .....	Public Law 566 .....	N. East Middle Suwannee River .....	309,680
Florida .....	Public Law 566 .....	S. West Middle Suwannee River .....	309,680
Florida .....	Public Law 566 .....	N. West Middle Suwannee River .....	309,680
Florida .....	Public Law 566 .....	S. East Middle Suwannee River .....	309,680
Total .....	.....	.....	1,238,720
Georgia .....	Public Law 566 .....	Tobesofkee Creek .....	1,985,424
Georgia .....	Public Law 566 .....	Lower Little Tallapoosa River .....	350,562
Georgia .....	Public Law 566 .....	Piscola Creek .....	822,794
Georgia .....	Public Law 566 .....	Five Points Area .....	982,517
Georgia .....	Public Law 566 .....	South Chickamauga Creek .....	1,068,475
Total .....	.....	.....	5,209,772
Hawaii .....	Public Law 566 .....	Wailuku-Alenaio .....	2,000,000
Hawaii .....	Public Law 566 .....	Waimanalo .....	1,750,000
Hawaii .....	Public Law 566 .....	Waimea-Paauilo .....	9,232,000
Hawaii .....	Public Law 566 .....	Lahaina .....	7,500,000
Hawaii .....	Public Law 566 .....	Upcountry Maui .....	5,500,000
Hawaii .....	Public Law 566 .....	Lower Hamakua Ditch .....	4,500,000
Total .....	.....	.....	30,482,000
Idaho .....	Public Law 566 .....	Tammany Creek .....	3,673,495
Idaho .....	Public Law 566 .....	Mission-Lapwai Creek .....	3,676,044

State	Program	Watershed project name	Requested funding
Idaho .....	Public Law 566 .....	Bedrock Creek .....	432,550
Idaho .....	Public Law 566 .....	Scott's Pond .....	4,804,166
Total .....	.....	.....	12,586,255
Illinois .....	Public Law 566 .....	Little Calumet River .....	52,400,000
Illinois .....	Public Law 566 .....	Lower Des Plaines Tributaries .....	30,300,000
Illinois .....	Public Law 566 .....	Lake Bloomington .....	3,880,000
Illinois .....	Public Law 566 .....	Lake Carlisle .....	825,000
Total .....	.....	.....	87,405,000
Indiana .....	Public Law 566 .....	Muddy Fork Of Silver Creek .....	2,279,000
Indiana .....	Public Law 566 .....	Mariah Creek .....	168,650
Indiana .....	Public Law 566 .....	Pigeon Creek .....	160,590
Indiana .....	Public Law 566 .....	Honey Creek .....	5,400,000
Total .....	.....	.....	8,008,240
Iowa .....	Public Law 566 .....	Little Paint Creek .....	700,000
Iowa .....	Public Law 566 .....	Bear Creek .....	3,300,500
Iowa .....	Public Law 566 .....	East Fork Of Big Creek .....	200,000
Iowa .....	Public Law 566 .....	West Fork Of Big Creek .....	2,300,000
Iowa .....	Public Law 566 .....	Upper Locust Creek .....	2,900,000
Iowa .....	Public Law 566 .....	East Fork Of The Grand River .....	14,800,000
Iowa .....	Public Law 566 .....	Mill-Picayune Creek .....	3,300,000
Iowa .....	Public Law 566 .....	Turkey Creek .....	3,700,000
Iowa .....	Public Law 566 .....	Mosquito Of Harrison .....	2,800,000
Iowa .....	Public Law 566 .....	Waubonsie Creek .....	250,000
Iowa .....	Public Law 566 .....	Simon Run .....	640,000
Iowa .....	Public Law 566 .....	Troublesome Creek .....	4,000,000
Iowa .....	Public Law 566 .....	Twelve Mile Creek .....	1,050,000
Iowa .....	Public Law 566 .....	Little River .....	500,000
Iowa .....	Public Law 566 .....	A&T Long Branch .....	500,000
Iowa .....	Public Law 566 .....	Long Branch .....	500,000
Iowa .....	Public Law 566 .....	Soap Creek .....	5,500,000
Public Law 566 Total .....	.....	.....	47,440,500
Iowa .....	Public Law 534 .....	Lt. Sioux—Barber Hollow .....	150,000
Iowa .....	Public Law 534 .....	Lt. Sioux—Big Coon Creek .....	300,000
Iowa .....	Public Law 534 .....	Lt. Sioux—West Wolf Creek .....	150,000
Iowa .....	Public Law 534 .....	Lt. Sioux—Westside .....	450,000
Iowa .....	Public Law 534 .....	Lt. Sioux—Bitter Creek .....	1,050,000
Iowa .....	Public Law 534 .....	Lt. Sioux—Crawford Ck. ....	150,000
Iowa .....	Public Law 534 .....	Lt. Sioux—Leech Hollow .....	300,000
Iowa .....	Public Law 534 .....	Lt. Sioux—Little Whiskey .....	450,000
Public Law 534 Total .....	.....	.....	3,000,000
Iowa Total .....	.....	.....	50,440,500
Kansas .....	Public Law 566 .....	North Black Vermillion .....	6,901,200
Kansas .....	Public Law 566 .....	Upper Black Vermillion .....	1,925,000
Kansas .....	Public Law 566 .....	Lower Elk River .....	843,000
Kansas .....	Public Law 566 .....	Lyons Creek .....	1,274,800
Kansas .....	Public Law 566 .....	West Sector Whitewater River .....	540,000
Kansas .....	Public Law 566 .....	East Sector Whitewater River .....	990,000
Kansas .....	Public Law 566 .....	North Sector Upper Walnut .....	1,156,250
Kansas .....	Public Law 566 .....	Wet Walnut No. 2 .....	1,035,375
Kansas .....	Public Law 566 .....	Wet Walnut No. 3 .....	2,910,000
Kansas .....	Public Law 566 .....	Grasshopper-Coal Creek .....	3,097,900
Kansas .....	Public Law 566 .....	Diamond Creek .....	5,400,000
Kansas .....	Public Law 566 .....	Middle Creek (Morris) .....	881,250
Kansas .....	Public Law 566 .....	Elk Creek .....	9,652,500
Kansas .....	Public Law 566 .....	South Fork .....	978,000

State	Program	Watershed project name	Requested funding
Kansas .....	Public Law 566 .....	North-Middle Forks Wolf .....	4,758,750
Kansas .....	Public Law 566 .....	South Fork Wolf .....	2,567,000
Kansas .....	Public Law 566 .....	Squaw Creek Lower Wolf .....	9,230,400
Kansas .....	Public Law 566 .....	Doyle Creek .....	2,430,000
Kansas .....	Public Law 566 .....	Upper Delaware And Tributaries .....	12,460,000
Total .....	.....	.....	69,031,425
Kentucky .....	Public Law 566 .....	Obion Creek .....	4,000,000
Kentucky .....	Public Law 566 .....	Big Muddy Creek .....	750,000
Kentucky .....	Public Law 566 .....	Upper Tradewater River .....	10,000
Kentucky .....	Public Law 566 .....	West Fork Of Mayfield Creek .....	1,200,000
Kentucky .....	Public Law 566 .....	Red Lick Creek .....	900,000
Kentucky .....	Public Law 566 .....	Banklick Creek .....	4,000,000
Kentucky .....	Public Law 566 .....	North Fork Nolin River .....	900,000
Kentucky .....	Public Law 566 .....	Pigeon Roost Creek .....	1,120,000
Kentucky .....	Public Law 566 .....	Highland Creek .....	1,324,000
Kentucky .....	Public Law 566 .....	Brashear's Creek .....	620,000
Kentucky .....	Public Law 566 .....	Boone Fork .....	5,720,000
Total .....	.....	.....	20,544,000
Louisiana .....	Public Law 566 .....	Cypress-Black Bayou .....	2,000,000
Louisiana .....	Public Law 566 .....	Middle Tangipahoa .....	10,000
Louisiana .....	Public Law 566 .....	Central Richland .....	1,500,000
Louisiana .....	Public Law 566 .....	Bayou Bourbeux .....	200,000
Louisiana .....	Public Law 566 .....	Bayou Duralde-Lower Nezpique .....	5,000,000
Total .....	.....	.....	8,710,000
Maine .....	Public Law 566 .....	Kenduskeag Stream .....	1,000,000
Maine .....	Public Law 566 .....	Meduxnekeag River .....	50,000
Total .....	.....	.....	1,050,000
Maryland .....	Public Law 566 .....	Linganore Creek .....	100,000
Maryland .....	Public Law 566 .....	Dry Run .....	350,000
Total .....	.....	.....	450,000
Massachusetts .....	Public Law 566 .....	Baiting Brook .....	475,300
Massachusetts .....	Public Law 566 .....	Clam River .....	.....
Total .....	.....	.....	475,300
Michigan .....	Public Law 566 .....	Elk River .....	50,000
Michigan .....	Public Law 566 .....	South Branch Kawkawlin River .....	60,000
Michigan .....	Public Law 566 .....	Mud Creek .....	150,000
Michigan .....	Public Law 566 .....	Swan Creek .....	450,000
Michigan .....	Public Law 566 .....	Stony Creek .....	1,165,375
Total .....	.....	.....	1,875,375
Minnesota .....	Public Law 566 .....	Kanaranzi-Little Rock .....	780,000
Minnesota .....	Public Law 566 .....	Whitewater River .....	1,197,400
Minnesota .....	Public Law 566 .....	Snake River .....	600,000
Minnesota .....	Public Law 566 .....	Bear Creed .....	240,000
Total .....	.....	.....	2,817,400
Mississippi .....	Public Law 566 .....	Chiwapa Creek .....	561,900
Mississippi .....	Public Law 566 .....	Town Creek .....	7,000,000
Mississippi .....	Public Law 566 .....	Tuscumbia River .....	1,622,500
Mississippi .....	Public Law 566 .....	Tallahaga Creek .....	2,100,000
Mississippi .....	Public Law 566 .....	South Delta .....	1,588,000

State	Program	Watershed project name	Requested funding
Mississippi .....	Public Law 566 .....	Long Beach .....	4,375,000
Public Law 566 Total .....	.....	.....	17,247,400
Mississippi .....	Public Law 534 .....	Ltl. Talla—Cane Creek .....	1,062,500
Mississippi .....	Public Law 534 .....	Ltl. Talla—Cypress & Puss Cuss .....	5,160,000
Mississippi .....	Public Law 534 .....	Ltl. Talla—Upper Tallahatchie .....	1,250,000
Mississippi .....	Public Law 534 .....	Ltl. Talla—Ayers Cree .....	2,600,000
Mississippi .....	Public Law 534 .....	Ltl. Talla—Duncan-Cane Creeks .....	2,125,000
Mississippi .....	Public Law 534 .....	Ltl. Talla—Greasy Creek .....	750,000
Mississippi .....	Public Law 534 .....	Ltl. Talla—Hell Creek .....	875,000
Mississippi .....	Public Law 534 .....	Ltl. Talla—Locks Creek .....	250,000
Mississippi .....	Public Law 534 .....	Ltl. Talla—Lower Tippah River .....	15,210,000
Mississippi .....	Public Law 534 .....	Ltl. Talla—Ltl. Spring-Ochewalla Creeks ....	625,000
Mississippi .....	Public Law 534 .....	Ltl. Talla—Mill Creek .....	3,746,000
Mississippi .....	Public Law 534 .....	Ltl. Talla—Mud Creek .....	375,000
Mississippi .....	Public Law 534 .....	Ltl. Talla—North Tippah Creek .....	2,431,000
Mississippi .....	Public Law 534 .....	Ltl. Talla—Oaklimer Creek .....	11,263,000
Mississippi .....	Public Law 534 .....	Ltl. Talla—Okonatie Creek .....	250,000
Mississippi .....	Public Law 534 .....	Ltl. Talla—Upper Tippah River .....	6,625,000
Mississippi .....	Public Law 534 .....	Yazoo—Abiaca Creek .....	10,553,750
Mississippi .....	Public Law 534 .....	Yazoo—Askalmore Creek .....	2,594,000
Mississippi .....	Public Law 534 .....	Yazoo—Batupan Bogue .....	1,250,000
Mississippi .....	Public Law 534 .....	Yazoo—Big Sand Creek .....	7,678,700
Mississippi .....	Public Law 534 .....	Yazoo—Black Creek .....	5,000,000
Mississippi .....	Public Law 534 .....	Yazoo—Black Creek (Delta) .....	7,500,000
Mississippi .....	Public Law 534 .....	Yazoo—Buntyn Creek .....	910,000
Mississippi .....	Public Law 534 .....	Yazoo—Burney Branch .....	5,260,000
Mississippi .....	Public Law 534 .....	Yazoo—Bynum Creek .....	1,208,000
Mississippi .....	Public Law 534 .....	Yazoo—Cane-Mussacuna Cks. ....	1,591,000
Mississippi .....	Public Law 534 .....	Yazoo—Coldwater River .....	10,740,000
Mississippi .....	Public Law 534 .....	Yazoo—Cypress Creek .....	3,012,500
Mississippi .....	Public Law 534 .....	Yazoo—Davis Splinter Creek .....	1,935,000
Mississippi .....	Public Law 534 .....	Yazoo—Eden Creek .....	63,000
Mississippi .....	Public Law 534 .....	Yazoo—Fighting Bayou .....	531,300
Mississippi .....	Public Law 534 .....	Yazoo—Hickahala Creek .....	1,188,000
Mississippi .....	Public Law 534 .....	Yazoo—Hoffa Creek .....	3,412,500
Mississippi .....	Public Law 534 .....	Yazoo—Hotophia Creek .....	500,000
Mississippi .....	Public Law 534 .....	Yazoo—Hurricane-Wolf Creek .....	5,324,000
Mississippi .....	Public Law 534 .....	Yazoo—Indian Creek-Bobo Bayou .....	1,250,000
Mississippi .....	Public Law 534 .....	Yazoo—Johnson And Fair Cks .....	1,720,000
Mississippi .....	Public Law 534 .....	Yazoo—Riverdale Creek .....	695,000
Mississippi .....	Public Law 534 .....	Yazoo—Senatobia Creek .....	510,000
Mississippi .....	Public Law 534 .....	Yazoo—Short Fork Creek .....	3,940,000
Mississippi .....	Public Law 534 .....	Yazoo—Skuna River .....	5,818,800
Mississippi .....	Public Law 534 .....	Yazoo—Strayhorn Creek .....	6,375,000
Mississippi .....	Public Law 534 .....	Yazoo—Sledge Bayou .....	25,000
Mississippi .....	Public Law 534 .....	Yazoo—Tillatoba Creek .....	19,885,000
Mississippi .....	Public Law 534 .....	Yazoo—Toposhaw .....	3,125,000
Mississippi .....	Public Law 534 .....	Yazoo—Upper Skuna River .....	6,820,000
Mississippi .....	Public Law 534 .....	Yazoo—Yalobusha River .....	625,000
Mississippi .....	Public Law 534 .....	Yazoo—Northern Drainage District .....	1,000,000
Mississippi .....	Public Law 534 .....	Yazoo—North Tillatoha-Hunter .....	1,875,000
Mississippi .....	Public Law 534 .....	Yazoo—Long Creek .....	1,250,000
Mississippi .....	Public Law 534 .....	Yazoo—Otoucalofa Creek .....	2,806,000
Mississippi .....	Public Law 534 .....	Yazoo—Pelucia Creek .....	4,535,000
Mississippi .....	Public Law 534 .....	Yazoo—Perry Creek .....	2,231,000
Mississippi .....	Public Law 534 .....	Yazoo—Persimmon Creek I .....	5,000,000
Mississippi .....	Public Law 534 .....	Yazoo—Pigeon Roost Creek .....	12,578,700
Mississippi .....	Public Law 534 .....	Yazoo—Piney Creek .....	16,250,000
Mississippi .....	Public Law 534 .....	Yazoo—Potacocawa Creek .....	1,837,500
Mississippi .....	Public Law 534 .....	Yazoo—Arkabutla Creek .....	3,512,300
Public Law 534 Total .....	.....	.....	228,513,550

State	Program	Watershed project name	Requested funding
Mississippi Total .....	.....	.....	245,760,950
Missouri .....	Public Law 566 .....	East Fork Of Big Creek .....	2,400,000
Missouri .....	Public Law 566 .....	Upper Little Black .....	750,000
Missouri .....	Public Law 566 .....	Lower Little Black .....	4,500,000
Missouri .....	Public Law 566 .....	Mozingo Creek .....	70,000
Missouri .....	Public Law 566 .....	Troublesome Creek .....	5,200,000
Missouri .....	Public Law 566 .....	Grassy Creek .....	2,900,000
Missouri .....	Public Law 566 .....	Big Creek-Hurricane Creek .....	16,100,000
Missouri .....	Public Law 566 .....	West Fork Of Big Creek .....	17,400,000
Missouri .....	Public Law 566 .....	East Locust Creek .....	5,000,000
Missouri .....	Public Law 566 .....	Upper Locust Creek .....	26,400,000
Missouri .....	Public Law 566 .....	Town Branch .....	2,090,000
Missouri .....	Public Law 566 .....	East Yellow Creek .....	10,000,000
Missouri .....	Public Law 566 .....	Moniteau Creek .....	3,120,000
Missouri .....	Public Law 566 .....	Marthasville Town Branch .....	750,000
Missouri .....	Public Law 566 .....	Hickory Creek .....	3,000,000
Missouri .....	Public Law 566 .....	East Fork Of The Grand River .....	2,600,000
Missouri Total .....	.....	.....	102,280,000
Montana .....	Public Law 566 .....	Lower Birch Creek .....	3,279,000
Montana .....	Public Law 566 .....	Mill Creek .....	175,000
Montana .....	Public Law 566 .....	Buffalo Rapids .....	8,806,000
Total .....	.....	.....	12,260,000
Nebraska .....	Public Law 566 .....	Gering Valley .....	767,000
Nebraska .....	Public Law 566 .....	Papillion Creek .....	2,665,300
Nebraska .....	Public Law 566 .....	Aowa Creek .....	6,700
Nebraska .....	Public Law 566 .....	Tekamah-Mud Creek .....	6,700
Nebraska .....	Public Law 566 .....	Middle Fork Maple Creek .....	6,700
Nebraska .....	Public Law 566 .....	Bone Creek .....	6,700
Nebraska .....	Public Law 566 .....	Stevens-Callahan (Camp Creek) .....	6,700
Nebraska .....	Public Law 566 .....	Balls Branch .....	6,700
Nebraska .....	Public Law 566 .....	Swan Creek .....	6,700
Nebraska .....	Public Law 566 .....	Wolf-Wildcat Creek .....	6,700
Nebraska .....	Public Law 566 .....	East-West-Dry Maple Creeks .....	10,000
Nebraska .....	Public Law 566 .....	Middle Big Nemaha .....	40,000
Total .....	.....	.....	3,535,900
New Mexico .....	Public Law 566 .....	Prop Canyon & Tributaries .....	740,000
New Mexico .....	Public Law 566 .....	T Or C Williamsburg Arroyos .....	7,189,500
New Mexico .....	Public Law 566 .....	Cottonwood-Walnut Creek .....	19,125,000
New Mexico .....	Public Law 566 .....	Zuni Pueblo .....	16,487,500
New Mexico .....	Public Law 566 .....	Espanola-Rio Chama .....	33,920,000
Total .....	.....	.....	77,462,000
New York .....	Public Law 566 .....	Mill Brook .....	2,050,000
New York .....	Public Law 566 .....	Nyc Ws (Ashokan) .....	96,100
New York .....	Public Law 566 .....	Nyc Ws (Upper Cannonsville) .....	1,189,522
New York .....	Public Law 566 .....	Nyc Ws (Lower Cannonsville) .....	1,204,339
New York .....	Public Law 566 .....	Nyc Ws (Pepacton) .....	642,748
New York .....	Public Law 566 .....	Nyc Ws (Neversink) .....	44,339
New York .....	Public Law 566 .....	Nyc Ws (Rondout) .....	66,452
New York .....	Public Law 566 .....	Nyc Ws (Schoharie) .....	362,009
Total .....	.....	.....	5,655,509
North Carolina .....	Public Law 566 .....	Deep Creek (Yadkin) .....	6,000,000
North Carolina .....	Public Law 566 .....	Crabtree Creek .....	2,000,000
North Carolina .....	Public Law 566 .....	Swan Quarter .....	5,280,000
North Carolina .....	Public Law 566 .....	Meadow Branch .....	787,830
North Carolina .....	Public Law 566 .....	Upper French Broad River .....	617,840

State	Program	Watershed project name	Requested funding
North Carolina .....	Public Law 566 .....	Newfound & Sandymush Creek .....	1,989,168
Total .....	.....	.....	16,674,838
North Dakota .....	Public Law 566 .....	Square Butte Creek .....	7,400,000
North Dakota .....	Public Law 566 .....	Upper Turtle River .....	470,000
North Dakota .....	Public Law 566 .....	Taylor .....	40,000
North Dakota .....	Public Law 566 .....	Belfield .....	4,650,000
North Dakota .....	Public Law 566 .....	Colfax .....	1,573,000
Total .....	.....	.....	14,133,000
Ohio .....	Public Law 566 .....	Rush Creek .....	1,185,000
Ohio .....	Public Law 566 .....	Short Creek .....	6,275,000
Ohio .....	Public Law 566 .....	North Hocking River .....	1,872,000
Ohio .....	Public Law 566 .....	South Fork Licking River .....	6,820,000
Ohio .....	Public Law 566 .....	Wills Creek .....	657,000
Ohio .....	Public Law 566 .....	Four Mile Creek .....	3,915,000
Ohio .....	Public Law 566 .....	Upper Blanchard River .....	1,050,000
Ohio .....	Public Law 566 .....	Lower Stillwater River .....	120,000
Ohio .....	Public Law 566 .....	Upper Stillwater River .....	120,000
Total .....	.....	.....	22,014,000
Oklahoma .....	Public Law 566 .....	Sandy Creek .....	1,330,000
Oklahoma .....	Public Law 566 .....	Leader-Middle Clear Boggy Creek .....	6,650,000
Oklahoma .....	Public Law 566 .....	Upper Black Bear Creek .....	2,660,000
Oklahoma .....	Public Law 566 .....	Upper Red Rock Creek .....	8,645,000
Oklahoma .....	Public Law 566 .....	Upper Blue River .....	35,910,000
Oklahoma .....	Public Law 566 .....	Tri-County Turkey Creek .....	1,330,000
Oklahoma .....	Public Law 566 .....	Stillwater Creek .....	11,970,000
Oklahoma .....	Public Law 566 .....	Lower Clear Boggy Creek .....	7,315,000
Oklahoma .....	Public Law 566 .....	Salt-Camp Creek .....	9,310,000
Oklahoma .....	Public Law 566 .....	Upper Bayou .....	8,645,000
Oklahoma .....	Public Law 566 .....	Lower Bayou .....	2,660,000
Oklahoma .....	Public Law 566 .....	Upper Elk Creek .....	8,645,000
Oklahoma .....	Public Law 566 .....	Cotton-Coon-Mission Creek .....	4,655,000
Oklahoma .....	Public Law 566 .....	Jack Creek .....	1,330,000
Oklahoma .....	Public Law 566 .....	Lower Black Bear Creek .....	4,655,000
Oklahoma .....	Public Law 566 .....	Lower Red Rock Creek .....	12,635,000
Oklahoma .....	Public Law 566 .....	Okfuskee Tributaries .....	3,325,000
Oklahoma .....	Public Law 566 .....	Brushy-Peaceable Creek .....	18,620,000
Oklahoma .....	Public Law 566 .....	Lost-Duck Creeks .....	2,660,000
Oklahoma .....	Public Law 566 .....	Cow Creek .....	7,980,000
Oklahoma .....	Public Law 566 .....	Upper Muddy Boggy Creek .....	7,980,000
Oklahoma .....	Public Law 566 .....	Kickapoo Nations .....	9,975,000
Oklahoma .....	Public Law 566 .....	Robinson Creek .....	3,990,000
Oklahoma .....	Public Law 566 .....	Hoyle Creek .....	665,000
Oklahoma .....	Public Law 566 .....	Turkey Creek .....	6,650,000
Oklahoma .....	Public Law 566 .....	Cambell Creek .....	1,995,000
Oklahoma .....	Public Law 566 .....	Deer Creek .....	1,540,000
Oklahoma .....	Public Law 566 .....	Dry Creek .....	8,645,000
Oklahoma .....	Public Law 566 .....	Lugert-Altus .....	2,520,000
Oklahoma .....	Public Law 566 .....	Little Beaver Creek .....	7,980,000
Oklahoma .....	Public Law 566 .....	Wild Horse Creek .....	1,610,000
Oklahoma .....	Public Law 566 .....	Middle Deep Red Run Creek .....	5,985,000
Public Law 566 Total .....	.....	.....	220,465,000
Oklahoma .....	Public Law 534 .....	Washita—Bitter Creek .....	1,330,000
Oklahoma .....	Public Law 534 .....	Washita—Bear Creek .....	665,000
Oklahoma .....	Public Law 534 .....	Washita—Tonkawa Ck-Delaware Cks .....	4,788,000
Oklahoma .....	Public Law 534 .....	Washita—Rush Creek .....	665,000
Oklahoma .....	Public Law 534 .....	Washita—Sugar Creek .....	665,000
Oklahoma .....	Public Law 534 .....	Washita—Spring Creek .....	2,394,000
Oklahoma .....	Public Law 534 .....	Washita—Wildhorse Ck (Up & Lwr) .....	665,000

State	Program	Watershed project name	Requested funding
Oklahoma .....	Public Law 534 .....	Washita—Ionine Creek .....	3,325,000
Oklahoma .....	Public Law 534 .....	Washita—Little Washita .....	665,000
Oklahoma .....	Public Law 534 .....	Washita—Maysville Laterals .....	1,995,000
Public Law 534 Total .....	.....	.....	17,157,000
Oklahoma Total .....	.....	.....	237,622,000
Oregon .....	Public Law 566 .....	Lower Tillamook Bay .....	6,388,796
Oregon .....	Public Law 566 .....	McKenzie Canyon Irrigation Project .....	2,325,000
Total .....	.....	.....	8,713,796
Pennsylvania .....	Public Law 566 .....	Brandywine Creek .....	1,541,000
Pennsylvania .....	Public Law 566 .....	Little Shenango River .....	1,172,500
Pennsylvania .....	Public Law 566 .....	Neshaminy Creek .....	9,160,000
Pennsylvania .....	Public Law 566 .....	Cross Creek .....	2,496,000
Pennsylvania .....	Public Law 566 .....	Yellow Creek .....	60,000
Pennsylvania .....	Public Law 566 .....	Oven Run .....	230,000
Pennsylvania .....	Public Law 566 .....	Monastery Run .....	475,000
Pennsylvania .....	Public Law 566 .....	Red-White Clay Creeks .....	2,122,000
Pennsylvania .....	Public Law 566 .....	Glenwhite Run .....	290,000
Pennsylvania .....	Public Law 566 .....	Tulpehocken Creek .....	2,840,000
Pennsylvania .....	Public Law 566 .....	Little Toby Creek .....	587,000
Pennsylvania .....	Public Law 566 .....	Mill Creek (Clarion/Jefferson) .....	3,465,000
Pennsylvania .....	Public Law 566 .....	Indian Creek .....	2,960,000
Pennsylvania .....	Public Law 566 .....	Wheeling Creek .....	150,000
Total .....	.....	.....	27,548,500
South Carolina .....	Public Law 566 .....	Thompson-Westfield Creek .....	2,000
South Carolina .....	Public Law 566 .....	North Fork Edisto .....	5,000
South Carolina .....	Public Law 566 .....	Pickens-Anderson .....	4,000
South Carolina .....	Public Law 566 .....	South Edisto .....	11,000
South Carolina .....	Public Law 566 .....	Holly Hill .....	1,000,000
Total .....	.....	.....	1,022,000
South Dakota .....	Public Law 566 .....	Lower Little Mn River-Big Stone Lake .....	50,000
Tennessee .....	Public Law 566 .....	Reelfoot-Indian Creek .....	4,021,317
Tennessee .....	Public Law 566 .....	Cane Creek .....	8,371,486
Tennessee .....	Public Law 566 .....	Hurricane Creek .....	2,008,193
Tennessee .....	Public Law 566 .....	Mcnaury-Cypress Creek .....	4,282,632
Tennessee .....	Public Law 566 .....	North Fork-Forked Deer River .....	6,615,153
Tennessee .....	Public Law 566 .....	Sulphur Fork Creek .....	307,236
Tennessee .....	Public Law 566 .....	Big Limestone Creek .....	543,478
Tennessee .....	Public Law 566 .....	Lick Creek (1995) .....	684,501
Tennessee .....	Public Law 566 .....	Bear Creek (Scott) .....	1,635,494
Tennessee .....	Public Law 566 .....	Hickory Creek .....	2,669,595
Tennessee .....	Public Law 566 .....	East Prong Little Pigeon River .....	2,120,945
Total .....	.....	.....	33,260,030
Texas .....	Public Law 566 .....	Caney Creek .....	5,400,000
Texas .....	Public Law 566 .....	Salado Creek .....	45,000
Texas .....	Public Law 566 .....	Pine Creek .....	2,400,000
Texas .....	Public Law 566 .....	Attoyac Bayou .....	1,681,000
Texas .....	Public Law 566 .....	Donahoe Creek .....	3,600,000
Texas .....	Public Law 566 .....	Choctaw Creek .....	24,000,000
Texas .....	Public Law 566 .....	Aquilla-Hackberry Creek .....	3,600,000
Texas .....	Public Law 566 .....	Ecleto Creek .....	9,600,000
Texas .....	Public Law 566 .....	Leona River .....	3,600,000
Texas .....	Public Law 566 .....	Paluxy River .....	14,400,000
Texas .....	Public Law 566 .....	Red Deer Creek .....	19,200,000
Texas .....	Public Law 566 .....	Elm Creek (Cen-Tex) .....	33,600,000
Texas .....	Public Law 566 .....	Elm Creek (1250) .....	9,600,000



State	Program	Watershed project name	Requested funding
Texas .....	Public Law 566 .....	Los Olmos Creek .....	12,000,000
Texas .....	Public Law 566 .....	Big Creek(Tri-County) .....	27,600,000
Texas .....	Public Law 566 .....	Upper North Bosque River .....	90,000
Texas .....	Public Law 566 .....	Bexar-Medina-Atascosa Counties Water Conservation.	475,000
Public Law 566 Total .....	.....	.....	170,891,000
Texas .....	Public Law 534 .....	Trinity—Pilot Grove .....	32,400,000
Texas .....	Public Law 534 .....	Trinity—Richland Creek .....	36,000,000
Texas .....	Public Law 534 .....	Trinity—Salt Creek & Laterals .....	6,000,000
Texas .....	Public Law 534 .....	Trinity—Village & Walker Creeks .....	13,200,000
Texas .....	Public Law 534 .....	Trinity—Cedar Creek .....	54,000,000
Texas .....	Public Law 534 .....	Trinity—Chambers Creek .....	42,355,000
Texas .....	Public Law 534 .....	Trinity—Denton Creek .....	1,800,000
Texas .....	Public Law 534 .....	Trinity—East Fork Above Lavon .....	9,600,000
Texas .....	Public Law 534 .....	Trinity—Hickory Creek .....	7,200,000
Texas .....	Public Law 534 .....	Trinity—Little Elm & Laterals .....	8,400,000
Texas .....	Public Law 534 .....	Trinity—Lower E. Fork Laterals .....	1,200,000
Texas .....	Public Law 534 .....	Trinity—Elm Fork .....	1,715,000
Texas .....	Public Law 534 .....	Trinity—Big Sandy Creek .....	48,000,000
Texas .....	Public Law 534 .....	Mdl Colorado—Upper Pecan Bayou .....	3,600,000
Texas .....	Public Law 534 .....	Mdl Colorado—Southwest Laterals .....	1,800,000
Texas .....	Public Law 534 .....	Mdl Colorado—Northwest Laterals .....	1,800,000
Public Law 534 Total .....	.....	.....	269,070,000
Texas Total .....	.....	.....	439,961,000
Utah .....	Public Law 566 .....	Ferron .....	384,500
Utah .....	Public Law 566 .....	Muddy Creek-Orderville .....	3,000
Utah .....	Public Law 566 .....	Tri-Valley .....	3,360
Total .....	.....	.....	390,860
Vermont .....	Public Law 566 .....	Black River .....	563,000
Vermont .....	Public Law 566 .....	Lemon Fair River .....	534,000
Vermont .....	Public Law 566 .....	Lower Winooski River .....	500,000
Vermont .....	Public Law 566 .....	Barton And Clyde Rivers .....	1,820,000
Vermont .....	Public Law 566 .....	Lower Lake Champlain .....	1,100,000
Vermont .....	Public Law 566 .....	Lower Lamoille River .....	1,500,000
Total .....	.....	.....	6,017,000
Virginia .....	Public Law 566 .....	Bush River .....	10,000
Virginia .....	Public Law 566 .....	Cedar Run .....	22,313,939
Virginia .....	Public Law 566 .....	Copper Creek .....	75,000
Virginia .....	Public Law 566 .....	Cripple Creek .....	150,000
Virginia .....	Public Law 566 .....	Hays Creek .....	150,000
Virginia .....	Public Law 566 .....	Watkins Branch .....	4,083,622
Virginia .....	Public Law 566 .....	Three Creek .....	250,000
Virginia .....	Public Law 566 .....	Sandy Creek .....	100,000
Virginia .....	Public Law 566 .....	Lick Creek .....	7,479,384
Virginia .....	Public Law 566 .....	Ararat River .....	17,757,182
Virginia .....	Public Law 566 .....	Chestnut Creek .....	800,000
Virginia .....	Public Law 566 .....	Little Reed Island Creek .....	800,000
Virginia .....	Public Law 566 .....	Buena Vista .....	7,975,146
Public Law 566 Total .....	.....	.....	61,944,273
Virginia .....	Public Law 534 .....	Potomac—South River .....	2,140,196
Virginia .....	Public Law 534 .....	Potomac—Linville Creek .....	200,000
Virginia .....	Public Law 534 .....	Potomac—Lower North River .....	14,296,437
Public Law 534 Total .....	.....	.....	16,636,633

State	Program	Watershed project name	Requested funding
Virginia Total .....	.....	.....	78,580,906
Washington .....	Public Law 566 .....	East Side Green River .....	1,900,000
Washington .....	Public Law 566 .....	Omak Creek .....	1,000,000
Total .....	.....	.....	2,900,000
West Virginia .....	Public Law 566 .....	Elk Two Mile Creek .....	8,956,000
West Virginia .....	Public Law 566 .....	Mill Creek .....	5,432,000
West Virginia .....	Public Law 566 .....	Upper Deckers Creek .....	3,000,000
West Virginia .....	Public Law 566 .....	Little Whitestick-Cranberry Creeks .....	1,000,000
West Virginia .....	Public Law 566 .....	Upper Tygarts .....	3,000,000
Public Law 566 Total .....	.....	.....	21,388,000
West Virginia .....	Public Law 534 .....	Potomac—Lost River .....	29,866,000
West Virginia .....	Public Law 534 .....	Potomac—Lunice Creek .....	9,069,000
West Virginia .....	Public Law 534 .....	Potomac—Patterson Creek .....	2,898,000
West Virginia .....	Public Law 534 .....	Potomac—New Creek-Whites Run .....	2,821,000
West Virginia .....	Public Law 534 .....	Potomac—No. & So. Mill Creek .....	8,170,000
West Virginia .....	Public Law 534 .....	Potomac—South Fork River .....	1,752,000
Public Law 534 Total .....	.....	.....	54,576,000
West Virginia Total .....	.....	.....	75,964,000
Wyoming .....	Public Law 566 .....	Allison Draw .....	2,084,000
Wyoming .....	Public Law 566 .....	Lingle Fort Laramie .....	5,436,955
Total .....	.....	.....	7,520,955
Pacific Basin .....	Public Law 566 .....	Kagman .....	6,000,000
Pacific Basin .....	Public Law 566 .....	Aui .....	13,000
Pacific Basin Total .....	.....	.....	6,013,000
National Total .....	.....	.....	1,887,972,931

*Question.* What is the number of watershed projects that are planned and authorized for implementation but cannot proceed because the Federal funding share is not available? How are you working at reducing the list of projects awaiting the Federal share of funding? What is the total dollar amount of unfunded Federal commitment in authorized, unfinished watershed projects?

*Answer.* There are 442 authorized watershed projects that have requested \$1.9 billion. NRCS assists sponsors on an annual basis to evaluate the status of project implementation and determine the amount of funds needed to construct the conservation measures described in all authorized watershed projects. In fiscal year 2005, 92 watershed projects received fiscal year 2005 funds.

*Question.* How much did NRCS request during the fiscal year 2006 budget preparation?

*Answer.* NRCS' materials used in developing the fiscal year 2006 President's Budget are considered "pre-decisional" materials and, therefore, remain a matter of internal record.

*Question.* How much did USDA request during the fiscal year 2006 budget preparation?

*Answer.* USDA's budget materials used in developing the fiscal year 2006 President's Budget are considered "pre-decisional" materials and, therefore, remain a matter of internal record.

#### TECHNICAL AND FINANCIAL ASSISTANCE FUNDS

*Question.* If the Administration's budget is enacted, NRCS will have not technical or financial assistance funds on October 1, 2005. What is your plan to terminate/shut-down on all of the contractual obligations?

*Answer.* NRCS has about 2,000 contracts and agreements with sponsors and land-owners to install project measures.

NRCS would not have funds available in fiscal year 2006 to provide technical services for construction inspection or contract management. These contracts can be terminated for the convenience of the Government under the contract terms. Terminating those contracts could result in the need to restore the site to pre-construction conditions. The termination costs plus the restoration effort may actually cost more than the completion of the project. In addition, it might take several months for the restoration effort to be completed for very large projects in which case the restoration work may actually impact on the next fiscal year with attendant needs for technical assistance funds and perhaps additional financial assistance funds to properly close out the projects. The true impact for many of the larger contracts will need to be determined on a case by case basis.

*Long Term Contracts.*—The Government does not have the unilateral right to terminate these land treatment agreements with individual landowners in accordance with the terms of the agreement. If NRCS does not have technical assistance funds to properly administer the agreements, we may have to make payments under the agreements for practices completed by the participants. If watershed funds are not available for NRCS technical assistance, other funds would need to be reprogrammed to administer the agreements and continue to make payments for completed practices until the existing agreements are completed.

According to statute, the Secretary may terminate any agreements with a landowner by mutual agreement if the Secretary determines that such termination would be in the public interest. However, many landowners may not mutually agree to terminate the agreements.

*Question.* What are the human safety risks, risks to the environment and infrastructure if you halt construction on a half-constructed or half rehabilitated dam or flood mitigation measure?

*Answer.* Human safety risks due to partial flood retention and more probable dam failure, and environmental damage risks due to erosion and sedimentation, will vary with the particular site situation and the degree on completion. A partially completed dam is clearly a higher risk to the public and the environment than a completed one.

*Question.* What is the Administration's plan to deal with projects that are partially complete or dams that are half constructed on September 30, 2005?

*Answer.* Dams that are partially completed when construction activities are terminated can either be completed by others, modified to protect the general public and the partially completed work, or decommissioned and the area stabilized. Many embankment dams are constructed over a period of several years; other dams have construction interrupted by contractor default. NRCS has also constructed many dams in planned phases with separate contracts for each phase. Engineering solutions unique to each particular site will be needed to mitigate long term risks to the Federal investment and the general public. Unaddressed long term risks will likely be mitigated by most State Dam Safety Agencies at the dam owner's expense.

*Question.* How many current contractual obligations do you have? What is the monetary value associated with these obligations?

*Answer.* NRCS has about 2,000 contracts and agreements to install conservation measures, including floodwater retarding structures and Long Term Agreements with sponsors and landowners. These contracts and agreements total about \$167 million of obligated, yet undisbursed, funds.

*Question.* What is the Administration's dollar estimate of claims, attorney's fees, and litigation costs for addressing all of the contractual obligations you propose to terminate?

*Answer.* The termination costs, including claims, attorney's fees, and litigation costs, plus the cost to restore sites to original condition have not been determined. These costs will need to be determined on a case by case basis.

*Question.* What guidance are you providing to your sponsors (local communities) who are anticipating Federal cost-share dollars and are proceeding with land rights acquisition, engineering, design, and Federal/State permits?

*Answer.* We have not provided any guidance to project sponsors.

*Question.* How much funding is needed to complete the on-going watershed rehabilitation projects that have been initiated with prior year appropriations?

*Answer.* The unfunded Federal commitment for projects authorized and currently underway is \$30 million.

*Question.* How many USDA assisted watershed dams have already reached the end of their design life?

*Answer.* By the end of fiscal year 2005, 457 dams will have reached the end of their design life.

*Question.* With the Administration's fiscal year 2006 budget including a significant reduction in funding for watershed rehabilitation, it seems like very few of the

risks to loss of life and property associated with these dams will be able to be addressed; is that correct?

Answer. We project that of the currently authorized project work that includes 68 dams, rehabilitation work could likely proceed on 7 dams.

*Question.* What are the anticipated rehabilitation needs for aging watershed dams in the next 5 years?

Answer. In the next 5 years, 1,808 dams will reach the end of their design life. By fiscal year 2009, \$565 million (current dollars) is required to rehabilitate these dams. The owners of these facilities should also seek State and local government, as well as private, sources of funding for their rehabilitation needs.

*Question.* At the rate of the administrations request for funding for watershed rehabilitation, how long will it take to address: (1) the on-going rehabilitation projects? (2) The existing known rehabilitation needs?

Answer. With funding at \$15 million per year, it would take approximately 5 years to address ongoing projects. It would take approximately 37 years to address the existing known rehabilitation needs at this level of funding.

*Question.* How can the agency meet these critical public safety needs with the Administration's budget proposal?

Answer. At the proposed funding level, watershed rehabilitation needs and requests will be prioritized to address needs with the greatest potential for loss of life.

*Question.* If funding was available, what is a realistic estimate of the actual rehabilitation work that NRCS and local project sponsors can accomplish in fiscal year 2006? How about the next 5 years?

Answer. The funding levels stipulated in statute are consistent with the watershed rehabilitation needs to protect life and property.

*Question.* Is there an opportunity for communities to provide new benefits, such as adding municipal water supply, recreation, and wetland and wildlife enhancements when these dams are rehabilitated? Is decommissioning (removal of dams) a viable alternative to consider for rehabilitation of watershed dams?

Answer. Yes, local communities and project sponsors can add additional purposes or beneficiaries to existing dams.

*Question.* How will appropriated funds be allocated to specific watershed rehabilitation projects?

Answer. The statute directed USDA to assist sponsors with rehabilitation of their aging dams and required establishment of a priority ranking system. The priority ranking process has been invaluable to provide a consistent method for evaluation of dams and allocation of funds.

All viable applications received from project sponsors are ranked. The priority ranking system includes the following major components: Potential for failure of the dam; Consequences of failure of the dam—based on existing conditions and design features of the dam; Input from State Dam Safety Agency; Rapid implementation—to assure unsafe dams are rehabilitated as quickly as possible. Highest priorities are assigned to those dams with the greatest rehabilitation needs with the potential for loss of life or significant environmental damage, should the dam fail.

*Question.* Does NRCS have the technical capacity needed to assist project sponsors with all of their requests for Federal assistance in watershed rehabilitation?

Answer. While NRCS technical capacity in the area of planning, design, and construction of water resource projects has decreased significantly over the past several years the statute does not require all technical assistance to come from NRCS. NRCS may elect to use private technical sources to provide assistance in planning, design, and construction oversight. Also, project sponsors may elect to complete project planning and design using their own staff or the hiring consultants to complete this work that would then be reviewed and concurred on by NRCS.

*Question.* In fiscal year 2005, how many requests and how much money was requested for rehabilitation assistance?

Answer. In fiscal year 2005, local communities requested 123 projects in 21 States totaling \$43 million.

*Question.* How many projects were funded in fiscal year 2005? How many projects were not funded?

Answer. The fiscal year 2005 appropriations provided for 87 projects in 21 States. 36 requests for watershed rehabilitation projects were not funded.

*Question.* How much did each State receive for watershed rehabilitation in fiscal year 2005?

[The information follows:]

## FISCAL YEAR 2005 WATERSHED REHABILITATION

State	Total
Alabama .....	\$170,000
Alaska .....	
Arizona .....	3,797,000
Arkansas .....	431,000
California .....	25,000
Colorado .....	195,000
Connecticut .....	
Delaware .....	
Florida .....	
Georgia .....	2,800,000
Hawaii .....	
Idaho .....	
Illinois .....	40,000
Indiana .....	100,000
Iowa .....	122,000
Kansas .....	140,000
Kentucky .....	430,000
Louisiana .....	25,000
Maine .....	30,000
Maryland .....	
Massachusetts .....	115,000
Michigan .....	10,000
Minnesota .....	40,000
Mississippi .....	1,360,000
Missouri .....	300,000
Montana .....	225,000
Nebraska .....	1,122,000
Nevada .....	
New Hampshire .....	110,000
New Jersey .....	45,000
New Mexico .....	662,000
New York .....	295,000
North Carolina .....	
North Dakota .....	611,000
Ohio .....	170,000
Oklahoma .....	5,470,000
Oregon .....	
Pennsylvania .....	90,000
Rhode Island .....	
South Carolina .....	102,000
South Dakota .....	20,000
Tennessee .....	14,000
Texas .....	5,035,000
Utah .....	159,000
Vermont .....	
Virginia .....	610,000
Washington .....	
West Virginia .....	190,000
Wisconsin .....	181,000
Wyoming .....	105,000
Pacific Basin .....	
Puerto Rico .....	30,000
State Totals .....	25,376,000

## QUESTIONS SUBMITTED BY SENATOR HERB KOHL

## DUTIES OF AGENCY STAFF

*Question.* We are receiving reports that the Department is altering the traditional agency assignments of certain field office staff. As we understand it, where the CRP and EQIP programs are concerned, the Farm Service Agency historically has assisted landowners with sign-up and financial matters, while the NRCS has assisted

with technical assistance for these programs. Apparently, this is in line with long standing expertise of these respective agencies. Information is now coming forward that managers at the Department level are directing agency staff to handle matters contrary to this historical pattern with possible negative consequences. Please explain to the committee what is taking place in this regard.

Answer. In a jointly signed memorandum dated July 19, 2004, Farm Service Agency (FSA) Administrator James Little and Natural Resources Conservation Service (NRCS) Chief Bruce Knight announced the migration of Environmental Quality Incentives Program (EQIP) administrative responsibilities from FSA to NRCS. There are many reasons for this change, but the overall result will be a streamlining of services to participants and more efficient use of Government resources. Duplication of efforts, which were necessary when both agencies were involved in EQIP, has been eliminated. Effective October 1, 2004, NRCS is the point-of-contact for all administrative and technical services provided through EQIP.

Although NRCS is recommending streamlining CRP to reduce the administrative activities that are now required of NRCS, NRCS and FSA have issued a "workload agreement letter" which basically states that NRCS will provide CRP technical assistance for both the General CRP Sign Up and the Continuous CRP.

In addition, TSPs have traditionally been hired either by the landowner or by NRCS. TSPs have been available to conduct technical assistance for CRP since fiscal year 2003.

NRCS at the State level can determine that they will contract out the CRP technical assistance for conservation planning or conservation application. NRCS may also decide that they will contract out different phases of planning or application (conducting status reviews, practice design or certification, etc.)

*Question.* What exact directives are being issued, and with what degree of formality or permanence?

Answer. Jointly signed national directives from the Administrator and Chief were issued to all FSA and NRCS employees on July 19, and December 21, 2004. These directives supported an orderly transition to new EQIP administrative procedures. A jointly signed letter was also mailed to all active EQIP participants during August of 2004. The permanent transfer of all contract files and related administrative records occurred during October and financial reconciliation tasks were finished during December. Since assuming administrative responsibilities, NRCS has made over 32,000 EQIP payments totaling about \$175 million.

For fiscal year 2005, NRCS and FSA are operating under a "Workload Agreement" which delineates the responsibility of CCC, FSA, and NRCS with respect to CRP technical assistance, based on the 1986 Memorandum of Understanding (MOU) establishing a cooperative working relationship among the agencies involved in carrying out the CRP.

*Question.* What cost reimbursement arrangements are involved?

Answer. Since passage of the 2002 Farm Bill, NRCS has reimbursed FSA annually for administrative services related to handling EQIP applications and contracts. During fiscal year 2004, over \$13 million was transferred to FSA for this purpose. In 2005, NRCS has retained these funds to enhance its administrative capability to support EQIP. Much of this investment has been in software development, training, and some additional administrative specialists to process payment applications. No EQIP reimbursable agreements are planned with FSA this year.

Utilizing the CRP agreement, NRCS will provide technical assistance both directly or through NRCS approved Technical Service Providers and assure all technical work done will meet NRCS technical requirements. NRCS will also submit to FSA billings for direct charge from NRCS time and accounting system information for full reimbursement of actual cost of technical assistance provided by NRCS. These costs are based on NRCS Cost of Programs Model.

*Question.* What complaints or inefficiencies are you aware of, and what remedial steps will you take?

Answer. The transfer of more than 160,000 EQIP contracts has neither been easy nor without some controversy. The migration and reconciliation process took 5 months to complete. About 20 percent of the participant payments were delayed beyond 30 days as NRCS implemented new business processes for EQIP. We have given priority to software support and training activities that enabled NRCS to eliminate this problem. By the end of fiscal year 2005, NRCS expects to implement additional streamlining activities to achieve more administrative and technical efficiency.

In fiscal year 2007, 16.1 million acres of CRP land will expire and will be available for planting to an agricultural commodity. This would increase the soil erosion rate on cropland, and it would also place a strain on the delivery of CRP technical assistance by NRCS at a time when USDA's workforce is declining. FSA has re-

quested comments on how USDA should handle the expiration of the 16.1 million acres of CRP in fiscal year 2007 and beyond.

NRCS is recommending streamlining CRP to reduce the administrative activities that are now required of NRCS, e.g., land ownership changes, obtaining landowner signatures on conservation plans, plan revision for non-technical reasons, re-planning and certifying food plots every year for the life of the contract, when the food plot seeding and/or planting are the same year after year.

#### RESOURCE CONSERVATION AND DEVELOPMENT

*Question.* The President's budget includes substantial cuts in the RC&D program and these cuts are arbitrarily based on the period of time the associated districts have been authorized. Have you found that the period of time a district has been authorized has any relation to the effectiveness and success of the district?

*Answer.* We have found a variety of capacity situations in regards to the length of time a RC&D Area has been designated. The President's budget is not proposing to eliminate any RC&D councils. After more than 20 years of receiving technical assistance in the form of a full-time coordinator and administrative support, the proposal reflects the belief that these councils should have the capacity to supplant Federal funds. The National Association of RC&D Councils recently provided information showing that 24 percent of the councils have 2-5 employees and 4 percent have 6 or more employees. Asking high-performing councils to address these needs themselves should be feasible, and expecting low-performing councils to improve their performance or risk being terminated from assistance should also be reasonable.

*Question.* Should funding decisions be based on the most effective use of Federal funds or arbitrary decisions?

*Answer.* We concur that funding decisions should be based on the most effective use of Federal funds and believe that the President's budget proposal reflects that decision.

*Question.* If effective districts will lose Federal funds under your proposal, what assurances do you have that State, local or other funds will replace them?

*Answer.* We are confident that high-performing councils will demonstrate local leadership abilities to leverage funds from other sources to supplant the incubator funds they have received from NRCS in the past. This confidence is based on information they have provided in the past regarding the high level of leveraged funds they are able to achieve, an average of 5 to 1 dollar of RC&D appropriated funds for the past 3 years, and the variety of funding sources they utilize in carrying out their area plans each year.

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#### QUESTIONS SUBMITTED BY SENATOR TOM HARKIN

##### CONSERVATION SECURITY PROGRAM

*Question.* Participation in the first CSP sign-up was much lower than NRCS expected, but the agency spent \$40 million in 18 watersheds. This year expenditures are capped at \$202 million, some of which will cover last year's contracts. With the sign-up in 220 watersheds this year, there will be much less money per watershed for new contracts this year.

The President's budget proposes capping CSP at \$274 million next year. If CSP is capped at \$274 million, how much money will be available for new contracts in fiscal year 2006?

*Answer.* With CSP capped at \$274 million for 2006, NRCS expects to have \$110 million available for new contracts. The President's budget provides for \$273.9 million in available funding for CSP in 2006. Of that amount, \$123.2 is needed to fund prior year financial assistance obligations. In addition, \$41.4 million is used for technical assistance by NRCS.

*Question.* I am concerned that the Conservation Security Program is being eroded by restrictive rules and limited funds. If we follow the President's budget recommendation, next year there will be less money available for new contracts. If we continue decreasing the money available for new contracts, then producers will not have the opportunity to enroll in CSP once every 8 years, it will be more like once in a lifetime.

We designed a program that was intended to be attractive to producers and that would generate significant and lasting conservation benefits from widespread participation.

I would like your commitment that USDA will help achieve the original program objectives. Will you give me that assurance?

Answer. USDA is firmly committed to a CSP program that rewards producers for their stewardship, promotes improved environmental performance, and responsibly stays within the available funding limitations.

NRCS is working hard to ensure development of the program in a manner that is both farmer-friendly and responsive to the conservation needs of the Nation. The watershed-based implementation is being used to operate CSP and stay within the available budget. In 2004, CSP was offered to producers in 18 selected watersheds and resulted in about 2,200 contracts with the \$41 million of available funding. Currently, sign-up for fiscal year 2005 CSP enrollment is well underway in 220 selected watersheds that reach all 50 States and the Caribbean. There are 2,119 watersheds nationwide at the eight-digit hydrologic unit code (HUC) level.

USDA is committed to the vision of CSP as a nationwide conservation program. Other watersheds will be selected each year until landowners in every watershed have had a chance to participate.

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#### QUESTIONS SUBMITTED TO GILBERT G. GONZALEZ

#### QUESTIONS SUBMITTED BY SENATOR ROBERT F. BENNETT

##### RURAL RENTAL ASSISTANCE

*Question.* The budget requests \$650 million for rural rental assistance.

How will those funds be allocated?

Answer. [The information follows:]

#### FISCAL YEAR 2006 RENTAL ASSISTANCE

Renewals .....	\$639,126,000
Debt Forgiveness .....	5,900,000
Farm Labor Housing New Construction .....	5,000,000

*Question.* Will rental assistance be available for new construction and substantial rehabilitation for farm labor housing projects?

Answer. Five million dollars will be available for Farm Labor Housing new construction.

*Question.* Will that amount be adequate for all farm labor units expecting to receive financing?

Answer. The amount is consistent with what has been provided in recent years to support equivalent Farm Labor Housing New Construction funding levels. Farm Labor Housing rental assistance costs approximately \$10,500 per unit; so this level will fund just under 500 units which should be sufficient to support the requested funding levels for the program.

##### GUARANTEED MULTIFAMILY HOUSING

*Question.* The budget includes an increase for Section 538 guaranteed loans for rural rental housing.

What is the average income for families living in Section 538 developments and how does that compare to Section 515 developments?

Answer. The average income for families living in section 538 developments varies from project to project; however, section 538 projects have approximately 55 percent of the units rented to families with very low income and approximately 40 percent are rented to low-income families. The average income for families living in section 515 developments vary by project as well; however, approximately 95 percent of section 515 units are rented to very low-income families and approximately 4 percent are rented to low-income families.

*Question.* What is the average size of the communities in which Section 538 developments are located?

Answer. The average size of the communities in which section 538 developments are located is approximately 8,790 people. The program can assist communities up to 20,000 in population.

*Question.* What is the record of Section 538 developments in serving low income households and more remote rural communities?

Answer. More than 90 percent of the units are rented to either very low- or low-income families. One of the driving forces before renting to very low- or low-income families is the tax credit requirements on these projects. Eighty percent of section 538 properties are financed with tax credit equities, which means that between 40



to 60 percent of the units must serve families making less than 60 percent of median income.

Section 538 is solely a guarantee program.

*Question.* What subsidy sources are available to make Section 538 units affordable for low income families?

*Answer.* The law governing the program requires that at least 20 percent of the loans made each year receive an interest credit subsidy, which is a buy down from the lender's note rate to the Applicable Federal Rate. So that this subsidy may reach the neediest of projects, scoring and selection criteria are published each year in a Notice of Funds Availability (NOFA), and the project must score a minimum number of points, set in the NOFA, to receive interest credit. Because the law sets a threshold for how many loans must receive interest credit, but does not set a limit on how many loans may receive it, the program's subsidy rate has been calculated on the program's historic average of interest credit subsidy granted. Each year, since program inception, approximately 50 percent of the loans have received interest credit.

Rental Assistance is not available for section 538 projects; however, other subsidies are permitted in these projects. HUD vouchers are permitted, and State funded rental assistance is also permitted. More than 80 percent of the section 538 projects have tax credit equities, which adds an additional source of funding for the construction. The tax credit agencies require large percentages of units to be rented to families making less than 60 percent of area median income.

*Question.* Does RHS have any information on the availability of such sources and the likelihood that Section 538 projects will secure such subsidies?

*Answer.* Currently, about 50 percent of section 538 properties received an interest rate buy down, called interest credit. In order to "stretch" its interest credit and provide assistance to more projects, while keeping the subsidy rate under control, the agency currently limits the amount that any one property can receive to \$1.5 million.

Additionally, 5–10 percent of the section 538 tenants have HUD section 8 vouchers. As mentioned above, more than 80 percent of the section 538 projects have applied for tax credits and received them. These tax credits generate funds used in the construction of these projects. As a condition of using tax credits, many of the units in these projects are rented to very low-income families at affordable rents without rent subsidies.

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#### QUESTIONS SUBMITTED BY SENATOR HERB KOHL

##### RURAL DEVELOPMENT PROGRAMS

*Question.* The President's budget request eliminates four rural economic development programs at USDA which are targeted to low-income small rural communities and replaces these and 14 others into a smaller substitute grant program the legislation for which has not even been drafted. The Administration justifies this change by describing many of these programs as duplicative, ineffective, and unaccountable with results not demonstrated. Nevertheless, recent press releases cite the successes and benefits the Bush administration has brought to rural America through these very same programs the Administration seeks to eliminate.

The entire proposal appears to have been developed and driven by OMB with little or no input from the various affected Federal agencies.

What studies were conducted by either USDA or the Department of Commerce to determine the impact this transfer will have on America's rural communities? Isn't this just a shell game to reduce and/or eliminate many of these programs and have their traditional constituencies fighting over less funding? If this new smaller substitute grant program was to be created in the Department of Commerce, does the Department know for a fact what eligible activities that are currently authorized under the four rural development programs would be eligible under this new program? What transfer of staff from USDA to the Department of Commerce is contemplated?

*Answer.* The President's proposed Strengthening America's Communities Initiative is designed to streamline a number of Federal programs that provide assistance to communities and will include eligibility criteria that will ensure funds are directed to those communities most in need of development assistance. While Rural Development has not conducted any studies regarding this initiative, we feel confident that rural communities will fare well when these criteria are used, as the proposal includes broad purposes that will allow rural communities to obtain funds for purposes currently being met through the Rural Development programs included in

the President's proposal. USDA Rural Development has offered our expertise, assistance, and experience in program delivery in rural areas through our 800 local offices. We will continue to work with the Department of Commerce on the technical details of the delivery of this program, particularly as it affects rural areas. The Administration will craft the legislation as a part of a collaborative effort with Congress and stakeholder groups. A Secretarial Advisory Committee has been created at the Department of Commerce to help address some of the most complex issues, including eligibility of rural communities. The legislation that is ultimately submitted will be the result of an open dialogue with stakeholders and members of Congress. The impact of this initiative on Rural Development staff will be minimal, and no staff will be transferred to the Department of Commerce.

#### RD GENERAL REDUCTIONS IN DIRECT LOANS AND GRANTS

*Question.* It seems that Rural America, as presented in this case and generally across the entire budget request for the Department of Agriculture, is the loser once again. These are well established programs at USDA, serving the poorest rural communities and I have no intention of allowing this proposal to move forward until the Department can provide detailed answers prior to the Committee's Mark-up in the very near future. In fact, I request receipt of these answers this month to adequately prepare to draft a workable bill and not leave out our poor communities.

This year, as before, the President proposes to cut direct loans and grants (which target low-income communities), and increase guaranteed loan programs (that serve more moderate-income communities). This proposal effectively cuts vital services to America's poorest citizens by reducing direct loans and grants for multifamily housing, water and waste, broadband grants, and other rural development programs. USDA justifies this shift throughout its budget by emphasizing a lower interest rate environment, and the lower subsidy and program costs that would result. On its face, this sounds good to keep costs down. But, America's most needy rural communities are too poor and neglected to participate in guaranteed programs. Furthermore, the public policy underlying direct loans and grants is precisely to support the Nation's most vulnerable rural communities.

What impact studies did the Department undertake prior to proposing this shift? If none, why not? If studied, what results? When can the Committee receive the results? What steps is the Department prepared to take to protect the needy communities and individuals who will not be able to participate in or benefit from guaranteed programs, and will no longer have direct loans and grants available?

*Answer.* The Administration remains steadfast in its commitment to rural America, including the neediest communities, and Rural Development's \$12.8 billion program budget request reflects that commitment. This program level will be achieved with \$1.775 billion in budget authority. Budget authority supporting grants plus direct loans accounts for 94.5 percent of the program total. Budget authority for guaranteed loans accounts for only 5.5 percent of the program request. It is also noted that guaranteed loans do, in fact, benefit the very-low income rural population directly by providing housing and jobs, and indirectly by providing infrastructure and essential community facilities. Furthermore, in this continuing low interest rate environment, individuals and communities are better able to bear some debt, which allows scarce resources to be stretched further and allows more communities and very-low income residents to benefit.

#### RD TAX EXEMPT FINANCING FOR LOAN GUARANTEE PROGRAMS

*Question.* USDA provides loan guarantees for essential community projects under the Rural Development Loan Guarantee program. Struggling rural communities are critically dependent on these loan guarantees to meet environmental standards for water and waste water in a cost effective manner. When it comes to financing public investments for these issues, rural communities are forced by existing regulation to choose between USDA loan guarantees or tax exempt financing. Financing costs would likely decrease if communities could combine tax exempt financing with Federal guarantees.

Does USDA utilize the full program level available for loan guarantees of this nature?

*Answer.* No, we are not able to utilize the full guaranteed water and environment program funds available. In the last 3 fiscal years, \$75 million has been authorized in each year. However, only 6 loans for \$2.3 million were made in fiscal year 2002; 4 loans for \$3.6 million in fiscal year 2003; and 2 loans for \$41.2 million in fiscal year 2004. That is an average of four loans per year for \$16 million. In the past 3 fiscal years, only 21 percent of the guaranteed authority was used. The vast majority of applicants for loans for water and waste disposal projects are from munic-

ipal or tax exempt entities. Even though this money is available for loan guarantees, RD is not able to use it to address the current backlog program in the water and waste disposal program.

*Question.* Explain how a provision in the tax code allowing rural communities to combine tax exempt financing with loan guarantees would increase rural community utilization of these guarantees?

*Answer.* Changing the tax code to allow tax exempt financing with an agency guarantee would allow public bodies to borrow funds from commercial lenders at an interest rate comparable with the agency's direct market rate loans. In fiscal year 2004, \$291 million in loans were made to 278 public body borrowers at the agency's market rate interest rate. That represents over 30 percent of the agency's fiscal year 2004 lending total. Over one third, 100 public body borrowers in 2004, did not receive grant funds and borrowed \$134 million in market rate loans. Most of these borrowers could obtain financing from private lenders at a cost comparable to direct loans if they could receive both a tax exemption and a guarantee on the financing.

#### RD BUSINESS PROGRAMS

*Question.* The Business and Industry Guaranteed program has received a substantial increase in the Department's budget request for 2006.

Are you still pursuing other fees through Congress to reduce the subsidy costs for this program, and if so, what is the Administration's formal position?

*Answer.* The Administration is currently assessing its options including consideration for assessing an annual fee for reducing the subsidy costs of the program. It is the Administration's goal to find ways of reducing the cost of the program in order to assure that adequate funding is provided to accommodate the demand of this program in fiscal year 2006 and beyond.

#### RHS NEW CONSTRUCTION

*Question.* The President's 2006 budget estimates indicate no rental assistance for new construction for multi-family rental and farm labor housing programs. In 2004, GAO reviewed this program, which is the largest line item account in the Rural Development Mission area. Upon GAO's finding of gross mismanagement of this program, the committee changed the term of the contracts to capture over inflated contracts.

Is it true that you have now changed this position to allow rental assistance for new construction in the farm labor housing program?

*Answer.* The fiscal year 2006 budget has \$5 million in rental assistance for Farm Labor Housing new construction.

[The information follows:]

#### FISCAL YEAR 2006 RENTAL ASSISTANCE

Renewals .....	\$639,126,000
Debt Forgiveness .....	5,900,000
Farm Labor Housing New Construction .....	5,000,000

*Question.* What led to this change?

*Answer.* Fiscal year 2006 budget had all 521 assistance listed on a single line item as if for renewal only. The intention to provide \$5 million in assistance for 514/516 was erroneously omitted in the accompanying notes. It was the Administration's intent that support for farm labor housing new construction be included and was part of the \$650 million requested.

*Question.* Does this indicate that you over-compensated for renewals?

*Answer.* No, the chart did not reflect the intention of the Administration, and the note in the budget should have said "including \$5 million of funding for RA for Farm Labor Housing" instead of "does not include". The RA on the chart erroneously appeared as if it was only for renewal use. It was overlooked in the review process, and corrected later. We apologize for this error and appreciate the opportunity to clarify.

*Question.* Why is the Administration allowing new construction for the 514/516 program and not the 515 program when they are very similar in program activities and structure?

*Answer.* The Department has studied the 515 program and now has definitive knowledge of the need to focus on revitalization of existing portfolio. The 514/516 program, though similar, has not benefited from the same level of study yet. It would be premature to assume the same approach is needed in both programs. Fur-

ther review may indicate what specific directional changes should be made in this program.

*Question.* Considering that the very low-income elderly compose almost half of the population making use of the 515 program, is it not of vital interest to meet those needs?

*Answer.* Currently approximately 57 percent of the units in the 515 programs are rented to elderly tenants. The Administration believes that protection of these tenants through availability of new tools such as vouchers, and emphasis on revitalizing the portfolio is the best way to serve the rural elderly population with the limited resources available.

#### RHS EQUAL ACCESS TO HOUSING

*Question.* "Equal access to housing is especially important in rural America. RHS is continuing to show the way in making decent affordable housing available to low- and moderate-income rural people regardless of color, disability, gender or belief."

The above comments by former Rural Housing Service (RHS) Administrator Art Garcia were made on April 26, 2002. I am not sure, however, how faithful RHS remains to these ideas today.

In 2001, Rural Development issued a Request for Proposal (RFP) (solicitation #RP-31ME-1-1001) to conduct fair housing paired testing. The RFP stated that the testing was to be: "... on a nationwide basis in Rural Development's Rural Rental Housing Section 515 and Section 538 complexes that were financed by USDA."

Apparently, the testing was to determine whether discrimination occurs in rental housing supported by RHS. Although the RFP was issued nearly 4 years ago, we have heard no mention of the results.

Where are the testing results?

*Answer.* The study has been reviewed with RHS officials, and training for Headquarters staff is scheduled by the Fair Housing Alliance for May 24th and 25th regarding the findings. The recent policy meeting held in Portland, Oregon, introduced the existence of the study to the field and a session on accessibility and fair housing was offered as a mandatory part of the training track for Multi-Family Housing staff and architects. Additionally, discussions have been held with Council for Affordable and Rural Housing and National Affordable Housing Management Association groups about training of resident managers to be more aware of their responsibilities, which was the primary focus of the study. Both groups are currently offering such training to industry managers.

*Question.* Why has there been no discussion of the findings?

*Answer.* The findings are being reviewed and policy formulated to address the findings. The official training by the Fair Housing Alliance is scheduled for May 24th and 25th.

*Question.* Did the tests find any violations? How many? In what areas of the country were the tests conducted?

*Answer.* The tests found violations, but frequency of violations were found at a rate of one third that normally found in similar HUD reviews. The study conducted tests in a geographically dispersed manner, not focusing on any one part of the United States.

*Question.* What corrective actions has the Department taken to remedy any discriminatory practices?

*Answer.* While individual property by property results are not provided in the study, the contractor has agreed to deliver to RHS a list of any specific properties where violations were serious enough to need immediate attention. These cases will be individually evaluated and corrective action initiated by Rural Development State Offices.

#### RHS RENTAL ASSISTANCE

*Question.* In the President's budget request for Section 521 Rental Assistance:

Does the total rental assistance number include transferred rental assistance for projects that prepay?

*Answer.* The budget request does not include transferred rental assistance for projects that prepay because we do not know at this time which projects will prepay or what the balance of those rental assistance contracts will be when the borrower actually prepays his mortgage. The President's budget request of \$650 million is for renewal of contracts expected to exhaust funds in fiscal year 2006 renewals (\$639 million), rental assistance for Farm Labor Housing new construction (\$5 million) and preservation (debt forgiveness) (\$5.9 million).

*Question.* If so, what is the number?

*Answer.* The budget request does not include transferred rental assistance.

*Question.* How many projects (and the associated rental assistance for projects that prepay) do you anticipate will prepay in fiscal year 2006?

Answer. Unless litigation or legislation lifts restrictions currently in place, we anticipate that approximately 100 properties will prepay, based upon past trends. We cannot estimate the balance of these rental assistance contracts.

#### RHS SINGLE FAMILY RURAL HOUSING

*Question.* What is the status of the Rural Home Loan Partnership in the Section 502 direct loan program?

Answer. The agency continues to participate in the Rural Home Loan Partnership (RHLP) for fiscal year 2005. The partnership provides significant benefits for the agency and its partners as well as our customers by bringing our mutual resources together to assist low- and very low-income rural residents in becoming successful homeowners.

*Question.* Do you plan to continue this partnership effort?

Answer. Yes. Our customers benefit from the homeowner education and affordable housing products that many of our RHLP partners provide. We look forward to working with our partners to make this initiative even more mutually beneficial.

*Question.* What is the cost to the government of this partnership effort compared with what the cost would be if the Department provided the entire loan through the 502 direct loan program?

Answer. Rural Development has not performed a specific cost-benefit analysis. The RHLP is a unique partnership involving a local nonprofit, local lender and Rural Development all working together to build a better rural community. The nonprofit organization provides credit counseling, homeownership education, and other affordable housing products. The local lender is able to participate in helping lower income families within their community to achieve homeownership. Rural Development benefits by helping more families to become successful homeowners.

#### RHS MULTI-FAMILY HOUSING

*Question.* In the Administration's new voucher program, what are the annual cost, number and term for these vouchers?

Answer. While the legislative language currently being developed through the Department will determine the final form of these vouchers, we currently anticipate through the budgeting process that the rental assistance assisted tenants will be provided a 5-year term and cost approximately \$13,000–\$14,000 per voucher. Our calculations assumed that Non RA assisted tenants would be covered for a shorter term, so those vouchers would be less expensive. The 2006 Budget estimate is based upon issuing 15,000–17,000 vouchers, which would cover about one-third of the total expected in the prepayment estimation of the Comprehensive Property Assessment (CPA). The CPA estimated the primary need for vouchers would be in years 2006–2009.

*Question.* Who will administer this program, for example HUD Public Housing Authorities?

Answer. We could use a delivery strategy similar to that used by HUD, which includes public housing authorities as part of the process.

*Question.* If an entity outside of USDA administers this program, what type of administrative agreement are you exploring and what is the cost?

Answer. A delivery network similar to HUD could be operated under an inter-agency agreement.

*Question.* Provide a detailed breakdown of the \$214 million voucher funding request. For example, will consulting costs be included and for what amount?

Answer. Of the \$214 million requested during fiscal year 2006 for a Rural Development voucher program, \$204 million would go for the cost of vouchers and \$10 million would go for administrative expenses, including contracts for industry experts.

*Question.* Will these vouchers be project-based or tied to an individual?

Answer. The vouchers are to be tenant based.

*Question.* Will they be portable and allowed to transfer outside of the community? Can they be transferred to any community in the United States? If so, how will you control the costs?

Answer. Details of the voucher program are still being developed. They will include portability since it is understood that tenants prefer to have choices.

*Question.* Can they be transferred to major urban communities? If so, how will you avoid confusion or conflicts with the HUD voucher program?

Answer. While they could be transferred to another geographical area, the cost is determined by the market conditions in the area where prepayment occurred.

Therefore, moving to a very high cost of living area from somewhere less expensive might not provide enough financial assistance to fill the gap for the tenant between their income and the urban rent.

*Question.* For several years the Administration has indicated that they would move back to a low-income production program after a comprehensive review was completed. When will this take place?

*Answer.* For fiscal year 2006, the production program will continue, but will largely take the form of the section 538 program. The use of tax credit equity, other subsidy, and interest credit have allowed this program to serve low- and very low-income tenants. While not the same as the section 515 program, it serves similar sized communities, and a large number of low- and very low-income residents.

*Question.* How will the 538 program be an effective tool to rehabilitate the 515 portfolio? Please explain the process for how this will work? Would these transactions require the 9 percent tax credits in order to succeed?

*Answer.* We are exploring how the section 538 program may be used to rehabilitate existing section 515 projects. For example; the section 538 guarantee can be used for acquisition of the section 515 project if coupled with extensive rehabilitation of \$6,500 or more per unit. The legislation and regulations permit the use of section 538 guarantees on projects when they are acquired and repaired. The current regulations require that the repairs be substantial, at least \$6,500 per unit to qualify for use with section 515 project acquisition. The economics of each project would be different; however, the 9 percent tax credits would not always be necessary for these projects to succeed. The longer 40-year amortization of the section 538 loan, plus the program's interest credit buy down to the Applicable Federal Rate (AFR), should help the project to succeed. Some regulation and handbook changes will be needed to make the program more effective in partnership with section 515 financing already in place on properties in need of rehabilitation, and for stay-in owners. We intend to work on these changes in 2006.

*Question.* How will you overcome potential barriers to the success of your proposal, such as state ceilings on the 9 percent tax credits and program competition?

*Answer.* In 2004 approximately 80 percent (35 out of 44) of the projects awarded funds in section 538 had tax credits in the deals. Similar leveraging occurred with section 515, but with mostly lower valued 4 percent credits. While tax credits are added financial benefits to project owners, these tax credits are not indicative of the success or failure of a project. The projects have competed very well for 9 percent credits.

The 538 program is currently prohibited from providing assistance for projects with section 521 rental assistance and/or HUD section 8.

*Question.* Does this mean your proposal to use the 538 program to rehabilitate the 515 program will be limited only to projects that have no rental subsidy, and therefore, not reaching the very-low income projects?

*Answer.* While the section 538 projects are not eligible for new rental assistance, many projects do have HUD section 8 vouchers. As we explore how a section 538 loan can be used with a section 515 project rehabilitation, the section 515 project may have existing rental assistance. Therefore it is possible that some rehabilitated section 515 projects with section 538 loans may have rental assistance. We will need to explore possible regulation or handbook changes to be able to successfully couple the two programs in a revitalization scenario, but believe this is clearly the right direction.

*Question.* Will you use the 538 program to essentially refinance the 515 projects?

*Answer.* The section 538 program is a new construction program and a mechanism to rehabilitate section 515 projects. In addition, to section 515 repair and rehabilitation authority in 2005 of \$53 million, and \$8.8 million in section 533 (Housing Preservation Grants), applicants who desire to purchase section 515 projects and repair them may apply for section 538 funds. Because of rental assistance and other considerations, refinancing is not always in the best interest of the borrower or tenants. We do not expect to see wholesale use of section 538 for refinancing under current circumstances.

*Question.* If so, how will this affect the low and very low-income residents and the project rent structure?

*Answer.* Full refinancing is not anticipated as a likely scenario.

*Question.* What can you realistically accomplish with the 538 program with the 9 percent tax credit for the rehabilitation of the 515 program in fiscal year 2006?

*Answer.* The Multifamily Revitalization Initiative anticipates that revitalization will occur over an 8–10 year schedule, with the majority of major renovations occurring after 2008. Rehabilitation funding with the section 538 program will be developed as an option in the meantime.

*Question.* What percentage of 538 loans approved to date have received a 9 percent tax credit?

*Answer.* Approximately 80 percent of the section 538 projects have received 9 percent tax credits.

*Question.* Do you believe the 515 and 538 programs serve the same income groups?

*Answer.* While the section 515 projects have a higher percentage of very low-income tenants, they also use rental assistance. The section 538 projects have very low-income tenants also, just not to the same percentage of tenants as the section 515 projects. A primary reason for this is that the section 538 projects are prohibited from having rental assistance; therefore, the section 538 projects in order to survive must attract low-income tenants as well. Additionally, because many section 538 projects have tax credits, those tax credits require that a high percent of the units be rented to very low-income tenants, thus requiring the owners to address the housing needs of the very low income families.

*Question.* Please provide a side-by-side comparison of some hypothetical 538 and 515 projects residing in the same communities serving the same very-low-income residents. In doing so, provide the rent structure, required reserve accounts, management and operational expenses, and all Federal, State and other subsidies and/or grant money including tax credits.

*Answer.* These are two properties that were developed at the same time on a 4 acre tract in Arkansas. Driveways and property entrances are shared. Both were constructed in 2003. The rent is higher in the section 515 project prior to application of rental assistance, and this is primarily a factor of 9 percent tax credits providing equity in the section 538 product.

[The information follows:]

Section 538 property (Lowell); 40-unit complex garden; style units 24-1BR, 16-2BR.

Bank Loan 7.69 percent, 40 year; section 538 guarantee with Int.; Credit Rate 5.19 percent; 9 percent LIHTC funds 40 year; and rate 5.19 percent.

Section 515 property (Robinson); 24-unit 2 story with elevator; 24-1BR with community room & 2 project rooms.

RD loan 1 percent 50 year amort/30yr bal.; HOME Loan, 1 percent, 50 year amort/20 year bal.; Loan from applicant 1 percent 50 year amort LIHTc (4 Percent).

Rent Structure \$331-1BR, \$437-2BR—\$440/unit 1-BR (All with R/A) \$218/unit Average R/A.

Debt Service .....	\$54,460 annually .....	\$35,857 annually
Reserve Require .....	8,000 .....	16,346 annually
Operating Exp .....	9/unit/month .....	16/unit/month
Utilities .....	19/unit/month .....	36/unit/month
Admin .....	44/unit/month .....	59/unit/month
Taxes & Ins .....	31/unit/month <sup>1</sup> .....	11/unit/month <sup>1</sup>
Total Exp .....	103/unit/month .....	121/unit/month
Construction Costs .....	2,752,028 .....	1,908,000
Cost per unit .....	68,800 .....	79,500

<sup>1</sup> Taxes based on land only.

#### RCBS RURAL COOPERATIVE DEVELOPMENT GRANTS

*Question.* The Rural Cooperative Development Grants program has proven to be very effective in funding co-op development centers that provide critical technical assistance to co-ops that are revitalizing rural communities across the Nation.

Given the fact that this program has leveraged millions of dollars for rural cooperative development, created hundreds of new jobs and new businesses from health care to meat processing plans, has been an effective use of Federal money, and is providing grants to far fewer centers than are seeking funding, why does the Administration propose a 17 percent program cut from \$6 million to \$5 million? Is it not correct that the Department is providing grants to far fewer centers than the number of centers that seek funding? What steps can USDA take to ensure the unique structural and economic advantages of member-owned and controlled cooperatives will continue to be supported by USDA and its programs? The Administration has reviewed the programs and services provided by Cooperative Services at the Rural Business Cooperative Services agency. What are the results of the review? Please provide any documentation for these results.

Answer. The \$5 million proposal is consistent with the Administration's 2005 budget request. While we agree that the program has been successful in developing new business enterprises and creating jobs in rural America, the success of the program is intricately tied to the success of the individual centers themselves. Since this is a competitive grant program, a truly successful center leverages Rural Development funding with funding from a variety of other sources and must be able to sustain itself during years when it does not successfully compete in this program. Several of the centers funded in the past were not able to remain viable when funding for even a single year was lost. Therefore, we believe that the \$5 million appropriation requested provides sufficient leveraging and encourages centers to seek alternative funding sources that will only serve to enhance their continued sustainability.

In 2003, the Rural Community Development Grants program received 44 applications requesting \$12.7 million. Twenty-one applications were funded for a total of \$6.3 million. In 2004, 54 applications requested \$13.7 million. Twenty-four applications were funded for a total of \$6.5 million.

Rural Development offers many loan and grant programs for which cooperatives are eligible. Examples include the Business and Industry Guaranteed Loan program, the rural Electric and Telecommunications programs, the Broadband Loan program, the Community Connect Broadband program, the Distance Learning and Telemedicine program, and the Value-Added Producer Grant program. Cooperatives are also eligible to receive technical assistance from recipients of Rural Development programs such as the Rural Cooperative Development Program and the Rural Business Enterprise Grant Program. Rural Development staff is also available in the national office and in state offices to provide technical assistance such as conducting feasibility studies, developing business plans, and providing education to groups wishing to form cooperatives as well as existing cooperatives. Finally, the Cooperative Services program area of Rural Development conducts research into cooperative issues and publishes its findings, which are available to the public free of charge.

The Administration contracted for an outside program review of Cooperative Services. The review was to identify improvements or changes in the Cooperative Services programs to better assist today's rural cooperatives, opportunities for leveraging the present CS programs and capacity to support a broader range of cooperative strategies and approaches to building economic vitality in rural areas, and new ways of generating capital for cooperative organizations. Rural Development just received the independent contractor's report and the recommendations and conclusions are under initial review and analysis.

#### RUS GUARANTEED UNDEWRITING

*Question.* The Farm Security and Rural Investment Act of 2002 included a new program—Guarantees for Bonds and Notes Issued for Rural Electrification or Telephone Purposes—to provide private sector funding for the Department's Rural Economic Development Loan and Grant (REDLG) program.

The REDLG program provides zero-interest loans and grants for projects such as business expansion and start-up, community facilities, schools and hospitals, emergency vehicles and essential community infrastructure projects in some of the most rural communities in America. According to USDA statistics, in Wisconsin alone, REDLG has invested over \$13 million in 60 projects while leveraging an additional \$63 million in private capital and creating nearly 2,000 jobs.

At the direction of this Committee, the Department issued a final regulation for this REDLG enhancement in October of 2004—nearly 2 and a half years after the program was signed into law by the President. While this is a step in the right direction, it did not happen in time for USDA to utilize the \$1 billion program level that this Committee provided in the fiscal year 2004 bill. This was the second year in a row that USDA failed to utilize the program authority provided by Congress.

Apparently, USDA still has not provided a single guarantee to date under this new program. Due to this lack of implementation, no private funding has flowed into REDLG activities. This represents a substantial loss of investment in rural communities over the past 2 years.

Funds for rural development activities are becoming increasingly scarce.

In view of current budget constraints, why has USDA not moved in a more expeditious manner to implement a program that actually provides private funding for Federal rural development efforts—at no cost to the taxpayers?

Answer. There is approximately \$100 million in the Rural Economic Development Loan and Grant (REDLG) program account presently to fund these economic and community projects. This section of the Farm Bill of 2002 is a very complex financial transaction and it has taken longer than anticipated to implement. The main reason



has been due to our desire to protect the interest of the taxpayers while simultaneously ensuring that the maximum amount of funds will be available for the REDLG program. The Rural Utilities Service, the Federal Financing Bank and a potential borrower have been negotiating the details of a guarantee under this program. Last year only \$4 million was used from the REDLG account.

*Question.* It is very important to this Committee that this program not only be implemented, but that implementation occurs in an expeditious manner to ensure that the fiscal year 2005 program levels are not lost in the same manner as occurred with the fiscal year 2004 and fiscal year 2003 appropriations.

Is it the intention of this Administration to follow the law as set forth in the 2002 Farm Bill?

Answer. Yes, it is the intention of this Administration to follow the law as set forth in the 2002 Farm Bill.

*Question.* Does USDA expect to utilize the funds that were appropriated by the Committee in the fiscal year 2005 bill?

Answer. USDA expects to utilize the funds that were appropriated in fiscal year 2005.

*Question.* When exactly can we expect this program to be fully implemented?

Answer. The details have been agreed to and implementation is expected to begin in June 2005.

#### RURAL UTILITIES SERVICE BROADBAND LOANS

*Question.* Rural Development and the Rural Utility Service suggest that the broadband loan program is best utilized for "residential service." Congress, nevertheless, views this program not only as a means to provide residential service, but as a tool for economic development, stating in Senate Report 107-117, "The availability of this [broadband] service is crucial for both economic development and to provide a service that a growing number of Americans are starting to view as essential."

Are you approving broadband loans outside residential services to include economic development activity?

Answer. When a broadband loan is approved it covers the entire proposed service territory including all residents and businesses in that service territory. We strongly encourage that the broadband service be made available to everyone in the area recognizing that any economic development in the proposed service territory can actually increase the feasibility of the project and create new customers for the business plan. We see broadband as a tremendous economic growth tool for rural America that can create new jobs in today's economy.

Broadband loans are limited by the following requirement: "RUS will not make a broadband loan under this part to provide broadband service in an area receiving local exchange telephone service from an RUS telecommunications borrower to any other entity other than the incumbent telecommunications borrower. . . ."

*Question.* While I realize your concern about creating competition between potential RUS loan recipients serving one area, can you see a situation where you have a current broadband borrower that does not want to expand and provide service for business purposes in their current service area while another entity wants to provide this service using a separate customer base, a separate business objective, and a separate economic objective?

Answer. If a company is currently borrowing funds from RUS and has no plans to provide broadband service in a specific area, then RUS will consider making a loan to another entity to provide the broadband service. Although RUS has not approved a loan of this nature to date, we are constantly fielding questions about going into an existing borrower's service territory. We request that a short explanation of the proposal be prepared for our consideration before an application is prepared. With the goal to get broadband everywhere, it is highly likely that RUS will eventually approve loans for the same area to different entities. Entity "A" may only be providing voice service and the loan to Entity "B" could be to provide the broadband service.

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#### QUESTIONS SUBMITTED BY SENATOR TOM HARKIN

##### RENEWABLE ENERGY OF THE 2002 FARM BILL

*Question.* My first question about Section 9006, Renewable Energy Projects and Energy Efficiency Improvements, concerns the timing of the fiscal year 2005 program implementation. On March 28, 2005, the Department announced the availability of \$11.4 million in grants under the Section 9006 program, with an applica-

tion deadline of June 28. The Department reserved the balance of the Section 9006 funding for a not-yet-announced loan guarantee program. The Department committed to releasing the loan guarantee rules later this spring. According to the Department, any funds for loan guarantees not used by August 31, 2005, will be made available for grants.

I am concerned that the Department, having reserved 50 percent of the nearly \$23 million in funding for an as-yet-announced loan guarantee program, will not have sufficient time to make the unused loan guarantee money available for grants this year. Last year's grants-only program was well-oversubscribed, and I expect the program to be even more popular this year.

Will you commit to me that the Department will make all of the unused loan guarantee money available for additional grants this year, and obligate those additional grants by September 30, 2005? Otherwise, the Department risks leaving millions of dollars of unused money on the table that could have gone for worthwhile projects in Iowa and around the country.

Answer. The agency anticipates publishing a final rule for the section 9006 program in late June or early July of 2005. The rule will implement the guaranteed loan program authorized by the 2002 Farm Bill.

The agency plans to provide both grants and loan guarantees during fiscal year 2005. In order for the public to be able to take advantage of guaranteed loans in 2005, it was necessary to announce the availability of the set aside funds in the March 28, 2005, grant program Notice of Funds Availability (NOFA).

USDA will evaluate all grant applications received by the deadline published in the NOFA. Grants will be awarded to all qualified applicants, or until the initial phase of funding is exhausted, whichever occurs first. Guaranteed loan applications received by the deadline for that part of the section 9006 program will be evaluated and guarantees will be provided for all qualified applicants, or until funds are exhausted, whichever occurs first. As the NOFA indicates, any guaranteed loan funds not obligated by August 31, 2005, will be pooled and made available to fund any remaining qualified grant applications.

We fully expect to complete loan and grant awards to qualified applicants by September 30, 2005.

My second question involves the scope of the final rules for the Section 9006 program. Section 9006 requires the Department to offer grants, loan guarantees, and direct loans to eligible applicants. Unlike loan guarantees, direct loans are a dedicated source of capital for clean energy projects, and they are less cumbersome for applicants to obtain. Direct loans also are often more attractive for smaller but equally deserving clean energy projects, since banks are unlikely to issue loan guarantees for these small projects.

*Question.* Considering the clear statutory requirement for direct loans, and their multiple benefits, will the Department include a direct loan component in the final section 9006 program rules that you have said will be issued later this summer? If not, why not?

Answer. The final rule must be within the scope of the proposed rule that USDA published last year, which did not contain detailed provisions for a direct loan program. Moreover, the Notice of Funding Availability (NOFA) that USDA published earlier this year does not provide for direct loans in fiscal year 2005. However, if USDA determines that funds are available for direct loans in future years, it can implement a direct loan program by including such provisions in a future NOFA or by issuing regulations.

#### RURAL BUSINESS COOPERATIVE SERVICE

*Question.* It is my understanding that an advisory committee was formed with outside experts to make recommendations on the mission of the Rural Business Cooperative Service and specifically regarding cooperative models and activities. I am concerned whether this advisory committee operated in an open fashion in order to allow interested groups and individuals to participate or even to have knowledge of any proposed changes to existing cooperative models and activities.

Under what authority was the advisory committee constituted? Were these meetings advertised in a public manner in accordance with the Federal Advisory Committee Act? What were the findings, conclusions and recommendations of the advisory committee? Are the advisory committee's findings, conclusions and recommendations contained in a document? Is that document public? Please promptly provide the document to the committee. Who at the Department initiated and administered this advisory committee process, and who were the actual members of this advisory committee? What is the current status of the advisory committee?

Answer. Rural Development contracted for an outside program review of Cooperative Services. An advisory committee was not formed. The review was to identify improvements or changes in the Cooperative Services programs to better assist today's rural cooperatives, opportunities for leveraging the present Cooperative Services programs and capacity to support a broader range of cooperative strategies and approaches to building economic vitality in rural areas, and new ways of generating capital for cooperative organizations. Rural Development just received the independent contractor's report and the recommendations and conclusions are under initial review and analysis.

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QUESTIONS SUBMITTED TO JOSEPH J. JEN

QUESTIONS SUBMITTED BY SENATOR ROBERT F. BENNETT

BASIC SCIENTIFIC RESEARCH

*Question.* What do you believe the appropriate role of USDA is in supporting basic scientific research at the land grant colleges and universities?

Answer. USDA, through CSREES, is now and should support land-grant university efforts in all aspects of research relevant to the advancement of the food and agricultural sciences. New knowledge and the technological advancements to which it contributes will always be necessary to maintain an economically viable and environmentally sound food and fiber industry for the United States.

*Question.* Do you believe that basic scientific research will be able to receive funding through competitive awards?

Answer. The highly productive basic scientific enterprise that has developed in the United States in the years following World War II has been built on sound systems of competitive awards by agencies of the United States government. The USDA/CSREES, through its competitively awarded grants programs such as the National Research Initiative, has been the major supporter of basic scientific research in fields relevant to food and agriculture. The success of this program and its promise for the future are the reasons for its strong support by Congress, the Administration, and the scientific community.

FORMULA FUNDS

*Question.* The land grant colleges and universities are not supportive of the proposed cuts to the formula funds.

—Other than preferring more competitively awarded research, what does USDA believe is wrong with the current funding mechanisms?

Answer. The commitment to improving the overall quality of Federal research led to the fiscal year 2006 budget redirection of funds from formula research programs to competitive programs. Moving from formula-based to competitive funding changes only the mechanism by which science is supported, not the goals or objectives of the work. The emphasis on competitive programs in the President's budget is consistent with views held beyond the Administration. Within the last few years Congress has directed USDA to support studies looking at its research programs. The reports from these studies recommend increasing the relative, as well as absolute, level of funding to support competitive research. In addition, the State Agricultural Experiment Station Competitive Grants Program proposed in the President's budget will provide a source of funding for functions currently supported by formula funds.

MISCONDUCT POLICY

*Question.* In a recent report, the USDA Inspector General says that the Cooperative State Research, Education, and Extension Service does not have a Federal Research Misconduct Policy, which is required of Federal agencies, and that the Agricultural Research Service has such a policy but it is not in compliance with Federal standards.

What are your plans to bring the agency in compliance?

Answer. The Office of the Undersecretary for Research, Education, and Economics will serve as the centralized body for research misconduct on behalf of the Department. By June 30, 2005 a Federal Register notice will be published announcing the mission area's research misconduct role and accepting the Office of Science and Technology Policy (OSTP) definition of research misconduct as the USDA definition. The Cooperative State Research, Education, and Extension Service (CSREES) will take the lead on preparation and publication of the Federal Register notice. Each USDA agency will be required to develop policies and procedures compliant with the OSTP Federal Research Misconduct Guidelines, or if more appropriate, to execute

a Memorandum of Understanding with another Departmental agency to act on their behalf with respect to research misconduct. Agency policies are to be completed no later than 9 months following publication of the Federal Register notice noted above. CSREES will refine and document its research misconduct policy. This will be reviewed by the Office of General Counsel for OSTP compliance and subsequently published in the Federal Register and on the agency's website.

The Agricultural Research Service is working with Department officials to bring its Federal Research Misconduct Policy into compliance.

#### STATE AGRICULTURAL EXPERIMENT STATION

*Question.* How will the proposed State Agricultural Experiment Station competitive grants program work?

*Answer.* A CSREES working group of national program leaders has been charged with the task of developing a preliminary design for the new competitive grants program for the State Agricultural Experiment Stations (SAES). Our initial planning for the SAES program emphasizes broad national issues which are manifested in a wide range of regional and local research problems, including regional pest management, marketing and other farm management and local economic issues; ecosystem management; and new uses and products. Grants may also emphasize multi-institutional planning and coordination to take advantage of system-wide capacity in areas such as plant and animal disease and international markets, and sustaining capacity to assure rapid response to problems in agrosecurity and food safety.

*Question.* How will the funding be allocated?

*Answer.* Funding for the SAES program will be competitively awarded.

*Question.* Who will review the grant submissions?

*Answer.* Proposals will be reviewed by ad-hoc reviewers (reviewers who do not meet in a formal panel setting) and/or peer panel reviewers.

*Question.* Who will make the award decisions?

*Answer.* The ad-hoc reviewers and/or peer panel reviewers will consist of experts in the food and agricultural sciences who will recommend to CSREES projects for award based upon established evaluation criteria.

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#### QUESTION SUBMITTED BY SENATOR CONRAD BURNS

##### HATCH ACT/MCINTIRE-STENNIS

*Question.* In Montana, our colleges and universities are engaged in important and high-quality research that yields significant benefits for Montana agriculture. Yet the President's budget proposes to slash Hatch Act and McIntire-Stennis funding. I appreciate the desire to shift funds into competitive grants, but our universities rely on this funding to sustain long-term research programs.

—Competitive grants are important, but shouldn't they be part of a balanced portfolio of Federal investment in agriculture and forestry research?

*Answer.* Moving from formula-based to competitive funding changes only the mechanism by which science is supported, not the goals or objectives of the work. Competitive programs can be designed to build and sustain research capacity; assure that research contributes to teaching and extension programs; link strengths and unique expertise across institutions; and address local and regional issues which collectively secure the national agricultural system. In addition, with full indirect cost recovery as part of competitive funding, institutions can maintain and continuously improve the infrastructure needed to support modern science, as well as support specialized undergraduate, graduate, and postgraduate training in the agricultural sciences. Also, the State Agricultural Experiment Station Competitive Grants Program proposed in the President's budget will provide a source of funding for functions currently supported by formula funds.

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#### QUESTIONS SUBMITTED BY SENATOR LARRY CRAIG

*Question.* The U.S. dry edible bean industry has been working with NASS to establish parameters so that a national dry bean stocks report can be implemented.

Please describe how such a survey and reporting would be accomplished, including the details of the parameters of such reporting.

*Answer.* The survey would be a census of all off-farm dry bean storage facilities in eighteen States. Approximately 3,200 storage facilities would be contacted during each survey period. The survey would be conducted in June and December. Report-

ing would be by mail, phone, and electronic data reporting. The initial survey would also include personal interviews to help answer any questions the respondent might have about the program.

*Question.* What do you estimate the initial cost to establish, and the ongoing annual costs for, a national dry bean stocks report to be, assuming the parameters you outline in the response to the above question?

*Answer.* NASS' cost estimate for the first year is \$650,000. The projected cost for subsequent years is \$550,000 per year.

*Question.* Will USDA make establishing a national dry bean stocks report a priority and include its cost in the fiscal year 2007 budget request to the Congress?

*Answer.* A proposal for instituting a national dry bean stocks report will be seriously evaluated by USDA during the budget process when establishing priorities among the many emerging needs requested of the Department.

*Question.* If Congress provides sufficient funding to establish a national dry beans stocks report in the fiscal year 2006 USDA appropriation, when would NASS be able to start such reporting?

*Answer.* NASS would be able to start reporting in June 2006. The following report would come out in January 2007.

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#### QUESTIONS SUBMITTED BY SENATOR HERB KOHL

##### ECONOMIC RESEARCH SERVICE REPORTS

*Question.* Dr. Jen, I would like to compliment you and the employees of the Economic Research Service for the good work they do. From their Amber Waves magazine to other shorter reports that ERS publishes, this Agency provides very helpful and timely information in its publications.

How are ERS publications made available, and how does USDA work to make sure the general public is aware of their existence?

*Answer.* ERS develops and disseminates a broad range of economic, social scientific, and statistical information to the public. The agency publishes economic information and research results on the web and in a variety of agency-published research reports, market analyses and outlook reports, articles published in ERS periodicals and articles published in professional journals. Our research is available to the public in print (which may require a small fee) and online (without charge).

ERS distributes this information through an array of academic, policy-, and public-oriented outlets. All ERS publications (including Amber Waves) are distributed to (and by) the Government Printing Office (GPO), the National Technical Information Center (NTIS), GPO Depository Libraries, and the 1890 Land Grant Universities. Commodity Outlook reports are also distributed to Cornell University's Mann Library (USDA's economics and statistics system). Many publications are provided to university Agricultural Economics departments, the Social Science Research Network (SSRN), and other targeted distributions.

The ERS website ([www.ers.usda.gov](http://www.ers.usda.gov)) provides instant access to ERS publications, economic and statistical indicators, and datasets. In fact, ERS' website includes an increasingly comprehensive body of materials, covering the equivalent of 6,000 200-page books covering:

- Five research emphasis areas that reflect the agency's strategic goals and research program
- Over 90 briefing rooms offering in-depth syntheses of ERS research on important economic issues
- Twenty-two key topic areas populated with data, publications, and other products
- Access to around 9,000 datasets and a range of data products available in different formats, including online databases, spreadsheets, and interactive web files and mapping applications
- Over 1,400 publications, including commodity outlook newsletters
- An "About ERS" section pointing to subject specialists, job listings, and other services
- A newsroom containing concise overviews of key issues, research findings, and analysis
- Amber Waves magazine, including web-exclusive feature articles, covering the economics of food, farming, natural resources, and rural America
- A calendar of upcoming releases
- A subscription-based electronic notification service that supplies e-mail alerts on newly released or updated products, covering 50 different topic areas and going to 22,000 subscribers.

In February of 2005, the website attracted over 320,000 visitors, and over the past 4 years site usage has increased 324 percent.

When new research publications and products become available, we send e-mail notices, postcard notices, report summaries, and sometimes printed copies of new reports to customers who have expressed interest in specific ERS topics by registering via the Internet from a designated page on our website. About 22,000 ERS customers have signed up for e-mail notifications and about 2,500 have signed up for printed material. The overlap between the two lists is about 300.

Oral briefings, written staff analyses, and congressionally mandated studies are delivered directly to executive branch policymakers and program administrators. We keep the media and Congressional staff informed of new ERS material via our monthly media newsletter, *DatelineERS*, which is a monthly two-page newsletter (available in both printed and electronic format) announcing recently released ERS publications, data products, and other web resources. We also keep our website homepage and newsroom up-to-date, featuring the latest research and analysis available. We help educate the media about what's available on our website each time they call us for information. They, in turn, write stories that the general public reads.

We also exhibit at various conferences throughout the year, educating the researchers, industry professionals, and the general public about what we do. We bring publications and demonstrate the website at these events.

#### ARS TERMINATIONS

*Question.* The President's budget proposes to eliminate more than \$200 million in ARS research activities that Congress has determined to be of high priority. These proposed terminations include work that has been ongoing for 4 or 5 years.

How does USDA expect Federal employee morale to remain high given these proposals?

*Answer.* Research managers have to confront morale issue on a daily basis and from a variety of sources. While proposals to not continue funding for these projects have a negative impact on the employees affected, ARS must retain the flexibility to proposed reallocations of its resources to meet new challenges that affect the Nation.

*Question.* What effect is it having on recruitment?

*Answer.* We have advised all potential research candidates of the proposed terminations.

#### CSREES CUTS IN FORMULA FUNDED RESEARCH PROGRAMS

*Question.* The President's budget proposes to cut in half or eliminate formula-based funding to land grant universities across the country for research related to general agriculture, forestry, and animal health. These funds have helped to develop, and continue to maintain, a strong cooperative relationship between USDA and the states to share in research challenges and outcomes. Such drastic cuts are very troubling and shake the foundation of that once-strong partnership.

I strongly support competitive research, such as the National Research Initiative, but it is important to note that the formula-based funds help state universities, such as the University of Wisconsin, respond rapidly to sudden problems.

A few years ago, the soybean aphid was discovered in Wisconsin, and was beginning to spread to neighboring states. Within 6 weeks, the University of Wisconsin, using formula-based Hatch Act funds, was able to set up a multi-state working group that was able to research the problem, determine methods of control, and get information to local farmers on what they could do to protect against losses. If those researchers had only competitive or special research grants for problems like this, the ability to respond rapidly would be lost. And that is just one example. Over the past few weeks, there have been reports of an invasive pest that has appeared in the Mid South that affects rice production. States in that region were able to respond with formula funds in much the same way we were able to deal with the soybean aphid. Soybean rust will be another example. To drastically cut or eliminate these funds is an indication the President does not realize the importance of these funds.

—How do you propose to work with state research institutions on problems that arise suddenly if you have greatly reduced or eliminated the source of Federal funds they could use for that purpose?

*Answer.* The fiscal year 2006 budget proposes the new \$75 million State Agricultural Experiment Stations Competitive Grants Program focused on regional, state and local research needs. Our initial planning for this program emphasizes broad national issues which are manifest in a wide range of regional and local research

problems. Grants also may emphasize multi-institutional planning and coordination to take advantage of system-wide capacity in areas such as plant and animal diseases and international markets, and sustaining capacity to assure rapid response to problems in agrosecurity such as soybean rust. This program will provide a source of funding for functions currently supported by formula funds.

*Question.* If you shift Federal resources from formula-based funds to competitive-based programs, how do you intend to help research institutions that still need to build their capabilities in order to fairly compete for Federal funding?

*Answer.* Moving from formula-based to competitive funding changes only the mechanism by which science is supported, not the goals or objectives of the work. Competitive programs can be designed to build and sustain research capacity; assure that research contributes to teaching and extension programs; link strengths and unique or limited expertise across institutions; and address local and regional issues which collectively secure the national agricultural system. In addition, with full indirect cost recovery as part of competitive funding, institutions can maintain and continuously improve the infrastructure needed to support modern science, as well as support specialized undergraduate, graduate, and postgraduate training in the agricultural sciences.

*Question.* Won't there be definite winners and losers in your plan?

*Answer.* As in all plans that change the way in which funds are distributed, there will be winners and losers. Smaller institutions including those located in the territories will be impacted by the cut in formulas. Institutions who are currently eligible to receive McIntire-Stennis and Animal Health and Disease Research formula funds but who are not land grant institutions, will not be eligible to compete for funds under the new State Agricultural Experiment Stations Competitive Grants program. It is assumed that institutions who in the past have been successful in competing for competitive funds will continue to do so in the future. While the amount of formula funds available to institutions in fiscal year 2006 will be reduced or eliminated, it will ultimately be up to each institution to determine how to allocate funds available from Federal and non-Federal sources to continue research projects or support personnel.

#### CLASSICAL PLANT AND ANIMAL BREEDING

*Question.* Dr. Jen, the Senate fiscal year 2005 report included language under CSREES encouraging the Department, especially in the establishment of priorities within the National Research Initiative, to give consideration to research needs related to classical plant and animal breeding.

What, if any, steps have the Department taken in response to this language? Have any changes been made in the NRI priority process to reflect these concerns?

*Answer.* For classical plant breeding, the NRI will be offering funding opportunities for research, education, and training in a number of plant programs for fiscal year 2006. In the current NRI plant programs, support is provided for the development of techniques and tools, such as marker-assisted selection and quantitative trait locus analysis, which can be used in plant breeding. In the current NRI animal programs, support is provided for research in areas such as genetic or breed comparisons, identification of genetic markers, including quantitative trait loci and economic trait loci, marker-assisted selection, and chromosome identification, which can be used in classical animal breeding.

The NRI sets program priorities based on input from stakeholder groups which include commodity groups, producers, the scientific community (including scientific societies) and other interested parties. The National Program Leaders have continuing, ongoing interactions and discussions with stakeholders through workshops and conferences, written input and reports from stakeholders, as well as input via telephone and e-mail. Stakeholder input is vital to setting the priorities and directions of the NRI programs.

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#### QUESTIONS SUBMITTED BY SENATOR TOM HARKIN

##### PRESIDENT'S FISCAL YEAR 2006 BUDGET PROPOSAL

*Question.* The President's fiscal year 2006 budget proposes to move the competitive, integrated grants programs (Water Quality, Food Safety, several IPM-related programs, Methyl Bromide, and Organic Transitions) currently managed under Section 406 of the 1998 Agriculture Research, Extension and Education Reform Act (AREERA) to the National Research Initiative.

Does this proposal indicate a shift in research, education and extension priorities? If so, why are the priorities changing and which current Section 406 programs will

see increases or decreases under the new proposal. If not, what are the specific, detailed plans for integrating the existing 406 programs within the NRI?

Answer. With the consolidation of programs, CSREES does not plan to redirect priorities—all emphasis areas will remain in the portfolio of programs. The primary purpose for moving integrated program activities to the National Research Initiative Competitive Grants Program (NRI) and to the new state Agricultural Experiment Stations Competitive Grants Program (SAES) is to streamline the presentation of the budget, thus reducing the appearance of redundant programs.

*Question.* Will each current 406 program be a separate NRI national program? Will their funding allocation be increased, decreased or remain the same compared to fiscal year 2005 Section 406 levels? Does the agency expect that participation of Extension in the integrated programs will increase, decrease, or remain unchanged if this proposal were to be approved?

Answer. The fiscal year 2006 Budget proposes that Section 406 activities will be funded at \$41.9 million, but the grants will be administered through the NRI or the new SAES competitive grants program. This will allow greater flexibility and responsiveness to changing needs in these targeted areas. In addition, the fiscal year 2006 Budget also proposes an increase from 20 percent to 30 percent of funds that may be used to support competitive integrated research, education, and extension programs.

*Question.* With respect to the Organic Transitions program, would the proposal retain a specific organic national program within the NRI; and would the farm bill's Organic Farming REE program, currently jointly administered with Organic Transitions, be administered separately?

Answer. In fiscal year 2006, it is proposed that research programs focused on activities such as organic transition could be supported not only with NRI funds but also in the new SAES program. As we move forward in planning for both the NRI and the new SAES competitive grants program, we will insure coordination with the Organic Agriculture Research and Education Initiative to maximize the effectiveness of the funds available for award.

*Question.* Finally, please provide a detailed accounting of the number and type of stakeholder groups who were involved in the development of the proposal to transfer these programs from Section 406 to the NRI, including specific meeting dates and participants.

Answer. While we are prohibited from sharing budget details with outside groups during the budget development process prior to release of the President's budget proposal, we have and will continue to consult widely with universities, stakeholders, and customers to insure that CSREES research dollars are utilized in the most effective and efficient way to address critical research issues. In the last 6 weeks, the CSREES Administrator has met with over 1,000 direct clients and customers across the country to discuss the fiscal year 2006 budget and gain input from customers and stakeholders as we continue program planning. In addition, an agency team is developing a proposal for the proposed SAES program which will be available for public comment.

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#### QUESTIONS SUBMITTED TO J.B. PENN

#### QUESTIONS SUBMITTED BY SENATOR ROBERT F. BENNETT

##### FOREIGN AGRICULTURAL SERVICE (FAS) REVIEW

*Question.* I understand FAS is currently undertaking an organizational review. What is the status of that review?

Answer. FAS has made progress in its organizational review and is continuing to re-examine the agency's core mission, goals, and resources. Input from the private sector has re-affirmed support for FAS' network of overseas offices, specifically to resolve market access issues and provide market intelligence for U.S. agricultural producers and industry. Internal groups are currently reviewing crosscutting strategies and tactics, particularly in the context of FAS' market access mission. Ongoing discussions regarding both FAS' mission and budget concerns have resulted in some shifts in overseas resources such as downsizing in Europe along with limited expansion plans to cover developing markets.

*Question.* When will final recommendations be released?

Answer. Internal working groups have developed some initial recommendations and more comprehensive recommendations are being researched and evaluated. We anticipate this review process will culminate in final recommendations being presented to the FAS Administrator in the fall of 2005.



## LIVESTOCK RISK PROGRAM FOR LAMB

*Question.* What is the status of the sheep industry's proposed Livestock Risk Program for lamb?

Answer. Unfortunately, details of the proposed Livestock Risk Protection (LPR) program for Lamb submission and discussions of the proposal with the submitters cannot be disclosed. Submissions under section 508(h) (4)(A) of the Federal Crop Insurance Act (Act) must be considered to be confidential commercial or financial information during the period preceding any decision by the Board.

Applied Analytics Group (AAG) and the American Sheep Industry Association (ASIA) submitted a proposal to include lamb in the LPR program in accordance with Section 508(h) of the Act. On October 28, 2004, the Federal Crop Insurance Corporation (FCIC) Board of Directors (Board) voted to send the proposed LRP Lamb Program for external review by a panel of five persons experienced as actuaries and in underwriting as required by the Act.

On January 13, 2005, the Board considered the input it received from the external reviewers and the Risk Management Agency and discussed the responses to such by AAG and ASIA. Based on these discussions, the Board agreed to table the proposal for 45 days to provide AAG and ASIA time to provide modifications to their LRP lamb submission.

AAG and ASIA met again with the Board on April 28, 2005, to discuss issues raised by the external reviewers and RMA and concerns of the Board.

On April 28, 2005, the Board voted unanimously to give notice of intent to disapprove the LRP lamb submission.

The Board is sympathetic to the needs of the sheep industry for a viable risk management tool; but, must also assure any proposed program complies with all applicable provisions of the Act, the interests of producers are adequately protected, premiums rates are actuarially appropriate, and that program integrity will be protected.

## PUBLIC LAW 480

*Question.* The fiscal year 2006 budget proposes transferring \$300 million from the Public Law 480 Title II account to USAID. What effect will this have on USDA's role in administering food aid?

Answer. At this time it is not expected that USDA will have an in-depth administrative role with regard to the \$300 million; however, interagency coordination across all food aid programs will continue. USDA will continue to procure the food under Public Law 480 title II. USDA's role in procuring commodities funded through the \$300 million allocated to USAID will depend on whether the commodities are purchased in the United States or outside of the United States. If the commodities are procured outside of the United States, USDA would not be expected to have a role in the procurement of these commodities. USAID will be responsible for the budget and the financial management of those resources.

## WEB-BASED APPLICATIONS

*Question.* FSA has put emphasis on web-based applications. What percentage of producers are utilizing this technology?

Answer. According to the August 2003 Computer Usage and Ownership Report of the National Agricultural Statistics Service, a total of 48 percent of U.S. farms have internet access. Of the 58 percent of farms that have access to a computer, 54 percent own or lease one. Thirty percent of farms use a computer for their farm business.

*Question.* Do you have benchmarks to track your success?

Answer. We are tracking internet usage daily for the web-based applications we have deployed. FSA is currently receiving approximately 200,000 external web-site hits monthly. Over 45,000 customers have obtained eAuthentication credentials—i.e., electronic signature—to conduct business electronically with FSA.

The major web-based applications that have been deployed include:

—*Web-based Forms.*—Since the first forms became available in June 2002, FSA has been expanding this capability, specifically targeting forms that our customers can electronically access, sign, and submit on line. FSA has posted over 700 forms to our eForms website, with over 100 in Spanish.

—*Electronic Loan Deficiency Payments (eLDP's).*—Pre-approved producers can access a web-based application and interactively file applications for LDP's. The web-based applications will accept the LDP transactions, calculate and issue electronic payments, and issue electronic notification of the payments to the participating producers. The eLDP project was deployed nationwide in Sep-

tember 2004. Over \$30 million has been distributed, and 12,000 applications have processed. Over 7,000 customers have established eLDP profiles.

—*Electronic Direct and Counter Cyclical Payment Program (eDCP)*.—The eDCP was deployed in October 2004 and enables producers to enroll using web-based public access facilities in the new system.

—*Electronic Representative (eRep)*.—Deployed in September 2004, this application allows various entities such as partnerships, corporations, trusts, and estates, to conduct business with FSA electronically.

—*Customer Financial Inquiry Data Mart*.—This application provides FSA customers access to FSA/CCC payment, receipt, debt, and IRS reporting information. Deployed March 2004 in conjunction with the USDA Customer Statement.

—*USDA Common Customer Statement*.—Deployed March 2004. With linkages to FSA's Customer Financial Inquiry Data Mart and Farm Loan Customer Status Web Service, allows producers to obtain information such as payments and receipts.

—*Farm Business Plan Manager—Equity Manager*.—This farm business planning and financial/credit analysis tool is being used to determine credit worthiness during the life of an FSA farm loan. Initial deployment to FSA farm loan employees occurred in 2004. Access will be expanded to FSA guaranteed lenders in 2005.

*Question.* How are you encouraging producers to take advantage of this technology?

*Answer.* We are encouraging producers in a number of ways. At various farm trade shows we are displaying and demonstrating our new applications as well as providing printed brochures and posters. In our county offices the print material is also available, and FSA employees are promoting these new tools and providing our customers instruction on using them. FSA employees are also promoting these tools when speaking in different forums across the country. In addition, almost every press release, brochure, and poster that FSA produces contains a promotional website link.

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#### QUESTIONS SUBMITTED BY SENATOR CONRAD BURNS

##### BEEF TRADE

*Question.* Resuming beef trade with major foreign markets is a priority for me, as it is for many Senators. I know USDA shares that priority. However, news reports from some of these countries, particularly Japan, indicate that consumer fears about U.S. beef safety still exist.

In addition to your efforts to open the borders, what types of things is USDA doing to promote U.S. beef internationally, and reassure consumers in major markets that our beef is the safest in the world?

*Answer.* The Japanese and Korean governments have specifically asked that USDA implement a risk communications plan to help sell any agreement between the United States and their respective countries on Bovine Spongiform Encephalopathy (BSE). In response, FAS and the U.S. Meat Export Federation (USMEF) have produced a joint pre- and post-opening risk communications plan that focuses on consumer, media, and political beef trade concerns and misperceptions about BSE. Both USDA and USMEF have begun to implement and plan activities to communicate the proper messages such as editorials, journalist trips to the United States, BSE seminars, advertisements, and dissemination of technical materials.

In addition, Dr. Charles Lambert, Deputy Under Secretary for Marketing and Regulatory programs, has led a U.S. delegation of experts to Tokyo for outreach activities and technical discussions with Japanese government officials. Outreach activities include press briefings and roundtables with the press, industry, and consumers to help convince Japanese that U.S. beef is safe.

##### SUGAR

*Question.* The 1.2 percent marketing assessment for sugar producers appears, at first glance, to be not much more than a tax on sugar. If I understand correctly, the revenues go directly into the General Fund, rather than to an agriculture-related purpose. Can you provide a little more background on the rationale for this assessment?

*Answer.* The sugar marketing assessment is proposed as part of a package that spreads the deficit reduction burden across all farmers that benefit from Federal agricultural programs. The deficit reduction activities that will affect most agricultural

program beneficiaries, i.e. reduction in marketing loan gains, tightening payment limitations, and the general 5 percent reduction in payments, will not affect sugar program beneficiaries because the sugar program does not improve sugar beet and sugarcane growers' income by direct payments from the Federal Government. The sugar program increases farm income by increasing the domestic sugar price by limiting supply through an import tariff-rate quota and a domestic marketing quota. There is a nonrecourse sugar loan available, but the sugar program is specifically required to manage supply to avoid the cost of sugar loan collateral forfeitures. A sugar marketing assessment, similar to the current proposal, was included in the Omnibus Budget Reconciliation Acts of 1990 and 1993 to spread the cost of deficit reduction among all Federal program beneficiaries.

#### CROP INSURANCE

*Question.* Last year, RMA successfully negotiated a new Standard Reinsurance Agreement for crop insurance providers, which included some reductions in administrative & overhead costs, as well as underwriting gains. This year's budget includes further reductions in underwriting gains, as well as some modifications to premium subsidies. Crop insurance is a critical risk management tool for my producers in Montana, and I want to ensure that the program remains strong. Can you discuss the Administration's commitment to effective risk management tools, and how this year's proposals strengthen crop insurance delivery?

*Answer.* One of the highlighted goals of the Administration's budget is strengthening crop insurance delivery to ensure that farmers have adequate yield and price protection. The value of crop insurance protection in 2006 will be about \$41 billion, representing more than 80 percent of the Nation's acres planted to principal crops. Despite the high level of participation, demand still exists for ad hoc disaster assistance due in part to reliance on catastrophic coverage which affords the producer only 27.5 percent protection in the event of a total loss.

In continuing the Administration's efforts to more effectively budget for and administer disaster assistance programs, the 2006 budget includes a proposal to compel producers to purchase more adequate coverage by tying the receipt of direct payments or any other Federal payment for crops to the purchase of crop insurance.

Other changes include modifications to the fee for catastrophic coverage that is intended to make the program more equitable in its treatment of both large and small farms, restructuring premium rates to better reflect historical losses, and reduction in delivery costs. The combination of changes is expected to save the government approximately \$140 million per year, beginning in 2007.

#### QUESTIONS SUBMITTED BY SENATOR HERB KOHL

##### FSA AGENCY LOAN OFFICERS

*Question.* I understand a disproportionately large number of Farm Service Agency loan officers will be eligible to retire in the next 2–5 years. Moreover, we are told it takes at least 2 years of on-the-job-training before a new loan officer can function at full competence. Considering the critical impact these employees have on America's farmers and ranchers, this raises some important questions. How many of your senior loan officers, in the national office and in the field, are eligible to retire?

*Answer.* FSA's records indicate that 287, or 17 percent, of the agency's loan officers will be eligible to retire in fiscal year 2005.

*Question.* How many will be eligible to retire in each of the next 1 to 5 years?

*Answer.* So far, the agency has analyzed the data for the next 3 fiscal years. The information for those years is as follows:

Fiscal year	Number of Loan Officers Eligible to Retire	Percent of Total Loan Officers
2006 .....	345	21
2007 .....	408	25
2008 .....	492	30

Each year's retirement eligibility includes those eligible from the previous year, plus those becoming eligible to retire during that year.

*Question.* How many do you think will actually leave in fiscal year 2006?

*Answer.* Because each individual's situation is different, it is difficult to predict the actual number of retirements in any given year. However, given the high workload, the high rate of change in program policies and information technology, and

similar stress factors associated with the farm loan manager position, we expect that a substantial percentage of those employees eligible for retirement will actually retire.

*Question.* What plans are you making in your 2006 budget request to prepare your staff to replace those positions?

*Answer.* The President's fiscal year 2005 Budget included a request for 100 trainee positions to establish a "pipeline" of new loan officers in anticipation of coming retirements. However, because appropriated funds were below the President's request, the agency made the difficult decision to forgo filling those positions. Given the continued need for fiscal restraint, the fiscal year 2006 President's Budget did not include the 100 positions. As part of a comprehensive review of agency operations, FSA is studying the best approach to ensuring a sufficient, well-trained cadre of farm loan officers.

*Question.* If you agree that having adequate and fully competent loan officers is necessary for the agency to fulfill its mission, why are you not requesting funds to maintain an adequate force of loan officers instead of asking for \$3,300,000 for new outreach efforts?

*Answer.* Adequate and fully competent loan officers are indeed necessary for the agency to fulfill its mission. Under an initiative known as "FSA Tomorrow," the agency is performing a top-to-bottom review of its operations to determine whether its current structure best serves present and future requirements. The need to ensure adequate staffing of trained loan officers as well as employees in all mission-critical occupations will be addressed as part of that review.

The stakeholder discussions that FSA held in developing its strategic plan revealed that outreach to ensure equitable access to programs by underserved populations is a critical issue. The agency believes that its goal of outstanding customer service cannot be realized if it fails to reach many of its potential customers. Therefore, even in view of the many difficult choices required in carrying out operations while constraining costs, FSA believes that an enhanced outreach program is a high priority.

*Question.* Where and what population will you target in your requested outreach efforts?

*Answer.* FSA's outreach efforts will address various populations throughout the country that are underserved, particularly in access to farm loan programs. As an example, one of FSA's outreach projects is a cooperative agreement with the National Tribal Development Association located in Montana. The National FSA American Indian Credit Outreach Initiative, which has been ongoing for 3 years, is designed to reach out to Native Americans on reservations to inform them about FSA farm loan programs and to assist them in applying for loans. FSA has other cooperative agreements to inform minority producers about FSA programs and to encourage their participation. FSA is also reaching out, in partnership with other Department of Agriculture agencies, to community-based organizations to encourage minority participation in FSA loan programs.

The additional \$3,300,000 requested in the President's fiscal year 2006 Budget will be used to expand FSA's work with its partners and customers to increase program participation of underserved customers, with special emphasis on socially disadvantaged and/or limited resource farmers, women, and members of minority groups such as Native Americans, Hispanics, Asian-Pacific Americans, and African Americans.

Without this requested funding increase, the resources required to perform this much-needed work must be taken from FSA's salaries and expenses budget, thus placing downward pressure on FSA's hiring ceilings.

*Question.* Have you ever tested your employees, for example, by using third party entities, to see if your loan programs are being administered in compliance with Federal statutes including the Equal Credit Opportunity Act?

*Answer.* To date, third party testers have not been used. The agency uses several different compliance review processes to ensure that all regulatory requirements are met. FSA program and civil rights staffs conduct routine reviews of office operations and loan processing and servicing activities. If at any time problems become evident, special targeted reviews are conducted as well. The agency maintains a special focus on monitoring the processing of loans from minority and female applicants; periodic reviews of denied applications must be performed by managers, and corrective action taken immediately upon detection of problems.

*Question.* Would not such tests be an appropriate way to identify and address existing problems within your agency while conducting additional outreach efforts? Wouldn't this be a cost-effective way to deal with overall problems within the agency?

Answer. Additional compliance testing will not completely solve several of FSA's problems with regard to underserved populations. In order to apply for farm loans, producers, especially women and minorities, must be made aware of the available loan programs. They must also, in some cases, be encouraged and assisted by community-based organizations and minority-serving educational institutions. Special efforts must also be made to communicate with minority producers who have special cultural and linguistic needs. While FSA agrees that customer service during the loan application and approval process is crucial, removing barriers to applying is also essential. FSA is currently focusing its outreach effort on overcoming these known barriers.

#### FAS FOREIGN OFFICE SECURITY

*Question.* The President's budget includes within the FAS salaries and expenses account, nearly \$3 million for capital security costs in overseas locations and an additional \$650,000 contribution for the Baghdad Embassy. What assurances do you have that FAS location needs will be met as are now indicated by the contribution rates you have been assigned?

Answer. The State Department has developed a capital construction program to provide adequate and secure space for all agencies overseas. The costs of the program are based on a worldwide headcount and not tied to specific facilities in specific locations. We will continue to work with the State Department to ensure that FAS will be provided with adequate space for the numbers of personnel for which it is being charged.

*Question.* What input have you had with the State Department in development of the rates of contributions USDA has been assigned for this purpose?

Answer. After announcing the program, the State Department accepted some feedback from other agencies regarding the provision of credit for rent currently being paid and charging different rates for different types of personnel. Other than making those two changes to the calculation of agency contributions, the State Department has not adopted any other suggestions. The overall level of the program was determined by State, as was the rate of contribution for each employee.

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#### QUESTIONS SUBMITTED BY SENATOR TOM HARKIN

##### WTO DECISION ON USDA COMMODITY AND TRADE PROGRAMS

*Question.* In the course of crafting the 2002 farm bill, the House and Senate Agriculture Committees, with extensive advice from USDA, sought to keep the farm bill provisions consistent with our international trade obligations. Despite those efforts, last month a WTO appeals panel upheld the claims of the government of Brazil, which asserted that the U.S. cotton support program and certain other programs violate WTO rules. As a result, Congress faces a July 1, 2005 deadline for modifying the export credit guarantee and Cotton Step 2 programs in order to come into compliance with that WTO ruling. We will also have to address changes in the price-related farm programs by some later date. Congress needs the best advice of USDA regarding options for changes to the export credit guarantee and cotton step 2 programs that would be adequate to satisfy the requirements of the WTO appellate panel's decision. When will we receive this advice and guidance?

Answer. USDA is consulting carefully and extensively with the U.S. Trade Representative, industry, and others to craft a response to the WTO Appellate Body's decision. We will fully comply with the WTO decision. USDA will provide advice and guidance to Congress when we have determined how best to comply, taking into account the security of our cotton producers, the stability of our farm program, and the commercial opportunities and obligations of all who rely on our export credit programs, as well as our ambitions in the ongoing Doha WTO negotiations.

##### FARM SERVICE AGENCY-STATE ALLOCATIONS

*Question.* Earlier this year I received a letter from a constituent who was laid off from her temporary position with her county Farm Service Agency office. She was informed that because the State agency had not received its budget allocation for fiscal year 2005, there was not enough money to keep her on staff. Was there a particular problem with the State FSA budget allocations this year?

Answer. FSA's fiscal year 2005 President's budget assumed an overall reduction in temporary staff years of 1,067 due to the completion of final Farm Bill implementation activities. Although FSA was operating under multiple continuing resolutions from October 1, 2004 through December 8, 2004, temporary ceiling levels and allotments were made to all States. The total temporary employee ceiling level for Iowa

is 70 staff years. The total temporary employee usage through the first half of the fiscal year was 36.72 staff years or 52 percent of the total ceiling level. FSA provided Iowa with full funding through the various continuing resolution periods, and subsequently for the full year, in order to ensure the ability of the State to manage its workforce in correlation with annual workload needs.

*Question.* What actions will FSA take to avoid future problems?

*Answer.* FSA complied fully with the requirements of the continuing resolutions and issued timely allotments to all States. FSA will continue to make every effort in the future to provide timely and accurate funding to all States.

*Question.* Does the FSA have enough funds to adequately staff local offices?

*Answer.* FSA completed a thorough review in order to ensure that critical mission goals are accomplished within the available resources, given that FSA's appropriation was \$27.1 million below the requested amount.

#### FARM SERVICE AGENCY—BENEFICIAL INTEREST

*Question.* For most producers, claiming loan deficiency was a relatively routine procedure, but far too many producers encountered beneficial interest problems that blocked them from receiving payment. I encourage you to provide equitable relief where the loss of beneficial interest was inadvertent or unintentional. I also understand that FSA is working to combine forms to avoid some of the confusion next year and should simplify the process for both producers and FSA county office employees. What is the status of equitable relief for these producers?

*Answer.* The beneficial interest requirement for loan deficiency payments is the same as that which exists for commodity loans. Beneficial interest is a statutory requirement. Misaction or misinformation is determined on a case-by-case basis.

*Question.* What is the status of the form revision?

*Answer.* FSA is in the process of drafting a new form and instructions. We hope to have it available in time for corn harvest.

#### CONSERVATION RESERVE PROGRAM—SWITCHGRASS

*Question.* As you mentioned in your comments—we have a challenge ahead of us as existing CRP contracts expire. Working with the Chariton Valley RC&D, we were able to combine CRP and energy production in an innovative project in southern Iowa. I am concerned that the CRP acres planted to switchgrass may not receive priority when the owners bid those acres for re-enrollment in the CRP. Will the administration support the concept of a CRP “energy reserve” so we can continue this innovative project?

*Answer.* In August 2004, USDA asked for public comment on how to address the 28 million acres under CRP contracts that will expire between 2007 and 2010. USDA received about 5,200 comments, which we are reviewing and evaluating.

As we develop our options on how to address extensions and reenrollments, we will take into consideration the role that CRP can play as a renewable fuel source. The pilot program in Iowa is a prime example of the benefit that CRP can provide to meet some of our energy needs in an environmentally sound manner.

#### SUBCOMMITTEE RECESS

Senator BENNETT. Thank you. We have managed to beat the clock by 5 minutes for which we are very grateful.

As I said, all of the prepared material that you brought with you will be included in the record, and we will examine it. We thank you for your service and your attention to all these matters.

The next hearing will be tomorrow afternoon. We will examine food, nutrition, and consumer services, marketing and regulatory programs, and food safety.

Thank you again. The subcommittee is recessed.

[Whereupon, at 1:43 p.m., Wednesday, April 13, the subcommittee was recessed, to reconvene at 2 p.m., Thursday, April 14.]

## **AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 2006**

**THURSDAY, APRIL 14, 2005**

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

The subcommittee met at 2:03 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**

**DR. MERLE D. PIERSON, ACTING UNDER SECRETARY FOR FOOD  
SAFETY**

#### **OPENING STATEMENT OF SENATOR ROBERT F. BENNETT**

Senator BENNETT. The subcommittee will come to order.

This is the third hearing that we have had on the USDA's budget request for fiscal 2006. And our witnesses today are Mr. Eric Bost, who is the Under Secretary for Food, Nutrition, and Consumer Services; Mr. William Hawks, the Under Secretary for Marketing and Regulatory Programs; and Dr. Merle Pierson, Acting Under Secretary for Food Safety.

Gentlemen, we welcome you all. We see that Dennis Kaplan, your keeper, is here again, as he has been in the past. Mr. Kaplan, we appreciate your diligence and willingness to attend these.

This is a very diverse group of activities for the Department of Agriculture. Mr. Bost manages the food stamps and WIC, a variety of other feeding and nutrition programs. And you control roughly half the budget, maybe a little more than half. So——

Mr. BOST. About 62 percent.

Senator BENNETT. Sixty-two percent. All right. So everybody has to be very nice to you.

Mr. BOST. I wish.

Senator BENNETT. You wish. All right.

Dr. Pierson's principal agency is the Food Safety and Inspection Service. So you are concerned with the Canadian border and BSE

and Avian flu and processing plants and all of the rest of that. So you are in the news a lot.

And then Mr. Hawks manages the Animal and Plant Health Inspection Service, the Agricultural Marketing Service, and the Grain Inspection, Packers and Stockyards Administration. So these agencies foster the marketing of U.S. agricultural products. You are the sales arm, I suppose, of this group.

So we are in the same situation we were yesterday. We have the supplemental on the floor. We do not have a vote scheduled in the moment, but we are subject to being interrupted. So I would hope that each witness would make a short summary so that we can proceed to questions as quickly as possible. And of course, we do have your complete written statements, and they will, indeed, become part of the record.

Senator Kohl.

Senator KOHL. Thank you once again, Senator Bennett.

We are finishing off a busy week. We welcome Mr. Bost, Mr. Hawks, and Dr. Pierson, and we thank you for coming today to help us finish off this week of agriculture appropriations hearings.

Together, you oversee budgets of more than \$60 billion in mandatory and discretionary spending, with the vast majority of that money going to nutrition assistance programs. The missions that you represent—feeding the hungry, making sure the food supply in this country is safe, and protecting the health of this country's most important plant and animal resources—are each very important. And your agencies have received some of the rare increases that are to be found in the President's budget this year.

So I congratulate you on pulling that off. Looking at the budget overall, it must have been a difficult task to do. This does not mean, however, that we don't have concerns and questions regarding your budgets. We do, and so we look forward to your testimony and look forward to having a chance to ask a few questions.

Thank you very much, Senator Bennett.

Senator BENNETT. Let us go in the order in which you are seated across the way, starting with you, Mr. Bost, and then go across.

#### STATEMENT OF ERIC M. BOST

Mr. BOST. Thank you, Mr. Chairman, and good afternoon, Senator Kohl.

For the record, I am Eric Bost, Under Secretary for Food, Nutrition, and Consumer Services. You have my written statement. So I will be very brief in terms of my opening remarks.

The President's 2006 budget request for the nutrition assistance programs is a record high \$59 billion and ensures that all eligible low-income children, seniors, and families and individuals have access to nutrition assistance programs. Since I have been Under Secretary, I have focused on three major challenges: one, improving access so that all eligibles are able to participate in our programs; two, building a healthier United States by promoting better diets and a healthier lifestyle; and three, improving the accuracy and integrity in all of our programs.

The 2006 request supports anticipated participation and costs for food stamps, WIC, and the Child Nutrition Programs and provides



contingency funds in the amount of \$3 billion for food stamps and \$125 million in WIC.

In terms of integrity, one of the things that we are very pleased with and very proud of, is that the error rate in the Food Stamp Program is at 6.63 percent. This is the lowest that it has ever been in the history of the Food Stamp Program and a 25 percent reduction over the course of the last 4 years.

The \$5.5 billion request for the WIC Program would fully support the anticipated participation of 8.5 million persons, and continues our commitment to ensure that low-income pregnant women, infants, and children have access to healthy food, nutrition, education, and when necessary, referrals to other health and social services.

#### PREPARED STATEMENTS

In closing, the President's direction and leadership has been very clear. The Administration's record funding request has priorities to ensure access, maintain and improve integrity, and to help Americans live longer, healthier, and better lives.

I would be happy to answer any questions that you may have. [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 fiscal year 2006 budget request for USDA's Food, Nutrition, and Consumer Services (FNCS).

I am here today to discuss with you the President's budget request that demonstrates the Administration's unwavering commitment to our Nation's 15 nutrition assistance programs—programs that ensure a nutrition safety net for the Nation's children, elderly and low-income households. I am proud of our accomplishments and proud to work for the President who provides clear and continued support for these programs that protect our children, elderly and low-income households from hunger; improve their nutritional intake; and help to prevent the health risks associated with poor nutrition and physical inactivity.

Three principles have continuously guided our administration of these programs: (1) promoting access and awareness of the programs so that all eligible persons can make informed decisions about whether to participate with dignity and respect; (2) addressing the growing epidemic of obesity, with its staggering implications for both National health care costs and individual quality of life; and (3) enhancing the integrity with which our programs are administered. For these programs to be successful, our stewardship of public resources needs to inspire the trust and confidence of the American people.

The President's budget for fiscal year 2006 requests a record level of \$59 billion dollars in new budget authority to administer these vital programs. We will continue our efforts to improve the public's awareness of our programs and to, wherever possible, simplify our administrative processes. By doing so, we can better ensure all eligible persons have open and informed access to the nutrition assistance programs. Many potentially eligible individuals do not take advantage of our programs' benefits and assistance. Clearly, we have more work to do to reach those who are eligible for our programs.

Our 15 programs provide nutrition assistance, including both access to healthy food and nutrition education and promotion to support and encourage a healthy lifestyle. With this nutrition mission in mind, and the Center for Nutrition Policy and Promotion's (CNPP) focus on providing a comprehensive Food Guidance System that is the basis of nutrition promotion for our programs as well as for the broader population, we play a critical role in the integrated Federal response to the growing public health threat posed by overweight and obesity.

Finally, we will strive to enhance the efficiency and accuracy with which our programs are delivered. In fiscal year 2003, the most recent year for which data is available, we have once again achieved a record level of Food Stamp payment accuracy with a combined payment error rate of only 6.63 percent. This is the fifth consecutive year of improvement, lowering the error rate by over 4 percentage points

and making it the lowest rate in the history of the program. We will maintain our efforts with State partners toward continued improvement in the payment error rate. While I am confident that the coming year will bring more good news about the administration of the Food Stamp Program, we do have concerns that the Farm Bill's provisions governing sanctions and incentives may diminish States' determination to maintain this progress. We will also continue efforts to address the issue of proper certification in the school meals programs in a manner that improves the accuracy of this process without imposing barriers to the participation of eligible children. We will also begin new analytical work under this budget request to better assess the accuracy of eligibility determinations in the Child and Adult Care Food Program.

Hard work of USDA staff, of the Congress, and of our State and local program partners has accomplished many things, but important work remains to be done. This budget request provides critical support for this work. I would like to review the highlights of the request and the improvements in performance and results it is designed to support.

#### PROGRAM ACCESS

At its most basic level, ensuring program access must begin with making certain that sufficient resources are provided to these programs so all who are eligible and in need can have ready access to benefits. The President's fiscal year 2006 budget requests funds to support record levels of participation in the Food Stamp Program and the WIC Program. The Administration's strong commitment to adequately fund these critical programs acknowledges the inherent difficulties in anticipating future demand for program services, and provides for contingency funding should program costs exceed our estimates.

For the Food Stamp Program, the budget continues the \$3 billion contingency reserve appropriated in fiscal year 2005 but also offers, as an alternative, a proposal for indefinite budget authority for program benefits. This authority would be an efficient way to ensure benefits are funded as economic circumstances change. In WIC, the contingency reserve appropriated in fiscal year 2005 would be replenished to the \$125 million level and would be available to the program should participation or food costs exceed the levels anticipated in the budget.

Adequate program funding, however, is not enough to ensure access to program services for those who need them. The design of our programs must not create barriers that prevent eligible people in need of service from accessing our programs. We have recently implemented legislative changes brought about by the Farm Bill that expanded eligibility and simplified program rules to improve access to the Food Stamp Program and have worked diligently to encourage our State partners to take advantage of the new options. We remain committed to the fundamental principles of improving program delivery and ensuring access of eligible people who wish to participate in our programs as we move forward with the implementation of program changes enacted as part of the reauthorization of the Child Nutrition and WIC Programs last year.

#### COMBATING THE EPIDEMIC OVERWEIGHT AND OBESITY

The statistics surrounding our National epidemic of overweight and obesity are staggering. Nearly 365,000 deaths a year are related to poor diet and physical inactivity; poor diet and inactivity are the second leading cause of preventable death after smoking. Obesity is costing Americans \$123 billion in healthcare costs each year. About 60 million American adults are obese; and, if this trend continues, this number will rise to 69 million by 2010; 64 percent of adults aged 20–74 are either overweight or obese.

Overweight, obesity and physical inactivity are major risk factors for chronic diseases such as diabetes, cardiovascular disease and cancer each of which undermines the quality of life, leads to premature death, and contributes to the costs I just mentioned. Diabetes has increased by 49 percent in the past 10 years, reflecting a strong correlation with obesity; 18 million people have diabetes, and it is increasingly diagnosed in children and adolescents; 1 in 3 persons born in 2000 will develop diabetes if there is no change in current health habits. Between 1971 and 2000, women's daily intake of calories rose by 22 percent, while men increased their daily intake by 7 percent. Recent trends among children are alarming as well. In the past 20 years, the percentage of children who are overweight has doubled and the percentage of adolescents who are overweight has more than tripled. If we do not stem this tide, this may be the first generation of children that will not have a longer life expectancy than their parents.

The Federal nutrition assistance programs can play a critical role in combating this epidemic by providing not just access to healthful food, but also promoting better health through nutrition education and promotion of physical activity. These FNS program services, along with the work of the CNPP to improve the diets of all Americans, are a key component of the President's HealthierUS initiative. I believe the American public is served well by USDA's continual contributions to addressing the critical nutrition and health-related issues facing us today. The CNPP continues to have an integral role in the development and promotion of updated dietary guidance and nutrition education. The Dietary Guidelines for Americans (Guidelines), published jointly every 5 years by the USDA and the U.S. Department of Human Services (HHS), is the cornerstone of Federal nutrition policy, allowing the Federal Government to speak with one voice. With the latest edition of the Guidelines released January 12, 2005, we have provided the American public with updated science-based advice that promotes health and helps to reduce the risk of major chronic diseases—including addressing obesity through diet and physical activity. For the first time the two Departments created a consumer brochure and released it along with the Guidelines to help consumers make smart choices from every food group, find a balance between food and physical activity and get the most nutrition out of their calories.

While the Guidelines will continue to serve the American public as a representation of science-based Federal nutrition policy, USDA is completing its work on a comprehensive Food Guidance System, replacing the Food Guide Pyramid, that will serve Americans well by translating the principles of the Guidelines and interpreting them into healthful food choices. This new comprehensive Food Guidance System, due to be released later this spring, will provide a framework that the American public can use for selecting the types and amounts of foods they need for a nutritionally adequate diet. With the release and targeted promotion of both the Guidelines and the USDA's Food Guidance System, I believe the American public will be motivated to make more healthful food choices—and thus reduce the trends related to overweight and obesity and other nutrition-related adverse outcomes. Both the Guidelines and the new Food Guidance System will be widely and consistently promoted across the nutrition assistance programs through the Eat Smart. Play Hard.<sup>TM</sup> campaign, and within programs through Team Nutrition, WIC nutrition education, and Food Stamp Program nutrition education.

#### ENHANCING PROGRAM INTEGRITY AND DELIVERY

With this budget request, we are asking the Nation to entrust us with over \$59 billion of public resources. We are keenly aware of the immense responsibility this represents. To maintain the high level of public trust that we have earned as good stewards of the resources we manage, we will continue our ongoing commitment to program integrity 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 2003, the most recent year for which data is available, the Food Stamp Program achieved a record high payment accuracy rate of 93.4 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 Federal administrative resources provided for in this budget will allow us to advance our close work with our State and local program 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 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 29.1 million persons in fiscal year 2006, an increase of 2.6 million over our projections of the current fiscal year. Our \$40.7 billion request fully funds this level of service.

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. 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. In the past 6 months we have provided 16 grant awards of approximately \$2 million to community and faith-based organizations to test innovative food stamp outreach strategies to underserved, eligible individuals and families. While these efforts have brought more people into the program, many eligibles remain who could be participating but are not. We continue

to aggressively promote the message that Food Stamps Make 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. Particular attention has been focused on those legal immigrants who had their eligibility restored by the Farm Bill, the elderly, and working families.

While we seek to encourage all who are eligible and in need to participate in the program, we also need to ensure access to the program is administered in an equitable manner across all States. The budget contains a proposal to eliminate categorical Food Stamp eligibility for Temporary Assistance for Needy Families (TANF) participants who receive only TANF services including, for example, an informational brochure and not cash benefits among persons with income above the normal food stamp threshold. This proposal, with partial implementation in fiscal year 2006, is expected to impact 161,000 persons and reduce benefits by \$57 million. When fully implemented in fiscal year 2007, this change is estimated to affect approximately 312,000 individuals and save \$113 million annually. The President's proposal restores equity among participants and ensures that Food Stamp benefits go to individuals with the most need while retaining categorical eligibility for the much larger number of recipients who receive cash assistance through TANF, SSI and General Assistance.

The Budget also requests a continuation of a policy included in last year's Appropriations to exclude special military pay received by members of the armed forces serving in combat zones when determining food stamp benefits for their families back home.

Over the next year, we will also be working with the Congress to consider renaming the Food Stamp Program to better reflect its purpose of providing nutrition assistance and promoting health among low-income families. No additional funding is being requested to support the name change.

Also included in the budget is a proposal to add the Food Stamp Program to the list of programs for which States may access the National Database of New Hires. Access to this National repository of employment and unemployment insurance data will enhance States' ability to quickly and accurately make eligibility and benefit level determinations, improving program integrity. This proposal has modest administrative costs associated with it, but is expected to produce a net program savings of \$2 million annually beginning in fiscal year 2007.

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 \$12.4 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 2006. In the National School Lunch Program, we anticipate serving almost 30 million children per day in fiscal year 2006, for a total of more than 5 billion meals served during the fiscal year. Similarly, the School Breakfast Program will serve approximately 9.6 million children each school day for a total of more than 1.6 billion meals. The request for budget authority is an increase of \$634 million from levels appropriated in fiscal year 2005. In fiscal year 2006, FNS will implement program changes and new activities resulting from the 2004 reauthorization of these programs. These include efforts to promote fruit and vegetable consumption, including the newly authorized Fruit and Vegetable Program, and our continuing efforts to promote healthy behaviors through support for implementation of local wellness policies. To complement the agency's efforts, we have created the HealthierUS Schools Challenge to encourage communities to improve the foods offered at school and other aspects of a healthy school nutrition environment and to recognize schools that have made those improvements.

#### WIC

In fiscal year 2006, the President's budget request of \$5.51 billion anticipates supporting critical services to a record monthly average participation of 8.5 million women, infants and children through the Special Supplemental Nutrition Program for Women, Infants and Children (WIC). This is an increase of 300,000 participants per month from anticipated fiscal year 2005 participation levels. The \$125 million contingency reserve, appropriated in fiscal year 2003 and reestablished in fiscal year 2005, remains available to the program should participation or food costs exceed our projections. We currently anticipate using a small portion of the reserve in fiscal year 2005; the President's budget replenishes the reserve to the \$125 million level.

The budget also reflects the Administration's commitment to work with its State partners to manage program costs to ensure future access to this critical program for all who are eligible and seek its services. We propose to cap the level of Nutrition Services and Administration (NSA) funding at 25 percent of the total level grants to States. We also are renewing our commitment to continue the long successful partnership with our State partners to contain food package cost growth through sharing of best practices and providing technical assistance in the implementation of food cost containment strategies. New funding of \$3 million is requested in the budget to explore and develop new food cost containment strategies.

#### COMMODITY SUPPLEMENTAL FOOD PROGRAM

The Commodity Supplemental Food Program (CSFP) serves elderly persons and pregnant and post-partum women, infants and children. The budget requests \$106.8 million for this program, the same level appropriated, after rescission, in fiscal year 2005. With level funding, we anticipate a reduction in participation of approximately 44,000 persons.

We face difficult challenges and decisions with regard to discretionary budget resources. The Department will pursue all means to minimize the impact of straight-line funding for the program. However, we have chosen to seek level funding for this program for several reasons. First, CSFP is not available in all States. Second, it is only available at a limited number of sites within those participating States. Finally, a Program Assessment Rating Tool (PART) analysis revealed a number of program weaknesses and concluded that the program is unable to demonstrate results for its target population. We believe our limited resources are best focused on those programs that are universally available to serve these needy populations.

#### THE EMERGENCY FOOD ASSISTANCE PROGRAM (TEFAP)

TEFAP 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, the 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. State administrative costs, critical support to the food bank community, are funded at \$50 million in the President's request.

#### NUTRITION PROGRAMS ADMINISTRATION

We are requesting \$140.8 million in our Nutrition Programs Administration account, which reflects an increase of \$2 million in our Federal administrative funding. This account supports Federal management and oversight of a portfolio of program resources totaling \$59 billion, over 60 percent of the USDA budget. This modest increase will partially offset the personnel-related costs. As in past years, we will be carefully managing our administrative resources seeking cost savings to maintain our high performance at this funding level.

While we understand the difficult budgetary circumstances the Federal Government now faces, FNCS must address the serious challenge posed by the impending retirement of close to 30 percent of its workforce over the next 5 years. I have begun that process by improving the management of human capital planning processes, 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, FNCS 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 and continue to seek new ways to meet the challenges before us.

Mr. Chairman, I appreciate the opportunity to present to you this record level budget and what it means for the millions of Americans that count on us for nutrition assistance. I would be happy to answer any questions you may have.

PREPARED STATEMENT OF ROBERTO SALAZAR, ADMINISTRATOR, FOOD AND NUTRITION SERVICE

Thank you, Mr. Chairman, and members of the Subcommittee for allowing me this opportunity to present testimony in support of the fiscal year 2006 budget request for the Food and Nutrition Service (FNS).

The Food and Nutrition Service is the agency charged with managing fifteen nutrition assistance programs which create 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, reduce hunger and improve health outcomes 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. The budget request clearly demonstrates the President's continuing commitment to this mission and our programs.

A request of \$59 billion in new budget authority is contained within the fiscal year 2006 budget to fulfill this mission through the fifteen FNS nutrition assistance programs. These critical programs touch the lives of more than 1 in 5 Americans over the course of a year. Programs funded within this budget request include the National School Lunch Program (NSLP), which will provide nutritious school lunches to almost 30 million children each school day, the WIC Program, which will assist with the nutrition and health care needs of 8.5 million at risk pregnant and postpartum women, infants and children each month, and the Food Stamp Program (FSP), which will ensure access to a nutritious diet each month for an estimated 29.1 million people. The remaining programs include 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) and the Farmers' Market Programs. FNS seeks to serve the children and low-income households of this Nation and address the diverse circumstances though which hunger and nutrition-related problems present themselves and affect our participants within the design and delivery methods of our programs.

The resources we are here to discuss represent an investment in the health, self-sufficiency, and productivity of Americans who, at times, find themselves in need of nutrition assistance. 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; addressing the growing epidemic of overweight and obesity; and, improving the integrity with which our programs are administered. In addition to these fundamental priorities specific to our mission, the President's Management Agenda provides an ambitious agenda for management improvement across the Federal Government as a whole. I would like to report on our efforts to address three specific items under this agenda; reducing improper payments and enhancing the efficiency of program delivery, building partnerships with faith and community based organizations, and systematically planning for the human capital challenges facing all of the Federal service.

THE CHALLENGE OF IMPROPER PAYMENTS

Good financial management is at the center of the President's Management Agenda. As with any Federal program, the nutrition assistance programs require sustained attention to program integrity. We cannot sustain these programs over the long term without continued public trust in our ability to manage them effectively. Program integrity is as fundamental to our mission as program access or healthy eating. Our efforts to minimize improper program payments focus on (1) working closely with States to improve Food Stamp payment accuracy; (2) implementing policy changes and new oversight efforts to improve school meals certification; and (3) improving management of Child and Adult Care Food Program providers, and vendors in WIC. We have identified these 4 programs as programs susceptible to significant improper payments and will continue to enhance the efficiency and accuracy with which these programs are delivered. I am happy to report that in fiscal year 2003, the most recent year for which data is available, we have achieved a record level of Food Stamp payment accuracy with a combined payment error rate of only 6.63 percent. This is the fifth consecutive year of improvement, making it the lowest rate in the history of the program. With this budget request, we will continue our efforts with our State partners toward continued improvement in the payment error rate. We will continue efforts to address the issue of proper certification in the school meals programs in a way that improves the accuracy of this process without

limiting access of eligible children. New analytical work will begin under this budget request to better assess the accuracy of eligibility determinations in the Child and Adult Care Food Program.

#### FAITH-BASED AND COMMUNITY ORGANIZATIONS OUTREACH

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 2006. The partnership of faith-based organizations and FNS programs, including TEFAP, WIC, NSLP, and the CSFP, is long-established. Most faith-based schools participate in the NSLP and many child care providers and sponsors are the product of faith-based organizations. In addition, 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. I am happy to report that in the past 6 months we have provided 16 grant awards of approximately \$2 million to community and faith-based organizations to test innovative food stamp outreach strategies to reach underserved, eligible individuals and families.

#### HUMAN CAPITAL MANAGEMENT

We currently estimate that up to 80 percent of our senior leaders are eligible to retire within 5 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 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; full funding of the nutrition programs administration request in this budget is vital to our continued success.

Now, I would like to review some of the components of our request under each program area.

#### FOOD STAMP PROGRAM

The President's budget requests \$40.7 billion for the Food Stamp account including the Food Stamp Program and its associated nutrition assistance programs. These resources will serve an estimated 29.1 million people each month participating in the Food Stamp Program alone. Included in this request is the continuation of the \$3 billion contingency reserve provided for the program in fiscal year 2005. While we anticipate the improvement in the general economy will at some point begin to impact the program, predicting the turning point of participation continues to be challenging. To better meet this challenge, we have proposed, as an alternative to the traditional contingency reserve, indefinite funding authority for program benefits and payments to States and other non-Federal entities. In addition, we have made a concentrated effort to encourage working families, senior citizens and legal immigrants to apply for benefits.

We need to ensure program access is administered in an equitable manner across all States. The budget contains a proposal to eliminate categorical Food Stamp eligibility for Temporary Assistance for Needy Families (TANF) participants who receive only non-cash TANF services. This proposal, with partial implementation in fiscal year 2006, is expected to impact 161,000 persons and reduce benefits by \$57 million among persons with incomes above the normal food stamp thresholds. Fully implemented in fiscal year 2007, this change is estimated to affect approximately 312,000 individuals and save \$113 million annually. The President's proposal ensures that Food Stamp benefits go to the individuals with the most need and retains categorical eligibility for the large number of recipients who receive cash assistance through TANF, SSI and General Assistance. Included in the budget is a proposal to add the Food Stamp Program to the list of programs for which States may access the National Database of New Hires. Access to this National repository of employment and unemployment insurance data will enhance States' ability to quickly and accurately make eligibility and benefit level determinations, improving program in-

tegrity. This proposal is expected to produce a net program savings of \$2 million annually beginning in fiscal year 2007.

The budget also requests a continuation of a policy included in last year's Appropriations to exclude special military pay received by members of the armed forces serving in combat zones when determining food stamp benefits for their families back home. Over the next year, we will also be working with members of this Committee to rename the Food Stamp Program to better reflect its purpose of providing nutrition assistance and promoting health among low-income families.

#### CHILD NUTRITION PROGRAMS

The budget requests \$12.4 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 29 million children to approximately 30 million children. Requested increases in these programs 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 will also put into practice program changes and new activities resulting from the 2004 reauthorization of these programs. These include implementing the newly authorized Fruit and Vegetable Program, and continuing our efforts to promote healthy behaviors by supporting the implementation of local wellness policies. We created the HealthierUS Schools Challenge to encourage communities to improve the foods offered at school and other aspects of a healthy school nutrition environment and to recognize schools that made improvements.

#### WIC

The President's budget includes \$5.51 billion for the Special Supplemental Nutrition Program for Women, Infants and Children, the WIC Program. The request will provide food, nutrition education, and a link to health care to a monthly average of 8.5 million needy women, infants and children during fiscal year 2006. We will continue, with a budget request of \$15 million, an initiative begun in fiscal year 2004 and authorized in the program's 2004 reauthorization, to enhance breastfeeding initiation and duration. The \$125 million contingency fund provided in the fiscal year 2003 appropriation and reestablished in fiscal year 2005, continues to be available to the program. We currently anticipate using a small portion of the reserve in fiscal year 2005 for projected program costs; the President's budget replenishes the reserve to the \$125 million level.

#### 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 \$106.8 million for this program, the same level appropriated in fiscal year 2005. Under this funding level, we anticipate a decrease of 44,000. We face a difficult challenge with regard to discretionary budget resources. CSFP operates in selected areas in just 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 that offer them flexibility to meet their individual needs. We believe our limited resources are best focused on programs 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 Nutrition 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. Much of this funding is provided, at the local level, to faith-based organizations. Surplus commodity donations significantly increase the amount of commodities available to the food bank community from Federal sources.

#### NUTRITION PROGRAMS ADMINISTRATION (NPA)

We are requesting \$140.8 million in this account, an increase of \$2 million over our fiscal year 2005 level. This increase will partially offset personal-related costs of the FNS workforce in fiscal year 2006. Our request for Federal administrative



resources is needed to sustain the program management and support activities of our employees nationwide. I believe we need this modest increase in funding in order to maintain accountability for our \$59 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.

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PREPARED STATEMENT OF ERIC J. HENTGES, EXECUTIVE DIRECTOR, CENTER FOR NUTRITION POLICY AND PROMOTION, FOOD, NUTRITION, AND CONSUMER SERVICES

Thank you, Mr. Chairman, and members of the Subcommittee, for allowing me this opportunity to present testimony in support of the Administration's budget for fiscal year 2006.

With the Nation facing significant public health issues related to the quality of the American diet, I believe that the outcome-based efforts of the Center for Nutrition Policy and Promotion are keys to promoting more healthful eating habits and lifestyles across the Nation. Working from its mission to improve the health of Americans by developing and promoting dietary guidance that links scientific research to the nutrition needs of consumers, the Center for Nutrition Policy and Promotion has a critical role in how USDA meets its strategic goal to improve the Nation's nutrition and health.

TRENDS SHOW NEED FOR REVISED NUTRITION GUIDANCE AND EDUCATIONAL TOOLS

Recent studies of America's dietary habits and physical activity reveal disturbing trends. First, a combination of poor diet and sedentary lifestyle not only undermine the quality of life, life expectancy, and productivity, they contribute to about 20 percent of the 2 million annual deaths in the United States.

Second, specific diseases and conditions, such as cardiovascular disease, hypertension, overweight and obesity, and osteoporosis, are clearly linked to a poor diet. Recent statistics are staggering with 64 percent of adults (ages 20 to 74) being either overweight or obese. Children have not escaped this unhealthy outcome. Over the past 20 years, the percentage of children who are overweight has more than doubled from 7 to 15 percent, and the percentage of adolescents who are overweight has more than tripled from 5 to 16 percent.

And third, the lack of physical activity has been associated with a number of conditions, including diabetes, overweight and obesity, cardiovascular disease, and certain cancers. Supporting evidence indicates that about 30 percent of women and 25 percent of men get little or no exercise.

DIETARY GUIDELINES FOR AMERICANS ESTABLISH FEDERAL NUTRITION POLICY

In conjunction with the Department of Health and Human Services (HHS), USDA released the sixth edition of the Dietary Guidelines for Americans on January 12, 2005. USDA's involvement is critical in helping to stem and eventually reverse some of these disturbing trends.

The basis for Federal nutrition policy, the Guidelines, provide advice for healthy Americans, ages 2 years and older, about food choices that promote health and prevent disease. These Guidelines not only form Federal nutrition policy, they also set standards for the nutrition assistance programs, guide nutrition education programs, and are the basis for USDA nutrition education and promotion activities. Finding Your Way to a Healthier You, which is based on the Guidelines, is but one of many strategies that will be needed to help consumers make smart choices from every food group, find their balance between food and physical activity, and get the most nutrition out of their calories.

FOOD GUIDANCE SYSTEM SERVES AS PREMIER TEACHING TOOL

The updated Food Guidance System, currently recognized as the Food Guide Pyramid, is used to help the American public consume a healthful diet. The goals for revising the USDA's Food Guidance System are two-fold: To provide the most up-to-date science and to use better implementation strategies to help Americans develop healthier lifestyles. This new system also supports two pillars of the President's HealthierUS Initiative: to "Eat a Nutritious Diet" and to "Be Physically Active Every Day." We expect the new system to be released later this spring.

USDA takes considerable pride in its approach to updating the Food Guidance System by maintaining an open and transparent process that employed the public notice and comment period in the Federal Register. Now, strategic promotion and implementation of the Food Guidance System in both the public and private sectors will be essential in transforming these scientific underpinnings into actionable, tar-

geted strategies that will motivate Americans to develop and maintain healthful dietary and lifestyle habits.

EFFECTIVE PARTNERSHIPS STRENGTHEN DISSEMINATION OF SCIENCE-BASED GUIDANCE  
AND EDUCATIONAL TOOLS

With your continued support and with robust partnerships among and between USDA agencies and other Departments, and with information multipliers from nutritionists, physicians, corporations, and others, we are in a much stronger position to address the problems of obesity and overweight. Over the past year, USDA and its partners, including the scientists of the Dietary Guidelines Advisory Committee, have updated the Nation's nutrition guidance. Now, with the collaborative efforts focused on how best to reach the various populations served by our diverse agencies and Departments, I am confident that we can begin to stem the nutrition— and health-related trends that are so adversely affecting the American public.

I thank the Committee for the opportunity to present this written testimony.

Senator BENNETT. Thank you, sir.

Mr. Hawks.

STATEMENT OF WILLIAM T. HAWKS

Mr. HAWKS. Thank you, Mr. Chairman, Senator Kohl. It is certainly a pleasure to be with you to discuss the budget for Marketing and Regulatory Programs, which include Animal and Plant Health Inspection Service; Agricultural Marketing Service; and Grain Inspection, Packers and Stockyards Administration.

We have identified in Marketing and Regulatory Programs some issues that need special attention over the next few years: enhancing market access by reducing technical barriers to trade and sanitary and phytosanitary (SPS) measures, improving plant and animal health and agricultural quality by continuing to work closely with the Department of Homeland Security and with farmers and ranchers to control endemic pests and disease, and harmonizing international standards by putting sanity back in some of the sanitary and phytosanitary issues.

APHIS's primary mission is to safeguard animal and plant health, and APHIS has negotiated sanitary and phytosanitary regulations to maintain and open markets around the world and to protect the health of plants and animals.

The trade issues resolution management efforts enable APHIS to negotiate fair trade in international markets. In fiscal year 2004, 112 SPS issues were resolved, allowing over \$5 billion worth of trade to occur. In June 2004, we launched a one-time enhanced bovine spongiform encephalopathy (BSE) surveillance program. To date, we have tested almost 318,500 animals, none of which have been positive. In addition, we are moving ahead with a National Animal Identification System and are on schedule there.

GIPSA facilitates the marketing of livestock, meat, poultry, cereals, oil seed, and related agriculture products. It also promotes fair and competitive trade. GIPSA is requesting an increased funding largely to significantly upgrade its critical information management systems and business functions.

PREPARED STATEMENTS

AMS, Agricultural Marketing Service activities assist the U.S. agriculture industry in marketing their products and finding ways to improve their profitability. AMS' budget request seeks an in-

crease of \$10 million in the Marketing Services account to invest in the Web-Based Supply Chain Management System.

This concludes my statement, and I will be happy to respond to questions.

[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 (MRP) of the U.S. Department of Agriculture and to present our fiscal year 2006 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).

In addition to my statement, Dr. Ron DeHaven, Administrator of APHIS, Mr. David Shipman, Acting Administrator of GIPSA, and Dr. Ken Clayton, Acting Administrator of AMS have statements for the record.

Under my leadership, MRP has addressed several broad goals and objectives to increase marketing opportunities and to protect American agriculture from damages caused by pests and diseases, both intentional and unintentional. The key to private sector financial success is relatively simple. First, offer the highest quality products. Second, produce them at the lowest possible cost. And, third, earn a fair price in the marketplace.

MRP helps American farmers and ranchers do all three. AMS and GIPSA certify the quality of agricultural commodities and provide industry with a competitive edge earned by the USDA seal of approval for grading and inspection. APHIS protects the health of plants and animals, thereby keeping costs low. Additionally, AMS administers the commodity marketing order programs to help farmers earn fair prices; APHIS negotiates sanitary and phytosanitary (SPS) regulations to maintain and open markets around the world; and GIPSA works to ensure that livestock producers have a level playing field upon which to compete. A healthy and marketable product provides the foundation of competitive success.

#### MRP INITIATIVES

MRP has identified three areas for special attention over the next 4 years to make American agriculture more competitive. They include:

*Enhanced Market Access.*—Market access can be impaired through technical barriers and SPS measures. MRP will work more closely with international counterparts to educate them about our systems; to learn more about the foreign country requirements; and to certify that U.S. products meet their standards.

*Improved Plant and Animal Health and Quality.*—MRP will continue to work closely with the Department of Homeland Security (DHS) to prevent the entry of foreign plant and animal pests and diseases through the Agricultural Quarantine Inspection Program (AQI). We will continue to work with farmers and ranchers to control endemic pests and diseases at minimal levels. Through MRP's commodity grading and inspection programs, we will support our producers in the marketing of their high quality crops and livestock.

*Harmonization of International Standards.*—MRP will provide leadership in an effort to bring sanity to the sanitary and phytosanitary measures. Since risk is inherent and fair trade relies upon the same standards being applied to all parties, MRP will increase its efforts with the World Organization for Animal Health and the International Plant Protection Convention to develop standards and processes for trade to exist, with restrictions and mitigations based on sound science to reduce risk. Moving away from an "all or nothing" approach makes trade therefore less risky, as a localized or contained outbreak has fewer effects on exports and thus on the economy. In a similar vein, a level playing field in world markets depends on technical standards that describe the quality and other characteristics of agricultural products in a manner that does not discriminate against U.S. producers and shippers. MRP will redouble its efforts in a variety of international standard setting organizations to ensure that technical standards do not become technical barriers.

#### FUNDING SOURCES

The MRP 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 \$436 million funded by fees charged to the direct beneficiaries of MRP services and \$450 million from Customs receipts.

On the appropriation side, under current law, the Animal and Plant Health Inspection Service is requesting \$866 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 \$40 million; and the Agricultural Marketing Service is requesting \$88 million.

The budget proposes user fees that, if enacted, would generate about \$39 million in savings to the U.S. taxpayer. Legislation will be proposed to provide USDA the authority to recover the cost of administering the Packers and Stockyards Act, developing grain and other commodity standards that are used to support fee-based grading programs and for other purposes, and enabling 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 enhance market access in the global marketplace and to ensure abundant agricultural products and services for U.S. customers. I would like to highlight some key aspects of the APHIS programs:

*Enhanced Market Access.*—The Trade Issues Resolution and Management efforts are key to ensuring fair trade of all agricultural products. APHIS' staff negotiates SPS standards, resolves 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.

In fiscal year 2004, reopening markets for United States products posed the greatest challenges. In regard to beef markets that were closed to U.S. exports because of BSE, APHIS has been successful with reopening access to more than 20 countries. Altogether, APHIS resolved 112 SPS issues in fiscal year 2004, allowing over \$5 billion worth of trade to occur.

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.

*Improved Plant and Animal Health and Quality.*—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 U.S. 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.

Between June, 2004, when we launched the one-time significantly enhanced surveillance program for BSE, and March 22, 2005, we have tested more than 284,000 animals. None have tested positive. Once we have evaluated the results of the enhanced testing program, a decision on the number of animals needed to be tested in the future will be made.

In addition, we are moving ahead with the National Animal Identification System (NAIS). By late March, 44 States had premises registration abilities that are operational for the NAIS. The goal is to have all States operational for premises registration by mid-year 2005.

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.

#### APHIS' 2006 BUDGET REQUEST

In a year of many pressing high-priority items for taxpayer dollars, the budget request proposes about \$866 million for salaries and expenses. There are substantial increases to support the Administration's Food and Agriculture Defense Initiative,

address SPS trade barriers, and deal with specific threats to the agriculture sector. A brief description of key initiatives follows.

*A total of about \$169 million for Foreign Pest and Disease Exclusion.*—Efforts will focus on enhancing our ability to exclude Mediterranean fruit fly, screwworm, and foreign animal diseases. In addition, we also request funds to open new offices in Brazil, Thailand, India, Italy, and West Africa to facilitate U.S. exports.

*A total of about \$239 million for Plant and Animal Health Monitoring and Surveillance.*—Due to the critical role of APHIS in protecting the Nation from both deliberate and unintentional introductions of an agricultural health threat, the budget requests an increase of about \$44 million, as part of the Food and Agriculture Defense Initiative. This includes initiatives that enhance plant and animal health threat monitoring and surveillance, including in those that could be introduced in wildlife; ensure greater cooperative surveillance efforts with States; enhance emergency coordination; boost animal vaccine availability; enhance regulatory controls of biological agents that pose a grave threat to human, animal, or plant health; and other efforts. We will continue efforts to build the NAIS.

*A total of \$346 million for pest and disease management programs.*—Once pests and disease are detected, prompt eradication reduces long-term 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 a number of increases, including citrus canker, emerald ash borer, the brown tree snake, and rabies, as well as additional support for rural airports to protect against bird strikes. Other programs were reduced. For example, successes in boll weevil eradication efforts allow a reduction in that program.

*A total of \$18 million for the Animal Care programs.*—Additional funding will help APHIS maintain its animal welfare and horse protection programs despite the rapid growth in the number of new licensees and registrants. The budget includes a proposal to collect \$11 million in registration fees charged to research facilities, carriers, and in-transit handlers of animals. Since these facilities are the direct beneficiaries of APHIS' services, it is appropriate that the costs be recovered.

*A total of about \$86 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 and initiate a regulatory role towards transgenic animals, arthropods, and disease agents. 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 \$8 million for improving security and IT operations.*—This effort builds upon efforts started with Homeland Security Supplemental funds. 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 to upgrade key computer resources for eGov, cyber security, and other efforts.

#### GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION

GIPSA's mission is to enhance market access for livestock, meat, poultry, cereals, oilseeds, and related agricultural products and to promote fair and competitive trade for the benefit of consumers and American agriculture. 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 152 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 1,900 investigations in fiscal year 2004 to enforce the Packers and Stockyards Act for livestock producers and poultry growers and helped restore over \$17 million to the livestock, meatpacking, and poultry industries.

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. Thirty-two firms operating 51 plants accounting for

approximately 95 percent of industry slaughter are subject to the Swine Contract Library. GIPSA has received over 700 contracts to date.

The Livestock and Meat Marketing Study, for which Congress appropriated \$4.5 million in fiscal year 2003, faced a complex set of issues that has delayed its completion date. GIPSA announced an award to the Research Triangle Institute (RTI) in June, 2004. RTI assembled a coalition of researchers from Colorado State University, Iowa State University, Montana State University, North Carolina State University, and the Wharton School of Business. RTI is continuing preparations for data collection and the overall study and is scheduled to release study reports in mid-year 2005 and mid-year 2006. The first report will provide information about the types of livestock arrangements in the cattle, hog, and sheep industries based on a survey conducted by RTI. The second report will provide detailed economic analyses about the arrangements. Despite the delay, the study will be completed within the amount appropriated.

*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 traits in 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, industry 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 \$0.29 per metric ton, or approximately 0.14 percent of the \$19 billion value of U.S. grain exports. In fiscal year 2004, approximately 1.8 million inspections were performed by FGIS employees on more than 230 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 2004, FGIS received only four complaints regarding poor quality and no complaints regarding inadequate weights from importers on grains inspected under the U.S. Grain Standards Act. These involved 96,695 metric tons, or about 0.1 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 \$40 million. Of this amount, \$20 million is devoted to grain inspection activities for standardization, compliance, and methods development and \$20 million is for Packers and Stockyards Programs. The 2006 budget includes the following program increases:

*About \$2 million for IT initiatives.*—GIPSA needs to significantly upgrade its critical information management systems and modernize its business functions as part of a comprehensive eGov initiative including establishing an off-site, back-up Information Disaster Recovery Program. This effort will provide the basic enterprise architecture which will enable the Federal Grain Inspection Service to eliminate duplicate data entry currently used for maintaining agricultural product standards, recording certifications from grain inspectors, and responding to customer's requests for inspections and test results. The system will match, for the first time, all quality test assurance results with those obtained by re-inspection and Board appeals. The basic enterprise architecture will also enable the Packers and Stockyards Program to rapidly receive electronic information from livestock, meat packing and poultry operators, thereby reducing industry's costs of data submission. This large multi-year initiative would deliver improved performance and reduce costs years into the future.

*Nearly \$1 million to develop new grain testing measures.*—Domestic and export marketing opportunities will be enhanced for ethanol co-products, improved wheat quality, and low linolenic soybeans.

*User fees.*—User fees, if enacted, would be charged to recover the costs of developing, reviewing, and maintaining official U.S. grain standards used by the grain

industry. This fee proposal would enable GIPSA to recover \$5 million in costs to develop, review, and maintain the official U.S. grain standards. Also, the Packers and Stockyards program would be funded by license fees of about \$20 million that would be required of packers, live poultry dealers, swine contractors, stockyard owners, market agencies and dealers, as defined under the Packers and Stockyards Act. Current law provides the agency with registration requirements for the market agencies and dealers, but there is no authority for licensing fees. Both of these proposals are consistent with the Administration's efforts to shift funding for programs, which benefit identifiable groups, to user fees.

#### 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 its customers improve the marketing of their food and fiber products and ensure that food and fiber products remain available and affordable to consumers. Consequently, most AMS programs enhance market access to current trading information, including availabilities of supply, location and size of demand, underutilized market facilities, and availability of means of transportation. In addition, the Standardization program contributes to the harmonization of international quality standards.

*Market News.*—Market news reports improve market efficiency for all parties by offering equal and ready access to current, unbiased market information so that agricultural producers and traders can determine the best place, price, and time to buy or sell. AMS Market News provides this information by reporting current prices, volume, quality, condition, and other market data on farm products in more than 1,300 production areas and specific domestic and international markets. The reports are widely distributed through the internet and news media. The Livestock Mandatory Price Reporting Program ensures access to information on meat and livestock trades continue to be available for producers in a consolidating industry. These data, including prices, contracts for purchase, and other related information on fed cattle, swine, lamb, beef, and lamb meat, are publicly disseminated in over 100 daily, weekly, or monthly reports.

*Commodity Standards.*—AMS works with the agricultural industry to establish and improve commonly recognized quality descriptions for agricultural commodities that support access to domestic and international markets. The Standardization program supports exports of U.S. agricultural products by helping to represent the interests of U.S. producers in a variety of international standards development meetings. AMS experts continue to participate in developing international dairy, meat, poultry, fruit, and vegetable standards. Recently, AMS' cotton specialists have been helping China adopt instrument testing and calibration standards for cotton comparable to those used in the United States to facilitate cotton trading between the United States and China. Compatible standards and classing procedures are in the interest of the United States, since China is the world's largest importer of cotton and the United States is its biggest foreign supplier.

*National Organic Program.*—The National Organic Standards program supports market access for organic producers by setting national standards for organic products sold in the United States, which provides assurance for consumers that the organic products labeled "organic" uniformly meet those requirements. The U.S. organic food industry has increased to a \$15 billion annual sales level and is still growing.

*Pesticide Data and Microbiological Data Programs.*—AMS also provides consumer assurance and helps to maintain domestic and export market demand for U.S. foods by collecting pesticide residue data and microbiological baseline data. In 2004, the Pesticide Data program performed over 100,000 analyses on more than 12,000 samples. The data gathered and reported by AMS on pesticide residues and microbiological pathogens supports science-based risk assessments performed by a number of entities, including regulatory agencies.

*Transportation Services.*—The Transportation Services program supports market access by facilitating the movement of U.S. agriculture products from farm to market. This program helps maintain farm income, expand exports, and sustain the flow of food to consumers by providing "how to" technical expertise, research, and data on domestic and international transportation to growers, producers, and others in the marketing chain, and for government policy decisions. The Transportation Services program also produces periodic publications that improve market access by

providing information for agricultural producers and shippers on trends, availability, and rates for various modes of transportation, including grain and refrigerated transport, agricultural containers, and ocean shipping.

*Wholesale, Farmers, and Alternative Markets.*—AMS program experts, in cooperation with local and city agencies, improve market access to market facilities by assisting local efforts to develop or improve wholesale and farmers markets, and to discover other direct marketing opportunities. This program also supports research projects to help agricultural producers discover new or alternative marketing channels and new technology.

*Federal/State Marketing Improvement Program (FSMIP).*—AMS helps to resolve local and regional agricultural market access problems by awarding Federal matching grants funds for projects proposed by State agencies. In 2004, the FSMIP program allocated grant funds to 23 States for 27 projects such as studies on linking producers with new buyers groups and innovative uses for locally important agricultural products.

*Commodity Purchases.*—USDA nutrition programs provide growers and producers with access to an alternative outlet for their commodities. AMS food purchases 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. AMS works in close cooperation with both the Food and Nutrition Service (FNS) and the Farm Services Agency (FSA) to administer USDA commodity purchases and 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. This complex system requires close coordination between the three agencies. To help 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' 2006 BUDGET REQUEST

For 2006, the AMS budget proposes a program level of \$742 million, of which \$204 million (27 percent) will be funded by existing user fees, \$450 million (61 percent) by Section 32 funds and \$88 million (12 percent) by appropriations, which includes \$3 million to be derived from proposed new user fees. More specifically, the budget includes the following:

*An increase of \$0.5 million to provide Market News on pork products.*—A legislative proposal to extend and amend the Livestock Mandatory Price Reporting Program would include negotiated sales as well as formula and contract transactions on pork cuts for domestic and international trade. Currently, pork cut information is provided on a voluntary basis by buyers and sellers of pork products and includes only products traded on a negotiated basis. Consequently, these reports only cover 5 percent of total pork cuts traded. Under mandatory reporting, approximately 80 percent of pork products traded would be reported.

*An increase of \$3.1 million to implement Country of Origin Labeling (COOL).*—Beginning in 2005, AMS will be responsible for enforcing mandatory COOL for fish and shellfish. On September 30, 2006, mandatory labeling requirements will be expanded to include all other covered commodities. In order to ensure compliance with COOL, the budget proposes a surveillance and enforcement program. In 2006, AMS will initiate random audits of designated retailers to achieve a nationwide compliance rate of 70 percent for covered commodities reviewed. From 2007 to 2010, AMS will increase its target compliance rate to 95 percent to ensure that the public receives credible and accurate information.

*An increase of \$0.9 million for the Pesticide Data Program and the Pesticide Recordkeeping Programs.*—These funds are requested to maintain State partnerships critical to the administration of these programs.

*An increase of \$10 million to begin development of the Web-based Supply Chain Management System (WBSCM).*—The proposed system will significantly improve customer service and administrative efficiency. Discretionary appropriated funding is requested rather than mandatory Section 32 funding because the discretionary funding more accurately reflects the relative priority of the system versus other discretionary information technology needs. Implementation of WBSCM will improve



the efficiency of Federal procurement of commodities by reducing ordering and delivery times from 24 days to 5 days.

As Secretary Johanns testified before this committee last month, the 2006 budget funds our most important priorities while exercising fiscal discipline that is necessary to reduce the Federal deficit. The AMS budget has a number of proposals that moves us in the right direction while continuing to meet key priorities.

*A decrease of \$4.0 million for the termination of the AMS Biotechnology Program.*—The Biotechnology Program was initiated in 2002 to develop the agency's capacity to test bio-engineered fruits, vegetables, nuts, and seeds. Due to difficulties in developing new testing methodologies as well as lack of demand for these services, the fee for service program has not yet been established. Should demand for these services become apparent, AMS will work with the affected industries to determine if alternative mechanisms can be utilized to facilitate the marketing of agricultural commodities by differentiating bioengineered from conventional commodities.

*\$3 million in new user fees.*—Appropriated funding would be reduced through the collection of user fees for the development of domestic commodity grade standards that are associated with a grading program. Users of grading services are direct beneficiaries of commodity standards and, therefore, should be charged for the development of commodity grades associated with the grading and inspection program. In order to implement this proposal, legislation will be submitted to Congress to authorize these fees.

*A reduction of \$2.5 million in 1-year funding for a grant to Wisconsin.*—This project dealt with the development of specialty markets under the Federal-State Marketing Improvement Program.

#### CONCLUSION

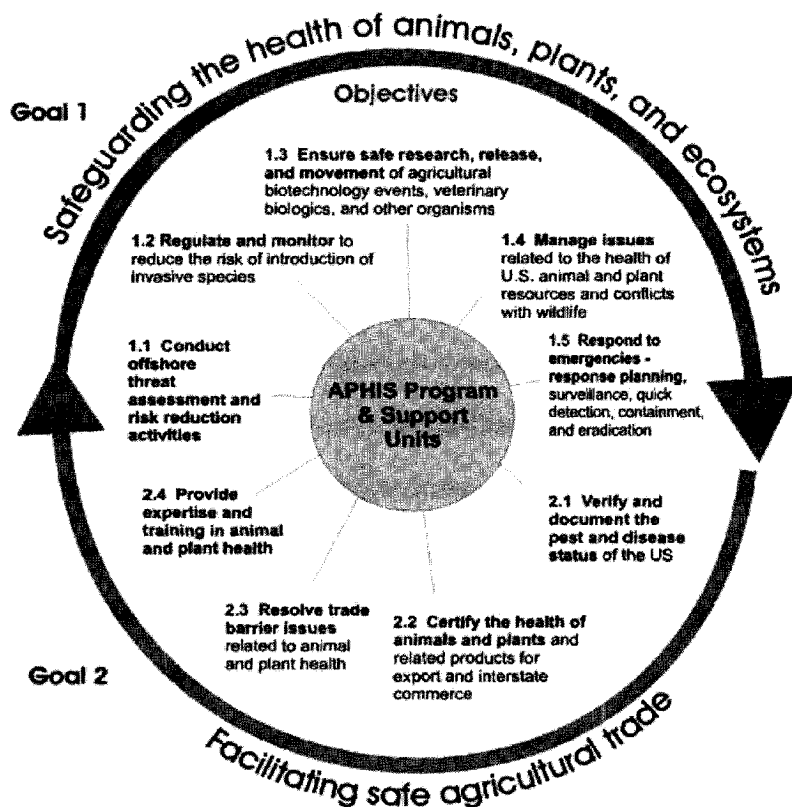
This concludes my statement. I am looking forward to working with the Committee on the 2006 budget for the Marketing and Regulatory Programs. We believe the proposed funding amounts and sources of funding are vital to enhancing market access, improving plant and animal health and quality, and achieving harmonization of international standards. It also reduces the deficit and protects American agriculture from terrorists. We are happy to answer any questions.

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#### PREPARED STATEMENT OF DR. W. RON DEHAVEN, ADMINISTRATOR, ANIMAL AND PLANT HEALTH INSPECTION SERVICE

Mr. Chairman and members of the Subcommittee, it is 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. This mission is vital not only in protecting the livelihoods of agricultural producers and the industries related to them, but also to United States homeland security. In working to carry out our mission, we rely on a set of interlocking protection strategies as depicted below:

### APHIS' Protection System



APHIS' protection system is based on a strategic premise that safeguarding the health of animals, plants, and ecosystems makes safe agricultural trade possible 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 endangers the entire system.

APHIS' efforts begin with offshore threat assessment and risk reduction activities at the sources of exotic agricultural pests and diseases. Through our pest and disease exclusion programs, we follow animal and plant health throughout the world and use this information to set effective agricultural import policy, and facilitate international trade by clarifying and amending import requirements, as necessary. Our off-shore risk reduction activities also include conducting pest and disease eradication programs in foreign countries and pre-clearance inspection of certain commodities in off-shore locations; performing intense monitoring and surveillance for exotic fruit flies and cattle fever ticks in high-risk, border areas of the United States; and cooperating with the Department of Homeland Security's Bureau of Customs and Border Protection to inspect arriving international passengers, cargo, baggage, mail, and means of conveyance.

To minimize agricultural production losses and export market disruptions, APHIS quickly detects and responds to new invasive agricultural pests and diseases, or

other emerging agricultural health situations, through our plant and animal health monitoring programs. The Agency creates and updates endemic pest and disease information systems, and monitors and conducts surveys in cooperation with States and industry. APHIS also surveys for exotic plant pests and investigates reports of suspicious animal pests and diseases to reduce their spread, which eliminates significant losses and helps maintain pest-free status for export certification of agricultural commodities.

APHIS also works closely with State, industry, and academic partners to maintain national detection networks and emergency response teams for plant and animal pest and disease outbreaks that may occur here in the United States. We work with these same partners to manage or eradicate economically significant endemic pests and diseases, and manage wildlife damage to agricultural and natural resources. Additionally, APHIS administers the Animal Welfare and Horse Protection Acts, and maintains the scientific expertise necessary to develop new methods to detect, diagnose, and control animal and plant pests and diseases.

APHIS' mission of protecting the health and value of United States agricultural and natural resources encompasses a wide variety of activities, and the Agency strengthens key components of its protection system by focusing on several key objectives and strategies. I would like to present our recent accomplishments and budget initiatives for fiscal year 2006 to you in light of our five strategic mission priorities for the coming year.

#### *Ensuring the Safe Research, Release, and Movement of Agricultural Biotechnology*

Among our highest priorities for the next several years is continuing to build our recently established Biotechnology Regulatory Services (BRS) program. The growth of agricultural biotechnology hinges on the public's acceptance of this technology as safe, and APHIS' regulatory role is key to ensuring global acceptance. Through the BRS program, APHIS regulates the introduction (i.e., importation, interstate movement, and field release) of genetically engineered organisms such as plants, insects, microorganisms, and any other organism to ensure that they do not constitute pest threats.

In fiscal year 2004, APHIS continued to strengthen the BRS program by reshaping the organization, enhancing its Compliance Unit, and increasing its workforce expertise (including the establishment of staffs devoted to environmental and ecological analysis and genetically altered animals). We are continuing our effort to significantly increase the rate of inspection for all genetically engineered crop field tests, with the target of inspecting each pharmaceutical and industrial field test site 5 times during the growing season. APHIS has also continued its efforts to increase the transparency of our biotechnology-related activities to the public and stakeholders. For example, we now announce the availability of environmental assessments (EAs) for field tests of genetically engineered plants used to manufacture pharmaceutical and industrial compounds in the Federal Register for a 30-day comment period, allowing stakeholders and the public to be a part of the decision-making process before APHIS approves a permit. We have also launched a new, more user-friendly website for our biotechnology-related programs that provides greater accessibility to our permits and decisions, news and upcoming events, and a link to our shared, comprehensive website developed with the Food and Drug Administration and the Environmental Protection Agency. In addition, we are continuing to make significant accomplishments in our international activities related to regulatory coordination. Among other things, we worked with Canada and Mexico to implement how trade of biotechnology products will comply with the articles of the Biosafety Protocol, thus helping to ensure uninterrupted trade between our countries. In the past year, APHIS personnel also met with approximately 20 teams of foreign officials (primarily from developing countries) to provide regulatory overviews and conduct risk assessment training.

#### *Strengthening Emergency and Homeland Security Preparedness and Responses*

The program activities under this strategic priority minimize agricultural production losses and export market disruptions by quickly detecting and responding to new invasive agricultural pests and diseases or other emerging agricultural health situations. The Agency focuses on preventing the introduction and establishment of pests and diseases by responding to outbreaks quickly and efficiently at the national, State, and local levels. We work to ensure early detection through formal plant pest surveys and animal disease surveillance programs as well as through outreach programs to our stakeholders and the general public.

The Animal Health Monitoring and Surveillance (AHMS) and Pest Detection programs coordinate national detection efforts for animal and plant pests and diseases. Both work closely with State and university cooperators to ensure that any intro-

duction of exotic or foreign pests and diseases is quickly detected. These programs are also working closely with USDA's Cooperative State Research, Education, and Extension Service to coordinate the National Animal Health Laboratory Network and the National Plant Diagnostic Network to increase testing capacity in the United States for economically and environmentally significant animal and plant diseases.

To prevent foreign animal disease incursions, APHIS thoroughly investigates all suspicious situations. In fiscal year 2004, the AHMS program conducted 870 suspected foreign animal disease investigations, up from 480 in fiscal year 2003. The program is also continuing to implement an enhanced surveillance program in response to the December 2003 detection of bovine spongiform encephalopathy (BSE) in Washington State. APHIS is sampling as many cattle from high-risk categories (such as those exhibiting signs of central nervous system disorders) as possible in a 12–18 month period. As of March 22, more than 284,000 animals have been sampled under the enhanced surveillance plan, none of which tested positive. The enhanced surveillance effort will provide sufficient data and information to establish the probable prevalence level of BSE in the United States.

To facilitate response efforts in the event of a future foreign animal disease outbreak, APHIS and its State and industry cooperators are establishing a National Animal Identification System (NAIS) designed to identify, within 48 hours of discovery, any agricultural premise exposed to a disease so that potential outbreaks can be contained and eradicated as quickly as possible. The NAIS is a networked computerized system that will allow us to identify livestock and poultry and record their movements over their life-spans. Currently, 44 States have premises registration capabilities that are operational in the NAIS, and our goal is to have all States operational by mid-2005. As of January 30, 2005, APHIS has awarded or committed more than \$13 million to 42 States and Native American Tribes to focus primarily on animal premises identification, which is the foundation of the NAIS.

Through the Pest Detection program, APHIS and its cooperators have established State, regional, and national Cooperative Agricultural Pest Survey (CAPS) committees to ensure that stakeholders at each level are involved in the process of targeting plant pests for survey each year. APHIS targets pests based on their risk of entry and potential to cause significant economic or environmental damage. In fiscal year 2004, the CAPS committees began institutionalizing a system to choose survey projects based on both the pests' risk factors and States' priorities. In 2004, the Agency and its cooperators conducted national surveys for 20 high-risk pests and 424 individual surveys across the country.

In fiscal year 2004, APHIS continued working with State cooperators, the American Soybean Association, and university partners to prepare for the arrival of soybean rust in the United States. As part of our efforts to minimize the impact of the disease, we trained more than 300 soybean producers, handlers, and consultants in soybean rust detection and worked with pesticide companies to ensure that options for fungicide mitigation would be available to soybean producers. We also assembled a soybean rust detection assessment team and put the assessment team into action early in fiscal year 2005 when the Agency detected soybean rust for the first time in Louisiana. APHIS and other USDA agencies are continuing to work with the soybean industry to help producers adjust to the presence of soybean rust in the United States through the development of monitoring and surveillance programs (and a website to disseminate up-to-date information about the disease's spread), predictive modeling techniques to identify at-risk areas for disease spread, and decision criteria for fungicide application.

Under the Animal and Plant Health Regulatory Enforcement program, our Investigative and Enforcement Services unit continues to provide support to all APHIS programs by conducting investigations of alleged violations of Federal laws and regulations under APHIS' jurisdiction through appropriate civil or criminal procedures. Regulatory enforcement activities prevent the spread of communicable animal pests and diseases in interstate trade. In fiscal year 2004, APHIS conducted 774 investigations involving animal health programs, resulting in 271 warnings, 71 civil penalty stipulations, six Administrative Law Judge Decisions, and \$158,625 collected in fines. APHIS also conducted 2,391 investigations involving plant quarantine violations resulting in 214 warnings, 807 civil penalty stipulations, 27 Administrative Law Judge decisions, and approximately \$1.4 million collected in fines.

The Agency maintains a cadre of trained professionals prepared to respond immediately to potential animal and plant health emergencies. APHIS' Emergency Management System (EMS) is a joint Federal-State-industry effort to improve the ability of the United States to successfully manage animal health emergencies, ranging from natural disasters to introductions of foreign animal diseases. The EMS program identifies national infrastructure needs for anticipating, preventing, miti-

gating, 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 and developing an Incident Command System training curriculum for our employees. In fiscal year 2004, APHIS held two emergency response table-top exercises with Canada and Mexico designed to provide training to the employees involved, and identify weaknesses in our cooperative emergency response networks. The two recent exercises covered a simulated foreign animal disease outbreak and vaccine distribution from the vaccine bank.

APHIS has been challenged with numerous emergencies over the last several years. We took quick and aggressive action to address plant and animal health situations with Mediterranean fruit fly, citrus canker, emerald ash borer, exotic Newcastle disease, low and high pathogenic avian influenza, wildlife rabies, sudden oak death, white spot syndrome disease, and BSE. Over \$234 million of Commodity Credit Corporation funds was approved for these emergencies in fiscal year 2004.

As reinforced by the Bioterrorism Preparedness and Response Act of 2002, APHIS also tracks plant and animal disease agents that could be used in acts of bioterrorism. The Act requires that entities, such as private, State, and Federal research laboratories, universities, and vaccine companies, as well as individuals that possess, use or transfer select agents and toxins identified as a severe threat to animal and plant health or public health, register with the appropriate Federal authority—either APHIS or the Centers for Disease Control and Prevention (CDC). APHIS is cooperating with CDC to promulgate final joint regulations on requirements that facilities must meet if they wish to possess, transfer, or use select agents. Our fiscal year 2006 budget requests the establishment of a new line item, Select Agents, to help consolidate and coordinate these activities throughout the Agency.

*Reducing Domestic Threats Through Increased Offshore Threat Assessment and Risk-reduction Activities*

Responding to introductions of invasive pests and diseases once they arrive on our shores is extremely costly for United States taxpayers and agricultural producers alike. Accordingly, APHIS is working to enhance its offshore threat assessment and risk reduction programs with the goal of reducing the need for expensive emergency response programs. Officials with our Agricultural Quarantine Inspection, Trade Issues Resolution Management, Foreign Animal Disease/Foot and Mouth Disease (FAD/FMD), and Import/Export programs track plant and animal health issues around the world and use the information to set import policies to ensure that agricultural diseases are not introduced through imports. This information also helps determine what pests and diseases might have pathways into the United States and informs our monitoring and surveillance efforts here at home. APHIS is establishing a formal international information gathering program under the FAD/FMD and Pest Detection line items to build on these efforts. The program has already placed three animal and plant health specialists in South Africa, Brazil, and the Dominican Republic, and the fiscal year 2006 budget would expand the program to collect information from 16 additional countries.

APHIS also targets certain high-risk pests and diseases for eradication in other countries. Several devastating agricultural pests and diseases, including FMD, Mediterranean fruit fly (Medfly), screwworm, classical swine fever, and tropical bont tick are present in Central and South America or the Caribbean. Without the efforts of APHIS and cooperating governments to eradicate these pests and diseases at their sources, they would likely reach the United States through means of natural spread. Through the FAD/FMD program, APHIS and cooperating countries established a permanent barrier against FMD at the Panama/Colombian border. Under an agreement with Panama and Mexico, we collected 1,166 samples of suspected vesicular disease throughout Central America; fortunately, all tested negative for FMD. Through the international cooperative Medfly eradication program, or Moscamed, we cooperate with Mexico, Guatemala, and Belize to eradicate and control Medfly, thereby preventing the pest from moving north into the United States. In fiscal year 2004, the program reduced the infested area in the southern Mexican provinces of Chiapas and Tabasco by over 60 percent.

Because of climate and weather conditions, California, Texas, Florida, and other border States are vulnerable to outbreaks of exotic fruit flies and other agricultural pests such as cattle fever ticks. APHIS conducts preventive release programs (PRPs) of sterile flies in California and Florida to prevent Medfly from becoming established. Since the California PRP began in 1996, APHIS has detected only four Medflies in the State and reduced the number of Medfly infestations in the Los Angeles area by 97 percent, saving over \$145 million in eradication costs. In response to a recent Medfly outbreak in Tijuana, APHIS extended the PRP to an additional

251 square-mile area to prevent the outbreak from spilling into California. APHIS also conducts intensive trapping activities and emergency response programs to ensure that other exotic fruit flies, such as Oriental fruit fly, do not become established. In addition, APHIS operates Mexican fruit fly (MFF) suppression programs in Texas, and will enhance its efforts to ensure that MFF does not become established in the United States.

To ensure our import regulations are enforced and adequately protect United States agricultural and natural resources, we work closely with the Department of Homeland Security's Bureau of Customs and Border Protection to monitor and intercept prohibited items that arrive at United States ports of entry. In fiscal year 2004, agricultural inspectors checked the baggage of nearly 69 million arriving passengers and cleared 48,335 ships and 2,580,470 cargo shipments. In total, agricultural inspectors intercepted 49,180 reportable pests at land borders, maritime ports, airports, and post offices.

*Managing Issues Related to the Health of United States Animal and Plant Resources and Conflicts With Wildlife*

In addition to preventing the entry and establishment of new agricultural pests and diseases, APHIS works to limit the damage caused by those already present in the United States, eradicate certain established or domestic pests and diseases, and manage wildlife damage to agricultural and publicly owned resources. As with all our efforts, we work closely with State, Tribal, industry, and academic partners in these programs and leverage these partnerships for more efficient and effective operations. APHIS also enforces the Animal Welfare and Horse Protection Acts, which protect certain animals from mistreatment when used in commerce or for exhibition purposes.

The Boll Weevil Eradication Program continues to make significant progress toward eliminating this serious cotton pest from the United States. As fiscal year 2005 began, more than 9 million acres of cotton spread over nine States were weevil-free. While fiscal year 2004 activities were hampered by weather events, the program still expects that 90 percent of cotton acreage will be weevil-free by the end of this year. APHIS is also continuing Pink Bollworm eradication and suppression activities. Pending growers' approval, APHIS, its State and industry partners, and the Government of Mexico plan to implement a comprehensive cooperative eradication program in three phases. When compared with fiscal year 2001 trapping data, activities in phase one have already shown a reduction in pink bollworm adults by over 94 percent in Texas, 97 percent in New Mexico, and 99 percent in Chihuahua, Mexico.

APHIS also continues its effort to address the last stubborn pockets of endemic animal diseases such as bovine tuberculosis, brucellosis, and pseudorabies. Forty-six States are now accredited-free of bovine tuberculosis, and forty-eight have achieved class free status for brucellosis. At the start of fiscal year 2005, all fifty States and three United States territories had reached Stage V (free) status for pseudorabies. APHIS is working with State cooperators to focus on preventing the transmission of these diseases between wildlife and domestic livestock, and to identify remaining infected herds. In addition, relatively new efforts are now well underway to assist producers in controlling diseases such as low pathogenic avian influenza.

APHIS' Wildlife Services (WS) Operations Program works to protect agricultural crops from wildlife damage; protect livestock from predation; prevent the transmission of wildlife-borne diseases to safeguard the livestock industry; protect and preserve natural resources, including threatened and endangered species; protect human health and safety by preventing wildlife collisions with aircraft and wildlife conflicts with humans; and protect wildlife damage to property. The program provided wildlife hazard management assistance to over 550 airports nationwide in fiscal year 2004, up from 42 in fiscal year 1990. APHIS also continues to reduce the threat that wildlife rabies poses to livestock and human health by maintaining a barrier against the spread of the disease to uninfested areas. In fiscal year 2004, the WS Operations program reinforced oral rabies vaccination zones along the Appalachian Ridge through the distribution of more than 6.3 million vaccine baits over 31,000 square miles, and in areas of Texas with the distribution of 2.75 million baits over 29,000 square miles.

APHIS and its cooperators are increasingly aware of the connection between wildlife disease and both domestic animal and human health. For example, bovine tuberculosis in deer continues to affect Michigan's ability to eradicate the disease from its cattle population, and the transmission of chronic wasting disease between wild deer and elk and domestic deer and elk continues to be of concern. Accordingly, APHIS continued to implement its Wildlife Disease Surveillance and Emergency Re-

sponse Program, and participated in disease surveillance and control activities for 15 wildlife and domestic diseases in fiscal year 2004.

APHIS' Animal Welfare Program carries out activities designed to ensure the humane care and treatment of animals used in research, exhibition, the wholesale pet trade, or transported in commerce. The program places primary emphasis on voluntary compliance through education, but we also utilize inspection of records, investigation of complaints, and reinspection of problem facilities to ensure that protected animals receive an appropriate level of care. When education efforts fail to achieve voluntary compliance, APHIS personnel investigate alleged violations of Federal animal welfare and horse protection laws and regulations, and oversee subsequent prosecution of violators through appropriate civil or criminal procedures. In fiscal year 2004, APHIS conducted 288 animal welfare investigations, resulting in 205 formal cases submitted for civil administrative action. We also issued 120 letters of warning and resolved 56 cases, resulting in \$92,972 in fines. Administrative law judges resolved another 41 cases, resulting in \$455,642 in fines.

APHIS continued to emphasize public education and outreach in fiscal year 2004 through participation in canine care workshops around the country with commercial breeders as the target audience; veterinary workshops to educate veterinarians providing services to regulated facilities; and, two exotic cat care workshops. Through regulatory inspections and educational efforts, the Animal Welfare program succeeded in raising the level of facility compliance from a baseline of 58 percent in 2001 to 70 percent in 2004.

#### *Resolving Trade Barrier Issues Related to Sanitary and Phytosanitary (SPS) Issues*

All of APHIS' efforts to protect the health of United States agricultural resources and keep them free of major pests and diseases support American farmers' ability to sell their products on the world market. In turn, our efforts to facilitate safe trade with other countries, including activities such as monitoring world agricultural health and providing assistance to developing countries to build regulatory capacity, help ensure that imported products will not threaten our domestic production capability and health status.

Because of APHIS' expertise in animal and plant health issues and regulatory role, the Agency serves as a key resource in resolving sanitary and phytosanitary issues that become trade barriers. The Agency works closely with trade policy organizations, including USDA's Foreign Agricultural Service and the United States Trade Representative. Officials with our Trade Issues Resolution Management programs work to minimize trade disruptions caused by animal and plant health issues. In fiscal year 2004, reopening markets for United States poultry and beef posed the greatest challenges. Outbreaks of low pathogenic avian influenza (LPAI) and exotic Newcastle disease continued to affect poultry markets throughout the Americas, Asia, and Europe. However, since August 2004, the United States regained LPAI-free status under the World Health Organization for Animal Health (OIE) definition. As a result, APHIS reopened poultry markets in all 25 European Union countries, Russia, Japan, and Chile, among others. The total value of United States exports of poultry and poultry products actually increased by 15 percent between January and August of 2004, compared to the same period in fiscal year 2003. APHIS continues to work with the limited number of trading partners that maintain bans on United States poultry because of LPAI, including China.

In regard to beef markets that were closed to United States exports because of BSE, APHIS has been successful with reopening markets for United States beef in more than 20 countries. Canada and Mexico have partially reopened their markets to certain United States beef products, and we continue to work on reopening borders with Japan, a major export market for United States beef, as well as other Asian nations. APHIS has been successful in opening many export markets for other ruminant products, such as pet food and bovine embryos and semen, banned because of BSE.

Altogether, APHIS resolved 112 sanitary and phytosanitary issues in fiscal year 2004, allowing over \$5 billion worth of trade to occur. Our export accomplishments included opening new markets for pork to Australia and seed potatoes to China, and expanding existing market access for wheat to Brazil, grains to Canada, and corn to Argentina. In addition, we retained 23 markets for beef and beef products worth more than \$330 million world-wide.

#### FISCAL YEAR 2006 BUDGET REQUEST

The fiscal year 2006 Budget Request for Salaries and Expenses totals just over \$866 million, an increase of \$57.9 million over the fiscal year 2005 Consolidated Appropriations Act. About \$6.5 million of the increase is for pay raises. Of the total request, approximately \$436 million is identified in the President's Homeland Secu-

ality initiative, including \$299 million in discretionary funding. Of the \$436 million, \$174 million is identified in the President's Food and Agriculture Defense Initiative, which serves to protect the agriculture and food system in the United States from intentional, unintentional, or naturally occurring threats.

The increase, approximately 7 percent above the fiscal year 2005 appropriation, is for initiatives designed to address the increasing domestic and international threats to the health of United States agriculture. On the domestic side, these include continuing enhancements to our Biotechnology Regulatory Services program; enhancements to both animal and plant health surveillance systems and diagnostic capabilities; the ability to track animal and plant pathogens and toxins identified as Select Agents; the build up our animal disease vaccine bank; the ability to address wildlife disease threats to livestock health; and an investment to substantially reduce emergency fund transfers for a variety of plant pest and disease programs. In the international arena, APHIS plans to use additional funding to establish a formal international information collection program that will help us set agricultural import policy and inform others of our monitoring and surveillance efforts here in the United States; enhance CSF eradication in the Caribbean; complete construction of a new sterile screwworm production facility in Panama; and protect and expand the \$53 billion annual agricultural export market, among other things.

The following paragraphs detail some of the accomplishments expected under the fiscal year 2006 budget request:

*Ensuring the Safe Research, Release, and Movement of Agricultural Biotechnology*

- An increase of \$4,320,000 for the Biotechnology Regulatory Services Program will allow us to continue to develop biotechnology regulatory infrastructure, policies, and regulations while conducting daily program operations, i.e., preparing risk assessments, issuing permits, reviewing petitions for deregulation, inspecting field test sites, building capacity in developing countries, and international activities.

*Strengthening Emergency and Homeland Security Preparedness and Responses*

- An increase of \$16,893,000 for the Pest Detection Program to continue outreach to volunteers; surveying for cactoblastis (cactus moth) and soybean pests; increasing cooperative agreements with State cooperators by an average of \$110,000 per agreement. We anticipate being able to detect 95 percent of newly introduced economically significant pests before they spread.
- An increase of \$6,707,000 for the Animal Health Monitoring and Surveillance Program to enhance the current disease monitoring and surveillance system by increasing and integrating its infrastructure in order to better protect the Nation's animals from the threat of emerging and foreign animal diseases.
- An increase of \$1,950,000 for the Wildlife Disease Monitoring and Surveillance Program to build an animal disease surveillance system that has domestic and international components for establishing methods for surveillance data collection in wildlife populations and investigating the prevalence of specific diseases that may move from wildlife to livestock or poultry populations. Wildlife disease specialists will be trained to respond to disease outbreaks within 72 hours by fiscal year 2006 with the ultimate goal of reducing response time to 24 hours.
- An increase of \$5,867,000 for the Veterinary Diagnostics Program to continue its investment in the National Animal Health Laboratory Network and begin a transition to new information technology that will align the program's abilities, efficiency, and effectiveness with the ever-growing demand for program services. The investment will increase the program's ability to respond to the threat of bio-terrorism and further APHIS' commitment to the safety of the United States livestock population.
- An increase of \$9,671,000 for the Emergency Management System Program to improve the response time for emergencies by 2 days to enhance the animal health emergency preparedness.
- An increase of \$25,651,000 for the Emerging Plant Pests Program to enhance survey and tree removal to control emerald ash borer; remove trees infected by and exposed to citrus canker; and, enhance the Agency's emergency response infrastructure.
- An increase of \$5,250,000 for the Select Agents Program to fully carry out the activities mandated by the Agricultural Bioterrorism Protection Act of 2002.
- An increase of \$928,000 for Animal and Plant Health Regulatory Enforcement to continue support to all APHIS programs by conducting investigations of alleged violations of Federal laws and regulations under APHIS' jurisdiction; overseeing/coordinating subsequent prosecution of violators through appropriate civil or criminal procedures; and providing Quick Response Teams to assist in



market surveillance, border blitzes, and emergency program efforts such as those provided during exotic Newcastle and BSE emergency outbreaks in fiscal year 2003 and 2004.

*Reducing Domestic Threats Through Increased Offshore Threat Assessment and Risk-reduction Activities*

- An increase of \$6,424,000 for the Foreign Animal Diseases/Foot and Mouth Disease Program (FAD/FMD) to place animal specialists overseas to collect information on FAD, and expand classical swine fever work into Central America, targeting Belize and Nicaragua.
- An increase of \$3,670,000 for the Screwworm Program to purchase essential equipment for its new sterile screwworm production facility in Panama, which will help establish a permanent barrier against the pest at the Panama-Columbia border.

*Managing Issues Related to the Health of United States Animal and Plant Resources and Conflicts With Wildlife*

- An increase of \$770,000 for the Animal Welfare Program to respond to rapid growth in the number of new licensees and registrants, particularly in western States, by hiring eight new animal care inspectors and stationing them at key locations where workloads are most critical. Of the amount requested for Animal Welfare activities, approximately \$11 million will be derived from new user fees.
- An increase of \$1,666,000 for the Fruit Fly Exclusion and Detection Program to be prepared to respond rapidly to domestic outbreaks, prevent the northward spread of the Mediterranean fruit fly into Central Mexico, and provide adequate numbers of sterile flies for the preventive release program in the United States.
- An increase of \$3,000,000 for the Wildlife Services Operations Airport Safety Program to enhance human safety by reducing wildlife strikes to aircraft.
- An increase of \$5,000,000 in funding for rabies under the Wildlife Services Operations Program to maintain the oral rabies vaccination barrier against spread of this disease to the west of the Appalachian Mountains.
- An increase of \$750,000 in the Wildlife Services Operations Program for brown tree snake interdiction activities in Guam to prevent the spread of this invasive animal to areas with fragile ecosystems, such as Hawaii and the Northern Marianas.
- An increase of \$5,000,000 in the Wildlife Services Operations Program to provide funding for Homeland Security (Food and Agriculture Defense) initiative of wildlife disease surveillance as requested in the fiscal year 2005 Budget.

*Resolving Trade Barrier Issues Related to Sanitary and Phytosanitary (SPS) Issues*

- An increase of \$5,742,000 for the Trade Issues Resolution and Management Program to expand and retain markets to provide new market access and facilitate trade worth \$2.4 billion in fiscal year 2006 in part through opening new offices in Thailand, India, Italy, West Africa, and Brazil.

DECREASES

To support our high priority programs, we propose several offsetting decreases:

The high priority placed on deficit reduction limited the availability for certain activities. We propose decreases of \$31,300,000 for the Boll Weevil program, which is possible because of the program's success and will not affect its ability to meet the target of complete eradication by 2008; \$1,412,000 for the Brucellosis program; \$1,855,000 for the Chronic Wasting Disease program; \$1,128,000 for the Grasshopper program; \$15,435,000 for the Johne's Disease program; \$829,000 for the Noxious Weeds program; and, \$11.48 million for Wildlife Services Operations. Within the Emergency Plant Pests line item, we propose reductions of \$13,682,000 for Asian longhorned beetle and \$1,445,000 for sudden oak death. Within the appropriated Agricultural Inspection Quarantine program, we propose to shift \$2,748,000 from the Hawaiian interline inspection program to our newly expanded National Plant Germplasm and Biotechnology Laboratory, which supports the Agency's emergency response capabilities, eradication programs, pest exclusion activities, biotechnology permitting programs, and the newly mandated Select Agents program. We are also proposing new user fees for the Animal Welfare program, which would generate \$10,857,000 and replace the same amount of appropriated funding.

CONCLUSION

APHIS' mission of safeguarding United States agriculture is becoming ever more critical. Although the processes by which we protect America's healthy and diverse

food supply are being increasingly challenged by increased trade and tourism, APHIS is committed to taking the lead in building and maintaining a world-class system of pest and disease exclusion, surveillance, detection, diagnosis, and response. Healthy plants and livestock increase our market potential internationally, and thus contribute to a healthy United States economy. Like the APHIS Strategic Plan, the APHIS Budget consists of interdependent components that, when combined, 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 continued, positive working relationships in the future. We are prepared to answer any questions you may have.

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PREPARED STATEMENT OF DAVID R. SHIPMAN, ACTING 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 agency's fiscal year 2006 budget proposal.

GIPSA's activities are an integral part of USDA-wide efforts to support a competitive global marketplace for U.S. agricultural products. Our 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.

We fulfill our service and regulatory roles through our Packers and Stockyard Program, which promotes a fair, open, and competitive marketing environment for the livestock, meat, and poultry industries and our Federal Grain Inspection Service, which provides the U.S. grain market with Federal quality standards and a uniform system for applying these standards to promote equitable and efficient marketing.

ORGANIZATION

We carry out our mission with a dedicated staff of 722 employees working in partnership with a variety of State and private entities. Our Packers and Stockyards Program relies on three regional offices specialized in one of the following: poultry, hogs, or cattle/lamb. Our grain inspection services are delivered by the national inspection system, a network of Federal, State, and private inspection personnel. The system includes 10 GIPSA field offices, 2 Federal/State offices, and 56 State and private agencies authorized by GIPSA to provide official services.

PACKERS AND STOCKYARDS PROGRAM

Our Packers and Stockyards Program (P&SP) administers the Packers and Stockyards Act (P&S Act) to ensure fair and competitive marketing in livestock, meat and poultry for the benefit of consumers and American agriculture. The P&S Act is intended to protect producers, growers, market competitors, and consumers against unfair, discriminatory, or deceptive practices that might be carried out by those subject to the Act. To meet this objective, GIPSA seeks to educate, regulate and investigate individuals and firms subject to the P&S Act; to respond to anti-competitive behavior, unfair, deceptive, or unjustly discriminatory trade practices; and to ensure livestock producers and poultry growers are paid for their products. GIPSA takes appropriate corrective action when there is evidence that firms or individuals have violated the P&S Act.

The livestock, meatpacking, and poultry industries are important segments of American agriculture and the Nation's economy. With only 152 employees, we regulate these industries, estimated by the Department of Commerce in fiscal year 2002 to have an annual wholesale value of \$120 billion. At the close of fiscal year 2004, 5,678 market agencies and dealers and 2,015 packer buyers were registered. In addition, there were 1,443 facilities that provided stockyard services, an estimated 6,000 slaughtering and processing packers, meat distributors, brokers and dealers, and 202 live poultry dealers 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. Last fiscal year, we conducted over 1,900 investigations, of which 146 were handled by Rapid Response Teams. As a result of these investigations, the Packers and Stockyards Program helped restore over \$17 million to the livestock, meatpacking, and poultry industries. The amount of monetary returns varies by year; however,

in the first 5 months of fiscal year 2005 we have helped restore over \$18 million to the livestock, meatpacking, and poultry industries.

We continue to work with violating firms to achieve voluntary compliance, and continue to initiate appropriate corrective action when we uncover evidence that the P&S Act has been violated. During fiscal year 2004, with assistance from the Office of the General Counsel, we filed 15 administrative or justice complaints alleging violations of the P&S Act. These formal disciplinary complaints resulted in five decisions ordering the payment of \$61,750 in civil penalties and suspending 12 registrants from operating for periods of 45 days to 5 years.

We regularly assist the FBI, State and local law enforcement agencies with their investigations. Some of our investigations involve overlapping jurisdiction, and sometimes these agencies call on GIPSA for its expertise. In addition, we communicate with our sister agencies within USDA, the Department of Justice, the Commodity Futures Trading Commission, and local and State governmental organizations to discuss common issues and when appropriate, coordinate plans.

To ensure that producers and growers are aware of the protections the P&S Act provides, we have a hotline (1-800-998-3447) by which stakeholders and others may anonymously voice their concerns. In fiscal year 2004, 65 percent of the hotline calls received resulted in investigations. To encourage voluntary compliance, we regularly attend industry meetings and conduct orientation sessions (28 in fiscal year 2004) for new auction market owners and feed mills to educate them about their fiduciary and other responsibilities under the P&S Act.

Following the discovery of the bovine spongiform encephalopathy (BSE) positive cow in December, 2003, we established three special task forces to provide protection to livestock producers and members of the cattle industry commensurate with the P&S Act. These task forces were based in our Denver office which has lead responsibility for cattle, and included technical experts from our Atlanta and Des Moines regional offices and headquarters.

The BSE Task Forces monitored livestock markets and packers for financial failures; reviewed changes in procurement practices; analyzed changes in market prices; received complaints from the public; and conducted 96 investigations. These investigations identified 11 violations of the P&S Act. Two of these firms have corrected the violations; one investigation file has been forwarded for a possible formal complaint; and the remaining firms have been given an opportunity to comply with the P&S Act.

Following the disclosure of avian influenza in February 2004 by the Animal and Plant Health Inspection Service (APHIS), we created a new Avian Influenza/Poultry Policy Task Force out of the Atlanta Regional Office. Like the BSE Task Force, the AI Task Force developed strategies to identify and respond to potentially unlawful practices unique to current market caused by the outbreak. In the current fiscal year, the AI Task Force will continue monitoring the industry and responding to the current AI situation.

Together with our stakeholders and other interested parties, this year we developed and published two voluntary industry standards, in addition to two standards established earlier, for technologies used to assess quality and determine payment for livestock, meat or poultry. These standards help both producers and packers. Producers are more likely to get full value for the quality of livestock they produce and packers are more likely to pay only for the product they want to purchase. We will continue to work with stakeholders to develop additional standards, as needed, to enhance transparency in the marketplace.

In fiscal year 2004 we also reviewed the current bonding requirements under the P&S Act and the returns to unpaid sellers from the bonds of failed firms. The results of this work are under review to determine whether regulatory changes are necessary to meet the objectives of the P&S Act.

In fiscal year 2004, GIPSA implemented a web-based Swine Contract Library in accordance with the requirements of the Livestock Mandatory Reporting Act of 1999. Packers are required to file with GIPSA swine purchase contracts and monthly reports about the number of swine they expect to be delivered under contract in the next 12 months.

The Swine Contract Library (SCL) includes information from swine packing plants with a slaughter capacity of 100,000 swine or more per year. Thirty-two firms operating 51 plants accounting for approximately 95 percent of industry slaughter are subject to the SCL. GIPSA has received over 707 contracts to date. Information, by region, including price, premiums, discounts, grids, formulas, and other important contract terms extracted from offered and available contracts used to purchase hogs is now available to the public through the internet.

The Livestock and Meat Marketing Study, for which Congress appropriated \$4.5 million in fiscal year 2003, will have a delayed completion. GIPSA awarded

\$4,319,373 to the Research Triangle Institute (RTI) on June 14, 2004. RTI assembled a coalition of researchers from Colorado State University, Iowa State University, Montana State University, North Carolina State University, and the Wharton School of Business. RTI is continuing preparations for data collection and the overall study. RTI is scheduled to release study reports in mid-year 2005 and mid-year 2006. The first report will provide information about the types of livestock arrangements in the cattle, hog, and sheep industries based on a survey conducted by RTI. The second report will provide detailed economic analyses about the arrangements. The study will be completed within the amount appropriated.

#### FEDERAL GRAIN INSPECTION SERVICE

Our Federal Grain Inspection Service (FGIS) facilitates the marketing of U.S. grain and related agricultural products through the establishment of standards for quality assessments, regulation of grain handling practices, and management of a network of Federal, State, and private laboratories that provide impartial, user-fee funded official inspection and weighing services under the authority of the U.S. Grain Standards Act and the Agricultural Marketing Act of 1946.

FGIS establishes terms and methods for quality assessments that the grain industry relies on to buy and sell over \$51 billion of commodities annually. These standards for quality assessments provide the U.S. grain marketing system with the means to align post-harvested crop quality with the diverse quality needs of today's food and feed industry. GIPSA currently maintains more than 1,400 different quality assessment terms and methods to characterize the quality of grain and grain related products.

We are expanding our work with producers, technology providers, and food and feed manufacturers to consensually identify the essential quality attributes that require standard measurement to effectively differentiate quality and add value to U.S. agriculture. For example, FGIS, working with seed companies and producers, has identified the need to measure the level of linolenic acid in soybeans, an attribute that improves the stability and lessens or precludes the need to hydrogenate soy oil. Hydrogenation produces trans fatty acids, which have been linked to health problems. We now need to work with the soybean industry and establish acceptable reference standards and rapid assay methods to measure the level of linolenic acid in soybeans, an initiative included in our fiscal year 2006 budget request. While commercial production of low linolenic soybeans will begin in 2005, some industry sources estimate that within several years, they will account for 20 percent of soybean acreage at a value of \$5 billion.

We are also working with the wheat industry in an effort to regain the U.S. wheat market share which has declined from 33 percent of the international market in 1995 to an estimated 26 percent in 2004. Our goal is to develop rapid measurement methods to differentiate wheat quality at the first point of sale and allow the U.S. wheat industry to better meet the needs of foreign buyers. To date, working with the wheat industry, we have identified several key quality attributes, such as gluten strength, that require rapid measures, as well as the need to validate international reference methods relating to the attributes. Gaining consensus on the salient wheat attributes and reference methods will allow GIPSA to pursue the development of rapid analytical methods for use at the first point of sale, another initiative included in the fiscal year 2006 budget.

As we develop measures of new attributes entering the market, we are ensuring the current measurement methods are accurate and cost-effective. For example, we are working to transform the measurement of grain moisture. Maintaining current calibrations for moisture measurement is time consuming and resource intensive. Advances in the basic means to measure moisture, led by GIPSA, have the potential to greatly reduce maintenance costs and improve the accuracy of moisture measurements over a much wider range. These advances will benefit the entire grain industry, from producer to food manufacturer.

Similar improvements are being implemented for wheat and barley protein measurements this year. In collaboration with industry and government officials throughout the world, GIPSA has advanced new Artificial Neural Network (ANN) technology for protein measurement, which reduces overall program costs and promotes greater harmonization with U.S. trading partners.

We are introducing digital technology to improve the subjective assessments made by inspectors and, in some instances, replace them with objective measures. The percentage of broken rice is a critical factor for producers and the rice industry. Using digital technology, we have improved the consistency of measurements and simultaneously reduced the analytical time by over 75 percent.

We are also working with stakeholders on grading standards to further facilitate trade. As the production of peas for feed has surged, as evident by a 108 percent increase in production from 2003 to 2004, a need for national feed pea standards has evolved. We are working to meet this need. As the global competition in soybean markets intensifies, we are collaborating with the soybean industry to determine whether changes in analytical methods and grading standards would improve the United States competitive position. One grading factor under review is test weight per bushel, a factor used to market soybeans in the United States for over a half century, but not used by our major international competitors. We are also working closely with the wheat industry to ensure the wheat standards facilitate the expansion of the new and evolving market for Hard White Wheat. All of these activities improve the American agriculture's ability to deliver the specific quality of grain desired by food manufacturers and consumers, and strengthen its competitive position in the global market.

In the biotechnology arena, we are improving the reliability and accuracy of testing for the presence of modern biotechnology-derived grains to help U.S. agriculture avoid market disruption as trading partners around the world implement new import requirements. Our Test Kit Evaluation Program validates the performance of commercially available rapid tests for biotechnology-derived grains. Our Proficiency Program improves the performance and reliability of Government and private laboratories that test for biotechnology-derived grains in the United States and worldwide. More than 100 organizations participated in the program in fiscal year 2004, compared to 22 in 2002.

In response to the results of the proficiency program, we are working to harmonize international reference materials and biotechnology measurement methods used in commerce to measure the level of biotechnology-derived events in raw agricultural products. The current focus of many laboratories is to assay for the presence or absence of a particular transgenic event, whereas the regulatory requirements evolving for agricultural products usually require reliable methods to measure the quantity of a biotechnology derived event.

Our international outreach goes beyond work in the area of biotechnology. We work cooperatively with other government agencies to support market development and remove obstacles to U.S. grain reaching world markets.

In recent years, we have focused on providing technical support to the Mexican and Asian markets. Last year, GIPSA worked with Mexico's private and public grain sectors to harmonize sampling and analytical methods with the goal of minimizing trade disruptions due to differences between GIPSA-certified quality and an importer's own quality assessment. We helped establish five grain inspection laboratories at major corn importing facilities in Mexico and trained personnel from Mexican commercial firms and government agencies on U.S. grain inspection policies and procedures. We also spearheaded the establishment of a Government-to-Government Grain Industry Consultative Group as a technical-level forum to address cross-border grain quality issues.

Since fiscal year 2002, GIPSA has placed a temporary duty officer in Asia to address immediate and long-term issues in the region, to promote a better understanding and adoption of United States sampling and inspection methods to minimize differences in inspection results and to develop face-to-face relationships with customers, USDA Cooperators and Government officials. In October 2005, we placed an officer in Kuala Lumpur for 2 months, and this representative will return to Kuala Lumpur for 2 more months beginning March 2005. Following the completion of this assignment, GIPSA will place another representative in the region for a 4-month assignment to continue our work in the region.

We also provide technical consultative services for international customers. During fiscal year 2004, GIPSA's consultative work included conducting assessments of agricultural standards and transportation management systems in South Africa, Botswana, Namibia, and Mozambique; helping establish grain inspection laboratories in Kenya, Uganda, and Tanzania; helping Egypt set up a biotech testing laboratory; helping Iraq set wheat contract terms that resulted in their importation of U.S. wheat, and giving a grain marketing seminar to Iraqi officials (in Jordan); working with Canadian and Mexican officials to establish a trilateral agreement on implementation of the Biosafety Protocol; continuing work with Chinese officials on trade issues to ensure their continued importation of U.S. soybeans; helping the USDA/Foreign Agricultural Service and Animal and Plant Health Inspection Service resolve various grain quality issues in other countries that would otherwise have restricted U.S. grain exports; and briefing visiting trade and governmental teams representing 55 countries around the world.

In addition to facilitating the marketing of U.S. grain by developing grain quality assessment methods and carrying out international outreach efforts, GIPSA admin-

isters a national inspection system comprising Federal, State, and private laboratories. These laboratories provide valuable service to all sectors of the grain industry on a user fee basis, 24 hours a day, 7 days a week. The world recognizes the certificates issued by these laboratories as the gold standard for grain quality certification. Buyers and sellers around the world have confidence in and rely on the GIPSA certificate to trade grain.

This confidence was earned. The dedicated Federal, State, and private employees of the national grain inspection system work tirelessly to ensure the integrity and reliability of the national inspection system. They issue over 3 million certificates annually, representing over 250 million tons of grain.

GIPSA continuously works to improve service delivery by this network of laboratories and meet the needs of a changing market. In fiscal year 2004, we revised the regulations on appeal inspections under the U.S. Grain Standards Act to streamline the process and better reflect market needs. These changes improved service delivery time and reduced operational costs to both GIPSA and the grain industry. We also revised sampling and inspection procedures to better meet the needs of exporters shipping grain in small containers rather than large bulk vessels. As a result of high freight rates for bulk ocean vessels and an abundant supply of containers, the U.S. grain market experienced a significant increase in the use of containers to ship export grain overseas, especially to Asian markets. This shipping mode, once reserved for specialty, high-value grain, was being used for basic commodity grain and shifted the need for inspection services at interior locations.

#### EGOVERNMENT SOLUTIONS

Our most ambitious undertaking to improve program operations and service to the public is a sweeping, multi-year project to upgrade information management systems and modernize our business functions. Our current information management system consists of several independent systems that have served specific purposes over the years well, but are not integrated. This has limited our ability to meet the growing demand for electronic, or web-based, delivery of our services. It also impedes our efforts to improve the cost effectiveness and efficiency of our internal business practices. The enterprise-wide system currently under development will modernize nearly every aspect of GIPSA operations and provide a great opportunity to improve current business practices and service delivery.

New funding provided in fiscal year 2005 along with the redirection of existing funds has enabled GIPSA to begin the modernization process. Currently funded components of the new system will be deployed incrementally between 2005 and 2007. We have requested additional funding in fiscal year 2006 to support this important long term initiative.

When completed, customers will have online access to the information and applications they need to file complaints with GIPSA via the Internet; receive status reports on a complaint; place claims against bonds required under the P&S Act; register as a grain exporter or livestock dealer; submit required annual reports; request grain inspection services; receive reports on service status; see the status of their user-fee account; and receive final certified results online which will, in turn, allow customers to integrate official inspection data into their own information and document management systems. Private and State inspection agencies interested in being authorized to provide official inspection services will also be able to apply for GIPSA designation and re-designation on-line. Once officially designated, these agencies will have direct access through the web to GIPSA's extensive quality assurance program to ensure their inspection results align with the official standards maintained by GIPSA.

This modernization effort will create synergy across GIPSA programs and data sources, allowing GIPSA to improve internal program efficiencies and effectiveness. This large multi-year initiative will deliver improved performance and reduce costs years into the future.

#### PROTECTING THE HOMELAND

In addition, GIPSA has dedicated resources to homeland security efforts. We continue 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 2004, GIPSA's COOP and CAT representatives participated in critical disaster-related exercises and training sessions.

We provided technical assistance related to homeland security issues to a number of industry and governmental groups, including the USDA Homeland Security Working Group; worked with the National Food Laboratory Steering Committee to

coordinate and integrate resources to support key components of the Food Emergency Response Network (FERN); and, in conjunction with USDA and the Animal and Plant Health Inspection Service, developed information for the USDA Sector Specific Plan that will be included in the National Infrastructure Protection Plan.

#### 2006 BUDGET REQUEST

To fund important initiatives and address the Agency's responsibilities, GIPSA's budget request for fiscal year 2006 is \$40.4 million under current law for salaries and expenses and \$42.5 million for our Inspection and Weighing Services. These budgets include additional requests of \$442,000 for employee compensation; \$2,025,000 to continue the modernization of our information management systems and business functions; and \$950,000 for new grain testing measures. In addition our request includes a proposal to recover \$25 million through user fees to cover the costs of grain standardization activities and Packers and Stockyards program activities.

An increase of \$442,000 for employee compensation will enable GIPSA to meet its objectives consistent with the priorities established by the Secretary of Agriculture. This critically important increase is needed to support and maintain current staffing levels to meet the current and projected increased demand.

We are requesting an additional \$2,025,000 for our IT modernization initiative. This multi-year project will upgrade information management systems and modernize our business functions. This request includes \$1,000,000 to continue the development of eGov solutions; \$775,000 for the formation of an Information Disaster Recovery Program, essential as we deploy the eGov solutions and our employees and customers become increasingly dependent on web-based applications for daily operations; and \$225,000 for recurring costs associated with the operations of eGov solutions funded in fiscal year 2005 and deployed for operation.

We are also requesting an additional \$950,000 to develop new grain testing measures for ethanol co-products, wheat quality, and low linolenic soybeans. It is our responsibility to provide the U.S. market with the tools necessary to accurately and consistently measure a commodity's quality attributes, both chemical and physical, that our customers desire. New tests will facilitate the marketing of ethanol co-products, wheat, and low linolenic soybeans.

Part of our appropriation request will be derived from proposed new user fees. The budget proposes a collection of 4.3 million from grain standardization user fees and \$20.4 million from Packers and Stockyards program licensing fees. Both fees are proposed to assess those who benefit from the activities—the grain and livestock industries—rather than the general public.

#### CONCLUSION

Mr. Chairman, Members of the Committee, thank you for the opportunity to share some of the accomplishments made by our dedicated staff and highlight our future plans to facilitate the marketing of U.S. agricultural products and to promote fair and competitive trading practices for the overall benefit of consumers and American agriculture.

I would be pleased to address any issues or answer any questions that you may have.

Thank you.

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#### PREPARED STATEMENT OF KENNETH C. CLAYTON, ACTING 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 2006 budget proposal. To provide a starting point for discussion of our budget proposals, I would like to begin by reviewing our agency's mission and some of the programs through which we carry out that mission.

#### MISSION

The goal of the Agricultural Marketing Service—AMS—is to facilitate the marketing of agricultural products in the domestic and international marketplace, ensure fair trading practices, and promote a competitive and efficient marketplace to the benefit of producers, traders, and consumers of U.S. food and fiber products. We accomplish our mission through a wide variety of appropriated activities and through our user-funded grading, certification, and Perishable Agricultural Commodities Act programs.

## MARKETING SERVICES

Our Marketing Services programs benefit agricultural producers, traders, and consumers of dairy products, fruits, vegetables, specialty crops, livestock and meat, poultry, and cotton. These programs facilitate marketing by providing information, technical expertise, and customer assurance.

Markets operate more efficiently when all parties have equal and ready access to current, unbiased market information so that agricultural producers and traders can determine the best place, price, and time to buy or sell. In order to provide this information, AMS Market News reports cover current prices, volume, quality, condition, and other market data on farm products in more than 1,300 production areas and specific domestic and international markets. Market News reports are disseminated within hours of collection via the Internet. The data is also made available through electronic means and the news media. AMS reporters collect market news data for over 700 commodities from buyers and sellers, mostly on a voluntary basis. However, Congress established Livestock Mandatory Price Reporting in 2000 to ensure that information on meat and livestock trades would continue to be available for producers in a consolidating industry. These data, including prices, contracts for purchase, and other related information, are publicly disseminated in over 100 daily, weekly, or monthly reports on fed cattle, swine, lamb, beef and lamb meat.

Another way to improve market efficiency is to develop commonly-recognized agricultural product descriptions for use in commercial sales and purchases. AMS' Standardization program works closely with interested parties in agriculture and the food marketing system to ensure that quality descriptions are aligned with current U.S. marketing practices. The agriculture industry uses these descriptions to convey commodity quality in purchase specifications and sales contracts. AMS Market News reports trading based on these commodity quality standards. AMS currently maintains about 600 U.S. agricultural quality standards for domestic and international trading of cotton, dairy products, fruits and vegetables, livestock, meat, poultry, eggs, and rabbits.

The Standardization program supports exports of U.S. agricultural products by representing the interests of U.S. producers in a variety of international standards development organizations. AMS experts continue to participate in developing international dairy, meat, poultry, fruit, and vegetable standards. Recently, AMS' cotton specialists have been working to facilitate cotton trading between the United States and China by helping China adopt instrument testing and calibration standards for cotton comparable to those used in the United States. Compatible standards and classing procedures are in the interest of the United States, since China is the world's largest importer of cotton and the United States is its biggest foreign supplier.

The National Organic Standards program provides assurance for consumers that organic products uniformly meet established requirements nationwide. The U.S. organic food industry has increased to a \$15 billion annual sales level and is still growing. AMS program staff works with the National Organic Standards Board to update and maintain a National List of approved and prohibited substances for organic production. AMS program personnel accredit State, private, and foreign certifying agents who certify that organic production and handling operations comply with national organic standards. By the end of 2004, AMS had accredited a total of 97 certifying agents—56 domestic and 41 foreign.

AMS also provides consumer assurance by collecting pesticide residue data and microbiological baseline data that helps to maintain domestic and export market demand for U.S. foods. In fiscal year 2004, the Pesticide Data program performed over 100,000 analyses on more than 12,000 samples. The data gathered and reported by AMS on pesticide residues and microbiological pathogens supports science-based risk assessments performed by regulating agencies.

Our Transportation Services program facilitates the movement of U.S. agriculture products to market. This program helps support farm income, expand exports, and maintain the flow of food to consumers by providing "how to" technical expertise, research, and data on domestic and international transportation to growers, producers, and others in the marketing chain, and for government policy decisions. The Transportation Services program also produces periodic publications that provide information for agricultural producers and shippers on various modes of transportation, including grain transportation, refrigerated transport, ocean rates and transportation trends, and agricultural containers.

Our Wholesale, Farmers, and Alternative Markets program experts, in cooperation with local and city agencies, assist local efforts to develop or improve wholesale and farmers market facilities, and to discover other direct marketing opportunities. This program also supports research projects on marketing channels and market



technology improvements, as well as numerous marketing conferences and workshops across the country.

#### PAYMENTS TO STATES AND POSSESSIONS

AMS' Payments to States and Possessions program is more commonly known as the Federal-State Marketing Improvement Program, or FSMIP. This program helps to resolve local and regional agricultural marketing problems by awarding Federal matching grant funds for projects proposed by State agencies. These matching grants are made available to State departments of agriculture and other State agencies for 25 to 35 projects each year, with the State agencies contributing at least half of the project cost. In 2004 the FSMIP program allocated grant funds to 23 States for 27 projects such as studies on linking producers with new buyer groups and innovative uses for locally important agricultural products.

#### SECTION 32

AMS' Section 32 program purchases perishable non-price supported agricultural commodities—meat, poultry, fruits, vegetables, and fish—to encourage the exportation and domestic consumption of agricultural commodities. The purchased foods are donated to the National School Lunch Program and other domestic nutrition programs. In fiscal year 2004, AMS purchased 1.52 billion pounds of commodities that were distributed by FNS through its nutrition assistance programs.

Section 32 of the Act of August 24, 1935 permanently authorized an appropriation equal to 30 percent of customs receipts for this purpose. These funds, plus unused balances up to \$500 million from the previous fiscal year, may be used 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 a small percentage of the funds available under Section 32. In fiscal year 2006, 81 percent of the \$6.3 billion total will be transferred to FNS to administer the Child Nutrition Programs and 1 percent to the Department of Commerce for fishery products.

For 2006, AMS expects to obligate \$850 million, 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. Section 32 funds also finance AMS' administrative costs for commodity purchasing activities and Federal administration of marketing agreements and orders, which help to stabilize market prices for milk, fruit, vegetables, and specialty crops.

My description of our programs is not complete without some discussion of our agency's extensive partnerships.

#### PARTNERSHIPS

AMS depends on strong partnerships with cooperating State and Federal agencies to operate 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 their 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 to AMS' Federal Seed program on potential violations in interstate shipments. Our transportation and direct marketing programs work with Federal, State, city and local policy-makers to maintain an efficient national transportation system and expand and improve market outlets for U.S. agriculture.

Two AMS programs that could not function without their State partners are the Pesticide Data and Pesticide Recordkeeping programs. The Pesticide Data program depends on its State and Federal partners to collect and test the product samples on which program results are based. In fiscal year 2005, the program will direct about 80 percent of its funding to its eleven State partners in reimbursement for services provided. The information generated by the program can be utilized by other USDA agencies, academia, agricultural industry, international organizations, and global traders, as well as Federal agencies such as EPA and FDA for policy and regulatory actions. Our Pesticide Recordkeeping program depends on 36 States and territories that participate with AMS in record inspection activities, and all 50 States plus Puerto Rico are involved with educational programs for certified applicators. Other USDA agencies provide pesticide recordkeeping inspections under inter-agency agreements where State inspectors are not available. In fiscal year 2005, the program expects to complete nearly 4,000 compliance inspections of certified private

applicator records. These programs cannot operate without adequate reimbursement to the cooperating agencies—State and Federal—for their costs.

USDA food purchase programs have developed a partnership between USDA agencies that maximizes the unique expertise that each agency brings to the process. 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 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 nutrition assistance programs administered by FNS 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.

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 for awarding and administering contracts. FNS is responsible for taking commodity orders from the States, monitoring purchases and entitlements throughout the year, and for 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 United States 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. Approximately \$2.5 billion of commodities are purchased for all of the domestic and foreign food assistance programs every year and another \$1 billion in price support commodity products are maintained in inventory.

To better coordinate the operations between AMS, FNS, and FSA, and control the vast array of details inherent to the procurement process, the three agencies developed the Processed Commodities Inventory Management System, or PCIMS, more than eleven years ago to track bids, orders, purchases, payments, inventories, and deliveries. However, PCIMS is an aging system that often cannot be adequately modified to keep up with the agencies' business practice improvements, requiring program employees to develop electronic entries external to PCIMS and then update the system with the results. To resolve these problems and improve program operations, AMS, FNS and FSA have been working together to design a Web-Based Supply Chain Management System to replace PCIMS. We are requesting a funding increase in fiscal year 2006 to begin building the new system.

#### FISCAL YEAR 2006 BUDGET REQUEST

This leads us to our budget requests for fiscal year 2006. In Marketing Services, we propose to amend the Livestock Mandatory Price Reporting Act to continue the program and include pork cuts, implement a new verification program for Country of Origin Labeling, start building the Web-Based Commodity Supply Chain Management System, and increase financial support for our State partners in the Pesticide Data and Recordkeeping programs.

#### LIVESTOCK MANDATORY PRICE REPORTING

We are asking for an increase in program funding of \$545,000 to include pork cuts in the Livestock Mandatory Price Reporting, or LMPR, program. The mandatory reporting system was established in response to concerns of livestock producers over the diminishing availability of data caused by market concentration. Mandatory reporting has been successful—it reports 80 to 95 percent of transactions involving purchases of livestock and sales of boxed beef and lamb, lamb carcasses, and imported boxed lamb cuts. Under voluntary pork reporting, AMS is able to gather only about 5 percent of transactions. This proposal would increase reported data on pork cut trades to 80 percent. It will require packers to report on additional types of trades and products by including formula and contract transactions, as well as nego-

tiated sales, of domestic and export sales of pork cuts. Mandatory reported information will also include value-added and case-ready products not usually reported on a voluntary basis.

The addition of pork cuts under mandatory reporting requires an amendment to the Livestock Mandatory Reporting Act of 1999. USDA is also proposing an amendment to extend the mandatory reporting program, which currently expires September 30, 2005. USDA is reviewing the program's effectiveness and considering potential enhancements proposed by industry stakeholders, but supports continuation of LMPP.

#### COUNTRY OF ORIGIN LABELING

Our second increase request is for \$3.1 million to initiate a new Country of Origin Labeling, or COOL, program. We propose to establish a cooperative Federal-State surveillance and enforcement program that will verify that buyers are getting the required information concerning the source of covered commodities. Mandatory COOL provisions are in effect for fish and shellfish as of April 4 this year and on September 30, 2006, for the remaining commodities covered by the 2002 Farm Bill. During fiscal year 2006, we will establish an audit-based compliance system for fish and shellfish, and then will incorporate the remaining covered commodities—ground and muscle cuts of beef, pork, and lamb; fresh and frozen fruits and vegetables; and peanuts—after those provisions go into effect. Until the mandatory rule becomes effective and for 6 months following the effective date, we will focus our resources on industry education and outreach to ensure effective and appropriate implementation of the labeling requirements.

We plan to implement the audit-based surveillance activities through agreements with cooperating State government agencies. AMS will provide training and oversight, respond to formal complaints, conduct surveillance audits, and conduct educational activities. We will audit 5 percent of covered retailers, over 1,800 each year, to achieve a compliance rate beginning at 70 percent and rising to 95 percent by 2010. This program will ensure the public receives credible and accurate information on the country of origin for covered commodities while not overburdening the State agencies.

#### SUPPORT FOR COOPERATING STATES

We request \$889,000 to strengthen our financial support to our State partners for the Pesticide Data and Recordkeeping programs so that these programs can continue to function effectively. This increase will allow AMS to reimburse the States for rising costs, including salaries, benefits, and travel expenses incurred by State personnel in carrying out Federal program activities, and will help the States retain specialized and experienced personnel.

#### WEB-BASED SUPPLY CHAIN MANAGEMENT SYSTEM

For fiscal year 2006, AMS is requesting an increase of \$10 million in our Marketing Services account to develop WBSCM, a next-generation multi-agency food purchase and distribution tracking system which will significantly improve administrative efficiency and customer service. As I mentioned, this is a joint effort of AMS, FNS and FSA to establish a Web-Based Supply Chain Management system that can replace, and surpass, the functions of the current Processed Commodity Inventory Management System.

WBSCM has undergone extensive reviews within USDA and has been approved within the Department and by OMB as meeting e-government requirements. Once functioning, the new system will create a single point of access for customers, allowing the agencies to share information with them more quickly and conveniently. WBSCM will improve program efficiency by greatly reducing the time required for processing purchases; shortening delivery times; improving USDA's ability to collaborate with other Departments; improving reporting capability; reducing transportation, inventory, and warehousing costs; and enabling future system updates as needed. WBSCM is also designed so that it could eventually support agencies that manage similar commodity distribution programs for export. Although implementation of the new system will be a multi-year effort, increased efficiency, better coordination, and improved services should begin as soon as WBSCM is able to provide the services now being performed by PCIMS.

#### BIOTECHNOLOGY

The Biotechnology program is proposed for termination, reducing our Marketing Services budget by \$4 million. AMS had anticipated the need to respond to industry

requirements to differentiate between bioengineered and conventional commodities. However, technological issues and a lack of demand for fee-based quality assurance and laboratory accreditation services have reduced the need for such a program. Should demand for services become apparent, AMS will work with the affected industries to determine if alternative mechanisms can be utilized to facilitate the movement of agricultural commodities.

#### USER FEES

Our Marketing Services request also reflects \$2.9 million in new user fees based on a proposed legislative change that would convert most of our domestic standards activities to user-fee funding. USDA has proposed an amendment to the Agricultural Marketing Act of 1946 that will authorize the agency to implement, collect, and retain user fees for domestic standards that are associated with AMS grading and certification services.

#### BUDGET REQUEST SUMMARY

Our budget request includes \$84 million for Marketing Services. We request \$1.3 million in FSMIP grants funding—a decrease of \$2.5 million that was provided in fiscal year 2005 to support Wisconsin products. For administration of Section 32 activities, we request \$11.5 million to support commodity purchasing and \$16.1 million for the Marketing Agreements and Orders program. Our Marketing Services and Section 32 administrative funding requests include an increase for pay costs. Thank you for this opportunity to present our budget proposal.

Senator BENNETT. Thank you.  
Dr. Pierson.

#### STATEMENT OF DR. MERLE D. PIERSON

Dr. PIERSON. Mr. Chairman, Senator Kohl, I am pleased to appear before you today to discuss the status of the Food Safety and Inspection Service programs and our fiscal year 2006 budget request.

#### PATHOGEN REDUCTION

Excellent progress has been made in improving the safety and security of the U.S. meat, poultry, and egg products supply. And as a result of implementing science— and risk-based policies, we have seen significant reductions in *E. coli* O157:H7, *Listeria monocytogenes*, and *Salmonella* in FSIS regulated products. Also there has been a dramatic decline in recalls.

What has been the impact of our science-based policies on public health? The Centers for Disease Control and Prevention will be publishing tomorrow a report that analyzes food-borne disease data for 2004. I am pleased to tell you that the CDC report will state that for 2004, there were important declines in food-borne illness.

For *E. coli* O157:H7, there was a 42 percent decrease from the 1996–1998 baseline, a continuation of last year's downward trend. For *Campylobacter*, the decrease from the baseline was 31 percent. *Listeria monocytogenes*, 40 percent, and *Salmonella*, 8 percent.

While we have made considerable progress, there is more to be done. The USDA is committed to further protecting public health through our continuing programs, such as those described, as well as several science-based initiatives that we are now working on.

#### FISCAL YEAR 2006 BUDGET REQUEST

For fiscal year 2006, FSIS is requesting an appropriation of \$849.7 million. The fiscal year 2006 budget requests an increase of

\$19.5 million to support a food and agriculture defense initiative in partnership with several other Government agencies.

The budget request includes an increase of \$13.9 million to provide for a 2.3 percent pay raise for FSIS employees. In addition, we are requesting \$2.2 million in order to fill supervisory and administrative duties as we make better use of the scientific skills of our veterinary medical officers. And \$139 million is proposed to come from a new user fee.

#### PREPARED STATEMENTS

Mr. Chairman, thank you for providing me the opportunity to speak about these issues and our progress and to submit written testimony, which is much more extensive than I have just given you. I certainly do promise you that we will do our best to remain a world leader in public health.

[The statements follow:]

#### PREPARED STATEMENT OF DR. MERLE PIERSON

Mr. Chairman and Members of the Subcommittee, I am pleased to appear before you today to discuss the status of the Food Safety and Inspection Service (FSIS) programs and the fiscal year 2006 budget for food safety within the U.S. Department of Agriculture (USDA). I am Dr. Merle Pierson, Acting Under Secretary for Food Safety. With me today is Dr. Barbara Masters, Acting Administrator of FSIS.

As we begin another new year at USDA, I am proud to emphasize several areas where we have used science based policies to effectively protect the health and well being of millions of consumers worldwide. These successes would not have been possible without the resources you have so generously given to us. I also will share with you our goals for this year, and will conclude with a discussion of the fiscal year 2006 budget request.

The crux of our public health challenge centers on combating biological, chemical, and physical hazards that range from the easily understood to those that evolve and present new and complex challenges. Thus, we must not only rely on existing knowledge and strategies for food safety, but also continue to introduce and evaluate new approaches. For me, as someone who has spent their entire career as a food scientist, I am particularly proud of the work our office and FSIS has done in developing science based policies to improve the safety and security of the U.S. meat, poultry, and egg products supply.

#### *Evaluating the Effectiveness of the 2004 Vision*

While there are many approaches to measuring success, we looked at indicators related to public health outcomes and pathogen reduction. Such an evaluation is essential in determining the success of our strategies and developing new ways to combat threats to public health. In our high-speed, fast-food world, it can be difficult for some to understand that successful science is not immediate gratification and it is not easily measured. But over time, positive results, or I should say, dramatic declines in foodborne illnesses or incidence of pathogens in products, show that our risk based approach is working.

#### *Breaking the Cycle of Multi-Million Pound Recalls*

One indication of our progress is that we have seen a break in the annual cycle of multi-million pound recalls. Through the use of risk assessments, working with partners along the farm-to-table continuum, and basing our policies on sound science, we have been able to break this vicious cycle. I will illustrate this by discussing our E. coli O157:H7, *Listeria monocytogenes*, and *Salmonella* policies.

After a comprehensive risk assessment on E. coli O157:H7 was completed, we developed additional strategies to eliminate this pathogen in beef establishments. We required all of the approximately 2,900 beef slaughter and processing establishments to reassess their Hazard Analysis and Critical Control Point (HACCP) plans relative to the potential presence and control of E. coli O157:H7 in raw beef. Then our scientifically trained personnel conducted the first-ever comprehensive reviews of the reassessed HACCP plans.

I believe this type of forward thinking initiated by USDA/FSIS will continue to contribute to the dramatic improvements we have been seeing. For instance, let's

take a look at results from our microbiological surveillance testing program for *E. coli* O157:H7 over the past 4 years.

- In CY 2001, our testing program yielded 59 positive results out of 7,010 samples;

- In CY 2002, there were 55 positive results from 7,025 samples;

- In CY 2003, there were 20 positives out of 6,584 samples; and

- In CY 2004, there were only 14 positives out of 8,010 samples.

The effectiveness of using sound science is also evident when we look at *Listeria monocytogenes*. Our 2003 interim final rule on control of *Listeria monocytogenes* in ready-to-eat (RTE) meat and poultry products, based on a thorough risk assessment, outlined three strategies that an establishment could choose from to control the pathogen depending on its product(s) and the environment in which it operates: Alternative 1, provides for a combination of a post-lethality treatment and a growth-suppressing agent or process; Alternative 2, provides for either a post-lethality treatment or a growth-suppressing agent or process; and Alternative 3, relies on sanitation as the primary mitigation. In January 2005, FSIS revised its sampling verification procedures so that more product samples are collected when an establishment relies solely on sanitation practices for *Listeria monocytogenes* control, while fewer samples are analyzed in situations where an establishment has more aggressive process control measures and interventions.

In 2003, we released data that showed a 25 percent drop in the percentage of positive *Lm* regulatory samples from the year before, and a 70 percent decline compared with years prior to the implementation of HACCP.

Our science based initiatives, including those used to counter *E. coli* O157:H7, have played a significant role in also reducing the prevalence of *Salmonella* in raw meat regulatory samples. If we look at the percentage of regulatory samples positive for *Salmonella* from our scientific HACCP verification testing program, we see an overall aggregate downward trend from 1998 through 2003. *Salmonella* presence in raw meat and poultry regulatory samples has dropped substantially over the past 6 years. Out of the number of regulatory samples collected and analyzed by FSIS in 2003, 3.8 percent tested positive for *Salmonella*, as compared with 4.29 percent in 2002, and 10.65 percent in 1998.

While the regulatory prevalence of *Salmonella* across all seven product categories tested continued to decrease in 2003, we are concerned that the percentage of positive *Salmonella* tests increased slightly in three poultry categories. FSIS has been examining *Salmonella* testing data from 1998 to the present in order to clearly identify those plants displaying negative performance trends. Enforcement Investigations and Analysis Officers can now conduct in-depth HACCP and sanitation verification reviews at those facilities to help ensure that this increase does not continue. FSIS compares regulatory testing results to pre-HACCP baseline prevalence to provide context to the yearly data. These 2003 numbers are still under the standard for the aggregate data, but FSIS is working aggressively to reverse the upward trend.

Let me also add that when there has been foodborne illness, FSIS aggressively explores both epidemiological links to products from individual establishments as well as conducts a food safety assessment to determine whether or not insanitary conditions exist. If the epidemiological link is found or insanitary conditions exist, appropriate regulatory enforcement action is taken.

I have provided a brief overview of some of the measures I believe have broken the annual cycle of multi-million pound recalls. I would like to mention trends we are seeing in recall data.

In the late-1990s, the number of recalls had been increasing steadily with at least one multi-million pound recall being conducted every year; however, this trend has dramatically changed in the past 2 years.

- In 1997, there were 27 recalls;

- Followed by 44 recalls in 1998;

- 58 recalls in 1999;

- 76 recalls in 2000;

- 87 recalls in 2001; and

- Reaching an all-time high of 113 recalls in 2002.

After we implemented the science based policies I mentioned earlier, we saw a dramatic decline in recalls, culminating in a reduction of nearly 18 percent in the number of pathogen-related recalls, from 28 in 2003, to 23 in 2004. While this is certainly good news, we still have areas of concern. One of the areas of concern is an increasing trend in the percentage of recalls triggered by undeclared allergens. This is a troubling development. We have alerted industry of our concerns and are currently taking case-by-case action and are looking at broader policies to address it industry-wide.

Perhaps even more dramatic is the fact that 2004 marked the second year in a row that we did not have a multi-million pound recall of meat or poultry in the United States. The decline in the number of recalls is just one of several indicators that highlight the dramatic improvements that can be achieved in our food safety system when government, industry, consumers, and academia work together and use science as a guide. Another measure of progress came from a Gallup poll released this past August. It found that more than 85 percent of Americans are confident in the Federal Government's ability to protect our food supply.

#### *Declining Foodborne Illnesses*

This news is encouraging, but the most significant measure of public health impact is the annual report published by the Center for Disease Control and Prevention (CDC) last spring in which they reported significant declines from 1996 to 2003 in illnesses caused by *E. coli* O157:H7, *Salmonella*, *Campylobacter*, and *Yersinia*.

Specifically to the products USDA regulates, the CDC reported that illnesses caused by *Salmonella* Typhimurium, typically associated with meat and poultry, decreased by 38 percent from 1996 to 2003. Human illnesses caused by *E. coli* O157:H7, often associated with ground beef, declined 42 percent from 1996 to 2003. The decrease in *E. coli* O157:H7 infections occurred primarily during 2002–2003.

The CDC attributes the changes in the incidence of these infections in part to the control measures implemented by government and industry leaders, enhanced food-safety education efforts, and increased attention by consumer groups and the media. We are hopeful that if we continue on our current course, this reduction will not be just for 1 year, but will continue from now until we have achieved the greatest reduction possible in the illnesses caused by these pathogens.

#### *Bovine Spongiform Encephalopathy*

Science based policies and recalls are two tangible methods that external parties see USDA conducting to protect public health. However, a significant amount of public health protection comes from the extensive strategic planning efforts to improve our systems and infrastructure that are not as easily recognized. I mention this in reference to the first case of bovine spongiform encephalopathy (BSE) detected in the United States in December 2003.

The December 23, 2003, detection of a BSE positive cow, originally from Canada, at a slaughter operation in Washington State could be seen by many as a precursor to the implementation of our BSE measures. However, we had completed an extensive amount of groundwork on FSIS' four BSE measures before USDA's major policy announcements on December 30, 2003. Our swift actions were unprecedented. The process for publishing FSIS' interim final rule on BSE normally would have taken several months; however, with the prior strategic planning this normally daunting task was achieved in less than 2 weeks, and was done at the time with an eye for protecting public health. Our BSE regulations add a significant level of protection to an already robust food safety system. FSIS' BSE related interim final rules will be published as final rules following an analysis of the more than 22,000 comments received on the interim final rules and the BSE Advance Notice of Proposed Rule-making (ANPR) as well as completion of the Animal and Plant Health Inspection Service (APHIS) enhanced BSE surveillance program and the Harvard BSE risk reassessment.

#### *Training for the Mission*

Strong, science-based regulations and policies are merely words on paper without personnel trained to carry them out. I would like to thank the Congress, and this Subcommittee in particular, for the record level of funding it has provided us in the area of training and education. Each training accomplishment directly correlates to improvements in the safety and security of the U.S. meat, poultry, and egg supply. We are extremely proud of our efforts in this area and I would like to share some of our successes with you today.

A large segment of our inspection program personnel is receiving intensive training in sanitation procedures and Hazard Analysis and Critical Control Point (HACCP) system principals, based on the type of products produced at the establishments where the inspectors are assigned. We expect to have this segment of our workforce fully trained by the end of the current fiscal year. In 2003, FSIS inaugurated Food Safety Regulatory Essentials (FSRE) training, which was designed to better equip inspection personnel in verifying an establishment's HACCP food safety system. All participants receive training in the fundamentals of inspection, covering HACCP, the Rules of Practice, Sanitation Performance Standards, and Sanitation Standard Operating Procedures. This program also provides food safety training based on the types of products being produced at the establishments where inspec-

tors are assigned. In fiscal year 2004, 1,700 individuals received the Agency's FSRE training, more than doubling the amount of students trained in fiscal year 2003.

FSIS has also initiated a comprehensive multi-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. To date, over 5,000 employees have received food security training. The Law Enforcement Academic Research Network (LEARN), which is carrying out the training, has stated that this effort is unparalleled in the Federal sector since training is being provided to such a broad base of our employees.

Furthermore, FSIS has successfully launched training for newly hired Public Health Veterinarians (PHVs) and for newly hired food inspectors. We are also going back to train "new hires" to ensure that employees who did not initially receive this training are now fully equipped with the latest scientific knowledge. In addition, we now require entering Consumer Safety Inspectors to undergo and pass FSRE training. We are also in the process of implementing policies to require passage of mandatory training courses for entering Enforcement Investigations and Analysis Officers (EIAOs) and for PHVs. Specifically in 2005, we plan to provide training for 1,200 food inspectors, 400 PHVs, 200 EIAOs, 75 import inspectors, and 40 front line supervisors. We also plan to provide FSRE training for 1,400 Agency personnel. I also would like to note that we offer seats in our workforce training courses to State inspection personnel.

These numbers are impressive, but what is even more meaningful are the systematic changes at FSIS that this training effort has brought. Our workforce is becoming the most scientifically trained in the world. While we know these are merely the first steps, and that this knowledge still needs to be extended to all our employees, we have embarked on a path that will bring added protections to public health for generations to come.

#### *Food Security*

Ensuring the security of FSIS inspected products is indeed an awesome responsibility, and it is one which FSIS and its predecessor agencies have been equipped to handle for almost a century. Over the past several years, we have strengthened our focus on both intentional and unintentional contamination by conducting risk and vulnerability assessments. Specifically for food security, vulnerability assessments have provided a solid foundation from which we have launched many important initiatives to safeguard our food supply from any intentional threats.

We have found these assessments are very powerful risk management tools that can be used to develop strategies and policies that reduce or eliminate the potential risk at vulnerable points along the farm-to-table continuum. It is difficult to manage a threat when we are unsure of its scope, so it was especially important to take a broad look when developing the risk assessments.

The vulnerability assessments we conducted provided us the vital data regarding risks in our system that otherwise would not have been as apparent to us if we had not conducted them. If we had made food security decisions without performing vulnerability assessments, it would have been akin to aiming at a target in the dark without night-vision goggles. We would have had no idea if we had hit our mark. And when that mark is the security of the food on American tables, accuracy is crucial.

What we gleaned from these vulnerability assessments helped us develop more effective intervention strategies, especially when it comes to surveillance and incident response plans. The assessments allowed us to rank food products and potential contaminating agents in order of highest concern. By using this risk based ranking, during periods of heightened awareness, our laboratories can examine samples for threat agents posing the greatest risk as identified in our vulnerability assessments.

#### *Communications*

Public health benefits from our efforts in training and in food security cannot be fully realized without a comprehensive and cohesive communications infrastructure. For example, the highly trained import inspector may only have a few critical moments to alert his colleagues across the country in the event of a food security incident. Without "real time" information, inspectors in Montana may not know to stop a suspect cargo. In an emergency, the American public cannot afford for precious seconds to be lost while information slowly synchronizes over outdated modems. We are maximizing the effectiveness of our resources in this area and continue to work towards seamless integration, both internally and with our other food safety partners.

To be a successful public health Agency, our employees need the right information to do their jobs. This information needs to be communicated quickly and accurately,



ensuring public health will be protected. Data that is delayed is less useful and in extreme circumstances could have limited value because it is too late and could threaten the safety of our meat, poultry, and egg product supply. It is vitally important that the Agency continue to receive the necessary funds to develop and upgrade its information technology systems, which will improve efficiency and enhance communication among all FSIS employees. For FSIS, the use of databases to track inspection program tasks is essential for food safety verification. It is a vital communication resource whereby inspectors can enter information about their daily food safety, security, and humane handling verification duties. Because of our public health mission, real-time information and connectivity is vital, especially between key sites for our inspection program personnel. This is particularly important because FSIS has a geographically dispersed workforce. Managers in the field and at headquarters must make crucial management decisions based on tracking and analyzing information from their employees and the establishments they regulate. A rapid exchange of information with the field is critical for FSIS supervisors and managers to make better informed decisions on food safety and security issues, thus better protecting public health. We seek your continued support in this area.

#### *Humane Handling and Slaughter Activities*

FSIS continues to ensure compliance with the Humane Methods of Slaughter Act (HMSA) in livestock slaughter establishments that operate under Federal inspection. As part of their routine, ongoing and continuous inspection and enforcement duties, all FSIS inspection personnel are expected to take appropriate action, including suspending operations, if appropriate, of a livestock slaughter establishment if they observe any violations of HMSA. Further, all FSIS inspection personnel are trained and held accountable for enforcing HMSA during the slaughter process.

District Veterinary Medical Specialists (DVMSs) provide technical expertise and oversight for HMSA-related activities, and ensure that humane handling and slaughter activities and enforcement are handled consistently by inspection program personnel. The Agency's DVMSs and Deputy District Managers meet periodically as a group at the Technical Service Center in Omaha, Nebraska, to correlate on humane enforcement issues, and, in fact, one such meeting was just held in March 2005.

FSIS has continued to refine humane handling verification and tracking procedures for inspection personnel. On February 18, 2005, the Agency issued FSIS Notice 12-05, to provide inspection personnel with additional information for humane handling and slaughter verification activities related to animal stunning and procedures for checking for conscious animals.

#### *Future Initiatives*

While we have made considerable progress, I stress that there is more to be done to decrease the number of foodborne illnesses in the United States even further. USDA is committed to further improving public health through food safety and security through our continuing programs such as those I have described as well as several science-based initiatives I would like to mention.

##### *Enhanced Data Integration*

In order to better protect public health, our first initiative is to anticipate and predict food safety risks through enhanced data integration. One significant way to accomplish this is through the analysis of FSIS regulatory sampling data, as well as other sources of data, including baseline studies, in order to detect trends and identify connections between persistence, prevalence, and other factors such as practices employed by plants, seasonal variations, and establishment size.

However, there is a missing link here. FSIS would need access to industry data. Including data collected by the establishment would add robustness to FSIS' information and improve the quality and validity of decisions that are made. Ensuring the availability of data to FSIS from industry, academia, States, consumers, and others will be necessary to help us protect food safety risks. One way to accomplish this may be through the establishment of a repository to provide data integrity and confidentiality. We are examining this initiative and will have more details available in the near future.

##### *Associate Program Outcomes to Public Health Surveillance Data*

Our next initiative is to improve the association of program outcomes to public health surveillance data. We are working closely with the CDC and the Department of Health and Human Services' Food and Drug Administration (HHS-FDA) to improve our ability to link foodborne illness estimates with different food groups. Data on foodborne illnesses due to specific pathogens needs to be connected with prevalence data for different pathogens in specific foods.

The Foodborne Diseases Active Surveillance Network, or FoodNet, allows FSIS and our Federal, State, and local food safety partners to integrate this data by determining the burden of foodborne disease, monitoring foodborne disease trends, and determining the extent of foodborne diseases attributable to specific foods. By comparing and contrasting the characteristics of pathogens recovered from food samples with those recovered from foodborne illness patients, we are able to improve our ability to link foodborne illness data with specific foods.

As indicated from my overview earlier of our accomplishments, USDA and its partners have made significant and dramatic improvements in food safety since the implementation of HACCP as the driving component of FSIS' enforcement of the Federal Meat Inspection Act and the Poultry Products Inspection Act. The number of foodborne illnesses attributed to FSIS-regulated products has declined markedly as have the rates of contamination in regulatory samples. However, the implementation of our new science-based initiatives is critical for us to strengthen our food safety infrastructure even further. Enhancing data integration and improving the association of program outcomes to public health surveillance data will provide the additional, essential tools we need to improve public health.

#### *Fiscal Year 2006 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 2006 budget request for FSIS.

Implementation of these budget initiatives is imperative to helping us attain FSIS' public health mission. In fiscal year 2006, FSIS is requesting an appropriation of \$849.7 million, a net increase of about \$32.5 million from the enacted level for fiscal year 2005, which includes \$139 million to be derived from proposed new user fees from the industry.

#### *Food and Agriculture Defense Initiative*

The fiscal year 2006 budget also requests an increase of \$19.5 million for FSIS to support a food and agriculture defense initiative in partnership with other USDA agencies, the Department of Health and Human Services and the Department of Homeland Security (DHS). Food contamination and animal and plant diseases 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:

- The Food Emergency Response Network (FERN);
- Data systems to support the FERN;
- Enhancing FSIS laboratory capabilities;
- Biosurveillance; and
- Follow-up bio-security training.

For FERN we are seeking an increase of \$13 million; for FERN data systems we are asking for an increase of \$2.5 million; for enhancing laboratory capabilities we are requesting \$2.5 million; for biosurveillance we are requesting an increase of \$417,000; and for bio-security training we are seeking an increase of \$1 million.

The first component of the food and agriculture defense initiative is FERN, a coordinated initiative between FSIS and the Department of Health and Human Services' Food and Drug Administration (FDA) to develop an integrated network of Federal, State, and local laboratories. FERN is an integrated laboratory network capable of providing ongoing surveillance and monitoring of the food supply, as well as conducting the extensive testing necessary in the event of a terrorist attack on the food supply. The FSIS fiscal year 2006 budget request for FERN seeks an increase of \$13 million from fiscal year 2005 which will enable the Agency to manage, maintain, and expand on the existing group of FERN labs. These funds will improve the Agency's ability to handle the greatly increased number of samples that would be required to be tested in the event of a terrorist attack on the meat, poultry or egg products supply. These State and local laboratories in the FERN network would play an essential role in conducting this expanded testing.

The second and third components of the food and agriculture defense initiative provide further support to FERN. The electronic laboratory exchange network (eLEXNET) is a national, web-based, electronic data reporting system that allows analytical laboratories to rapidly report and exchange standardized data. The fiscal year 2006 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.

Fourth, 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 and establish a Foodborne Disease Surveillance Communication system to coordinate with DHS systems.

Because the realm of biosecurity is ever changing, FSIS must provide its workforce with the most up-to-date information possible 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 Agency policies, threat agents, and countermeasures to those agents.

#### *Public Health Training*

The maturation of HACCP has widened the scope of all front-line inspection duties. While slaughter line inspectors have largely retained their traditional tasks, other front-line personnel have acquired more complex responsibilities related to public health, including food safety assessments, food security, and documentation and analysis to support detentions, recalls, or other enforcement actions.

Further integrating front-line inspection and science will allow scientifically-trained FSIS personnel to most effectively utilize their expertise. For instance, FSIS intends to fully employ the scientific skills of its Public Health Veterinarians—systems analysis, epidemiology, biostatistics, microbiology, pathology, and toxicology—to safeguard public health. Accordingly, FSIS has been revising veterinary work assignments so that PHVs spend 25 percent of their time on public health assessment and assurance. As part of the fiscal year 2006 budget request, FSIS is requesting an increase of \$2.2 million for relief positions so that the Agency can take full advantage of the training, experience, and responsibilities of these highly-trained PHVs. The Agency and the public will benefit from more effective utilization of the technical knowledge and skills of our veterinarians through their expanded public health activities.

#### *Supporting FSIS' Basic Mission*

The FSIS budget request for fiscal year 2006 supports the Agency's basic mission of ensuring that the Nation's commercial supply of meat, poultry, and egg products is safe, wholesome, and correctly labeled and packaged.

In order to fulfill the Agency's statutory obligations to provide continuous inspection of meat, poultry, and egg products, the budget requests an increase of \$13.9 million for the FSIS inspection program to provide for the 2.3 percent pay raise for FSIS employees in fiscal year 2006 and to assure that the Agency is provided sufficient funds to maintain programs without disruption to industry operations.

#### *User Fee Proposal*

In fiscal year 2006, FSIS estimates it will collect \$122.9 million in existing annual user fees to recover the costs of overtime, holiday, and voluntary inspection. Of the \$849.7 million requested in the fiscal year 2006 budget, \$139 million is proposed to be derived from a new user fee that would recover the costs of providing inspection services beyond an approved 8-hour primary shift. A legislative proposal authorizing this new fee will soon be submitted to Congress. This will result in significant savings for the American taxpayer.

#### *Closing*

We will 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, and protecting public health through food safety and security.

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 a 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.

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PREPARED STATEMENT OF DR. BARBARA J. MASTERS, ACTING ADMINISTRATOR, FOOD SAFETY AND INSPECTION SERVICE

Mr. Chairman and 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 2006 budget request for the Food Safety and Inspection Service (FSIS).

FSIS has a long, proud history of protecting public health. The Agency was established under its current name by the Secretary of Agriculture on June 17, 1981, and its history dates back to 1906. FSIS' mission is to ensure that meat, poultry, and egg products distributed in interstate commerce 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 whom are stationed throughout the country and are present in plants everyday. In fiscal year 2004, over 7,500 inspection personnel stationed in about 6,000 federally inspected meat, poultry, and egg products plants verified that the processing of 43.6 billion pounds of red meat, 52.8 billion pounds of poultry, and approximately 4 billion pounds of liquid egg products complied with statutory requirements. In addition, approximately 4.2 billion pounds of meat and poultry and approximately 12.1 million pounds of egg products were presented for import inspection at U.S. ports and borders from 27 of 33 countries that we have determined have inspection systems equivalent to our own. Ensuring that these products are safe, secure, 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 providing FSIS the necessary resources to ensure the safety of the food supply. In fiscal year 2005, FSIS received \$7.2 million for important training activities, including entry-level field employee training, Food Safety Regulatory Essentials training (FSRE), and bio-security training. These funds are helping to move the public health agenda forward dramatically. Now, I would like to tell you about our accomplishments during the past year, and about our priorities for better ensuring the safety and security of meat, poultry, and egg products in the future.

FOOD SAFETY ACCOMPLISHMENTS DURING 2004

The American public remains confident in the safety of the U.S. meat, poultry, and egg supply, in part due to the many food safety accomplishments FSIS made in 2004. In August of 2004, a Gallup poll found that more than 85 percent of Americans are confident in the Federal government's ability to protect our food supply.

During the past year, FSIS has continued to make progress in breaking the cycle of foodborne illness through vigilant testing and science-based policies. The 2004 annual Centers for Disease Control and Prevention (CDC) report on the incidence of infections from foodborne illness showed significant declines from 1996 to 2003 (inclusive) in the incidences of *Yersinia* infections (down 49 percent), *E. coli* O157:H7 (down 42 percent), *Campylobacter* (down 28 percent), and *Salmonella* (down 17 percent).

The decrease in *E. coli* O157:H7 infections occurred primarily during 2002–2003. We anticipate this downward trend to continue when the next annual CDC report is released this spring. The CDC report attributes the changes in the incidence of these infections in part to the control measures implemented by government agencies and the food industry, as well as enhanced food safety education efforts. The CDC report noted that the decrease in human *E. coli* O157:H7 infections in 2003 followed an October 2002 FSIS notice to manufacturers of raw ground beef products that they reassess their HACCP plans regarding this pathogen. Our FSIS experience noted declines in the frequency of *E. coli* O157:H7 contamination of ground beef for 2003 and 2004.

Progress continues in combating *E. coli* O157:H7. After a comprehensive risk assessment on *E. coli* O157:H7 was completed, we required all of the approximately 2,900 beef slaughter and processing establishments to reassess their HACCP plans relative to the potential presence and control of *E. coli* O157:H7 in raw beef. Then,

our scientifically trained inspection program personnel conducted the first-ever comprehensive reviews of the reassessed HACCP plans.

The same rigorous scientific and risk-based approach that CDC attributes to the reduction of *E. coli* O157:H7 illness was used in the formulation of the *Listeria monocytogenes* rule that became effective October 6, 2003. Since implementation of the interim final rule, 57 percent of establishments that were not already testing for the pathogen have now begun testing, 27 percent have initiated the use of an antimicrobial agent to inhibit the growth of this organism, and 17 percent started using post-lethality treatments.

Our 2003 interim final rule on control of *Listeria monocytogenes* in ready-to-eat (RTE) meat and poultry products, based on a thorough risk assessment, outlined three strategies that an establishment could choose from to control the pathogen depending on its product(s) and the environment in which it operates: Alternative 1, provides for a combination of a post-lethality treatment and a growth-suppressing agent or process; Alternative 2, provides for either a post-lethality treatment or a growth-suppressing agent or process; and Alternative 3, relies on sanitation as the primary mitigation. In January 2005, FSIS revised its sampling verification procedures so that more product samples are collected when an establishment relies solely on sanitation practices for *Listeria monocytogenes* control, while fewer samples are analyzed in situations where an establishment has more aggressive process control measures and interventions.

Other indicators of success in combating these pathogens include a decrease in the number of recalls initiated for *E. coli* O157:H7, *Listeria monocytogenes*, and *Salmonella*. After we implemented the science based policies I mentioned earlier, we saw a dramatic decline, culminating in a reduction of nearly 18 percent in the number of pathogen-related recalls, from 28 in 2003, to 23 in 2004. While this is certainly good news, we still have areas of concern. One of these is an increasing trend in the percentage of recalls triggered by undeclared allergens. This is a troubling development. We have alerted industry of our concerns and are currently taking case-by-case action and are looking at broader policies to address it industry-wide.

We are also further strengthening the partnerships we have with our sister agency, the Animal and Plant Health Inspection Service (APHIS), and are participating in its enhanced bovine spongiform encephalopathy (BSE) surveillance program. Under the program, FSIS collects samples from all antemortem condemned cattle, except for veal calves not exhibiting central nervous system symptoms, and provides the samples to APHIS for BSE testing. Condemned cattle have never been allowed to enter the food supply. The goal of the APHIS surveillance program is to test as many high risk cattle as possible during a 12 to 18 month period to determine the prevalence of BSE in cattle in our country. In calendar year 2004, 176,468 cattle were tested throughout the United States, compared to 20,543 in 2003.

#### HUMANE HANDLING AND SLAUGHTER ACTIVITIES

FSIS also ensures compliance with the Humane Methods of Slaughter Act (HMSA) in livestock slaughter establishments that operate under Federal inspection. As part of their routine, ongoing and continuous inspection and enforcement duties, all FSIS inspection personnel are expected to take appropriate action, including suspending operations, if appropriate, of a livestock slaughter establishment if they observe any violations of HMSA. Further, all FSIS inspection personnel are trained and held accountable for enforcing HMSA during the slaughter process.

District Veterinary Medical Specialists (DVMSs) provide technical expertise and oversight for HMSA-related activities, and ensure that humane handling and slaughter activities and enforcement are handled consistently by inspection program personnel. The Agency's DVMSs and Deputy District Managers meet periodically as a group at the Technical Service Center in Omaha, Nebraska, to correlate on humane enforcement issues, and, in fact, one such meeting was just held in March 2005.

The Agency continues to encourage industry to implement good management practices for the humane handling of animals, and requires industry to abide by all of the requirements of USDA's regulations and HMSA. On September 9, 2004, FSIS published a Notice encouraging establishments to use a systematic approach to ensure that they meet the requirements of the law during handling and slaughter. With a systematic approach, establishments focus on treating livestock in such a manner as to minimize excitement, discomfort, and accidental injury the entire time they hold livestock in connection with slaughter. FSIS believes that establishments using a systematic approach to humane handling and slaughter can best ensure that they meet the requirements of the HMSA, FMIA, and implementing regulations.

FSIS also continues to refine humane handling verification and tracking procedures for inspection personnel. On February 18, 2005, the Agency issued FSIS Notice 12-05, to provide inspection personnel with additional information for humane handling and slaughter verification activities related to animal stunning and procedures for checking for conscious animals.

#### FSIS PRIORITIES FOR 2005—HOLDING OURSELVES ACCOUNTABLE

FSIS is holding itself accountable for improving public health. Last year, we outlined a series of priorities to better understand, predict, and prevent contamination of meat and poultry products to improve health outcomes for American families. I am determined to build upon these priorities and continue to improve the Agency's infrastructure with greater attention to risk so that we can then improve our performance under the public health model. The six priorities, all equally important, that I am about to share with you will drive our policies and actions during this calendar year.

##### *Training, Education & Outreach*

The first priority is training, education, and outreach. This has been, and will continue to be, a high priority, and we at FSIS would like to thank the Subcommittee for its invaluable support in this area. FSIS can only achieve its public health, food safety, and food security missions with adequate preparation of its workforce through scientific and technical training that reflects the Agency's risk-based approach to food safety and security. Results demonstrate that a highly trained workforce will lead to definitive advancements in public health.

A large segment of our inspection program personnel is receiving intensive training in sanitation procedures and Hazard Analysis and Critical Control Point (HACCP) system principles, based on the type of products produced at the establishments where the inspectors are assigned. We expect to have this segment of our workforce fully trained by the end of the current fiscal year. In 2003, FSIS inaugurated Food Safety Regulatory Essentials (FSRE) training, which was designed to better equip inspection personnel in verifying an establishment's HACCP food safety system. All participants receive training in the fundamentals of inspection, covering HACCP, the Rules of Practice, Sanitation Performance Standards, and Sanitation Standard Operating Procedures. This program also provides food safety training based on the types of products being produced at the establishments where inspectors are assigned. In fiscal year 2004, 1,700 individuals received the Agency's FSRE training, more than doubling the amount of students trained in fiscal year 2003.

FSIS has also initiated a comprehensive 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. To date, more than 5,000 employees have received bio-security training. The Law Enforcement Academic Research Network (LEARN), which is carrying out the training, has stated that the scope of this effort is unparalleled in the Federal sector since training is being provided to such a broad base of our employees.

Furthermore, FSIS has successfully launched training for newly hired Public Health Veterinarians (PHVs) and for newly hired food inspectors. We are also going back to train "new hires" to ensure that any employees who did not initially receive this training are now fully equipped with the latest scientific knowledge. In addition, we now require entering Consumer Safety Inspectors to undergo and pass FSRE training. We are also in the process of implementing policies to require passage of mandatory training courses for entering Enforcement Investigations and Analysis Officers (EIAOs) and for PHVs. Specifically, in 2005 we plan to provide training for 1,200 food inspectors, 400 PHVs, 200 EIAOs, 75 import inspectors, and 40 front line supervisors. We also plan to provide FSRE training for 1,400 Agency personnel. I also would like to note that we offer seats in our workforce training courses to State inspection personnel.

Additionally, FSIS has enhanced training by taking training opportunities into the field. In August 2003, FSIS announced new regional training centers in Atlanta, GA; Dallas, TX; Philadelphia, PA; Des Moines, IA; and Boulder, CO, designed to provide comprehensive workforce training programs to FSIS field employees. Since October 2004, more than 2,000 employees have been trained regionally. We currently have five regional trainers and plan to hire and train an additional ten by the end of the fiscal year, if not sooner.

We have also posted the training modules for the Food Inspector, Public Health Veterinarian, and the FSRE training on the FSIS Web site. This is significant because it makes the materials we are using to train our workforce more accessible to everyone, including our food safety partners and industry. When Agency policies

change, these training materials, including the information posted on the Web site, are updated to reflect the latest scientific information.

FSIS has also extended its outreach to owners and operators of establishments nationwide through teaching workshops that provide detailed information about new directives. In 2004, five BSE and 11 E. coli O157:H7 workshops were held across the country to target all audiences concerned with food safety. We took the training materials used at these meetings and distributed them to approximately 2,000 plants (both Federal and State) that slaughter cattle and process beef products. In addition, several workshops were Web cast allowing participants from across the country to interact with the instructors and experts free of charge. Including Web cast participants, nearly a thousand people took part in the BSE and E. coli workshops. We are very proud of these FSIS outreach efforts and the resulting food safety accomplishments.

Because everyone has a responsibility for food safety, educating the public about its role 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 developed innovative and collaborative methods for delivering the food safety message.

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 public, especially culturally diverse and underserved populations and those with the highest risk from foodborne illnesses. Since its launch in March 2003, through September 2004, the Food Safety Mobile traveled more than 40,000 miles and appeared in 178 events in approximately 129 cities in 47 States and Washington, D.C.

FSIS consumer education programs are modeled on the concept of integrated marketing. Utilizing that concept, the Agency is developing a mass media campaign plan aimed at improving the safe food handling habits of consumers at home. The campaign plan will include elements such as TV and radio ads, and a comprehensive multi-year plan for implementation and evaluation of the campaign. As part of this program, USDA and the State of Michigan launched a pilot mass media campaign focused on food thermometer use called "Is It DONE Yet? You Can't Tell by Looking. Use a Food Thermometer to Be Sure." The FSIS and Michigan State University project was designed to prevent foodborne illness by promoting thermometer usage among consumers when preparing meat and poultry. Results show a significant increase in the number of consumers who reported using a food thermometer.

USDA's Meat and Poultry Hotline is an additional tool that FSIS uses to share its food safety message. The Hotline handled over 104,000 calls and 111 media inquiries during fiscal year 2004. The Hotline provides recorded information and live assistance on food safety issues for both English and Spanish-speaking callers.

In April 2004, as a significant expansion of our food safety education outreach efforts, FSIS launched its newly designed, consumer-focused Web site that provides users with the latest information about food safety. "Ask Karen", the virtual food safety representative of the Agency, contains answers to over 1,300 food safety questions. More than 39,000 questions have been asked and answered since mid-2004. Also new to the redesigned Web site is a constituent subscription service that provides subscribers with up to the minute food safety information. As of March 2005, more than 9,700 subscribers signed up for over 90,000 subscriptions. FSIS averages more than 280 new subscribers per week.

#### *Food Security*

FSIS has accomplished much in the area of food security, making a strong system even stronger. USDA has had an effective and robust infrastructure in place for many decades that has protected the public against intentional and unintentional threats to the food supply. This science-based food safety and security verification system, with HACCP as the foundation, is designed to prevent and control contamination of the food supply during processing, regardless of whether the contamination is naturally occurring or introduced intentionally.

Recently, we issued and updated a series of directives to employees that outlined specific instructions on the procedures, monitoring, and sampling to be taken in the event the Department of Homeland Security (DHS) declares a Yellow, Orange, or

Red Alert. We particularly wanted to ensure that all FSIS divisions had specific instructions in place so that the U.S. meat, poultry, and egg products supply could remain the safest in the world should a threat to the Nation occur. In addition, we issued a directive which defined what steps the Agency would take if an emergency incident occurs. These instructions specifically outline steps and procedures for FSIS personnel to take so that the agency's daily operations are not interrupted by an incident. Depending on the threat level, inspection personnel will conduct food security verification procedures on a daily basis at minimum.

Within FSIS, we have established a full-time staff whose sole responsibility is food security—the Office of Food Security and Emergency Preparedness (OFSEP). That office is in the process of updating seven vulnerability assessments for selected domestic and imported food products. We have found that these risk-based assessments are very powerful risk management tools that can be used to develop strategies and policies that reduce or eliminate the potential risk at vulnerable points along the farm-to-table continuum. The vulnerability assessments we conducted provided us with vital data on some inherent risks in our food safety system that otherwise would not have been as apparent.

These assessments allowed us to rank food products and potential contaminating agents in order of highest concern. Using this risk-based ranking, during periods of heightened awareness our laboratories examine samples for threat agents posing the greatest risk as identified in our vulnerability assessments. For instance, if DHS declares a specific threat to the food supply or a particular product or process, then our lab personnel will activate the emergency response plan and test up to 100 percent of all food safety samples for possible food security risks.

Protection of the United States' food supply is critical for maintaining the safety and health of the Nation's citizens and the security of our economy. The Food Emergency Response Network (FERN) has been created to provide an integrated means of protecting the food supply at the local, State, and Nation levels. FERN is a coordinated initiative between the U.S. Department of Agriculture's Food Safety and Inspection Service (FSIS) and the Department of Health and Human Services' Food and Drug Administration (FDA) to develop an integrated laboratory network capable of providing ongoing surveillance and monitoring of the food supply, as well as conducting the extensive testing necessary in the event of a terrorist attack on the food supply. Specifically, laboratories participating in FERN are responsible for detecting and identifying biological, chemical, and radiological agents in food. The involvement, participation, and expertise of local, State, and Federal laboratories in FERN assures that all food commodities under all jurisdictions are covered by the network. The size of the network and its wide geographic representation are also important because they will enable FSIS to rely on State and local laboratories to participate in handling the numerous samples that will be required to be tested in the event that a terrorist attack on the food supply involves meat, poultry, or eggs.

FSIS Program Investigators are vigilant in ensuring food security, through annual reviews, audits, and investigations and by conducting other activities, including assessing product handling facilities, providing guidance to meat, poultry, and egg products industry officials regarding food security principals, and distributing Agency food security publications.

We have also utilized a risk-based approach in education materials prepared for our stakeholders. For instance, we have developed three sets of guidelines for different segments of the farm-to-table continuum: Food Security Guidelines for Food Processors; Safety and Security Guidelines for the Transportation and Distribution of Meat, Poultry and Egg Products; and Food Safety and Food Security: What Consumers Need to Know. All of these publications are available on FSIS' Web site at [www.fsis.usda.gov](http://www.fsis.usda.gov).

We are looking at ways to further improve our Automated Import Information System (AIIS), which uses statistics to choose imports for reinspection and allows our inspectors at all ports-of-entry to share data. From the vulnerability assessment, we have enhanced this network to account for certain food security issues, and we are working with other agencies, such as the Customs and Border Patrol, to integrate our database systems to enhance the flow of vital information to further strengthen our food safety system against intentional attacks.

FSIS and USDA work closely with the White House and DHS to coordinate our food security efforts. Moreover, FSIS is an integral part of the White House Inter-agency Food Working Group, which is charged with developing an interagency strategy to protect the food supply and minimize it as a target for terrorist activity.

In addition, we are working with HHS–FDA, USDA's Food and Nutrition Service, and Agricultural Marketing Service to develop training in food security awareness. We also recently entered into a cooperative agreement with HHS–FDA, DHS, and the National Association of State Departments of Agriculture to develop the best



practices by which Federal assistance can be provided to States and localities expeditiously and effectively.

We are also interacting more closely with the intelligence and law enforcement communities. We are building stronger relationships with intelligence and enforcement agencies, such as the Federal Bureau of Investigation, the Central Intelligence Agency, the Transportation Security Agency, and the Coast Guard.

With respect to our trading partners, FSIS is seeking to enter into bilateral agreements with several countries to share information that would help secure the food supply. Agreements are being developed with Canada, and similar discussions are beginning with Australia, Japan, Mexico, and New Zealand.

Finally, it is vital that all food slaughter and processing establishments, as well as all import and export establishments, assess potential risks in their operations and take steps to ensure the security of their operations. With that in mind, FSIS has developed the "Industry Self-Assessment Checklist for Food Security" and is developing outreach efforts to distribute this document to regulated industry. This voluntary checklist provides establishments with a constructive tool to evaluate their security plans to prevent intentional contamination of their products, thus helping to further ensure food safety and security and protect public health.

#### *Risk Analysis*

FSIS is committed to emphasizing science in the development of food safety policies. A scientific approach to food safety that incorporates risk analysis is critical to FSIS' ability to combat the ever changing threats to public health. Thus, another priority is risk analysis, which includes risk assessment, risk management, and risk communication. In addition to providing regulatory agencies with a solid foundation for policy changes, science-based risk analysis is necessary to help the Agency better predict and respond to food safety threats by allowing us to focus Agency resources on hazards that pose the greatest threat to public health. Analysis of FSIS regulatory sampling data, as well as other sources of data, including baseline studies, helps us detect trends and identify connections between persistence, prevalence and other factors such as practices employed by plants, seasonal variations, and establishment size. With that in mind, the Agency will begin collecting samples in late Spring 2005, for a baseline study for beef trimmings in raw ground beef production. Planning for additional studies is underway.

In recent years, the Agency has conducted a number of risk assessments, most notably those with regard to *E. coli* O157:H7 and *Listeria monocytogenes*. As I stated earlier in my testimony, we have seen marked reductions in both pathogens, thanks, in large part, to the risk assessments that provided the scientific framework for our *E. coli* and *Listeria monocytogenes* policies. In the coming year, FSIS plans to conduct a similar risk assessment for *Salmonella* in raw ground beef and raw poultry products. Just last month, the Agency held a public meeting about two draft risk assessments—one for *Salmonella* in ready-to-eat (RTE) and poultry products and one for *Clostridium perfringens* in both RTE and heat-treated products that are not RTE.

To fully realize the benefits of risk analysis, however, FSIS must develop methods for anticipating or predicting risk through enhanced data integration. FSIS is engaged in developing innovative ways to anticipate hazards, so that it can act to ensure that those hazards do not manifest themselves as public health problems. The Agency is currently examining its regulatory data to identify conditions that consistently have foreshadowed the development of significant problems. By identifying such conditions, inspection personnel can utilize data to alert establishments so they can take corrective actions that may prevent a hazard.

#### *Management Controls and Efficiency*

FSIS is looking for ways to best achieve our operational goals and objectives. In order to better focus its resources, FSIS is establishing a more fully documented management control program. Management controls are operational checks and balances that safeguard policies, procedures and structures to ensure that tasks are completed in the most efficient and effective manner. With more fully documented proper management controls, authority, responsibility, and accountability are more clearly defined and delegated. In addition, program performance is routinely analyzed, policies, and procedures are regularly updated, management decisions are transparent and traceable, documentation is accurately maintained, and supervision is appropriate and continuous.

#### *Communications*

The Agency has also embarked on a comprehensive effort to ensure that all levels of communications are as efficient, effective, and rapid as possible. We recognize that as a public health regulatory agency, we are only as effective as our commu-

nication systems. Nowhere was this more evident than in the post-September 11th environment we find ourselves in as a country and as an Agency.

It is vitally important that the Agency continue to receive the necessary funds to maintain and upgrade its information technology (IT) systems, which will improve efficiency and enhance communication between and among all FSIS employees. For FSIS, the use of databases to track inspection program personnel tasks is essential for food safety verification. It is a vital communication resource whereby inspectors can enter information about their daily food safety, security, and humane handling verification duties. With the vast and dispersed number of meat, poultry, and egg processing facilities scattered across the country and throughout the world, our geographically dispersed workforce needs the ability to send, receive, analyze, and react to information gathered at any one of these potential hot-points, because it is critical to the protection of public health. As an Agency we are striving to ensure that our IT systems operate in a "realtime data exchange" environment. In addition, managers at the district level and at headquarters can make crucial management decisions based on tracking progress and analyzing the performance of their employees, as well as the establishments for which they are responsible. A more rapid exchange of information with the field enables FSIS supervisors and managers to make better informed decisions on food safety and security issues, thus better protecting public health.

I have made it a very high priority to ensure that our numerous data gathering and storage systems operate in a seamless and cooperative fashion across the Agency and with our partners. We appreciate the support this committee has provided in the past to allow us to improve and update our communications systems.

To be a successful public health Agency, our employees need the right information to do their jobs. Information needs to be communicated quickly and accurately; ensuring public health will be protected through safe and secure meat, poultry, and egg products. That is why the Agency has put together an Internal Communications Board and charged them with developing ways to enhance the flow of communication laterally and vertically within FSIS. This board is engaged in many projects to best meet the communication needs of our employees. One major activity is the new FSIS Intranet. The Intranet will be one-stop-shopping for all internal FSIS needs, providing access to notices, directives, regulations, policies, career tools, and up-to-date news and information about the Agency. The board has also been challenged with working on our Agency's image and message. It is crucial that all employees and stakeholders recognize and understand the critical public health mission of FSIS.

We continue to strive to improve our communications both internally with our workforce and externally with stakeholders and our public health partners. 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. We made great strides in this area when we dealt with the BSE-positive cow discovered in December 2003, and as we implemented the new interim regulations this year. Moreover, we have been involved in discussions on establishing data sharing systems with other agencies, such as APHIS and CDC. Maintaining information technology support will allow for a collaborative effort between State and Federal agencies by fully integrating currently duplicative processes and data collection, such as surveillance and monitoring activities for human and animal diseases.

#### *The Continued Evolution of Inspection and Enforcement*

Another Agency priority is to continue the evolution of inspection and enforcement. A risk based approach, encompassing all we do and combined with the Agency's scientific commitment, will facilitate FSIS' ability to combat ever changing threats to public health.

Today, we have a much better reaction to the hazard landscape. Our ability to target resources for food safety and security verification systems has greatly improved. FSIS has refined its risk-based approach from a fairly static environment to one that is more fluid and can better react to food safety challenges that exist, and those that may arise, in order to further improve public health.

Specifically, our Agency works interdependently to assess data from FoodNet, other Federal agencies, and State public health agencies, as well as the FSIS Consumer Complaint Monitoring System (CCMS), to investigate hazards by identifying sources, conducting food safety assessments in regulated facilities, and conducting investigations in associated transportation, distribution, and storage facilities. In addition, food security monitoring procedures have been incorporated into inspection verification methodology at all domestic and import establishments. In-plant regu-

latory control actions as well as effective administrative and criminal proceedings have been and continue to be effective deterrents to violations of law.

As we approach the completion of the first decade under HACCP, FSIS is determined to take a risk-based approach to food safety and security verification in order to realize the next dynamic in food safety. With recent developments in science and risk analysis, it is clear that there are enhancements that can be made to HACCP that offer a more complete approach to inspection and ensuring public health. This enhanced risk-based system builds on the strong foundation provided by the HACCP/Pathogen Reduction regulations and allows the FSIS workforce to more effectively utilize their expertise in assuring the safety and security of America's meat, poultry, and egg products.

To meet its goal of protecting public health, FSIS will continue to review policies and regulations and work with interested parties to modernize and further enhance its inspection and food safety and security verification efforts, including the verification of humane slaughter and handling. It is clear that progress has been made, but through the continued evolution of inspection and enforcement, in our risk based system, FSIS intends to make the world's safest food supply even safer.

#### FISCAL YEAR 2006 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 2006 budget request for FSIS.

Implementation of these budget initiatives is imperative to helping us attain FSIS' public health mission. In fiscal year 2006, FSIS is requesting an appropriation of \$849.7 million, a net increase of about \$32.5 million from the enacted level for fiscal year 2005, which includes \$139 million to be derived from proposed new user fees from the industry.

#### *Food and Agriculture Defense Initiative*

The fiscal year 2006 budget also requests an increase of \$19.5 million for FSIS to support a food and agriculture defense initiative in partnership with other USDA agencies, the Department of Health and Human Services and the Department of Homeland Security. Food contamination and animal and plant diseases 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:

- The Food Emergency Response Network (FERN);
- Data systems to support FERN;
- Enhancing FSIS laboratory capabilities;
- Biosurveillance; and
- Follow-up bio-security training.

For FERN we are seeking an increase of \$13 million; for FERN data systems we are asking for an increase of \$2.5 million; for enhancing laboratory capabilities we are requesting \$2.5 million; for biosurveillance we are requesting an increase of \$417,000; and for bio-security training we are seeking an increase of \$1 million.

The first component of the food and agriculture defense initiative is FERN, a coordinated initiative between FSIS and the Department of Health and Human Services' Food and Drug Administration (FDA) to develop an integrated network of Federal, State, and local laboratories. FERN is an integrated laboratory network capable of providing ongoing surveillance and monitoring of the food supply, as well as conducting the extensive testing necessary in the event of a terrorist attack on the food supply. The FSIS fiscal year 2006 budget request for FERN seeks an increase of \$13 million from fiscal year 2005 which will enable the Agency to manage, maintain, and expand on the existing group of FERN labs. These funds will improve the Agency's ability to handle the greatly increased number of samples that would be required to be tested in the event of a terrorist attack on the meat, poultry or egg products supply. These State and local laboratories in the FERN network would play an essential role in conducting this expanded testing.

The second and third components of the food and agriculture defense initiative provide further support to FERN. The electronic laboratory exchange network (eLEXNET) is a national, web-based, electronic data reporting system that allows analytical laboratories to rapidly report and exchange standardized data. The fiscal year 2006 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.

Fourth, 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 and establish a Foodborne Disease Surveillance Communication system to coordinate with DHS systems.

Because the realm of biosecurity is ever changing, FSIS must provide its workforce with the most up-to-date information possible 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 Agency policies, threat agents, and countermeasures to those agents.

#### *Public Health Training*

The maturation of HACCP has widened the scope of all front-line inspection duties. While slaughter line inspectors have largely retained their traditional tasks, other front-line personnel have acquired more complex responsibilities related to public health, including food safety assessments, food security, and documentation and analysis to support detentions, recalls, or other enforcement actions.

Further integrating front-line inspection and science will allow scientifically-trained FSIS personnel to most effectively utilize their expertise. For instance, FSIS intends to fully employ the scientific skills of its Public Health Veterinarians—systems analysis, epidemiology, biostatistics, microbiology, pathology, and toxicology—to safeguard public health. Accordingly, FSIS has been revising veterinary work assignments so that PHVs spend 25 percent of their time on public health assessment and assurance. As part of the fiscal year 2006 budget request, FSIS is requesting an increase of \$2.2 million for relief positions so that the Agency can take full advantage of the training, experience, and responsibilities of these highly-trained PHVs. The Agency and the public will benefit from more effective utilization of the technical knowledge and skills of our veterinarians through their expanded public health activities.

#### *Supporting FSIS' Basic Mission*

The FSIS budget request for fiscal year 2006 supports the Agency's basic mission of ensuring that the Nation's commercial supply of meat, poultry, and egg products is safe, wholesome, and correctly labeled and packaged.

In order to fulfill the Agency's statutory obligations to provide continuous inspection of meat, poultry, and egg products, the budget requests an increase of \$13.9 million for the FSIS inspection program to provide for the 2.3 percent pay raise for FSIS employees in fiscal year 2006 and to assure that the Agency is provided sufficient funds to maintain programs without disruption to industry operations.

#### *User Fee Proposal*

In fiscal year 2006, FSIS estimates it will collect \$122.9 million in existing annual user fees to recover the costs of overtime, holiday, and voluntary inspection. Of the \$849.7 million requested in the fiscal year 2006 budget, \$139 million is proposed to be derived from a new user fee that would recover the costs of providing inspection services beyond an approved 8-hour primary shift. A legislative proposal authorizing this new fee will soon be submitted to Congress. This will result in significant savings for the American taxpayer.

#### CLOSING

We will 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, and protecting public health through food safety and security.

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 a 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.

Senator BENNETT. Thank you.

#### FOOD STAMP ERROR RATE

Mr. Bost, you talked about the failure rate, food stamp?

Mr. BOST. Yes, sir.

Senator BENNETT. And you are delighted that it is at 6 percent, which you say is a significant decrease? Help me understand—

Mr. BOST. Yes. It is a 25 percent decrease over the course of the last 4 years, which is the lowest that it has ever been in the history of the Food Stamp Program. We anticipate that when we release the results, probably in June of this year, for last year, it will be even lower.

Senator BENNETT. Well, help me understand what it means.

Mr. BOST. Essentially, the error rate is a measure of an inaccurate determination of benefits. For example, an error can occur when a person goes into an office, in Sandy, Utah, and applies for food stamps. It is an error if they get either too much or too little. If it is just right, then it is perfect.

Senator BENNETT. I see. So the error rate has to do with an improper amount being given out?

Mr. BOST. That is correct. An improper payment. The interesting thing is the fact that we are one of the few Federal programs where improper payments are measured, and reported every year.

Senator BENNETT. Okay. Good. I just hadn't understood what that meant before, and I—

Mr. BOST. Well, it is something that we are very proud of in terms of working with our State partners. It demonstrates to everyone how seriously we take this, and it ensures that there is integrity in the program and that there is an accurate determination of benefits for people that come in to apply.

#### FOOD STAMP PARTICIPATION

Senator BENNETT. Can you explain the increase in participants?

Mr. BOST. Well, I think there are probably three major reasons. First and foremost, provisions we implemented as a direct result of the farm bill, and the Food Stamp Program being reauthorized. Second, Congress made it easier for eligible persons to enroll in the program, and made it easier for the States to implement it. Also, we have seen the results of our outreach efforts, in terms of enrolling eligibles.

Last, but not least, the beauty of the Food Stamp Program is that it responds to the changing tides of the economy. When the economy is not doing so well, you see an increase in the number of enrollees. When the economy is doing great, you see a decrease. Those are the three main reasons that we have seen an increase in terms of participation in the Food Stamp Program.

Senator BENNETT. Well, the economy is doing better, but you are still increasing?

Mr. BOST. Right. But there tends to be a lag—

Senator BENNETT. I see.

Mr. BOST [continuing]. In terms of when the economy goes up and participation declines. Interestingly enough, this month, was

the first month, and while I am not ready to say that it is a trend yet, that participation didn't go up. It stayed the same and started to decrease, which would indicate to us—and like I said, I want to make this point that I am not ready to say it is a trend yet—that participation is on the decline.

Senator BENNETT. Okay. Well——

Mr. BOST. The economy may be catching up with it.

Senator BENNETT. In the economy as a whole, the unemployment rate is a lagging indicator?

Mr. BOST. That is correct.

#### WIC PARTICIPATION AND FUNDING

Senator BENNETT. And this lags the unemployment rate. Okay. Let us talk about WIC for a minute. We had a lot of angst about WIC last year because we had to add about half a billion dollars just to stay even as a result of the increase in milk prices.

Mr. BOST. Yes, sir.

Senator BENNETT. Now you are asking for another \$275 million. What does that represent?

Mr. BOST. Well, right now, we are serving about 8.2 million persons in the Women, Infants, and Children Program. We anticipate that rate going up to about 8.5 million persons, and these funds would fully support the expected participation rate.

We believe that based on these numbers, we will be able to meet the needs of those persons that are eligible to participate in the program who seek services. We are also asking for a contingency fund of \$125 million just in case our numbers are off.

I want to add two points I think are very important. The issue of WIC and its associated costs are tied to two things. It is not only participation, but as you said, the cost of the WIC food package. When we saw a significant increase in dairy prices last year, I saw a significant increase in my overall WIC food costs.

#### WIC FOOD COSTS

Senator BENNETT. Now do you have any forecast as to what is going to happen to food costs this year? Are we going to have another challenge as we get close to the final passage of the bill in September, where we are going to have to find some more, several hundred million dollars more?

Mr. BOST. No. The preliminary numbers we have at this point would lead us to believe that we should not see a significant increase in those costs. But it is unpredictable. We are guessing in terms of looking into the future and trying to anticipate it.

We have put some cost containment measures in place. We have been working with the States to ensure we are as efficient in the administration of this program as possible. That is one reason that we looked at the WIC-only stores in California and around the country. That increased our cost by an additional \$30 million.

We are looking at everything that we can possibly do to not deter eligible persons from participating in the program. I am working with the States to ensure that, one, we hold them accountable and, two, this program is operated just as efficiently and as effectively as possible.

Senator BENNETT. You will remember we took a great interest in WIC-only stores in the bill last year, and that interest continues.

Mr. BOST. Well, it is something that we are very interested in also, Mr. Chairman. I wrote not only to California, but to every State in the country where there are WIC-only stores and encourage them to look at some cost containment measures.

I want to make this point. We are not interested, we are not motivated in putting the WIC-only stores out of business. What I am interested in is controlling the costs.

Senator BENNETT. Yes. Yes, so are we. And we encourage you in that.

Mr. BOST. Thank you.

#### NATIONAL ANIMAL IDENTIFICATION SYSTEM

Senator BENNETT. Secretary Hawks, national animal identification. You have asked for \$33 million to continue the program, and that is in addition to some \$18 million to \$19 million that was transferred from the Commodity Credit Corporation, and another \$33 million that was appropriated last year. Can you give us a status on where this is and where you think it is going?

Mr. HAWKS. Yes, sir. I would be quite happy to.

We did transfer \$18.8 million from CCC last year. With those funds, we started cooperative agreements with 43 States and 16 tribes that we are working with. We held a series of animal ID listening sessions around the country. I personally attended every one of those. There were 16 of them, from one end of this country to the other.

The consistent message that we were hearing from the countryside, and I felt it was very important to get out to where the real cowboys are, if you will—

Senator BENNETT. Yes.

Mr. HAWKS [continuing]. To get a good understanding of what was going on out there, was confidentiality of information, and the ability to be flexible as well as to have a system that would perform appropriately.

Last October, the Administration submitted legislation, to address the issue of confidentiality. We will be resubmitting that. We had identified premise registration as the first order of business. We have accomplished that now. We have 45 States that are fully operational. We hope to have the rest of the States fully operational in the near future. We will start, hopefully by July, to issue actual animal identification numbers, individual numbers.

Of the \$33 million requested and appropriated in our 2005 budget, we will take approximately \$19 million and move forward with additional cooperative agreements. It is very important that as we move forward with this, we move forward in a manner that it does what we want to do. And I think there is a lot of misunderstanding about animal identification. The fact is we are looking at it from a disease control standpoint using the authority provided in the Animal Health Protection Act.

And we only need a very small bit of information. We are looking at various technologies. Radio frequency identification is one of them. Retinal scans is one. DNA is one. So we are trying to, with these cooperative agreements, test multiple ways of doing this to

make sure that we have a system that is economical and functional, and that the confidentiality issues are addressed.

Senator BENNETT. Very good. I am looking for a completion date. We start in July?

Mr. HAWKS. We will be able to issue those individual numbers in July. We actually are looking at a fully functional, potentially mandatory system by 2009. But we feel it is very important to move forward with this in a systematic manner.

The last thing that I want to do or I think you want me to do is to be out there with a system that is not functional. We are doing this very cooperatively. We are preparing to publish in the very near future a current thinking paper, a strategic plan with timelines and dates, and get input back on that. So we feel like it has got to be a cooperative arrangement that we go forward with and that we not have something that won't be functional when we get through with it.

#### OVERSEAS PROGRAMS

Senator BENNETT. Okay. Tell me about your APHIS offices overseas. I understand you are talking about new offices in Brazil, Thailand, India, Italy, and West Africa?

Mr. HAWKS. Yes, sir.

Senator BENNETT. What do we expect to get out of that?

Mr. HAWKS. One of the things that I said in my opening statement is the fact that I want to see us put some sanity back in sanitary and phytosanitary trade issues. It seems that over the last few years, sanitary and phytosanitary issues have become the trade distorting practices of choice around the world. We only have to look at the situation with Japan right now and our beef, and not being able to open that market.

But it is important to have, from a technical perspective, those people that can address these issues. As I said, we did 112 of those SPS issues last year that allowed for \$5 billion of trade to occur. So it is important to have those types of offices, the personnel there that can address these from a technical perspective, to maintain those markets, to open those markets and address those issues.

That is the reason we have been increasing resources. And we have to constantly look at the areas and re-evaluate where those resources need to be because it is very important that we are prudent with our dollars, with your tax dollars.

Senator BENNETT. Sure. Sure.

#### FOOD EMERGENCY RESPONSE NETWORK

Dr. Pierson, let us talk about FERN. You have requested a \$13 million increase for the Food Emergency Response Network, and you say this will allow USDA to establish 100 laboratories that will be able to exchange data, inform the public, and so on.

Why do we need 100 laboratories? How many do you have now? And I assume these are all existing labs with whom you will contract, rather than standing up brand-new ones. But let us understand where you are now, and 100 sounds like pretty ambitious. That is two a week. That is quite an administrative task to undertake.



Dr. PIERSON. Correct. As you correctly described, FERN would be the Food Emergency Response Network. As you know, FERN is a laboratory system that was put together in cooperation with the Food and Drug Administration and other partners to provide a system whereby we could have an immediate response if there is, in fact, a food-related emergency event, such as an intentional widespread contamination of foods.

We feel it is much better to be prepared and to have a system in place that can respond immediately to provide that immediate result that is needed through analysis, rather than approaching it in a piecemeal way or more of a reactive way.

What we are doing is to build upon existing resources. We are not asking to build new facilities or new laboratories. Throughout the United States, we have many very, very capable State laboratories and local laboratories. And our goal, yes, is to bring into the fold up to 100 laboratories.

What we are working towards is to provide standard methodologies, and standard protocols that can be shared by these laboratories, so that we have a commonality of understanding as to how to approach and analyze the samples. It is very, very important that we have uniformity so we don't get some differences in response.

Senator BENNETT. Yes, I understand that. But you are talking two per State. Is that how it is going to be allocated, or is it going to be one per State and then the rest bunched some place?

Dr. PIERSON. We are looking towards adding about 15 laboratories initially, and our ultimate goal is 100. This is a building process that we are going through, and we are establishing this infrastructure and then building upon that over a period of time.

Senator BENNETT. Will you have at least one per State?

Dr. PIERSON. That is eventually what we are looking for, at least one per State. Then, of course, there would eventually be more.

I know I personally presented this proposal 2 years ago before the Association of Food and Drug officials, the consortium of State laboratories, and at that time, we were working with them to conceptually buy into this concept. We have a very good response, and so we are then looking to incrementally bring those labs online.

Senator BENNETT. Okay. Thank you very much.

Senator Kohl.

Senator KOHL. Thank you, Senator Bennett.

#### MILWAUKEE HUNGER TASK FORCE

Mr. Bost, the Hunger Task Force based in Milwaukee was established in 1974 to work toward making sure that Milwaukee's young people received breakfast at school. Since then, their mission has been expanded, and now they advocate public policies that we hope will eventually stamp out hunger.

Until this larger mission is accomplished, however, they serve nearly 45,000 people a month at their pantries, and nearly half are children. And they provide more than 60,000 meals each month at their homeless shelters and meal programs. I think you are familiar with this.

Organizations such as this one, local groups that work on the ground and actually carry out both public and private feeding pro-

grams, I believe have much to offer in the way of shaping good public policy, providing suggestions on how to improve what we are currently doing.

I know that USDA has worked with the Hunger Task Force in the past and is currently working with them on their mozzarella cheese effort that I spoke of on Tuesday. I also know that they have many other ideas that I believe that we should hear and take into consideration.

Mr. Bost, perhaps the best way to appreciate a group like this and the way they carry out what appears to be at times a very difficult task is to visit them in person and watch them in action. I know you have met with representatives of the task force on hunger for Milwaukee here in Washington.

Mr. BOST. Yes, I have.

Senator KOHL. And I wonder if I might prevail upon you at some point to get out there and see what they are doing on the ground and listen to them and have an opportunity to appreciate and to perhaps learn a little on how important their work is.

Mr. BOST. Well, interestingly enough, Senator Kohl, I was scheduled to visit Milwaukee and had an opportunity to do that, except that I had a hearing.

Senator KOHL. Today?

Mr. BOST. No, it wasn't today. It was in the House. And so, yes, it was already scheduled. We are looking for an opportunity to have it rescheduled.

Senator KOHL. I didn't know that. I think that is terrific.

Mr. BOST. Yes. It was already scheduled. We had an opportunity to meet with the executive director not too long ago, and so there has been some correspondence. We are working on scheduling a trip for me to visit with them.

Senator KOHL. I do thank you so much. That is a surprise, and I think it is great.

Mr. BOST. Well, I don't know why you would be surprised. I told her that I was coming.

Senator KOHL. Yes.

Mr. BOST. It was a question of being able to get it scheduled.

Senator KOHL. I thank you.

Mr. BOST. You are quite welcome.

#### PRIVACY PROTECTION OF CERTAIN SELLERS OF FARM PRODUCTS

Senator KOHL. Secretary Hawks, last year, I inserted a provision—General Provision 776—to modernize the law governing agricultural lien central filing systems, to do it in a way that protects farmers from identity theft that could occur if their Social Security numbers were widely distributed.

What has been done to implement this change, and can we expect at some point to have it completed?

Mr. HAWKS. Yes, sure. You actually threw me off with that question, Senator Kohl. I was not prepared to respond to that question. And so, I will have to get back with you on that.

I know that in GIPSA, there's central filing. And so, I will have to say I am not prepared to give you an absolute as to where we are on that process.

[The information follows:]

## CLEAR TITLE

Section 1324 of the Food Security Act of 1985 (Act) authorized the Secretary of Agriculture to approve and certify central filing systems operated at the State level for farm products and to approve amendments to such certified central filing systems that have been proposed by a Secretary of State, provided that the proposed central filing systems, or amendments thereof, conform with the Act, as amended. Section 776 of the Consolidated Appropriations Act of 2005 allows a Secretary of State to propose the use of a unique identifier to be used in lieu of a social security number and allows the Secretary of Agriculture to approve proposed unique identifiers.

The Grain Inspection, Packers and Stockyards Administration (GIPSA) is responsible for the administration of the Act. GIPSA posted on its web page a copy of the amended Act. GIPSA is in the process of updating the regulations and will be completed within one year. Section 776 does not provide GIPSA with the authority to create a selection system or method by which unique identifiers are produced. GIPSA will review any system proposed by a Secretary of State's office. Upon thorough review, GIPSA will determine whether to approve the selection system or method proposed.

Senator KOHL. All right. I thank you, and we will——

Mr. HAWKS. Honesty is one of the things you will find from me. And I have already visited you in Wisconsin, too.

Senator KOHL. Yes, I remember. At least on one occasion, we met at the airport on your way through.

Mr. HAWKS. We sure did.

## TWENTY-FIVE PERCENT CAP OF WIC NSA FUNDS

Senator KOHL. Secretary Bost, the budget request includes language to limit the funding for nutrition services and administrative expenses of the WIC program to no more than 25 percent of the total amount provided. This will reduce funding available for nutrition services and administration, but more importantly, it changes the structure providing these very important dollars.

On the surface, this may sound like only a reduction in administrative expenses. But there is more to it, as you know, than this what appears to be a more superficial explanation. This funding isn't just lights and office expenses, as you know. It includes nutrition education, obesity prevention, breast feeding support and promotion, prenatal and pediatric health care referrals, spouse and child abuse referral, and other vital services.

Further, this request, by changing the way administrative funding is provided, will actually create a disincentive for food costs containment. In the past, administrative dollars were tied to the number of people you served. So you would keep food costs low, serve more people, and receive more administrative money.

In this proposal, however, your administrative money is not tied to the number of people you serve. It is tied to the total amount you spend on food. So if you keep food costs low, you are not rewarded. You actually lose administrative dollars. And over time, this could actually drive WIC costs up.

I think we agree that the WIC program provides more than only food. This request is more than just a cutback on lights and office. It will reduce essential services provided through the WIC program, and so I think it deserves some serious reconsideration.

Do you have some thoughts that you would like to express?

Mr. BOST. Yes, Senator Kohl. A couple of things. If you recall in my opening comments, we are always interested in ensuring that all of the programs that I am responsible for, are managed just as

efficiently as possible. We believe that this proposal will cause, hopefully, in cooperation with us, some State agencies to seek ways to be much more efficient. We do not believe that it will compromise those core services that they are directly responsible for. That is the first point.

The second point is that I had an opportunity to meet with the WIC groups when they were in town not too long ago. The commitment that I made to them is that we would be willing to sit down with them and entertain ideas in terms of the best way to get to the 25 percent cap that would not compromise their ability to provide the level of services that we are interested in providing.

And last, but not least—and I am going to read this because I want to make sure that it is right—the percentage of total funds available for States for grants in 2005 is about 26 percent. We are looking at bringing that down to 25 percent, which is only 1.5 percent. In addition to that, the funding available in fiscal year 2006 is about \$1.3 billion, and for 2005, it was a little bit less. So, it is another way that we believe we can work with our State partners, to say to them, “What can we do to make this program as efficient as we possibly can, given the fact that we just don’t have endless dollars available to run it?”

No decision has been made at this point in terms of what the allocation formula would be. That was a commitment that I made to the group, that we would be willing to sit down and work with them to get to the point of putting the cap of 25 percent in place.

Senator KOHL. Good. Thank you.

#### SHARING DISTRIBUTION LISTS

Secretary Pierson, it is my understanding that USDA is considering a rule that will publicly disclose any retail outlets that may have received tainted meat. To me, it seems that this is an idea that should be acted upon.

Is this proposed rule still being reviewed by OMB, and do you have any information regarding if and when we can expect this rule to be promulgated?

Dr. PIERSON. Thank you, Senator Kohl.

Yes, FSIS did, in fact, prepare a proposed rule relative to the sharing of distribution lists. That rule has gone through departmental clearance at all levels. It had been forwarded to OMB, and it is at a pre-decisional stage so I cannot publicly discuss the details of what is there.

OMB has had a number of questions that they sent back to us. We are looking at those questions. I don’t have an exact timeline on OMB’s decision, but we are now considering the issues between us and OMB.

Senator KOHL. You don’t know when this might, in fact, wind up being effectuated or what?

Dr. PIERSON. I do not know.

Senator KOHL. Can you—

Dr. PIERSON. At this time, I don’t know.

Senator KOHL [continuing]. Keep me abreast as to what is happening, when it is going to get published? As I said, I believe it is a good idea. I think most people believe this is a good idea.

Dr. PIERSON. Sure. Certainly, we will keep you posted on the progress.

#### FOOD STAMP CATEGORICAL ELIGIBILITY

Senator KOHL. Secretary Bost, last October, Economic Research Service reported 11.2 percent of U.S. households were "food insecure," which means hungry, at least sometime during 2003, the last year for which data is available. One of your stated goals is to decrease the percent of food insecure families down to 7.7 percent by 2006.

This budget contains, however, provisions to restrict expanded categorical eligibility for the Food Stamp Program, and as you say in your statement, it is going to kick more than 300,000 people off the food stamp roles. I have heard the administration's argument on this. Essentially, you say that all people have to do is ask about receiving TANF and just pick up a flyer, and they are automatically eligible for food stamps.

However, let us be honest. These are not wealthy families that are coming in to seek Federal assistance. These are working families, families struggling to make ends meet, while housing, gas, child care, health care, and utility prices continue to rise.

In Wisconsin, one of the hardest-hit States in your proposal, this is 19,000 people who depend on food stamps each month and who will be denied this basic benefit. In Wisconsin, this proposal will take away the automatic eligibility for children in these families to receive free lunches at school.

So how do you respond to these concerns, and what advice do you have for these families who can no longer depend on the Government and are increasingly unable to depend on emergency food?

Mr. BOST. Senator Kohl, I think there are several things that I would say. First and foremost, we have instituted and implemented one of the most comprehensive outreach programs over the course of the last 10 or 15 years in terms of reaching out and attempting to enroll eligible families in all of our nutrition programs. That is the first thing that I would say.

The second thing that I would say to you is that for those persons that are affected by this proposal, if they still believe that they are eligible to participate in the Food Stamp Program, they can still go and apply. What we are interested in accomplishing here is to ensure that we target those families that are in the greatest of need in terms of meeting their nutritional well-being.

Last, but not least, we have seen, as the Chairman noted, that the food stamp roles in this country have significantly increased over the course of the last several years. Right now, we are serving over 25, almost 25.5 million people in the Food Stamp Program. I am continuing to do outreach in terms of ensuring that eligible people are enrolled. We have radio ads. We have a major campaign. We spent money in terms of access and participation grants.

So, for people that believe that they are still eligible, we want them to come and to apply. This provision is there to specifically target those that are in the greatest need in terms of meeting their nutritional needs and providing food for children and their families. If they believe that they are still eligible to apply, they should go apply.

Senator KOHL. Thank you, Mr. Chairman.

Senator BENNETT. Senator Burns.

Senator BURNS. Welcome, gentlemen. Nice to have you here, and I have only got a couple of questions. That will probably lead to another one, but you know how it is.

We have pretty well gone over the BSE thing. I think Mr. Hawks probably got sick and tired of me in December a couple of years ago. I looked over my phone log, and you were on there a lot.

Mr. HAWKS. I never get tired of you.

Senator BURNS. But first of all, I thank you for the hard work that you did. I think we had a real problem on the first announcement of the cow in Washington State, and we did succeed in maintaining the consumer confidence in our beef that was here. And we took a little dip in the market, but it didn't last very long, and I think it was handled the best way I know how in as far as a bureaucracy is concerned.

You know, I always worry about it. Every time I see a camel, I look at it and said, "He had to be put together by a committee." Because nobody could come up with a conglomeration of that and make it work.

#### ANIMAL AND DAMAGE CONTROL IN MONTANA

But nonetheless, I have got a couple of questions. In our country out there, Mr. Hawks, could you tell me, provide me with some details of the current status of the Animal and Plant Health Inspection Service and what we can expect? We have some concerns with that. We have some new problems and challenges on the horizon. Well, not on the horizon. They are here.

And could you give me some kind of an idea of where you think that agency is going and some details on it?

Mr. HAWKS. Yes, sure. I would be quite happy to do that. I have actually visited your State quite a bit and actually have—

Senator BURNS. A lot of predators around, wasn't there?

Mr. HAWKS. There are a lot of predators around.

Senator BURNS. Two-legged ones.

Mr. HAWKS. And yes, sure, they are out there. No doubt about it.

But that is a program that is obviously very important to an area like yours. Obviously, you have got a lot of different predators. I know that the wolves are an issue for your sheep producers, your cattle producers out there. We have consistently worked with the States and with your producers. And as I have said, I have personally been out there.

So I think that program is online from where it needs to be. But a commitment that I will make to you right here is that we will work with you. You know, my favorite statement is "working together works." So I am prepared to work with you if there are specific issues that we need to address there.

Senator BURNS. That cooperation is okay until it comes to the coyote and the wolf. You know, I can remember it was said, well, they will stay in the park, too, you know? But they found out that the wolves couldn't read the park signs. They fell down or.

## NATIONAL ANIMAL IDENTIFICATION SYSTEM

I know that the Chairman here has asked you a little bit about the national ID, and you have got some pilot projects that are out there now. And I understand there are some people in the private sector that are also working on this situation. Are we making any progress on a national ID?

Now I will tell you that a national ID is not met with a lot of enthusiasm from some of us, me being one of those people. But nonetheless, I also know what reality is. And can you give me an update? And when do you think that you are going to make a decision on what this Department of Agriculture wants to do, or how do you read Congress on what Congress wants to do?

Mr. HAWKS. Senator, as you well know, I have been personally engaged in the animal ID. We held the listening session right there in Billings. I heard from quite a few of your producers out there what their interests were.

You asked a question about the private sector. Obviously, there is a role for the private sector as well as the public sector here. We have got to work cooperatively.

We will be publishing very soon in the Federal Register what we are calling a current thinking or a strategic plan to try to get input to make sure that this system that we put together is functional. The thing that we don't want is we don't want to have a lot of duplicative systems out there. We want something that will work.

And you have got some unique situations out West with the brand States. So part of the goal of these cooperative agreements is to work to test things out there to make sure that it will work.

You know, we have a diverse country. And when you go from Florida to the State of Washington, the agriculture is different. The livestock industry is a lot different. So we feel like we are making good progress. We have got 45 States now that are registering premises. We are going to be ready to do individual animal numbers, hopefully, by mid July.

So I think at one of my listening sessions, a gentleman summed it up pretty good. He said, "I think you are at a yellow light." He said, "When you approach a yellow light, you have got a decision to make. You can either mash on the gas and speed up, or you can throw on the brakes. Either way, you may cause an accident."

So I think we are at that yellow light. And we hear a lot from a lot of circles that are saying "mash on the gas." A lot of other circles are saying "throw on the brakes." I think it is prudent that we do neither one rapidly, but that we make sure that we negotiate this intersection safely.

Senator BURNS. And I agree with that. I would say if this is one place where we are trying to write a national law that "one size fits all", that will be very difficult. And that is why I recommended early on that states, all you have to do is understand their system and certify it, and then you kind of step out of the way and let the States do it because usually they have the best handle, especially in animal health. They have got the best handle on where they are and the condition.

Of course, we have got a brand law in Montana, and that helps us a little bit. But the hot brand is not the total answer, as you

well know. But nonetheless, I still think the records, the owners, and their method of identification should be kept within the State borders.

I think each State has got to do that in some way or other, through some sort of a reimbursement or whatever. Because I just don't think you can run a law like this that one size fits all. I just don't think you can do it.

It is just like trying to write a farm bill that applies to Iowa and applies to the Golden Triangle in Montana. By gosh, it don't work. It just don't work because it don't rain at the same time. It don't freeze at the same time. There are just a lot of variables that makes it almost impossible to manage from Washington, D.C., from this place that I call 17 square miles of logic-free environment.

And so, we deal with these issues that have real people involved, real faces. And I would say as you go down that line on identification that you look very, very hard and let the States handle it because we have a livestock department that is very efficient, understands it.

Also we have a brand law in the same department, so we kind of know where these things go and where they come from. And I appreciate your patience on that.

Mr. HAWKS. Now, Senator, you are right. As I have already alluded, there is a lot of diversity in this country. And we are working very closely with the State animal health officials. And you are right. You have a very good——

Senator BURNS. Those records have got to be kept in those States. They cannot come back here.

Mr. HAWKS. Well, we want to work with you to make sure that we have a system that is functional. I hear what you are saying, but I am committed to having a good, functional system to——

Senator BURNS. I won't fund it. I won't fund it. Let us keep it in the States. That is where the records ought to be kept, okay? Strong letter to follow.

Thank you very much.

Mr. HAWKS. Thank you.

Senator BENNETT. Senator Kohl, do you have any additional questions?

Senator KOHL. Just one.

Senator BENNETT. Yes.

#### FSIS IMPORT INSPECTIONS

Senator KOHL. Secretary Pierson, this committee has included report language for the past several years regarding FSIS import inspections. Specifically, the language instructs USDA to be especially vigilant in countries where a significant number of plants fail inspection.

However, I understand that USDA has not been continuously vigilant, specifically in regard to Mexican plants. Of the nine audits USDA has conducted since the spring of 1999, in Mexico, more than one-fourth of the plants audited failed six of those times, and no comprehensive audit has ever been conducted. This appears to be a very high number of failing plants and no increased scrutiny.

Does the USDA have any plans to increase audits in Mexico, considering their high failure rate? Or is it USDA's opinion that the



current level is adequate to ensure that the plants exporting to this country actually meet the same standards on a continuous basis as plants in the United States?

Dr. PIERSON. Thank you. I do very much appreciate your remarks, and might I take you right up to today?

We are actually getting a lot of criticism for being overly tough, which is an interesting statement. And I think what has happened is that we have implemented a rigorous system to ensure equivalency that countries exporting meat, poultry, and egg products to the United States, in fact, meet our equivalency requirements.

We schedule, at least annually, audits of countries that export to the United States. We can, in fact, and do audit more frequently when countries are, let us say presenting problems and issues.

#### ENFORCEMENT AUDIT OF MEXICO'S INSPECTION SYSTEM

Specifically, Mexico, at one time, did have very serious difficulties. We worked very closely with Mexico, and we let them know very seriously that they needed to pay very close attention to their inspection system. It has to be an independent inspection system, one where the plants don't pay the inspectors, for example. That is a no-no for us. They have to be paid by their government, and they have to be government employees.

We then make sure that we audit that system—the inspection infrastructure. The other part is we then audit plants, and I can say that fairly recently, within the past year, we have done a comprehensive audit of Mexico; and as a matter of fact, they have made vast improvements. I believe, Dr. Masters, we did not have any delistments of plants in that inspection, did we?

Dr. MASTERS. It was an enforcement audit, and we can get the exact details of that audit.

Dr. PIERSON. Sure. We can present that to you. The outcome of that audit was, I would say, very positive. Mexico did work very hard to come up to speed to our equivalency requirements, and we were pleased with the work that they had done.

So I can assure you that our audits are very thorough, and they are very rigorous. We expect countries to meet the same requirements that we have for our domestic suppliers or producers.

[The information follows:]

FINAL

APR 18 2005

FINAL REPORT OF AN AUDIT CARRIED OUT IN MEXICO  
COVERING MEXICO'S MEAT AND PROCESSED POULTRY  
INSPECTION SYSTEM

NOVEMBER 3 THROUGH NOVEMBER 18, 2004

TABLE OF CONTENTS

1. INTRODUCTION
2. OBJECTIVE OF THE AUDIT
3. PROTOCOL
4. LEGAL BASIS FOR THE AUDIT
5. SUMMARY OF PREVIOUS AUDITS
6. MAIN FINDINGS
  - 6.1 Government Oversight
  - 6.2 Headquarters'/State Offices'/Local Inspection Offices' Review
7. ESTABLISHMENT AUDITS
8. LABORATORY AUDITS
9. SANITATION CONTROLS
  - 9.1 SSOP
  - 9.2 Sanitation
10. ANIMAL DISEASE CONTROLS
11. SLAUGHTER/PROCESSING CONTROLS
  - 11.1 Humane Handling and Slaughter
  - 11.2 HACCP Implementation
  - 11.3 Testing for Generic *Escherichia coli*
  - 11.4 Testing for *Listeria monocytogenes*
  - 11.5 Testing for *E. coli* O157:H7
  - 11.6 Implementation of BSE Control Measures
12. RESIDUE CONTROLS
13. ENFORCEMENT CONTROLS
  - 13.1 Daily Inspection
  - 13.2 Testing for *Salmonella*
  - 13.3 Species Verification
  - 13.4 Monthly Reviews
  - 13.5 Inspection System Controls
14. CLOSING MEETING
15. ATTACHMENTS TO THE AUDIT REPORT

ABBREVIATIONS AND SPECIAL TERMS USED IN THE REPORT

CCA	Central Competent Authority [Servicio Nacional de Sanidad Inocuidad y Calidad Agroalimentaria (SENASICA)]
BSE	Bovine Spongiform Encephalopathy
CFR	U.S. Code of Federal Regulations
CVO	Chief Veterinary Officer
MVZ	Medical Veterinarian of Zoonosis
NOID	Notice of Intent to Delist
SAGARPA	Secretaria de Agricultura, Ganaderia, Desarrollo Rural, Pesca Y Alimentacion
SENASICA	Servicio Nacional de Sanidad Inocuidad y Calidad Agroalimentaria
FSIS	Food Safety and Inspection Service
PR/HACCP	Pathogen Reduction/Hazard Analysis and Critical Control Point System
SSOP	Sanitation Standard Operating Procedures
TIF	Tipo Inspeccion Federal
<i>E. coli</i>	<i>Escherichia coli</i>
<i>Salmonella</i>	<i>Salmonella</i> species

## 1. INTRODUCTION

The audit took place in the Republic of Mexico from November 3 through 18, 2004.

An opening meeting was held on November 3 in Mexico City with the Central Competent Authority (CCA). At this meeting, the audit team confirmed the objective and scope of the audit and discussed the audit team's itinerary to complete the audit of Mexico's meat and processed poultry inspection system.

The audit team members were accompanied during the entire audit by representatives from the SENASICA central office and/or representatives from the SAGARPA state offices.

## 2. OBJECTIVE OF THE AUDIT

This audit was a comprehensive follow-up to the enforcement audit conducted in April-May 2004. The objective of the audit was to determine whether Mexico corrected the deviations identified during the April-May 2004, and was maintaining an equivalent inspection system.

In pursuit of the objective, the following sites were visited: the headquarters of the CCA, four SAGARPA state offices, one beef slaughter establishment, two swine slaughter establishments, nine meat and/or processed poultry processing establishments, and five microbiological laboratories.

Competent Authority Visits			Comments
Competent Authority	Central	1	SENASICA
	State	4	SAGARPA State Offices
Laboratories		5	Establishments produce beef, pork and/or poultry.
Meat Slaughter Establishments		3	
Meat/Poultry Processing Establishments		9	

## 3. PROTOCOL

This on-site audit was conducted in three parts. One part involved visits with SENASICA inspection officials at the central office and SAGARPA state offices to discuss oversight programs and practices, including enforcement activities. The second part involved an audit of a selection of records in the country's inspection headquarters or regional offices. The third part involved on-site visits to 12 certified establishments and five laboratories conducting microbiological testing of samples of meat and processed poultry products. Two of these laboratories were not currently testing products being

exported to the United States. These laboratories were certified by SAGARPA to conduct official analytical testing of official government samples.

Government oversight was evaluated using the five FSIS government oversight requirements stipulated in FSIS regulations (9 CFR 327). Program effectiveness determinations of Mexico's inspection system focused on five areas of risk: (1) sanitation controls, including the implementation and operation of Sanitation Standard Operating Procedures, (2) animal disease controls, (3) slaughter/ processing controls, including the implementation and operation of HACCP programs and a testing program for generic *E. coli*, (4) residue controls, and (5) enforcement controls, including a testing program for *Salmonella*.

During the establishment visits, the auditors evaluated the nature, extent and degree to which findings impacted on food safety and public health. The auditors also assessed how inspection services are carried out by Mexico and determined if establishment and inspection system controls were in place to ensure the production of meat and processed poultry products that are safe, unadulterated and properly labeled.

At the opening meeting, the audit team explained to the CCA that their inspection system would be audited in accordance with two areas of focus. First, the auditors would audit against FSIS requirements. FSIS requirements include daily inspection in all certified establishments, humane handling and slaughter of animals, the handling and disposal of inedible and condemned materials, species verification testing, and requirements for HACCP, SSOP, testing for generic *E. coli*, *Salmonella* species, *E. coli* O157:H7, and *Listeria monocytogenes*.

Second, the audit team would audit against any equivalence determinations that have been made by FSIS for Mexico under provisions of the Sanitary/Phytosanitary Agreement. Currently, Mexico has an equivalence determination regarding an exemption from performing species verification testing.

#### 4. LEGAL BASIS FOR THE AUDIT

The audit was undertaken under the specific provisions of United States laws and regulations, in particular:

- The Federal Meat Inspection Act (21 U.S.C. 601 et seq.).
- The Federal Meat Inspection Regulations (9 CFR Parts 300 to end), which include the Pathogen Reduction/HACCP regulations.

#### 5. SUMMARY OF PREVIOUS AUDITS

Final audit reports are available on FSIS' website at:

[http://www.fsis.usda.gov/Regulations\\_&Policies/ForeignAuditReports/index.asp](http://www.fsis.usda.gov/Regulations_&Policies/ForeignAuditReports/index.asp)

FSIS audit of Mexico's inspection system conducted in May-June 2003.

- Eleven establishments and one laboratory reviewed.
- Four establishments were delisted and became ineligible to export to the United States.
- Four establishments received an NOID.
- No government inspector during third processing shift in one establishment.
- Insufficient number of government inspectors conducting post-mortem inspection in two establishments.
- Deviations identified during previous FSIS audit were not corrected in some establishments.
- Inadequate HACCP implementation in some establishments.
- Some establishments did not reassess its HACCP plan to include *E.coli* O157:H7 and/or *Listeria monocytogenes* as hazards likely to occur.
- Inadequate maintenance of facilities in some establishments.
- Inadequate government oversight.

FSIS audit of Mexico's inspection system conducted in April-May 2004.

- 3 certified establishments were delisted.
- 1 non-certified establishment that Mexico requested for recertification was not acceptable, and would have been delisted if it had been certified.
- 3 establishments received an NOID.
- 3 establishments were cited for product contamination.
- 12 establishments were cited for inadequate HACCP implementation.
- 10 establishments were cited for inadequate SSOP implementation.
- 19 establishments were cited for inadequate government enforcement.

## 6. MAIN FINDINGS

### 6.1 Government Oversight

SENASICA has responsibility of regulating Mexico's meat and processed poultry inspection system and live animal health requirements. This responsibility includes certifying and regulating TIF establishments for the exportation of meat or processed poultry products to the United States.

The production of meat and poultry products in Mexico is either conducted in TIF establishments or municipal establishments. SENASICA has authority only over TIF establishments whereas Mexico's Department of Health has authority over municipal establishments. The majority of the meat and poultry production in Mexico is conducted in TIF establishments. Only TIF establishments have the authority to produce product for export to other countries.

#### 6.1.1 CCA Control Systems

Audit of the CCA control systems included the following document reviews during on-site visits to headquarters, state offices, and local inspection offices (TIF establishments):

- Supervisory visits to establishments that were certified to export to the United States.
- New laws and implementation documents such as regulations, notices, directives and guidelines.
- Label approval records.
- Sampling and analyses for residues and water supply.
- Pathogen reduction and other food safety initiatives such as SSOP and HACCP programs, generic *E. coli*, *Salmonella* species, *E. coli* O157:H7, *Listeria monocytogenes* testing, and implementation of the new BSE control measures.
- Sanitation, slaughter and processing inspection procedures and standards.
- Control of products from livestock with conditions such as tuberculosis, cysticercosis, etc., and inedible and condemned materials.
- Export product inspection and control including export certificates.
- National residue control program and monitoring results.
- Enforcement records including examples of criminal prosecutions, consumer complaints, recalls, seizures and control of noncompliant product, and withholding, suspending, withdrawing inspection services from or delisting an establishment that is certified to export product to the United States.

#### 6.1.2 Ultimate Control and Supervision

Each TIF establishment is under the direct authority of a SAGARPA state office. Each state office has at least one SENASICA state supervisor who is assigned to provide government oversight of all TIF establishments within the state and to assure that inspection requirements are being enforced at the TIF establishments. Based on the size of the state and/or the number of TIF establishments, SENASICA may assign two state supervisors. In addition, SENASICA has assigned a MVZ supervisor to each TIF establishment certified to export meat or processed poultry to the United States. Additional MVZ inspection officials are assigned to certified establishments to carry out government inspection responsibilities. Since early 2004, SENASICA has hired several new MVZ inspection officials to conduct official inspection duties at TIF establishments. Daily inspection by inspection officials is being carried out in all TIF establishments certified to export to the United States.

SENASICA has adequate levels of authority (headquarters, state offices, and certified establishments) to ensure effective oversight of all U.S. import inspection requirements.

#### 6.1.3 Assignment of Competent, Qualified Inspectors

Upon entering government employment as an official inspector, new employees undergo induction training as well as participate in on-the-job practical training under the supervision of experienced veterinarians. Training is supplemented by refresher courses on inspection requirements and participation in U.S. government technical assistance programs. Limited resources have restricted SENASICA's ability to conduct sufficient



training for its inspection personnel. However, since the April-May 2004 FSIS audit, Mexico has provided three training courses for its inspection personnel regarding implementation and oversight of the U.S. import inspection requirements. Additional training regarding HACCP requirements is scheduled for its inspection personnel.

#### 6.1.4 Authority and Responsibility to Enforce the Laws

SENASICA has the authority and responsibility to enforce the applicable laws relevant to establishments producing product for export to the United States. However, additional personnel at SENASICA headquarters' office would enhance Mexico's ability to ensure continued compliance of the U.S. inspection requirements.

#### 6.1.5 Adequate Administrative and Technical Support

During the audit, the audit team found that SENASICA has administrative and technical support to operate Mexico's inspection system and has the ability to support a third-party audit.

#### 6.2 Headquarters / State Offices / Local Inspection Offices Review

The audit team conducted a review of inspection documents that included the following:

- Internal review reports.
- Supervisory visits to establishments certified to export to the United States.
- Training records for inspection personnel.
- New laws and implementation documents such as regulations, notices, directives and guidelines.
- Export product inspection and control including export certificates.
- Enforcement records, including examples of recalls, control of noncompliance product, and withholding, suspending, withdrawing inspection services from or delisting an establishment that is certified to export product to the United States.

### 7. ESTABLISHMENT AUDITS

The FSIS audit team reviewed the 12 TIF establishments certified to export meat and/or processed poultry products to the United States. Three were slaughter establishments and nine were processing establishments.

Specific deviations are noted on the attached individual foreign establishment audit checklists.

### 8. RESIDUE AND MICROBIOLOGY LABORATORY AUDITS

The FSIS auditor reviewed five laboratories conducting microbiological testing of meat and processed poultry products. No significant deviations were identified. No laboratories conducting residue testing were reviewed.

## 9. SANITATION CONTROLS

As stated earlier, the FSIS audit team focused on five areas of risk to assess an exporting country's meat inspection system. The first of these risk areas was Sanitation Controls.

Based on the on-site reviews of establishments, and except as noted below, Mexico's inspection system had controls in place for SSOP programs, all aspects of facility and equipment sanitation, the prevention of actual or potential instances of product cross-contamination, good personal hygiene and practices, and good product handling and storage practices.

In addition, and except as noted below, Mexico's inspection system had controls in place for water potability records, chlorination procedures, back-siphonage prevention, separation of operations, temperature control, work space, ventilation, ante-mortem facilities, welfare facilities, and outside premises.

### 9.1 SSOP

Each establishment was evaluated to determine if the basic FSIS regulatory requirements for SSOP were met, according to the criteria employed in the United States' domestic inspection program. Of the 12 establishments reviewed, there was inadequate implementation of SSOP requirements in two establishments.

SSOP implementation deviations are stated on the attached foreign establishment audit checklists.

### 9.2 Sanitation

The following deviations were identified:

- The heads of five carcasses in one establishment was contacting the floor and a non-sanitized (not identified as a product-contact surface) stepladder.
- Specs of dried white paint were on two boning tables identified as product-contact surfaces.

In both cases, immediate corrective actions occurred.

## 10. ANIMAL DISEASE CONTROLS

The second of the five risk areas that the FSIS audit team reviewed was Animal Disease Controls. These controls include ensuring adequate animal identification, control over condemned and restricted product, and procedures for sanitary handling of returned and reconditioned product. The auditor determined that Mexico's inspection system had adequate controls in place with the following exception:

- An abdominal viscera, which fell on the floor and condemned, was not presented to the inspection official for examination.

There had been no outbreaks of animal diseases with public health significance since the last FSIS audit.

#### 11. SLAUGHTER/PROCESSING CONTROLS

The third of the five risk areas that the FSIS audit team reviewed was Slaughter/Processing Controls. Controls reviewed included the following areas: ante-mortem and post-mortem inspection procedures and disposition, humane handling and humane slaughter, post-mortem inspection procedures, post-mortem disposition, ingredients identification, control of restricted ingredients, formulations, processing schedules, equipment and records, and processing controls of cured, dried, and cooked products.

Review of controls also included the implementation of HACCP systems in all establishments, implementation of a testing program for generic *E. coli*, and *E. coli* O157:H7 in slaughter establishments, *Listeria monocytogenes* in processing establishments, and implementation of the BSE control measures.

Deviations identified by the FSIS audit team are addressed below, as applicable, in each category.

##### 11.1 Humane Handling and Humane Slaughter

The following deviation was identified:

For two of three bovine animals observed, the stunning operator was required to apply two applications of the captive bolt stunning device to render the animals insensible. It appeared that this deviation was due to the smaller size of the two animals and the inability of the stunning operator to restrain both animals and adequately apply the stunning device to the heads.

##### 11.2 HACCP Implementation

All establishments approved to export meat products to the United States are required to have developed and adequately implemented a HACCP program. Each of these programs was evaluated according to the criteria employed in the United States' domestic inspection program.

The HACCP programs were reviewed during the on-site reviews of 12 establishments. Of these establishments, there was inadequate implementation of HACCP requirements in nine establishments. The degree of non-compliance varied, but non-compliances were identified as HACCP design issues.

HACCP implementation deviations are noted on the attached foreign establishment audit checklists.

##### 11.3 Testing for Generic *E. coli*

- The slaughter establishments had effectively implemented testing for generic *E. coli*.

#### 11.4 Testing for *Listeria monocytogenes*

Applicable establishments had reassessed their HACCP plans to include *Listeria monocytogenes* as a hazard reasonably likely to occur.

#### 11.5 Testing for *E. coli* O157:H7

The applicable establishment had reassessed its HACCP plans to include *E. coli* O157:H7 as a hazard reasonably likely to occur.

#### 11.6 Implementation of BSE Control Measures

The beef slaughter establishment had effectively implemented the BSE control measures.

### 12. RESIDUE CONTROLS

The fourth of the five risk areas reviewed by FSIS is Residue Controls. These controls include sample handling and frequency, timely analysis, data reporting, tissue matrices for analysis, equipment operation and printouts, minimum detection levels, recovery frequency, percent recoveries, and corrective actions. During this audit, the audit team did not visit any laboratories conducting residue testing; thus the review of Mexico's national residue program was limited.

### 13. ENFORCEMENT CONTROLS

The fifth of the five risk areas that the FSIS audit team reviewed was Enforcement Controls. These controls include the enforcement of inspection requirements and the testing programs for *Salmonella* and Species Verification.

#### 13.1 Daily Inspection

Inspection was being conducted daily in all slaughter and processing establishments.

#### 13.2 Testing for *Salmonella*

The slaughter establishments had effectively implemented the testing program for *Salmonella* species.

#### 13.3 Species Verification

FSIS had previously granted Mexico an exemption from conducting species verification testing. The FSIS audit team verified that adequate controls were in place to assure clear separation of meat products of different species.

#### 13.4 Monthly Reviews

During this audit it was found that in all establishments visited, monthly supervisory reviews of certified establishments were being performed and documented as required.

#### 13.5 Inspection System Controls

The CCA had controls in place for ante-mortem inspection procedures and dispositions; restricted product and inspection samples; disposition of dead, dying, diseased or disabled animals; shipment security, including shipment between establishments; and prevention of commingling of product intended for export to the United States with product intended for the domestic market.

In addition, controls were in place for the importation of only eligible livestock from other countries, i.e., only from eligible third countries and certified establishments within those countries, and the importation of only eligible meat products from other countries for further processing.

Lastly, adequate controls were found to be in place for security items, shipment security, and products entering the establishments from outside sources.

Furthermore, the following concerns were raised by the FSIS audit team:

- Nine of 12 establishments reviewed were cited for inadequate government enforcement. This was primarily due to deviations in the establishments' HACCP plans.

#### 14. CLOSING MEETING

A closing meeting was held on November 18, 2004 in Mexico City with the CCA. At this meeting, the primary findings from the audit were presented by the FSIS audit team.

The CCA understood and accepted the findings.

STEVEN A. MCDERMOTT  
Team Leader  
International Equivalence Staff  
Office of International Affairs



#### 15. ATTACHMENTS TO THE AUDIT REPORT

Individual Foreign Establishment Audit Checklists  
Foreign Country Response to Draft Final Audit Report (when it becomes available)

United States Department of Agriculture  
Food Safety and Inspection Service

**Foreign Establishment Audit Checklist**

1. ESTABLISHMENT NAME AND LOCATION Frigorífico Agropecuario Sonorense, Hermosillo, Sonora Mexico	2. AUDIT DATE 11/05/04	3. ESTABLISHMENT NO. TIF 66	4. NAME OF COUNTRY Mexico
5. NAME OF AUDITOR(S) Dr. Jonathan B. Coleman		6. TYPE OF AUDIT <input checked="" type="checkbox"/> ON-SITE AUDIT <input type="checkbox"/> DOCUMENT AUDIT	

Place an X in the Audit Results block to indicate noncompliance with requirements. Use O if not applicable.

Part A - Sanitation Standard Operating Procedures (SSOP) Basic Requirements		Audit Results	Part D - Continued Economic Sampling		Audit Results
7. Written SSOP			33. Scheduled Sample		
8. Records documenting implementation.			34. Species Testing		
9. Signed and dated SSOP, by on-site or overall authority.			35. Residue		
<b>Sanitation Standard Operating Procedures (SSOP) Ongoing Requirements</b>			<b>Part E - Other Requirements</b>		
10. Implementation of SSOPs, including monitoring of implementation.	X		36. Export		
11. Maintenance and evaluation of the effectiveness of SSOPs.			37. Import		
12. Corrective action when the SSOPs have failed to prevent direct product contamination or adulteration.			38. Establishment Grounds and Pest Control		
13. Daily records document item 10, 11 and 12 above.			39. Establishment Construction/Maintenance		
<b>Part B - Hazard Analysis and Critical Control Point (HACCP) Systems - Basic Requirements</b>			40. Light		
14. Developed and implemented a written HACCP plan.			41. Ventilation		
15. Contents of the HACCP list the food safety hazards, critical control points, critical limits, procedures, corrective actions.	X		42. Plumbing and Sewage		
16. Records documenting implementation and monitoring of the HACCP plan.			43. Water Supply		
17. The HACCP plan is signed and dated by the responsible establishment individual.			44. Dressing Rooms/Lavatories		
<b>Hazard Analysis and Critical Control Point (HACCP) Systems - Ongoing Requirements</b>			45. Equipment and Utensils		
18. Monitoring of HACCP plan.			46. Sanitary Operations		
19. Verification and validation of HACCP plan.			47. Employee Hygiene		
20. Corrective action written in HACCP plan.			48. Condemned Product Control		
21. Reassessed adequacy of the HACCP plan.			<b>Part F - Inspection Requirements</b>		
22. Records documenting: the written HACCP plan, monitoring of the critical control points, dates and times of specific event occurrences.	X		49. Government Staffing		
<b>Part C - Economic / Wholesomeness</b>			50. Daily Inspection Coverage		
23. Labeling - Product Standards			51. Enforcement		X
24. Labeling - Net Weights			52. Humane Handling		
25. General Labeling			53. Animal Identification		
26. FWH Prod. Standards/Boneless (Defects/AQL/Pork Skins/Moisture)			54. Ante Mortem Inspection		
<b>Part D - Sampling Generic E. coli Testing</b>			55. Post Mortem Inspection		X
27. Written Procedures			<b>Part G - Other Regulatory Oversight Requirements</b>		
28. Sample Collection/Analysis			56. European Community Directives		
29. Records			57. Monthly Review		
<b>Salmonella Performance Standards - Basic Requirements</b>			58.		
30. Corrective Actions			59.		
31. Reassessment					
32. Written Assurance					

## 60. Observation of the Establishment

November 5, 2004: Est. TIF-66, Frigorifico Agropecuario Sonorense, Hermosillo, Sonora, Mexico

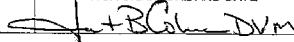
- 10/51 The heads of 5 carcasses were permitted by the establishment to contact the floor and framework of the establishment's defect trimming platform during the handling and trimming of these carcasses. Neither the floor nor the framework of the trim platform was identified as a product contact surface in the establishment's SSOP. [9 CFR 416.13]
- 15/51 Returned product was not included in the flow chart or considered in the hazard analysis. [9CFR §417.2 and 417.8]
- 22/51 The monitoring procedure for CCP 1 was being conducted in the manner and at the frequency described in the establishment's HACCP plan for slaughter; however, the results from each monitoring procedure performed was not recorded on the HACCP monitoring record. Also, each entry made on these HACCP records did not include the time at which the monitoring procedure was performed. [9 CFR 417.5(a)3 and 417.8]
- 55/51 An abdominal viscera was not presented to the SAGARPA inspector for postmortem inspection. The SAGARPA officials recommended the establishment to take appropriate corrective actions immediately. [9 CFR 310.2 (a)]

All findings were either corrected on the day of the audit or SAGARPA officials indicated they would initiate a plan of actions to ensure that the establishment complies with all appropriate USDA, FSIS regulations.

61. NAME OF AUDITOR

Dr. Jonathan B. Coleman

62. AUDITOR SIGNATURE AND DATE

 +BColeman DVM 12/06/04

United States Department of Agriculture  
Food Safety and Inspection Service

**Foreign Establishment Audit Checklist**

1. ESTABLISHMENT NAME AND LOCATION Sana Internacional, S.A. De C.V. San Luis Rio Colorado, Son., Mexico	2. AUDIT DATE 11/03/004	3. ESTABLISHMENT NO. TIF 86	4. NAME OF COUNTRY Mexico
5. NAME OF AUDITOR(S) Dr. Jonathan B. Coleman		6. TYPE OF AUDIT <input checked="" type="checkbox"/> ON-SITE AUDIT <input type="checkbox"/> DOCUMENT AUDIT	

Place an X in the Audit Results block to indicate noncompliance with requirements. Use O if not applicable.

Part A - Sanitation Standard Operating Procedures (SSOP) Basic Requirements		Part D - Continued Economic Sampling	
	Audit Results		Audit Results
7. Written SSOP		33. Scheduled Sample	O
8. Records documenting implementation.		34. Species Testing	O
9. Signed and dated SSOP, by on-site or overall authority.		35. Residue	O
<b>Sanitation Standard Operating Procedures (SSOP) Ongoing Requirements</b>		<b>Part E - Other Requirements</b>	
10. Implementation of SSOP's, including monitoring of implementation.		36. Export	
11. Maintenance and evaluation of the effectiveness of SSOP's.		37. Import	
12. Corrective action when the SSOP's have failed to prevent direct product contamination or adulteration.		38. Establishment Grounds and Pest Control	
13. Daily records document item 10, 11 and 12 above.		39. Establishment Construction/Maintenance	
<b>Part B - Hazard Analysis and Critical Control Point (HACCP) Systems - Basic Requirements</b>		40. Light	
14. Developed and implemented a written HACCP plan.		41. Ventilation	
15. Contents of the HACCP list the food safety hazards, critical control points, critical limits, procedures, corrective actions.		42. Plumbing and Sewage	
16. Records documenting implementation and monitoring of the HACCP plan.		43. Water Supply	
17. The HACCP plan is signed and dated by the responsible establishment individual.		44. Dressing Rooms/Lavatories	
<b>Hazard Analysis and Critical Control Point (HACCP) Systems - Ongoing Requirements</b>		45. Equipment and Utensils	
18. Monitoring of HACCP plan.		46. Sanitary Operations	
19. Verification and validation of HACCP plan.		47. Employee Hygiene	
20. Corrective action written in HACCP plan.		48. Condemned Product Control	
21. Reassessed adequacy of the HACCP plan.		<b>Part F - Inspection Requirements</b>	
22. Records documenting the written HACCP plan, monitoring of the critical control points, dates and times of specific event occurrences.	X	49. Government Staffing	
<b>Part C - Economic / Wholesomeness</b>		50. Daily Inspection Coverage	
23. Labeling - Product Standards		51. Enforcement	X
24. Labeling - Net Weights		52. Humane Handling	O
25. General Labeling		53. Animal Identification	O
26. Fin. Prod. Standards/Boneless (Defects/AQU/Pork Skins/Moisture)		54. Ante Mortem Inspection	O
<b>Part D - Sampling Generic E. coli Testing</b>		55. Post Mortem Inspection	O
27. Written Procedures	O	<b>Part G - Other Regulatory Oversight Requirements</b>	
28. Sample Collection/Analysis	O	56. European Community Directives	O
29. Records	O	57. Monthly Review	
<b>Salmonella Performance Standards - Basic Requirements</b>		58.	
30. Corrective Actions	O	59.	
31. Reassessment	O		
32. Written Assurance	O		




## 60. Observation of the Establishment

November 3, 2004 : Establishment TIF - 86, Sana Internacional, S.A. De C.V., San Luis Rio Colorado, Son., Mexico

- 22/51 The HACCP records documenting the establishment's monitoring of the critical limit for CCP2 and the results of these monitoring activities did not include quantifiable values. The HACCP plan stated CCP2 and its critical limit was designed to monitor the presence of metal in product; however, the results from the establishment's monitoring of this CCP were recorded as "Bien" (Good) on the HACCP records. The establishment corrected this noncompliance on the day of the audit. [9 CFR 417.5a3 and 9 CFR 417.8]

Following the audit, SAGARPA officials indicated they would initiate a plan of actions to ensure that the establishment complies with all parts of 9 CFR 417.

61. NAME OF AUDITOR	Dr. Jonathan B. Coleman	62. AUDITOR SIGNATURE AND DATE	 12/04/04
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United States Department of Agriculture  
Food Safety and Inspection Service

**Foreign Establishment Audit Checklist**

1. ESTABLISHMENT NAME AND LOCATION  Sigma Alimentos Noreste, S.A. de C.V. Monterrey, Nuevo Leon	2. AUDIT DATE 11-04-2004	3. ESTABLISHMENT NO. TIF-100	4. NAME OF COUNTRY Mexico
5. NAME OF AUDITOR(S) Marshall C. Thibodeaux		6. TYPE OF AUDIT <input checked="" type="checkbox"/> ON-SITE AUDIT <input type="checkbox"/> DOCUMENT AUDIT	

Place an X in the Audit Results block to indicate noncompliance with requirements. Use O if not applicable.

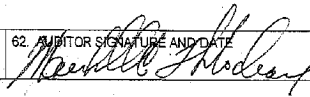
Part A - Sanitation Standard Operating Procedures (SSOP) Basic Requirements		Audit Results	Part D - Continued Economic Sampling		Audit Results
7. Written SSOP			33. Scheduled Sample		
8. Records documenting implementation.			34. Species Testing		
9. Signed and dated SSOP, by on-site or overall authority.			35. Residue		O
<b>Sanitation Standard Operating Procedures (SSOP) Ongoing Requirements</b>			<b>Part E - Other Requirements</b>		
10. Implementation of SSOPs, including monitoring of implementation.			36. Export		
11. Maintenance and evaluation of the effectiveness of SSOPs.			37. Import		
12. Corrective action when the SSOPs have failed to prevent direct product contamination or adulteration.			38. Establishment Grounds and Pest Control		
13. Daily records document item 10, 11 and 12 above.			39. Establishment Construction/Maintenance		
<b>Part B - Hazard Analysis and Critical Control Point (HACCP) Systems - Basic Requirements</b>			40. Light		
14. Developed and implemented a written HACCP plan.			41. Ventilation		
15. Contents of the HACCP list the food safety hazards, critical control points, critical limits, procedures, corrective actions.			42. Plumbing and Sewage		
16. Records documenting implementation and monitoring of the HACCP plan.			43. Water Supply		
17. The HACCP plan is signed and dated by the responsible establishment individual.			44. Dressing Rooms/Lavatories		
<b>Hazard Analysis and Critical Control Point (HACCP) Systems - Ongoing Requirements</b>			45. Equipment and Utensils		
18. Monitoring of HACCP plan.			46. Sanitary Operations		
19. Verification and validation of HACCP plan.			47. Employee Hygiene		
20. Corrective action written in HACCP plan.			48. Condemned Product Control		
21. Reassessed adequacy of the HACCP plan.			<b>Part F - Inspection Requirements</b>		
22. Records documenting: the written HACCP plan, monitoring of the critical control points, dates and times of specific event occurrences.			49. Government Staffing		
<b>Part C - Economic / Wholesomeness</b>			50. Daily Inspection Coverage		
23. Labeling - Product Standards			51. Enforcement		
24. Labeling - Net Weights			52. Humane Handling		O
25. General Labeling			53. Animal Identification		
26. Fin. Prod. Standards/Boneless (Defects/AQU/Pork Skins/Moisture)			54. Ante Mortem Inspection		O
<b>Part D - Sampling Generic E. coli Testing</b>			55. Post Mortem Inspection		O
27. Written Procedures			<b>Part G - Other Regulatory Oversight Requirements</b>		
28. Sample Collection/Analysis			56. European Community Directives		O
29. Records			57. Monthly Review		
<b>Salmonella Performance Standards - Basic Requirements</b>			58.		
30. Corrective Actions			59.		
31. Reassessment					
32. Written Assurance					

## 60. Observation of the Establishment

11/04/2004: Establishment TIF-100, Sigma Alimentos Noreste, S.A. de C.V., Monterrey, Nuevo Leon, Mexico  
No Findings  
Finding from previous audit corrected.

61. NAME OF AUDITOR  
Marshall C. Thibodeaux

62. AUDITOR SIGNATURE AND DATE

 11/04/04

United States Department of Agriculture Food Safety and Inspection Service			
Foreign Establishment Audit Checklist			
1. ESTABLISHMENT NAME AND LOCATION Ganaderia Integral Vizus SA de CV Carretera Culiacan-Vitaroto km 14.5 Culiacan, Sinaloa Mexico	2. AUDIT DATE 11/12/2004	3. ESTABLISHMENT NO. TIF-111	4. NAME OF COUNTRY Mexico
5. NAME OF AUDITOR(S) Dr. Jonathan B. Coleman		6. TYPE OF AUDIT <input checked="" type="checkbox"/> ON-SITE AUDIT <input type="checkbox"/> DOCUMENT AUDIT	
Place an X in the Audit Results block to indicate noncompliance with requirements. Use O if not applicable.			
<b>Part A - Sanitation Standard Operating Procedures (SSOP)</b>		<b>Part D - Continued Economic Sampling</b>	
<b>Basic Requirements</b>		<b>Audit Results</b>	
7. Written SSOP		33. Scheduled Sample	
8. Records documenting implementation.		34. Species Testing	
9. Signed and dated SSOP, by on-site or overall authority.		35. Residue	
<b>Sanitation Standard Operating Procedures (SSOP)</b>		<b>Part E - Other Requirements</b>	
<b>Ongoing Requirements</b>			
10. Implementation of SSOP's, including monitoring of implementation.	X	36. Export	
11. Maintenance and evaluation of the effectiveness of SSOP's.		37. Import	
12. Corrective action when the SSOP's have failed to prevent direct product contamination or adulteration.		38. Establishment Grounds and Pest Control	
13. Daily records document item 10, 11 and 12 above.		39. Establishment Construction/Maintenance	
<b>Part B - Hazard Analysis and Critical Control Point (HACCP) Systems - Basic Requirements</b>		40. Light	
14. Developed and implemented a written HACCP plan.		41. Ventilation	
15. Contents of the HACCP list the food safety hazards, critical control points, critical limits, procedures, corrective actions.	X	42. Plumbing and Sewage	
16. Records documenting implementation and monitoring of the HACCP plan.		43. Water Supply	
17. The HACCP plan is signed and dated by the responsible establishment individual.		44. Dressing Rooms/Lavatories	
<b>Hazard Analysis and Critical Control Point (HACCP) Systems - Ongoing Requirements</b>		45. Equipment and Utensils	
18. Monitoring of HACCP plan.		46. Sanitary Operations	
19. Verification and validation of HACCP plan.		47. Employee Hygiene	
20. Corrective action written in HACCP plan.		48. Condemned Product Control	
21. Reassessed adequacy of the HACCP plan.		<b>Part F - Inspection Requirements</b>	
22. Records documenting: the written HACCP plan, monitoring of the critical control points, dates and times of specific event occurrences.		49. Government Staffing	
<b>Part C - Economic / Wholesomeness</b>		50. Daily Inspection Coverage	
23. Labeling - Product Standards		51. Enforcement	X
24. Labeling - Net Weights		52. Humane Handling	X
25. General Labeling		53. Animal Identification	
26. Fin, Prod. Standards/Boneless (Defects/AQL/Pork Skins/Moisture)		54. Ante Mortem Inspection	
<b>Part D - Sampling</b>		55. Post Mortem Inspection	
<b>Generic E. coli Testing</b>		<b>Part G - Other Regulatory Oversight Requirements</b>	
27. Written Procedures		56. European Community Directives	O
28. Sample Collection/Analysis		57. Monthly Review	
29. Records		58.	
<b>Salmonella Performance Standards - Basic Requirements</b>		59.	
30. Corrective Actions			
31. Reassessment			
32. Written Assurance			

## 60. Observation of the Establishment


November 12, 2004: Est. TIF-111, Ganaderia Integral Vizus SA de CV, Culiacan, Sinaloa, Mexico

- 15/51 The establishment's Slaughter, Deboned products (raw not ground), and Marinated products raw not ground) HACCP plans did not include the verification activity of direct observation of monitoring activities and corrective actions. [9 CFR 417.4(a)2 and 417.8]
- 10/51 During pre-operational sanitation inspection, many numerous specks of dried white paint were observed on the product contact surfaces of two boning tables in the viscera separation and washing area. Immediate corrective actions were taken by the establishment management. [9 CFR 416.13]
- 52/51 Two applications of the captive bolt stunning device was required to render insensible two of the three animals observed. The stunning device operator's inability to immobilize sufficiently the smaller cattle restrained in the knocking box resulted in the misplacement of the stunning device on the heads of both animals. In both cases, the operator effectively rendered insensible these animals before they were released from the stunning area. [9 CFR 313.15(a)]

All findings were either corrected on the day of the audit or SAGARPA officials indicated they would initiate a plan of actions to ensure that the establishment complies with all appropriate USDA, FSIS regulations.

61. NAME OF AUDITOR  
Jonathan R. Coleman DVM

62. AUDITOR SIGNATURE AND DATE

 DVM 12/06/04

United States Department of Agriculture Food Safety and Inspection Service			
Foreign Establishment Audit Checklist			
1. ESTABLISHMENT NAME AND LOCATION Trosi de Carnes, SA de CV Apodaca (Monterrey), Nuevo Leon	2. AUDIT DATE 11/05/2004	3. ESTABLISHMENT NO. TIF-114	4. NAME OF COUNTRY Mexico
5. NAME OF AUDITOR(S) Marshall C. Thibodeaux		6. TYPE OF AUDIT <input checked="" type="checkbox"/> ON-SITE AUDIT <input type="checkbox"/> DOCUMENT AUDIT	
Place an X in the Audit Results block to indicate noncompliance with requirements. Use O if not applicable.			
<b>Part A - Sanitation Standard Operating Procedures (SSOP)</b> <b>Basic Requirements</b>	<b>Audit Results</b>	<b>Part D - Continued Economic Sampling</b>	<b>Audit Results</b>
7. Written SSOP		33. Scheduled Sample	
8. Records documenting implementation.		34. Species Testing	
9. Signed and dated SSOP, by on-site or overall authority.		35. Residue	O
<b>Sanitation Standard Operating Procedures (SSOP)</b> <b>Ongoing Requirements</b>		<b>Part E - Other Requirements</b>	
10. Implementation of SSOPs, including monitoring of implementation.		36. Export	
11. Maintenance and evaluation of the effectiveness of SSOPs.		37. Import	
12. Corrective action when the SSOPs have failed to prevent direct product contamination or adulteration.		38. Establishment Grounds and Pest Control	
13. Daily records document item 10, 11 and 12 above.		39. Establishment Construction/Maintenance	
<b>Part B - Hazard Analysis and Critical Control Point (HACCP) Systems - Basic Requirements</b>		40. Light	
14. Developed and implemented a written HACCP plan.		41. Ventilation	
15. Contents of the HACCP list the food safety hazards, critical control points, critical limits, procedures, corrective actions.		42. Plumbing and Sewage	
16. Records documenting implementation and monitoring of the HACCP plan.		43. Water Supply	
17. The HACCP plan is signed and dated by the responsible establishment individual.		44. Dressing Rooms/Lavatories	
<b>Hazard Analysis and Critical Control Point (HACCP) Systems - Ongoing Requirements</b>		45. Equipment and Utensils	
18. Monitoring of HACCP plan.		46. Sanitary Operations	
19. Verification and validation of HACCP plan.		47. Employee Hygiene	
20. Corrective action written in HACCP plan.		48. Condemned Product Control	
21. Reassessed adequacy of the HACCP plan.		<b>Part F - Inspection Requirements</b>	
22. Records documenting: the written HACCP plan, monitoring of the critical control points, dates and times of specific event occurrences.		49. Government Staffing	
<b>Part C - Economic / Wholesomeness</b>		50. Daily Inspection Coverage	
23. Labeling - Product Standards		51. Enforcement	
24. Labeling - Net Weights		52. Humane Handling	O
25. General Labeling		53. Animal Identification	O
26. Fin. Prod. Standards/Boneless (Defects/AQL/Pork Skins/Moisture)		54. Ante Mortem Inspection	O
<b>Part D - Sampling</b> <b>Generic E. coli Testing</b>		55. Post Mortem Inspection	O
27. Written Procedures	O	<b>Part G - Other Regulatory Oversight Requirements</b>	
28. Sample Collection/Analysis	O	56. European Community Directives	O
29. Records	O	57. Monthly Review	
<b>Salmonella Performance Standards - Basic Requirements</b>		58.	
30. Corrective Actions	O		
31. Reassessment	O		
32. Written Assurance	O		

## 60. Observation of the Establishment

11/05/2004 : Est. TIF-114, Trosi de Carnes, SA de CV, Apodaca (Monterrey), Nuevo Leon, Mexico  
No Findings  
Finding from previous audit corrected

61. NAME OF AUDITOR  
Marshall C. Thibodeaux

62. AUDITOR SIGNATURE AND DATE

*Marshall C. Thibodeaux* 11/05/04

United States Department of Agriculture  
Food Safety and Inspection Service

**Foreign Establishment Audit Checklist**

1. ESTABLISHMENT NAME AND LOCATION Frigorifico Agropecuario Sonorense S. de R.L. de C.V. Hermosillo, Sonora, Mexico	2. AUDIT DATE 11/08/04	3. ESTABLISHMENT NO. TIF 148	4. NAME OF COUNTRY Mexico
5. NAME OF AUDITOR(S) Dr. Jonathan B. Coleman		6. TYPE OF AUDIT <input checked="" type="checkbox"/> ON-SITE AUDIT <input type="checkbox"/> DOCUMENT AUDIT	

Place an X in the Audit Results block to indicate noncompliance with requirements. Use O if not applicable.

Part A - Sanitation Standard Operating Procedures (SSOP) Basic Requirements		Audit Results	Part D - Continued Economic Sampling		Audit Results
7. Written SSOP			33. Scheduled Sample		
8. Records documenting implementation.			34. Species Testing		
9. Signed and dated SSOP, by on-site or overall authority.			35. Residue		
<b>Sanitation Standard Operating Procedures (SSOP) Ongoing Requirements</b>			<b>Part E - Other Requirements</b>		
10. Implementation of SSOP's, including monitoring of implementation.			36. Export		
11. Maintenance and evaluation of the effectiveness of SSOP's.			37. Import		
12. Corrective action when the SSOP's have failed to prevent direct product contamination or adulteration.			38. Establishment Grounds and Pest Control		
13. Daily records document item 10, 11 and 12 above.			39. Establishment Construction/Maintenance		
<b>Part B - Hazard Analysis and Critical Control Point (HACCP) Systems - Basic Requirements</b>			40. Light		
14. Developed and implemented a written HACCP plan.			41. Ventilation		
15. Contents of the HACCP list the food safety hazards, critical control points, critical limits, procedures, corrective actions.			42. Plumbing and Sewage		
16. Records documenting implementation and monitoring of the HACCP plan.			43. Water Supply		
17. The HACCP plan is signed and dated by the responsible establishment individual.			44. Dressing Rooms/Laboratories		
<b>Hazard Analysis and Critical Control Point (HACCP) Systems - Ongoing Requirements</b>			45. Equipment and Utensils		
18. Monitoring of HACCP plan.			46. Sanitary Operations		
19. Verification and validation of HACCP plan.			47. Employee Hygiene		
20. Corrective action written in HACCP plan.			48. Condemned Product Control		
21. Reassessed adequacy of the HACCP plan.			<b>Part F - Inspection Requirements</b>		
22. Records documenting: the written HACCP plan, monitoring of the critical control points, dates and times of specific event occurrences.			49. Government Staffing		
<b>Part C - Economic / Wholesomeness</b>			50. Daily Inspection Coverage		
23. Labeling - Product Standards			51. Enforcement		
24. Labeling - Net Weights			52. Humane Handling		O
25. General Labeling			53. Animal Identification		O
26. Fin. Prod. Standards/Boneless (Defects/AQL/Pork Skins/Moisture)			54. Ante Mortem Inspection		O
<b>Part D - Sampling Generic <i>E. coli</i> Testing</b>			55. Post Mortem Inspection		O
27. Written Procedures		O	<b>Part G - Other Regulatory Oversight Requirements</b>		
28. Sample Collection/Analysis		O	56. European Community Directives		
29. Records		O	57. Monthly Review		
<b>Salmonella Performance Standards - Basic Requirements</b>			58.		
30. Corrective Actions		O	59.		
31. Reassessment		O			
32. Written Assurance		O			



## 60. Observation of the Establishment

November 8, 2004: Est. TIF-148, Frigorifico Agropecuario Sonorense S. de R.L. de C.V.  
Hermosillo, Sonora, Mexico

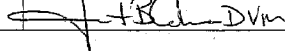
There were no significant findings observed during this audit.

Currently, the establishment chooses to control *Listeria monocytogenes* in post-lethality exposed Ready-to-eat products by meeting the regulatory requirements of 9 CFR 430.4a, 9 CFR 430.4b2 (Alternative 2), and 9 CFR 430.4c.

61. NAME OF AUDITOR

Dr. Jonathan B. Coleman

62. AUDITOR SIGNATURE AND DATE

 12/06/04

United States Department of Agriculture  
Food Safety and Inspection Service

**Foreign Establishment Audit Checklist**

1. ESTABLISHMENT NAME AND LOCATION Delimex de Mexico, S.A. de C.V. San Nicolás de los Garza, Nuevo León	2. AUDIT DATE 11/08/2004	3. ESTABLISHMENT NO. TIF-150	4. NAME OF COUNTRY Mexico
5. NAME OF AUDITOR(S) Marshall C. Thibodeaux		6. TYPE OF AUDIT <input checked="" type="checkbox"/> ON-SITE AUDIT <input type="checkbox"/> DOCUMENT AUDIT	

Place an X in the Audit Results block to indicate noncompliance with requirements. Use O if not applicable.

Part A - Sanitation Standard Operating Procedures (SSOP) Basic Requirements	Audit Results	Part D - Continued Economic Sampling	Audit Results
7. Written SSOP		33. Scheduled Sample	
8. Records documenting implementation.		34. Species Testing	O
9. Signed and dated SSOP, by on-site or overall authority.		35. Residue	O
<b>Sanitation Standard Operating Procedures (SSOP) Ongoing Requirements</b>		<b>Part E - Other Requirements</b>	
10. Implementation of SSOPs, including monitoring of implementation.		36. Export	
11. Maintenance and evaluation of the effectiveness of SSOPs.		37. Import	O
12. Corrective action when the SSOPs have failed to prevent direct product contamination or adulteration.		38. Establishment Grounds and Pest Control	
13. Daily records document item 10, 11 and 12 above.		39. Establishment Construction/Maintenance	
<b>Part B - Hazard Analysis and Critical Control Point (HACCP) Systems - Basic Requirements</b>		40. Light	
14. Developed and implemented a written HACCP plan.		41. Ventilation	
15. Contents of the HACCP list the food safety hazards, critical control points, critical limits, procedures, corrective actions.		42. Plumbing and Sewage	
16. Records documenting implementation and monitoring of the HACCP plan.		43. Water Supply	
17. The HACCP plan is signed and dated by the responsible establishment individual.		44. Dressing Rooms/Lavatories	
<b>Hazard Analysis and Critical Control Point (HACCP) Systems - Ongoing Requirements</b>		45. Equipment and Utensils	
18. Monitoring of HACCP plan.		46. Sanitary Operations	
19. Verification and validation of HACCP plan.		47. Employee Hygiene	
20. Corrective action written in HACCP plan.		48. Condemned Product Control	
21. Reassessed adequacy of the HACCP plan.		<b>Part F - Inspection Requirements</b>	
22. Records documenting: the written HACCP plan, monitoring of the critical control points, dates and times of specific event occurrences.	X	49. Government Staffing	
<b>Part C - Economic / Wholesomeness</b>		50. Daily Inspection Coverage	
23. Labeling - Product Standards		51. Enforcement	X
24. Labeling - Net Weights		52. Humane Handling	O
25. General Labeling		53. Animal Identification	O
26. Fin. Prod. Standards/Boneless (Defects/AQL/Pork Skins/Moisture)		54. Ante Mortem Inspection	O
<b>Part D - Sampling Generic E. coli Testing</b>		55. Post Mortem Inspection	O
27. Written Procedures	O	<b>Part G - Other Regulatory Oversight Requirements</b>	
28. Sample Collection/Analysis	O	56. European Community Directives	O
29. Records	O	57. Monthly Review	
<b>Salmonella Performance Standards - Basic Requirements</b>		58.	
30. Corrective Actions	O	59.	
31. Reassessment	O		
32. Written Assurance	O		

## 60. Observation of the Establishment

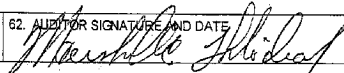
11/08/2004: Est. TIF-150, Delimex de Mexico, S.A. de C.V., San Nicolás de los Garza, Nuevo León, Mexico

- 22/51 The HACCP records documenting the establishment's monitoring of the critical limit for CCP2 and the results of these monitoring activities did not include quantifiable values. The HACCP plan stated CCP2 and its critical limit was designed to monitor the presence of metal in product; however, the results from the establishment's monitoring of this CCP were recorded as a check on the HACCP records. The HACCP plan did not include a description of what the check designated. The establishment corrected this noncompliance on the day of the audit. [9 CFR 417.5a3 and 9 CFR 417.8]

61. NAME OF AUDITOR

Marshall C. Thibodeaux

62. AUDITOR SIGNATURE AND DATE

 11/08/04

United States Department of Agriculture  
Food Safety and Inspection Service

**Foreign Establishment Audit Checklist**

1. ESTABLISHMENT NAME AND LOCATION Sigma Alimentos Centro S.A. de C.V. Planta Atitalaquia Atitalaquia, Hidalgo Mexico	2. AUDIT DATE 11/15/2004	3. ESTABLISHMENT NO. TIF-158	4. NAME OF COUNTRY Mexico
5. NAME OF AUDITOR(S) Marshall C. Thibodeaux		6. TYPE OF AUDIT <input checked="" type="checkbox"/> ON-SITE AUDIT <input type="checkbox"/> DOCUMENT AUDIT	

Place an X in the Audit Results block to indicate noncompliance with requirements. Use O if not applicable.

Part A - Sanitation Standard Operating Procedures (SSOP) Basic Requirements	Audit Results	Part D - Continued Economic Sampling	Audit Results
7. Written SSOP		33. Scheduled Sample	
8. Records documenting implementation.		34. Species Testing	
9. Signed and dated SSOP, by on-site or overall authority.		35. Residue	
<b>Sanitation Standard Operating Procedures (SSOP) Ongoing Requirements</b>		<b>Part E - Other Requirements</b>	
10. Implementation of SSOP's, including monitoring of implementation.		36. Export	
11. Maintenance and evaluation of the effectiveness of SSOP's.		37. Import	
12. Corrective action when the SSOP's have failed to prevent direct product contamination or adulteration.		38. Establishment Grounds and Pest Control	
13. Daily records document item 10, 11 and 12 above.		39. Establishment Construction/Maintenance	
<b>Part B - Hazard Analysis and Critical Control Point (HACCP) Systems - Basic Requirements</b>		40. Light	
14. Developed and implemented a written HACCP plan.		41. Ventilation	
15. Contents of the HACCP list the food safety hazards, critical control points, critical limits, procedures, corrective actions.	X	42. Plumbing and Sewage	
16. Records documenting implementation and monitoring of the HACCP plan.		43. Water Supply	
17. The HACCP plan is signed and dated by the responsible establishment individual.		44. Dressing Rooms/Lavatories	
<b>Hazard Analysis and Critical Control Point (HACCP) Systems - Ongoing Requirements</b>		45. Equipment and Utensils	
18. Monitoring of HACCP plan.		46. Sanitary Operations	
19. Verification and validation of HACCP plan.		47. Employee Hygiene	
20. Corrective action: written in HACCP plan.		48. Condemned Product Control	
21. Reassessed adequacy of the HACCP plan.		<b>Part F - Inspection Requirements</b>	
22. Records documenting: the written HACCP plan, monitoring of the critical control points, dates and times of specific event occurrences.		49. Government Staffing	
<b>Part C - Economic / Wholesomeness</b>		50. Daily Inspection Coverage	
23. Labeling - Product Standards		51. Enforcement	X
24. Labeling - Net Weights		52. Humane Handling	O
25. General Labeling		53. Animal Identification	O
26. Fin, Prod. Standards/Boneless (Defects/AQL/Pork Skins/Moisture)		54. Ante Mortem Inspection	O
<b>Part D - Sampling Generic E. coli Testing</b>		55. Post Mortem Inspection	O
27. Written Procedures	O	<b>Part G - Other Regulatory Oversight Requirements</b>	
28. Sample Collection/Analysis	O	56. European Community Directives	O
29. Records	O	57. Monthly Review	
<b>Salmonella Performance Standards - Basic Requirements</b>		58.	
30. Corrective Actions	O	59.	
31. Reassessment	O		
32. Written Assurance	O		

## 80. Observation of the Establishment

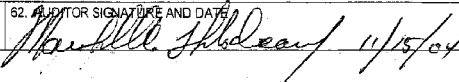
11/15/2004: Est. TIF-158, Sigma Alimentos Centro S.A. de C.V., Planta Atitalaquia, Atitalaquia, Hidalgo, Mexico

15/51 1) Rework product was not included in the flow chart or considered in the hazard analysis.  
[9CFR 417.2 and 417.8]

2) The written HACCP plan does address all processing steps in the flow chart, all hazards are addressed as significant; the plan does not assign these significant hazards with a critical limit or a critical control point. [9CFR 417.2(a) and 417.8]

SAGARPA officials indicated they would initiate a plan of actions to ensure that the establishment complies with all appropriate USDA, FSIS regulations.

61. NAME OF AUDITOR  
Marshall C. Thibodeaux

62. AUDITOR SIGNATURE AND DATE  
 11/15/04

United States Department of Agriculture  
Food Safety and Inspection Service

**Foreign Establishment Audit Checklist**

1. ESTABLISHMENT NAME AND LOCATION Alimentos Sigma Con Agra Foods S.A. de C.V. Linares, Nuevo Leon		2. AUDIT DATE 11/09/2004	3. ESTABLISHMENT NO. TIF-209	4. NAME OF COUNTRY Mexico
5. NAME OF AUDITOR(S) Marshall C. Thibodeaux			6. TYPE OF AUDIT <input checked="" type="checkbox"/> ON-SITE AUDIT <input type="checkbox"/> DOCUMENT AUDIT	

Place an X in the Audit Results block to indicate noncompliance with requirements. Use O if not applicable.

Part A - Sanitation Standard Operating Procedures (SSOP) Basic Requirements	Audit Results	Part D - Continued Economic Sampling	Audit Results
7. Written SSOP		33. Scheduled Sample	
8. Records documenting implementation.		34. Species Testing	
9. Signed and dated SSOP, by on-site or overall authority.		35. Residue	O
<b>Sanitation Standard Operating Procedures (SSOP) Ongoing Requirements</b>		<b>Part E - Other Requirements</b>	
10. Implementation of SSOP's, including monitoring of implementation.		36. Export	
11. Maintenance and evaluation of the effectiveness of SSOP's.		37. Import	
12. Corrective action when the SSOP's have failed to prevent direct product contamination or adulteration.		38. Establishment Grounds and Pest Control	
13. Daily records document item 10, 11 and 12 above.		39. Establishment Construction/Maintenance	
<b>Part B - Hazard Analysis and Critical Control Point (HACCP) Systems - Basic Requirements</b>		40. Light	
14. Developed and implemented a written HACCP plan.		41. Ventilation	
15. Contents of the HACCP list the food safety hazards, critical control points, critical limits, procedures, corrective actions.		42. Plumbing and Sewage	
16. Records documenting implementation and monitoring of the HACCP plan.	X	43. Water Supply	
17. The HACCP plan is signed and dated by the responsible establishment individual.		44. Dressing Rooms/Lavatories	
<b>Hazard Analysis and Critical Control Point (HACCP) Systems - Ongoing Requirements</b>		45. Equipment and Utensils	
18. Monitoring of HACCP plan.		46. Sanitary Operations	
19. Verification and validation of HACCP plan.		47. Employee Hygiene	
20. Corrective action written in HACCP plan.		48. Condemned Product Control	
21. Reassessed adequacy of the HACCP plan.		<b>Part F - Inspection Requirements</b>	
22. Records documenting the written HACCP plan, monitoring of the critical control points, dates and times of specific event occurrences.	X	49. Government Staffing	
<b>Part C - Economic / Wholesomeness</b>		50. Daily Inspection Coverage	
23. Labeling - Product Standards		51. Enforcement	X
24. Labeling - Net Weights		52. Humane Handling	O
25. General Labeling		53. Animal Identification	O
26. Fin. Prod. Standards/Boneless (Defects/AQL/Pork Skins/Moisture)		54. Ante Mortem Inspection	O
<b>Part D - Sampling Generic E. coli Testing</b>		55. Post Mortem Inspection	O
27. Written Procedures	O	<b>Part G - Other Regulatory Oversight Requirements</b>	
28. Sample Collection/Analysis	O	56. European Community Directives	O
29. Records	O	57. Monthly Review	
<b>Salmonella Performance Standards - Basic Requirements</b>		58.	
30. Corrective Actions	O	59.	
31. Reassessment	O		
32. Written Assurance	O		

## 60. Observation of the Establishment

11/09/2004: Est. TIF-209, Alimentos Sigma ConAgra Foods S.A. de C.V., Linares, Mexico

16/22/51 CCP for metal detector states a size for the critical limit, the monitoring procedure is described as continuous. No records are available for monitoring of the CCP as described in 417.5(a)(3) and agency verification 417.8.

61

Marshall C. Thibodeaux

 11/09/04

United States Department of Agriculture Food Safety and Inspection Service			
Foreign Establishment Audit Checklist			
1. ESTABLISHMENT NAME AND LOCATION Productos Alimenticios Tia Lencha S.A. Cienega de Flores, Nuevo Leon	2. AUDIT DATE 11/10/2004	3. ESTABLISHMENT NO. TIF-237	4. NAME OF COUNTRY Mexico
5. NAME OF AUDITOR(S) Marshall C. Thibodeaux		6. TYPE OF AUDIT <input checked="" type="checkbox"/> ON-SITE AUDIT <input type="checkbox"/> DOCUMENT AUDIT	
Place an X in the Audit Results block to indicate noncompliance with requirements. Use O if not applicable.			
<b>Part A - Sanitation Standard Operating Procedures (SSOP) Basic Requirements</b>	<b>Audit Results</b>	<b>Part D - Continued Economic Sampling</b>	<b>Audit Results</b>
7. Written SSOP		33. Scheduled Sample	
8. Records documenting implementation.		34. Species Testing	
9. Signed and dated SSOP, by on-site or overall authority.		35. Residue	O
<b>Sanitation Standard Operating Procedures (SSOP) Ongoing Requirements</b>		<b>Part E - Other Requirements</b>	
10. Implementation of SSOP's, including monitoring of implementation.		36. Export	
11. Maintenance and evaluation of the effectiveness of SSOP's.		37. Import	
12. Corrective action when the SSOP's have failed to prevent direct product contamination or adulteration.		38. Establishment Grounds and Pest Control	
13. Daily records document item 10, 11 and 12 above.		39. Establishment Construction/Maintenance	
<b>Part B - Hazard Analysis and Critical Control Point (HACCP) Systems - Basic Requirements</b>		40. Light	
14. Developed and implemented a written HACCP plan.		41. Ventilation	
15. Contents of the HACCP list the food safety hazards, critical control points, critical limits, procedures, corrective actions.	X	42. Plumbing and Sewage	
16. Records documenting implementation and monitoring of the HACCP plan.	X	43. Water Supply	
17. The HACCP plan is signed and dated by the responsible establishment individual.		44. Dressing Rooms/Lavatories	
<b>Hazard Analysis and Critical Control Point (HACCP) Systems - Ongoing Requirements</b>		45. Equipment and Utensils	
18. Monitoring of HACCP plan.		46. Sanitary Operations	
19. Verification and validation of HACCP plan.		47. Employee Hygiene	
20. Corrective action written in HACCP plan.	X	48. Condemned Product Control	
21. Reassessed adequacy of the HACCP plan.		<b>Part F - Inspection Requirements</b>	
<b>Part C - Economic / Wholesomeness</b>		49. Government Staffing	
23. Labeling - Product Standards		50. Daily Inspection Coverage	
24. Labeling - Net Weights		51. Enforcement	X
25. General Labeling		52. Humane Handling	
26. Fin. Prod. Standards/Boneless (Defects/AQL/Pork Skins/Moisture)		53. Animal Identification	
<b>Part D - Sampling Generic E. coli Testing</b>		54. Ante Mortem Inspection	
27. Written Procedures	O	55. Post Mortem Inspection	
28. Sample Collection/Analysis	O	<b>Part G - Other Regulatory Oversight Requirements</b>	
29. Records	O	56. European Community Directives	O
<b>Salmonella Performance Standards - Basic Requirements</b>		57. Monthly Review	
30. Corrective Actions	O	58.	
31. Reassessment	O	59.	
32. Written Assurance	O		



## 60. Observation of the Establishment

11/10/2004: Est. TIF-237, Cienega de Flores, Nuevo Leon, Mexico

16/22/51 CCP for metal detector states a size for the critical limit, the monitoring procedure is described as continuous. No records are available for monitoring of the CCP as described in 417.5(a)(3), 417.2(a)(6) and 417.8

20/51 Corrective action associated with CCP1 for cooking as written in the HACCP plan do not address all four parts of 417.3(a) and 417.8

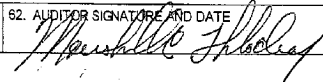
15/51 CCP2 sets a critical limit of 21% moisture in the finished product. No supporting or decision making documentation is available for this critical limit. There is no correlation between the water activity and the % moisture in product. This is a shelf stable product, dried beef with salt. This CCP is used to control pathogens that may be introduced after cooking. 417.5 and 417.8

SAGARPA officials indicated they would initiate a plan of actions to ensure that the establishment complies with all appropriate USDA, FSIS regulations.

61. NAME OF AUDITOR

Marshall C. Thibodeaux

62. AUDITOR SIGNATURE AND DATE

 11/10/04

United States Department of Agriculture  
Food Safety and Inspection Service

**Foreign Establishment Audit Checklist**

1. ESTABLISHMENT NAME AND LOCATION Tasky De Mexico, S.A. De C.V. Cuidad Juarez, Chih., Mexico	2. AUDIT DATE 11/10/2004	3. ESTABLISHMENT NO. TIF 271	4. NAME OF COUNTRY Mexico
	5. NAME OF AUDITOR(S) Dr. Jonathan B. Coleman		6. TYPE OF AUDIT <input checked="" type="checkbox"/> ON-SITE AUDIT <input type="checkbox"/> DOCUMENT AUDIT

Place an X in the Audit Results block to indicate noncompliance with requirements. Use O if not applicable.

Part A - Sanitation Standard Operating Procedures (SSOP) Basic Requirements		Audit Results	Part D - Continued Economic Sampling		Audit Results
7. Written SSOP			33. Scheduled Sample		O
8. Records documenting implementation.			34. Species Testing		O
9. Signed and dated SSOP, by on-site or overall authority.			35. Residue		O
Sanitation Standard Operating Procedures (SSOP) Ongoing Requirements			Part E - Other Requirements		
10. Implementation of SSOPs, including monitoring of implementation.			36. Export		
11. Maintenance and evaluation of the effectiveness of SSOPs.			37. Import		
12. Corrective action when the SSOPs have failed to prevent direct product contamination or adulteration.			38. Establishment Grounds and Pest Control		
13. Daily records document item 10, 11 and 12 above.			39. Establishment Construction/Maintenance		
Part B - Hazard Analysis and Critical Control Point (HACCP) Systems - Basic Requirements			40. Light		
14. Developed and implemented a written HACCP plan.			41. Ventilation		
15. Contents of the HACCP list the food safety hazards, critical control points, critical limits, procedures, corrective actions.		X	42. Plumbing and Sewage		
16. Records documenting implementation and monitoring of the HACCP plan.			43. Water Supply		
17. The HACCP plan is signed and dated by the responsible establishment individual.			44. Dressing Rooms/Lavatories		
Hazard Analysis and Critical Control Point (HACCP) Systems - Ongoing Requirements			45. Equipment and Utensils		
18. Monitoring of HACCP plan.			46. Sanitary Operations		
19. Verification and validation of HACCP plan.			47. Employee Hygiene		
20. Corrective action written in HACCP plan.			48. Condemned Product Control		
21. Reassessed adequacy of the HACCP plan.			Part F - Inspection Requirements		
22. Records documenting: the written HACCP plan, monitoring of the critical control points, dates and times of specific event occurrences.		X	49. Government Staffing		
Part C - Economic / Wholesomeness			50. Daily Inspection Coverage		
23. Labeling - Product Standards			51. Enforcement		X
24. Labeling - Net Weights			52. Humane Handling		O
25. General Labeling			53. Animal Identification		O
26. Fin. Prod. Standards/Boneless (Defects/AQL/Pork Skins/Moisture)			54. Ante Mortem Inspection		O
Part D - Sampling Generic <i>E. coli</i> Testing			55. Post Mortem Inspection		O
27. Written Procedures		O	Part G - Other Regulatory Oversight Requirements		
28. Sample Collection/Analysis		O	56. European Community Directives		O
29. Records		O	57. Monthly Review		
Salmonella Performance Standards - Basic Requirements			58.		
30. Corrective Actions		O	59.		
31. Reassessment		O			
32. Written Assurance		O			


## 60. Observation of the Establishment

November 10, 2004: Est. TIF-271, Tasky De Mexico, Ciudad Juarez, Chihuahua, Mexico

- 15/51 1. Returned product was not included in the flow chart or considered in the hazard analysis. [9CFR 417.2 and 417.8]
2. The HACCP plan did not include the verification activity of direct observation of monitoring activities and corrective actions. [9 CFR 417.4a2 and 417.8]
- 22/51 The HACCP records did not document the results of the verification activities performed. [9 CFR 417.5a3]

Currently, the establishment chooses to control *Listeria monocytogenes* in post-lethality exposed Ready-to-eat products by meeting the regulatory requirements of 9 CFR 430.4a, 9 CFR 430.4b2 (Alternative 2), and 9 CFR 430.4c.

All findings were either corrected on the day of the audit or SAGARPA officials indicated they would initiate a plan of actions to ensure that the establishment complies with all appropriate USDA, FSIS regulations.

61. NAME OF AUDITOR	62. AUDITOR SIGNATURE AND DATE
Jonathan Coleman DVM	 12/06/04

United States Department of Agriculture  
Food Safety and Inspection Service

**Foreign Establishment Audit Checklist**

1. ESTABLISHMENT NAME AND LOCATION Elaboradora La Esperanza, S.A. de C.V. Sabinas Hidalgo, Nuevo Leon	2. AUDIT DATE 11/11/2004	3. ESTABLISHMENT NO. TIF-304	4. NAME OF COUNTRY Mexico
5. NAME OF AUDITOR(S) Marshall C. Thibodeaux		6. TYPE OF AUDIT <input checked="" type="checkbox"/> ON-SITE AUDIT <input type="checkbox"/> DOCUMENT AUDIT	

Place an X in the Audit Results block to indicate noncompliance with requirements. Use O if not applicable.

Part A - Sanitation Standard Operating Procedures (SSOP) Basic Requirements	Audit Results	Part D - Continued Economic Sampling	Audit Results
7. Written SSOP		33. Scheduled Sample	
8. Records documenting implementation.		34. Species Testing	
9. Signed and dated SSOP, by on-site or overall authority.		35. Residue	O
<b>Sanitation Standard Operating Procedures (SSOP) Ongoing Requirements</b>		<b>Part E - Other Requirements</b>	
10. Implementation of SSOP's, including monitoring of implementation.		36. Export	
11. Maintenance and evaluation of the effectiveness of SSOP's.		37. Import	
12. Corrective action when the SSOP's have failed to prevent direct product contamination or adulteration.		38. Establishment Grounds and Pest Control	
13. Daily records document item 10, 11 and 12 above.		39. Establishment Construction/Maintenance	
<b>Part B - Hazard Analysis and Critical Control Point (HACCP) Systems - Basic Requirements</b>		40. Light	
14. Developed and implemented a written HACCP plan.		41. Ventilation	
15. Contents of the HACCP list the food safety hazards, critical control points, critical limits, procedures, corrective actions.	X	42. Plumbing and Sewage	
16. Records documenting implementation and monitoring of the HACCP plan.		43. Water Supply	
17. The HACCP plan is signed and dated by the responsible establishment individual.		44. Dressing Rooms/Lavatories	
<b>Hazard Analysis and Critical Control Point (HACCP) Systems - Ongoing Requirements</b>		45. Equipment and Utensils	
18. Monitoring of HACCP plan.		46. Sanitary Operations	
19. Verification and validation of HACCP plan.		47. Employee Hygiene	
20. Corrective action written in HACCP plan.	X	48. Condemned Product Control	
21. Reassessed adequacy of the HACCP plan.		<b>Part F - Inspection Requirements</b>	
22. Records documenting the written HACCP plan, monitoring of the critical control points, dates and times of specific event occurrences.		49. Government Staffing	
<b>Part C - Economic / Wholesomeness</b>		50. Daily Inspection Coverage	
23. Labeling - Product Standards		51. Enforcement	X
24. Labeling - Net Weights		52. Humane Handling	
25. General Labeling		53. Animal Identification	
26. Fin. Prod. Standards/Boneless (Defects/AQL/Pork Skins/Moisture)		54. Ante Mortem Inspection	
<b>Part D - Sampling Generic E. coli Testing</b>		55. Post Mortem Inspection	
27. Written Procedures	O	<b>Part G - Other Regulatory Oversight Requirements</b>	
28. Sample Collection/Analysis	O	56. European Community Directives	O
29. Records	O	57. Monthly Review	
<b>Salmonella Performance Standards - Basic Requirements</b>		58.	
30. Corrective Actions	O	59.	
31. Reassessment	O		
32. Written Assurance	O		

## 60. Observation of the Establishment

April 23, 2004: Est. TIF-304, Elaboradora La Esperanza, S.A. de C.V., Hidalgo, Nuevo Leon, Mexico

15/51 CCP1 sets a critical limit of 18% moisture in the finished product. No supporting or decision making documentation is available for this critical limit as described in 417.5(a)(2). There is no correlation between the water activity and the % moisture in product. This is a shelf stable product, dried beef with salt. 417.8

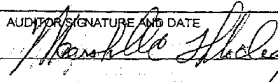
20/51 Corrective action as written in the HACCP plan do not address all four parts of 417.3(a) and 417.8

SAGARPA officials indicated they would initiate a plan of actions to ensure that the establishment complies with all appropriate USDA, FSIS regulations.

61. NAME OF AUDITOR

Marshall C. Thibodeaux

62. AUDITOR SIGNATURE AND DATE

 11/11/04

COURTESY TRANSLATION

April 7, 2005

Officiate: BOO.04.00.01.01 1473

Ms. Karen Stuck  
Assistant Administrator  
Office of International Affairs  
Food Safety and Inspection Service

The following comments are expressed from this General Direction concerning the Final Draft Report of the audit performed on the Federal Inspection System (TIF) from November 3 to 18, 2004, by the Food Safety and Inspection Service (FSIS) of the United States Department of Agriculture (USDA).

**Establishment TIF No. 66 "Frigorifico Agropecuaria Sonorense S. de R.L. de C.V."**

10/51 The heads of 5 carcasses touched the floor and the trimming structure platform. Furthermore, the floor and the structure were not identified as contact surfaces, according to the establishment's SSOP's.

The SENASICA personnel who participated in the audit did not agree with the way the auditor Jonathan B. Coleman wrote-up the observation, because he considers that he did not write what exactly was perceived, because it was not the heads that touched the floor and the platform structure, but the ears of five heads of very large size carcasses, also the floor, and the trimming platform are only one structure and was reported as two different surfaces.

Concerning all other observations, the SENASICA personnel agrees with the auditor from FSIS-USDA.

**Establishment TIF 271 "Tasky de Mexico S.A. de C.V"**

Concerning the observations noted by the USDA-FSIS auditor, SENASICA personnel consider these to be valid, but want to make clear that the corrective actions were taken immediately.

**Establishment TIF 304 "Elaboradora La Esperanza S.A. de C.V."**

At this establishment, the state official supervisor did not agree with the observation noted by the auditor, Marshall C. Thibodeaux, who commented that the, "VALUE IS NOT QUANTIFIABLE IN THE METAL DETECTOR", since this plant doesn't consider the metal detector as a CCP in the HACCP plan, nor do they have this apparatus.

Concerning all other observations, the inspector agrees with the auditor from USDA-FSIS.

With respect to the comments concerning the other audited plants, we agree with the observations pointed out by the auditors from USDA-FSIS.

Likewise, I inform you that the observations derived from this audit performed on the visited establishments have now been corrected, the documented evidence will be sent to you following this letter.

Sincerely

Q.F.B. Amada Velez Mendez  
General Director

## ADDITIONAL COMMITTEE QUESTIONS

Senator KOHL. I thank you.

I thank you, Mr. Chairman.

The Subcommittee will submit some additional questions from Members for your response.

[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

## LOW PATHOGENIC AVIAN INFLUENZA

*Question.* The funding level for the Low Pathogenic Avian Influenza program was increased from \$994,000 in fiscal year 2004 to \$23 million for fiscal year 2005. The increase was provided to indemnify producers for losses and to increase surveillance activities. Can you provide an update on the status of the fiscal year 2005 funding and when we should expect this program to be fully implemented?

*Answer.* This program has two components: the commercial poultry industry and the live bird marketing system (LBMS). The LPAI program will be fully operational when a regulation is passed for the commercial component of the program.

The breakout of the funding is as follows:

—\$12,000,000 for *Indemnities*.—These funds will cover the indemnity and euthanasia, disposal, cleaning and disinfection costs of flocks that test positive for LPAI and need to be depopulated. Because this is a new program, we are in the process of developing a regulation that is specific to indemnities associated with LPAI outbreaks in both the LBMS and the commercial poultry industry. Fortunately, we have had no LPAI outbreaks this fiscal year and have not yet needed to use these funds.

—\$3,871,547 for *Surveillance Activities*.—Funds have been devoted to cooperative agreements with States that have significant LBMS activities, as well as State laboratories participating in the NPIP LPAI program. States are using these funds to provide personnel to inspect and collect samples within the LBMS, to conduct trace backs and trace forwards, and to support the additional laboratory activities associated with the NPIP program for the commercial poultry industry. Currently, 10 States have established cooperative agreements and 11 additional States have shown interest in joining the program by the end of this fiscal year.

—\$932,285 for *Reagents and Costs of Administering Tests*.—These funds have been provided to the National Veterinary Services Laboratory (NVSL) for the processing of samples submitted. NVSL has developed the agreement to contract out the production and distribution of test reagents. These test reagents have been distributed to State and industry laboratories approved to participate in the NPIP.

—\$4,326,693 for *Salaries, Benefits and Staff Support*.—These funds provided for the hiring of Federal personnel to assist with the implementation of the national program, and to support the States in managing and preventing LPAI infections. To date, we have hired 17 people and are in the process of hiring an additional 29 employees (i.e., veterinary medical officers, epidemiologists, animal health technicians, laboratory technicians, etc.).

—\$600,000 for the *Center for Veterinary Biologics (CVB)*.—These funds have been used for the expansion of an Avian Influenza vaccine bank through a contract with a biologics company. While vaccines are not routinely used to prevent infections, vaccines still have a potential role in controlling the spread of an outbreak or in a situation where depopulation of infected flocks is not possible or feasible. APHIS anticipates that the Statement of Work (SOW) for this contract will be completed by the end of May 2005. The SOW will be submitted with a requisition, and the solicitation for bids will be prepared and published. APHIS anticipates signing this contract by September 2005.

—\$513,575 for *Education and Outreach Initiatives*.—These funds are being used to train all newly hired veterinary medical officers and animal health technicians, and all LBMS participants in the recognition of avian influenza and the enhancement of biosecurity practices in live bird markets, auctions, wholesalers, distributors, dealers and producer facilities.

—\$555,900 for *Information and Technology Support*.—These funds are supporting the cost of certifying, accrediting, refining and securing an information tech-

nology system. The funds will also be used to purchase or enhance communications technology to support basic surveillance functions such as data collection, evaluation, and interpretation. This system is currently under development and is expected to be ready to implement by the end of the calendar year.

#### WEB-BASED SUPPLY CHAIN MANAGEMENT

*Question.* The fiscal year 2006 budget request \$10 million to develop a Web-based Supply Chain Management System (WBSCM). This system would replace the current system and allow for more efficiency in the purchasing and tracking of commodities for nutrition programs.

Can you briefly describe the need for this new web-based program?

Answer. The Web-based Supply Chain Management System (WBSCM) would replace the Department's Processed Commodity Inventory Management System (PCIMS). WBSCM is designed to improve management of USDA's domestic and international food assistance programs for a seamless, transparent, and efficient flow of food products throughout the supply chain process. PCIMS does not efficiently and effectively support e-government approaches to dealing with program clientele. It is based on 1980's technology and its architecture is extremely inflexible and costly to maintain. In contrast, WBSCM's design uses proven commercial-off-the-shelf software that incorporates commercial best business practices in an open, flexible architecture to meet functional, operational and compliance requirements.

The anticipated benefits of WBSCM include reduced costs for commodities, transportation, inventory and warehousing, which will benefit both customers and vendors. WBSCM offers improved reporting capabilities and more timely delivery of commodities, a shortened processing cycle, and improved collaboration and integration between associated programs within the Department.

#### USDA AND DEPARTMENT OF HOMELAND SECURITY EMPLOYEES

*Question.* The Department of Agriculture has transferred a number of employees to the Department of Homeland Security. Please update us on the current relationship between USDA and the Department of Homeland Security? More importantly, do you have any concerns with the current arrangement that this Subcommittee should be aware of?

Answer. USDA and the Department of Homeland Security (DHS) continue to work cooperatively to ensure quality agriculture research and inspections remain a high priority. Scientists from the USDA's Agricultural Research Agency (ARS) are co-located with DHS scientists at the Plum Island Animal Disease Center, which houses the ARS research program and APHIS foreign animal disease testing. The relationship between these programs and the DHS testing and evaluation program has been defined in a plan which lays out respective agency roles in protecting American livestock from acts of bioterrorism. This formal definition of roles facilitates cooperation between the departments. Additionally, APHIS and DHS' Customs and Border Protection (CBP) have established a joint quality assurance program to ensure that the quality of agricultural inspections is maintained and to facilitate an appropriate level of communications between CBP and APHIS. Additional details of these two endeavors follow.

*Agricultural Quarantine Inspections.*—APHIS and CBP operations officials are meeting twice monthly to carry out quality assurance program activities and address ongoing operational issues at ports of entry. As part of the program, APHIS and CBP have conducted a pilot joint inspection blitz at the port of Detroit and joint reviews of operations at the ports of Philadelphia and Miami. Reviews of operations at the maritime ports of Long Beach, California; Port Elizabeth, New Jersey; and Seattle, Washington are planned for summer 2005.

APHIS Administrator DeHaven and CBP Commissioner Bonner met in early April 2005 to discuss agricultural inspection operations at U.S. ports of entry. In addition to continuing to implement the joint quality assurance program to evaluate operations at ports of entry, Dr. DeHaven and Commissioner Bonner have established a series of meetings at various administrative and operational levels to ensure that any problems with the inspection program are addressed by the appropriate officials. Operational managers are already meeting several times a month in conjunction with the quality assurance program, and Dr. DeHaven and Commissioner Bonner agreed to hold quarterly meetings to address any issues that cannot be resolved at the operational level. APHIS' Deputy Administrator for the Plant Protection and Quarantine Program and CBP's Assistant Commissioner will also meet on a monthly basis.

APHIS and CBP officials are also continuing to address the large number of vacancies at ports of entry. With the transfer of the port inspection portion of the agri-



culture quarantine inspection function to CBP in fiscal year 2003, APHIS transferred 363 fully-funded vacant inspector positions from Agricultural Quarantine Inspection. This number has increased significantly through attrition in the last 2 years. While progress has been made in filling many positions, APHIS encourages CBP to continue an aggressive recruitment and hiring program. APHIS assists CBP in recruiting by distributing vacancy announcements to a large pool of qualified candidates and expeditiously training those hired. Following the April 2005 meeting between Dr. DeHaven and Assistant CBP Commissioner Ahern, APHIS is enhancing its recruitment program for CBP vacancies through promoting the jobs to qualified candidates at job fairs and on college campuses. APHIS' Professional Development Center has 14 classes scheduled for incoming agricultural specialists (with space for 36 new inspectors in each class).

Progress has been made in other areas, such as APHIS access to CBP's data systems. In March 2005, APHIS and CBP reached an agreement to allow APHIS users to access CBP's Automated Targeting System (ATS), which will allow APHIS to review incoming cargo manifests electronically and determine which should be targeted for agricultural inspections. At this time, 14 APHIS users are approved to access ATS, with 6 more in the approval process. APHIS is also placing two agricultural specialists in CBP's National Targeting Center to develop criteria for determining which incoming shipments to target for agricultural inspections.

APHIS and CBP officials are working cooperatively to address operational inspection issues through the quality assurance program, which includes quarterly data reviews and port of entry evaluations. APHIS and CBP officials will continue cooperating through these channels to manage the agricultural inspection program. However, APHIS officials remain concerned about the large number of vacancies for agricultural inspectors at CBP.

*Plum Island Animal Disease Center.*—The relationship between DHS and USDA is defined administratively by an annually renewed interagency agreement. The agreement provides for a local council at Plum Island to manage day-to-day resource issues. The agreement also provides for a Board of Directors of Agency Heads to manage the overall programmatic relationship at the Plum Island Animal Disease Center.

The current arrangements are working. As programs change and ARS maintains a primary focus on protecting livestock from exotic diseases and DHS focuses on terrorism countermeasures, there may be a divergence in issues for each agency that could place stress on resources available for research and testing and evaluation. The Board of Governors' approach to dealing with programmatic issues will serve as a forum to resolve those issues.

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#### QUESTIONS SUBMITTED BY SENATOR CONRAD BURNS

##### COUNTRY OF ORIGIN LABELING

*Question.* Country of Origin Labeling is a hot issue in Montana. In order for producers to be ready to comply with the law when it takes effect on Sept. 30, 2006, they will need to know what's expected of them. USDA has already published the proposed rule, and taken all the public comment on beef labeling. Why not publish the rule now, and give producers advance notice of what they will need to do to comply, to minimize the burden?

*Answer.* The Agency believes it is prudent to monitor the fish and shellfish industry's compliance with the interim final rule for mandatory country of origin labeling of fish and shellfish for an appropriate period of time prior to finalizing the regulation for the other covered commodities to determine whether there are any provisions that should be modified prior to implementation for the remaining affected industries. AMS published the interim final rule for mandatory country of origin labeling of fish and shellfish in the October 5, 2004, Federal Register, and the regulations became effective April 4, 2005. This rule provides for an active enforcement program to begin in October 2005, during which time the agency will focus its resources on education and outreach.

##### NATIONAL ANIMAL IDENTIFICATION SYSTEM

*Question.* Can you give us an update on the Department's actions on Animal ID? In particular, can you address how USDA plans to address data confidentiality and cost to the producer?

*Answer.* The National Animal Identification System (NAIS) will contain only information necessary for animal health officials to be able to track suspect animals and identify any other animals that may have been exposed to a disease. To ensure

that officials have immediate, reliable, and uninterrupted access to this information in the event of a disease concern, certain basic data must be readily available to the Federal Government.

Animal identification and tracking systems maintained by the States or regional alliances will be an integral part of the overall NAIS information infrastructure. The State and regional systems will be able to collect and maintain more information than is required for NAIS, yet only the required data need to be available for the national animal records repository.

In order to secure full participation from livestock producers, the USDA is pursuing legislation to establish a system for withholding or disclosing information obtained through the animal identification system established by the Secretary of the USDA.

APHIS understands that there is no “one-size-fits-all” identification technology. Many methods are currently on the market, such as branding, radio frequency identification devices, and retinal scans. It is likely that some technologies will work better for certain animal species than others. Rather than focus on a specific technology, APHIS will focus on the design of the identification data system; what information should be collected; and, when the data should be collected and reported. Once the identification system is designed, the market will determine which technologies will be the most appropriate to meet the needs of the system. As specific technologies are determined, the standards for those technologies will be established to ensure compatibility across all sectors of the industry. For example, the cattle industry is recommending radio frequency identification eartags, using the international standards for radio frequency identification of animals.

The NAIS must allow producers to use NAIS in coordination with production management systems, marketing incentives, etc., allowing for the transition to a “one number—one animal” system for disease control programs and other industry-administered programs. While animals must be identified prior to being moved from their current premises, producers can decide whether to identify their stock at birth or during other management practices.

The integration of existing branding procedures into NAIS, while integrating animal identification technology standards (electronic identification, retinal scan, DNA, etc.) will be determined by industry to ensure the most practical and cost effective options are implemented and that new ones can easily be incorporated into NAIS.

*Question.* USDA has funded a number of pilot projects to explore methods for implementing a national animal ID. What is the status of these projects? Is the Department providing these projects with clear guidance and expectations?

*Answer.* Pilot projects for the NAIS are currently being conducted via cooperative agreements with States and tribes. Cooperative agreement funds are used to obtain resources to support data collection or the integration of data from existing systems. In July 2004, the first-round of awarding cooperative agreement funds through a competitive application process resulted in 29 project agreements. In October 2004, \$1.5 million that had been previously reserved for other expenses became available for establishing 13 additional cooperative agreements.

Most of the projects became “active” late in 2004 following the preparation and approval of each cooperators work plan. The application provided the States with specific objectives and the expected outcomes of each project. Cooperators are responsible for providing quarterly reports describing achievements in relationship to the original approved plan using specific performance measures required by the Department. Such measures include the number and percent of premises registered, the number of stakeholders reached through outreach, and the cost of attaining each of these measures. In States that have pilot projects, specific reports on the progress of the project are also required.

*Question.* How do you plan to connect the results of all these pilot projects together into a national framework? Are there any industry models for bringing all these pieces together?

*Answer.* The results of the pilot projects will be summarized to provide more direction on how the industry can most effectively collect animal identification and movement data. While there have been various projects in the past that provide valuable information, there remains a need to evaluate the practicality of data collection reflective of the vast diversification of the U.S. livestock industry. As more animals enter the voluntary system, the ability to collect and transmit the information from various production points and through service providers will continue to advance.

Each of the pilot projects were selected for funding based on the merits of the project proposal. The criteria were broad based, soliciting projects that would demonstrate the adaptability of new technology, the coordination and integration of existing databases that may contain premises information, and the solutions to prob-

lems faced in certain regions of the country, such as brand inspection states. At the conclusion of the pilot projects, APHIS will evaluate the results using staff resources. We will determine what questions have been answered, what questions remain unanswered, and what new questions arose as a result of the projects.

#### BLUETONGUE RESTRICTIONS

*Question.* As the Department works to harmonize trade regulations and scientific protocols with Canada, is the issue of bluetongue being addressed? How close are we to eliminating bluetongue restrictions that serve as a barrier to trade?

*Answer.* The Canadian Food Inspection Agency (CFIA) and the USDA's Animal and Plant Health Inspection Service (APHIS) have expressed a commitment to work together toward harmonizing disease management policies. Both Agencies have initiated discussions regarding health status recognition for anaplasmosis, bluetongue, brucellosis, and tuberculosis that may be applied against additional categories of cattle and other livestock.

Most of our trading partners have imposed some restrictions on the importation of U.S. cattle, goats, and sheep due to the presence of bluetongue viruses in the United States. USDA does not expect total elimination of these restrictions. Yet, the Department continues to work towards minimizing restrictions based on scientific evaluation of the disease presence in the United States. APHIS is continuously negotiating with country officials to eliminate or reduce restrictions not fully justified by the available science. For example, APHIS provided disease surveillance data to compel Canada to modify its restrictions in March 2004. The CFIA removed bluetongue testing and treatment requirements for U.S. feeder cattle imported from 39 States considered to have a low incidence of bluetongue. Feeder cattle from the remaining 11 States, which are considered to have a high incidence of bluetongue, are also not required to be tested provided they reside for at least 60 days prior to import in a low incidence state. These States include Alabama, Arizona, Arkansas, California, Florida, Georgia, Louisiana, Mississippi, Nevada, South Carolina, and Texas. Testing is still an option and should the feeder cattle be found free of bluetongue, the 60-day period will be waived. Historically, these high incidence states have not exported significant numbers of feeder cattle to Canada.

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#### QUESTIONS SUBMITTED BY SENATOR HERB KOHL

##### AMS NATIONAL ORGANIC PROGRAM

*Question.* Mr. Hawks, for the past 2 years, language has been included in the Senate report strongly encouraging USDA to hire an Executive Director for the National Organic Standards Board, and to create an on-going Peer Review Panel to oversee and give advice to the Secretary regarding the process for accrediting organic certifiers. Can you please give me an update on USDA's response to these directives?

*Answer.* AMS has drafted a position announcement for an Executive Director after gathering input from the National Organic Standards Board (NOSB) regarding expertise and other qualifications required for the position. We expect the announcement to be posted by early June. The National Organic Program (NOP) is also working with the NOSB to formalize an ongoing Peer Review procedure and is awaiting input from the NOSB on the frequency, timing, and technical expert assistance needed to address peer review. The results of an AMS-initiated peer-review audit of the NOP accreditation process by the American National Standards Institute (ANSI) were posted on the NOP website in January 2005.

*Question.* If they have not already been implemented, can you please provide me with a date by which this will be completed?

*Answer.* An executive director is expected to be hired later this summer. A peer review process is awaiting further input pending the upcoming NOSB meeting in August 2005.

*Question.* Last April, USDA published and then rescinded four documents regarding organic standards and enforcement. It is my understanding that this caused significant confusion within the organic community, and that last October at a National Organic Standards Board meeting, USDA committed to publishing clarifications on the National Organic Program website in order to resolve this confusion. However, these clarifications have not yet been published. Can you provide me with a timeline for publishing these clarifications?

*Answer.* The clarifications were posted on the NOP website on April 22, 2005.

## GIPSA IDENTITY THEFT

*Question.* Mr. Hawks, last year I inserted a provision (General Provision 776) to modernize the law governing agricultural lien central filing systems and to do so in a way that protects farmers from identity theft that could occur if their social security numbers are widely distributed. Please provide me with information regarding what has been done to implement this change, and when we can expect it to be complete.

*Answer.* Section 1324 of the Food Security Act of 1985 (Act) authorized the Secretary of Agriculture to approve and certify central filing systems operated at the State level for farm products and to approve amendments to such certified central filing systems that have been proposed by a Secretary of State, provided that the proposed central filing systems, or amendments thereof, conform with the Act, as amended. Section 776 of the Consolidated Appropriations Act of 2005 allows a Secretary of State to propose the use of a unique identifier to be used in lieu of a social security number and allows the Secretary of Agriculture to approve proposed unique identifiers.

The Grain Inspection, Packers and Stockyards Administration (GIPSA) is responsible for the administration of the Act. GIPSA posted on its web page a copy of the amended Act. GIPSA is in the process of updating the regulations and will be completed within 1 year. Section 776 does not provide GIPSA with the authority to create a selection system or method by which unique identifiers are produced. GIPSA will review any system proposed by a Secretary of State's office. Upon thorough review, GIPSA will determine whether to approve the selection system or method proposed.

## AGRICULTURE BORDER INSPECTIONS

*Question.* When Secretary Johanns appeared here this week, I asked him about a recent GAO report on Agro-Terrorism and, in particular, the problem that agriculture border inspections have decreased since that responsibility was transferred to the Department of Homeland Security.

The Secretary mentioned a lot of the things the States are doing to protect the farm sector, but we need to know more about why the number of Federal agriculture inspections has declined over the past 2 years. The GAO report says that during that period, agricultural inspections at ports of entry, the first line of defense, have declined while imports have increased. According to DHS's own data, there were 40.9 million agriculture import inspections in 2002 and that number dropped to 37.5 million in 2004. According to GAO, neither USDA or DHS can explain why this has happened.

I realize that you could easily say this is DHS's problem, but protection of U.S. agriculture is your problem and if DHS is not doing its job, somebody had better raise some red flags. I would hope that somebody would be USDA. What kind of specific procedures do you use to coordinate with DHS on animal and plant health issues?

*Answer.* APHIS is responsible for setting agricultural import policy and communicating any policy changes to DHS' Customs and Border Protection (CBP) officials. Agency officials notify CBP of any changes through designated points of contact. CBP has agreed to send time-sensitive pest alerts, issued when APHIS officials determine that a particular product poses a serious pest risk, to all field locations within 24 hours of receiving them. APHIS also has a series of comprehensive manuals that detail inspection procedures to be used at various types of locations and for specific types of cargo. APHIS officials update the manuals on a regular basis and notify their counterparts at CBP when changes have been made. All manuals are available to CBP and the public on APHIS' Web site.

APHIS and CBP officials are also continuing to address the large number of vacancies at ports of entry. With the transfer of the port inspection portion of the agriculture quarantine inspection function to CBP in fiscal year 2003, APHIS transferred 363 fully-funded vacant inspector positions from Agricultural Quarantine Inspection. This number has increased significantly through attrition in the last 2 years. While progress has been made in filling many positions, APHIS encourages CBP to continue an aggressive recruitment and hiring program. APHIS assists CBP in recruiting by distributing vacancy announcements to a large pool of qualified candidates and expeditiously training those hired. Following the April 2005 meeting between Dr. DeHaven and Assistant CBP Commissioner Ahern, APHIS is enhancing its recruitment program for CBP vacancies through promoting the jobs to qualified candidates at job fairs and on college campuses. APHIS' Professional Development Center has 14 classes scheduled for incoming agricultural specialists (with space for 36 new inspectors in each class).

To ensure that the quality of inspections is maintained and to facilitate an appropriate level of communication between the two agencies, APHIS and CBP recently established a joint quality assurance program. Officials from both Agencies are conducting a series of port evaluations as part of the program. Additionally, APHIS conducts quarterly reviews of data collected by CBP through the inspection process for consistency and completeness. When APHIS officials notice anomalies in the data, they request that CBP investigate the issues and make any necessary corrections.

*Question.* GAO says that DHS inspectors don't always get timely information about the arrival of high-risk cargo, but were you aware of such cargo when you were responsible for inspections?

Answer. Prior to the transfer of the inspection program to DHS, APHIS officials accessed the U.S. Customs Service's automated targeting system (ATS) and automated manifest system to review incoming cargo shipments and determine which to target for specific levels of inspection. APHIS' port operations manuals also detail what types of incoming cargo should undergo specialized inspections.

In March 2005, APHIS and CBP reached an agreement to allow APHIS users to access CBP's ATS, which will allow us to resume reviewing incoming cargo manifests electronically. At this time, 14 APHIS users are approved to access ATS, with 6 more in the approval process. APHIS is also placing two agricultural specialists in CBP's National Targeting Center to develop criteria for determining which incoming shipments to target for agricultural inspections.

*Question.* Do you have information you need to be sharing with DHS?

Answer. APHIS believes that all pertinent information regarding agricultural imports is being shared. APHIS officials communicate regularly with their counterparts at CBP and notify them of all policy changes. APHIS and CBP are working together through the joint quality assurance program to ensure that the two agencies are sharing all necessary information and effectively managing the agricultural quarantine inspection program.

*Question.* I know there are some who suspect the reduced number of agriculture inspections is because DHS is assigning inspectors to other non-agriculture cargos. I hope that is not the case. But either way, I think that someone needs to hold DHS accountable to make sure that safeguards for the Agriculture sector are, at least, as strong as they were 2 years ago. Do you have, or do you think you should have, some way to ensure that plant and animal pests and diseases are being properly stopped at the border? After all, if they get past the border, spread, and get established, your job will be a lot harder and a lot more expensive. Don't you agree?

Answer. APHIS officials believe that, if followed properly, the inspection protocols and procedures detailed in our port operations manuals should stop high-risk cargo at the borders for inspection. However, new pests and diseases could still be introduced through smuggling and means of natural spread.

APHIS places a high priority on preventing the entry of agricultural pests and diseases through its pest and disease exclusion programs. These include regulatory activities and border inspections as well as off-shore risk reduction programs such as the international cooperative efforts to eradicate Mediterranean fruit fly from Central America and foot-and-mouth disease from Central and South America. APHIS also maintains emergency response capabilities to deal with pests and diseases that inevitably slip through our borders with the enormous volume of international travel and trade.

*Question.* The Office of Inspector General is issuing a report dated April 14, 2005, on the subject of the transition and coordination of border inspection activities between USDA and DHS. In summary, the report includes the following observations:

- Border inspection responsibilities were transferred from APHIS to DHS in March of 2003.
- 2,500 front line inspectors were transferred from APHIS to DHS.
- APHIS could not assure that the DHS process for agriculture inspection operations contains adequate controls to safeguard U.S. Agriculture against entry of foreign pests and disease.
- There was a reported 32 percent drop in the number of pest inspections following the transfer to DHS.
- DHS has denied APHIS access to port locations even when access was requested, even to perform duties for which APHIS still has regulatory responsibility.
- APHIS does not have a process to periodically review the extent and results of attention given to critical inspection areas.
- APHIS and FSIS do not require DHS to notify FSIS of all incoming shipments, which could allow the shipments to bypass FSIS re-inspection.

- APHIS has been unable to effectively evaluate or provide advice to DHS on agriculture inspection activities.
- DHS has not provided adequate data on staffing levels and deployment of agriculture inspectors to APHIS for evaluation.
- APHIS officials continue to express concern about how DHS is using inspection user fees.
- APHIS needs to establish a more effective way to coordinate with DHS.

Would you please respond to the findings of this report?

Answer. APHIS is currently preparing its response to the findings of the report, which we must provide to OIG by June 6, 2005. In response to the observations that OIG pointed out, much progress has been made on many of the issues. As APHIS and CBP officials continue to work cooperatively through the quality assurance program, we will resolve many of the issues identified in the OIG's report, such as APHIS officials' ability to evaluate operations at ports of entry. For example, APHIS and CBP developed protocols recently that provide access to ports of entry for APHIS' port veterinarians.

Additionally, APHIS Administrator DeHaven and CBP Commissioner Bonner met in early April 2005 to discuss joint management of agricultural inspection operations at U.S. ports of entry. In addition to continuing to implement the quality assurance program to evaluate operations at ports of entry, Dr. DeHaven and Commissioner Bonner have established a series of meetings at various administrative and operational levels to ensure that any problems with the inspection program are addressed by the appropriate officials. Operational managers are already meeting several times a month in conjunction with the quality assurance program, and Dr. DeHaven and Commissioner Bonner agreed to hold quarterly meetings to address any issues that cannot be resolved at the operational level. APHIS' Deputy Administrator for the Plant Protection and Quarantine Program and CBP's Assistant Commissioner will also meet on a monthly basis.

#### HIGH PATHOGENIC AVIAN INFLUENZA

*Question.* Would you please provide information regarding actions taken by the Department to work with other countries on the containment of high pathogen avian influenza and steps being taken to avoid its introduction into the United States?

Answer. APHIS participates in several international organizations that address animal health issues such as avian influenza. For example, issues pertaining to surveillance, and control and eradication of the high pathogen avian influenza (HPAI) strain H5N1 in Asia, are being directly addressed by the World Health Organization (WHO), the Asia Pacific Economic Cooperation (APEC), the United Nations Food and Agriculture Organization (FAO) and the World Organization for Animal Health (OIE). APHIS has been an active participant in the OIE, has attended Expert Meetings at FAO, and has assisted in planning and leading FAO interventions (Rome and Bangkok, February 2004; Bangkok, July 2004; Rome, October 2004; Ho Chi Minh City, Vietnam, February 2005).

APHIS also takes steps to prevent the introduction of animal diseases by sharing knowledge and expertise with counterparts in foreign countries. For example, in September 2004, APHIS provided personal protective equipment supplies to the Philippines and coordinated a 3-day training course on AI and exotic Newcastle disease (END) to 40 Bureau of Animal Health employees in Quezon City, in the Philippines.

USDA Deputy Undersecretary Lambert has proposed a conference among Asia-Pacific Economic Cooperation members designed to improve coordination between States and international organizations over AI-related issues, and to discuss the affects of AI on trade and other sectors. The USDA Foreign Agricultural Service, in coordination with OIE and FAO, is currently organizing this 2-day meeting scheduled for July 28–29, 2005 in San Francisco, California.

As a primary safeguard against the introduction of HPAI (H5N1) into the United States, APHIS maintains scientifically-based trade restrictions on the importation of poultry and poultry products from affected countries. In many of these countries, APHIS had prior poultry and poultry product import restrictions in place because they were also known to have END. The import restrictions targeted against the introduction of END also effectively mitigate the risk of HPAI. These restrictions include:

- Prohibiting the importation of live birds and hatching eggs from H5N1 affected countries;
- Requiring imports of poultry products from East-and Southeast-Asia be processed or cooked in accordance with a USDA permit prior to importation;

- Requiring all imported birds be quarantined at a USDA bird quarantine facility and tested for the avian influenza virus before entering the country; which now includes returning U.S. origin pet birds;
- Developing a risk assessment that specifically considers the threat to the United States of HPAI introduction from Southeast Asia. This assessment is helping APHIS to identify and closely monitor pathways that are vulnerable to potential HPAI (H5N1) introduction. APHIS has also alerted the U.S. Department of Homeland Security to be especially vigilant in performing agricultural inspections for prohibited products at U.S. ports of entry handling passengers and cargo from Asia. In addition, APHIS is also increasing its monitoring of domestic commercial markets for illegally smuggled poultry and poultry products;
- APHIS is working closely with international organizations like OIE, FAO, and WHO to assist HPAI affected countries and other neighboring Asian-Pacific countries with disease prevention, management, and eradication activities. By helping these countries prepare for, manage, or eradicate HPAI (H5N1) outbreaks, APHIS can reduce the risk of the disease spreading from overseas to the United States.

USDA agricultural attachés are closely monitoring the HPAI situation in Asia and routinely report new developments.

APHIS reviewed and provided input to the U.S. Department of Health and Human Services' Centers for Disease Control and Prevention (CDC) on its Pandemic Influenza Response and Preparedness Plan. APHIS provided guidance concerning its role in animal health and wildlife disease management. APHIS also collaborated with the CDC to draft recommendations to help prevent the transmission of HPAI (H5N1) to animal disease outbreak response workers.

APHIS is conducting a multi-level outreach and education campaign called "Biosecurity is For the Birds" to provide disease and biosecurity information to backyard poultry producers. The campaign also encourages producers to report sick birds, thereby increasing APHIS' poultry foreign animal disease surveillance opportunities.

USDA, Agriculture Research Service (ARS) supports APHIS and poultry industry action programs with epidemiology, molecular virology, and pathogenesis research on avian influenza. ARS has been/is:

- Evaluating new AI viruses as they occur around the world and will continue to assist infected countries and agencies.
- Currently classifying AI viruses received recently from the United States, Hong Kong, Italy, El Salvador, Chile, Netherlands, Indonesia, Vietnam, and South Korea for disease-causing potential.
- Conducting research studies including: molecular characterization related to the lethality of the viruses; the search for genetic markers for this lethality, and investigating the epidemiology and spread of the viruses. Also, pathogenic potential of the viruses is being assessed in disease-free chickens held in bio-containment facilities.
- Developing and evaluating techniques to predict which mild forms of virus will change to more deadly forms of the AI virus.

In January 2005, APHIS initiated a \$5 million, 3 year Coordinated Agricultural Project for the "Prevention and Control of Avian Influenza in the United States." Seventeen States are working together to develop critical diagnostic tests and vaccines for detection and control. They are also working in live bird markets in California, Minnesota, and New York to study transmission risk factors and provide educational and outreach programs. For the first time, we will be conducting influenza surveillance in waterfowl of the four major flyways over the United States. The group is also studying how influenza emerges in domestic chickens and turkeys. Stakeholder and Scientific Advisory Boards include industry, other Federal and State agencies, and renowned avian influenza experts. This activity is also tightly coordinated with the Department of Homeland Security "National Center for Foreign Animal and Zoonotic Disease Defense" that includes work on four diseases, one of which is AI.

#### LOW PATHOGENIC AVIAN INFLUENZA

*Question.* The Congress provided nearly \$23 million in fiscal year 2005 for pest and disease management activities relating to low pathogenic avian influenza. This represented a very substantial increase above the fiscal year 2004 level. The President proposes a slight increase for fiscal year 2006.

Please provide information on how these funds are being used in fiscal year 2005 and how those purposes will differ with the use of fiscal year 2006 funds.

*Answer.* This program has two components: the commercial poultry industry and the live bird marketing system (LBMS). The low pathogenic avian influenza pro-

gram (LPAI) will be fully operational when a regulation is passed for the commercial component of the program. The use of funds in fiscal year 2006 will not significantly differ from the use of funds in fiscal year 2005 because States who signed their cooperative agreements in the last quarter of fiscal year 2004 will continue to participate in fiscal year 2005 and fiscal year 2006. Other States have been provided information to indicate their interest and, to date, 11 other States have shown an interest in joining the program.

The breakout of the funding is as follows:

- \$12,000,000 for *Indemnities*.—These funds will cover the indemnity and euthanasia, disposal, cleaning and disinfection cost of flocks that test positive and need to be depopulated due to LPAI. Because this is a new program, we are in the process of developing a regulation that is specific to indemnities associated with LPAI outbreaks in both the LBMS and the commercial poultry industry. Fortunately, we have had no LPAI outbreaks this fiscal year and have not yet expended any of the indemnity funds.
- \$3,871,547 for *Surveillance Activities*.—Funds have been devoted to cooperative agreements with States in both the Eastern and Western regions that have significant LBMS activities, as well as State laboratories participating in the National Poultry Improvement Plan (NPIP) program. States are using these funds to provide personnel to inspect and collect samples within the live bird marketing system, do trace backs and trace forwards, and to support the additional laboratory activities associated with the NPIP program for the commercial poultry industry. For the LBMS program 10 States currently have cooperative agreements. There are 11 additional States that have shown interest in joining the program by the end of this fiscal year. The amount shown also includes travel costs and transportation of needed items.
- \$932,285 for *Reagents and Costs of Administering Tests*.—All of these funds have been provided to the National Veterinary Services Laboratory (NVSL) for the processing of samples. NVSL has developed and contracted out the production of these test reagents that have been distributed at no charge to State and industry laboratories approved to participate in the NPIP.
- \$4,326,693 for *Salaries, Benefits and Staff Support*.—These funds provided for increased Federal personnel in both the Eastern and Western Area and Regional offices and activities for implementation and compliance with program requirements to support the States in managing and preventing LPAI infections. Seventeen Federal personnel have been hired and the funds are being used for salaries, benefits, and staff support. We are in the process of hiring an additional 29 Federal personnel (i.e., veterinary medical officers, epidemiologists, animal health technicians, laboratory technicians, etc.) to further support implementation of the program.
- \$600,000 for the *Center for Veterinary Biologics (CVB)*.—Funds have been used for the expansion of an AI vaccine bank through a contract with a biologics company. While vaccines are not used routinely to prevent H5 and H7 infections, vaccines still have a potential role for assisting in the control of a large outbreak or in a situation where depopulation of infected flocks infested with avian influenza (AI) is not possible or feasible. APHIS anticipates completion of the Statement of Work (SOW) for this contract will be completed by the end of May 2005. The SOW will be submitted with a requisition and the solicitation for bids will be prepared and published. A contract will be signed this fiscal year.
- \$513,575 for *Education and Outreach Initiatives*.—Funds are being used for training all newly hired Federal personnel as well as all LBMS participants in the recognition of AI, and for the enhancement of biosecurity practices in live bird markets, auctions, wholesalers, distributors, dealers and producer facilities. APHIS continues to provide training courses, and to produce and distribute educational materials for the LBMS personnel and participants.
- \$555,900 for *Information and Technology Support*.—These funds are supporting the cost of certifying, accrediting, refining and securing an information technology system to collect AI data and acquiring the communications technology needed for carrying out the LPAI program. The system is currently under development and is expected to be ready to implement by the end of the calendar year.

In addition to appropriated funding, on May 12, 2004, \$13,700,000 was transferred from the Commodity Credit Corporation (CCC) for use by the LPAI program. APHIS distributed \$2.7 million to pay for Federal and State (Texas) personnel and supplies necessary to conduct the depopulation, surveillance and laboratory activities associated with this outbreak. Indemnity was also paid to the producer to cover bird losses and disposal, and, cleaning and disinfection. Of the remaining \$11 million allocated to begin the LPAI program, \$6 million was held in reserve to cover



future indemnities and emergency costs is the case of future outbreaks. There was another outbreak in Texas in June 2004 and payment amounts are currently being finalized. APHIS distributed \$2.2 million in the form of cooperative agreements with States, particularly in the northeast, to support surveillance activities in the live bird marketing system. The Agency provided \$1 million to NVSL to support the production and distribution of AI reagents to State and industry labs approved within the NPIP program. APHIS also provided: \$600,000 to hire and support additional Federal field personnel, primarily in the Eastern Region; \$500,000 to support the development of an AI vaccine antigen bank through a competitive contract with a biologics producer; and \$300,000 to support laboratory activities in Delaware and Maryland where an outbreak of LPAI occurred in February 2004.

#### CHRONIC WASTING DISEASE

*Question.* Chronic wasting disease has been present in the United States for a number of years and has been present in the State of Wisconsin. Now, it has been reported that this disease has been located in New York State. Obviously, the disease is continuing to spread. Please provide information on how funds for chronic wasting disease have been used in fiscal year 2005 and how the Department plans to use funds proposed for fiscal year 2006.

*Answer.* Aside from congressionally directed funds, the total appropriated Chronic Wasting Disease (CWD) line item is divided equally between the farmed/captive cervid and the free-ranging deer and elk programs. Activities conducted as part of the farmed cervid program include laboratory testing; and the appraisal, indemnity, depopulation and disposal of voluntarily depopulated animals. Activities conducted as part of the wildlife program include establishing cooperative agreements with State wildlife agencies and Tribes, evaluating new testing technologies, and supporting methods development at APHIS' National Wildlife Research Center.

The fiscal year 2006 President's budget proposes a 10 percent reduction in the CWD line item funding. This will result in various reductions, particularly in the areas of indemnities and cooperative agreements. With the recent detection of CWD in wild deer in New York, APHIS will continue to work with the International Association of Fish and Wildlife Agencies to revise the formula used for determining the amount provided for cooperative agreements with State wildlife agencies.

*Question.* Please provide information on the problem of the continuing spread of this disease. Do you think current efforts by USDA and the States is effective in the control of this disease or is a different approach warranted?

*Answer.* It is not entirely clear whether the disease is spreading, or whether our enhanced surveillance efforts are detecting disease that has been present in the cervid population for some time. Furthermore, much is still unknown about the modes of transmission for CWD, and the control measures currently in place may need to be adjusted as our knowledge improves. There is evidence of direct horizontal transmission from animal to animal and some degree of transmission through means of environmental contamination.

APHIS is proposing a rule that will limit interstate movement of participating farmed cervids and identify contaminated properties where CWD is found, thus reducing the potential for disease spread. This rule should allow the industry to move well-monitored and low risk animals while detecting, and hopefully eliminating, CWD-positive herds through increased surveillance testing, indemnity and depopulation. If it becomes clear that transmission is occurring through the movement of cervid carcasses, products, or other materials, regulations could be promulgated to address that concern.

Control of CWD in wild deer and elk is a much greater problem. Due to the complexity of authorities and jurisdictional responsibilities for wildlife management that are divided between States, Tribes and other Federal agencies, APHIS has worked diligently to develop a variety of management approaches that are currently being utilized in the monitoring and surveillance of CWD in wild populations. Because of this cooperative effort, the information gathered through wildlife surveillance continues to increase our understanding of this disease.

#### SUDDEN OAK DEATH

*Question.* The President's budget includes a significant decrease in APHIS funding for sudden oak death. However, there have been concerns that this disease might be spreading to other States and regions of the country. Please provide an update on surveillance and other activities to detect, monitor, and control sudden oak death, including a description of areas where it has been located and the rate at which the disease has spread.

Answer. APHIS is working with the U.S. Forest Service (USFS) and State co-operators to prevent the introduction of the pathogen *Phytophthora ramorum* (PR), which causes SOD, and prevent SOD development in new areas. To accomplish these goals, we are destroying plants with PR in nurseries, enforcing quarantines to contain PR, executing a 50-State national survey of high-risk nurseries, and tracking the origin and destination of infected plant material. These activities help determine the extent of PR migration, while minimizing its impact on commerce and the environment. Through these activities, we are protecting the Nation's landscape, the complex ecosystems that native oaks support, and the economic livelihood of several industries—such as forest products—from potentially huge losses.

In January 2005, we implemented an Emergency Federal Order that requires all nurseries in California, Oregon, and Washington to have their nurseries found free of PR before they are shipped interstate. These actions are critical because some nurseries in these States have been responsible for widespread movement of PR, and because PR's host range is not yet fully defined. The Order has helped prevent further PR spread through nursery shipments, while still allowing the interstate movement of healthy plants. If PR is detected in the environment outside the West Coast, APHIS would implement an Incident Command System and initiate a rapid eradication or management response.

When APHIS initiated SOD regulations in fiscal year 2002, PR was established in 10 California counties and one county in Oregon. Currently, PR is established in 14 California counties and one county in Oregon. It has not become established in any other State, or in any forested area outside the 15 counties. However, it has been detected in nursery stock in 21 States: Alabama, Arkansas, Arizona, California, Colorado, Connecticut, Florida, Georgia, Louisiana, Maryland, North Carolina, New Jersey, New Mexico, Oklahoma, Oregon, Pennsylvania, South Carolina, Tennessee, Texas, Virginia, and Washington.

#### JOHNE'S DISEASE

*Question.* The President's budget includes a very substantial decrease in funding for Johne's disease. Please provide information on activities of the Department, including those in conjunction with the States, during fiscal year 2005 for control of this disease.

Answer. The Johne's program is voluntary in nature and managed using a Federal, State and industry cooperative approach. It has been developed in cooperation with the National Johne's Working Group and the Johne's Committee of the U.S. Animal Health Association, State Veterinarians, and industry representatives. Each State has a Johne's Disease Group (comprised of producer, university, laboratory, regulatory and veterinary practitioner representatives) to assist the State with program development. In October 2004, APHIS, in conjunction with States, affected industries, and producers, developed a national Johne's disease strategic plan to help reduce the prevalence of the disease in the United States. The strategic plan includes the Voluntary Bovine Johne's Disease Control Program, which provides testing guidelines for States to use to identify cattle herds at low risk for Johne's disease infection and best management practices associated with controlling Johne's disease on infected farms. APHIS has established a National Demonstration Herd Project with the primary objective to validate the long term use of these best management practices on the control of Johne's disease. Secondary objectives include the creation of additional training materials for producers and veterinarians and evaluate testing and monitoring strategies to control Johne's disease. Currently, APHIS is completing the second year with 60 dairy herds and 16 beef herds enrolled in the project. The project will provide more economic data for the costs of managing the disease and the costs versus benefits of control measures in the future. This demonstration herd project is a 5 year project, and interpretation of project results will start to become available in 2006.

APHIS is continuing to look for greater sensitivity and specificity of diagnostic tests and testing strategies (such as validating pooled fecal culturing or environmental sampling as a way to screen herds to determine infection status). More sensitive tests could lead to earlier identification of infected animals, allowing for quicker disease containment actions.

*Question.* Please provide information regarding the rate and extent of spread of this disease and the economic consequences it poses to the United States dairy industry.

Answer. APHIS estimates that Johne's disease is present in approximately 22 percent of all dairy herds and 8 percent of all beef herds in the United States. Economic losses, associated with the disease resulting in reduced milk production and

premature culling, are estimated to cost the U.S. dairy industry between \$200 and \$250 million per year.

#### NATIONAL ANIMAL IDENTIFICATION SYSTEM

*Question.* The fiscal year 2005 Agriculture Appropriations bill included a number of provisions related to animal livestock identification programs, including the Wisconsin Livestock Identification Consortium. Please provide an update on how these programs have been coordinating their activities and explain to what extent these programs are contributing to a National Animal Identification program.

*Answer.* The Wisconsin Livestock Identification Consortium (WLIC), through a cooperative agreement administered by APHIS, has developed a premises registration system that served as the prototype for a national Standardized Premises Registration System (SPRS) that APHIS now offers to any State wishing to use the system. Through the cooperation of many, the WLIC is working with Federal, State, and industry leaders to generate the public support necessary so that premises registration will become mandatory. The WLIC has also been able to build consensus on a variety of other issues including what pilot projects to support in the State, and how to implement the next phases of NAIS. From this experience, USDA has proposed in the draft program standard for NAIS that each State forms a similar animal identification coordinating committee composed of State, Federal, and industry stakeholders as part of the Stage I requirements.

Another project, also funded as a cooperative agreement administered by APHIS, is the Farm Animal Identification and Records (F.A.I.R.) project. This project continues to demonstrate the value of automatic data collection at key locations in the United States. The Radio Frequency Identification (RFID) automatic readers in livestock markets and slaughter establishments in the original pilot States of New York, Pennsylvania, Wisconsin and California have demonstrated the ability of capturing animal identification associated with key movements and/or events. The project was also used to help manage the movement of cattle in Michigan to support the Bovine Tuberculosis eradication program in that State. Over 125,000 animal movements have been recorded using this system. Several other States are looking at the F.A.I.R. system to track animal movement. As this data collection infrastructure is utilized, it will provide a highly beneficial contribution to the implementation of the animal tracking phase of NAIS.

*Question.* Please provide information regarding the types of technologies the Department is considering for use in implementing a National Animal Identification program.

*Answer.* APHIS understands that there is no "one-size-fits-all" identification technology. Many methods are currently on the market, such as branding, radio frequency identification devices and retinal scans. It is likely that some technologies will work better for certain animal species than others. The integration of animal identification technology standards (electronic identification, retinal scan, DNA, etc.) will be determined by industry to ensure the most practical options are implemented and that new ones can easily be incorporated into the National Animal Identification System. As specific technologies are determined, the standards for those technologies will be established to ensure compatibility across all sectors of the industry. For example, the cattle industry is recommending radio frequency identification eartags, using the international standards for Radio Frequency Identification of animals. When the industry widely adopts a technology, USDA will take the necessary steps to recognize the methods through regulatory changes.

#### WILDLIFE SERVICES

*Question.* Please provide an update on activities relating to wolf predation measures in the Upper Midwest.

*Answer.* Wolves continue to colonize much of the northern and central forest regions of Wisconsin. The gray wolf population continues to increase each year by an average of 12 percent. The number of wolf complaints that APHIS investigates each year has increased proportionally to the increase in the gray wolf population. Since 2000, the number of wolf complaints has increased by 231 percent. During 2004, APHIS investigated 126 wolf damage complaints. Wolf depredation on livestock has steadily increased from 2001 to 2004. The increase in wolf complaints and damage is likely to continue until the gray wolf population levels off. APHIS responds to all wolf damage complaints in Wisconsin and utilizes a variety of techniques to resolve damage issues which include the use of non-lethal techniques such as electronic guards and visual deterrents.

In Minnesota, depredation by wolves on livestock and poultry is a problem for some producers. While only a small percentage of the farms in the wolf range are

affected annually, some of these farms will suffer substantial monetary loss in a given year. From 1976 through 2004, the number of farms suffering verified wolf depredations ranged from 9 to 99 per year out of about 8,000. APHIS captured an average of 135 wolves through Wildlife Services depredation control programs during the past 5 years. Minnesota's wolf population currently has stabilized at about 3,000 wolves. Sarcoptic mange, also known as scabies, had a noticeable impact on Minnesota wolves during 2000–2004. It is expected that wolves will continue to colonize more agricultural areas of the State and will cause increasing conflicts with livestock. Consequently, it will become necessary for APHIS personnel to resolve wolf damage problems at a growing number of farms scattered across an expanding wolf range. As depredation control actions increase, the number of wolves taken each year is also likely to increase.

*Question.* Please provide information relating to beaver management in State of Wisconsin.

*Answer.* Beavers continue to cause major damage to valued resources in Wisconsin. Since the population explosion in the mid 1980s, beavers have caused millions of dollars worth of damage to many resources including trout stream habitats, roads, timber, wild rice, and other sensitive habitats. In 1988, APHIS implemented a beaver damage management program in northern Wisconsin to assist cooperators in resolving beaver conflicts/damage. Currently, APHIS cooperates with the Wisconsin Department of Agriculture, Trout Unlimited, and the U.S. Forest Service in northern Wisconsin to protect over 1,200 miles of high quality trout streams. However, this represents only 10 percent of the trout stream miles in the State. APHIS also cooperates with nine county highway and forestry departments and over 50 local townships to protect roads and timber resources from beaver damage. APHIS resolves over 400 of these resource conflicts annually. The APHIS beaver damage management program is a cost-share program with cooperative funding coming from State and county governments and private entities. This cooperative program saves cooperators a potential loss of over \$1 million annually.

*Question.* Please provide information relating to crane operations in the State of Wisconsin.

*Answer.* The sandhill crane has experienced dramatic population increases over the last 20 years to the point that they are often implicated in agricultural crop damage situations throughout Wisconsin. In 2004, one potato grower alone reported over \$37,000 in damages to his crop from feeding sandhill cranes. APHIS conducts site visits to assess damage and recommends abatement options to alleviate the problem. APHIS provides harassment devices, such as propane cannons and pyrotechnics, to make the birds uncomfortable in crop fields. Many crop owners get frustrated and often request a Federal depredation permit to lethally remove sandhill cranes that become accustomed to the harassment techniques. In 2004, APHIS received 55 reports of agricultural damage from crop owners who wanted to attempt to lethally remove cranes in Wisconsin. In the past, many crop owners were able to successfully deter sandhill cranes by using a corn seed treatment that was removed from the market in 2004 with no replacement pesticide. This will increase the pressure on APHIS to provide services.

In addition, sandhill cranes can pose safety hazards at airports throughout the State. Several airports in Wisconsin have contacted APHIS to request recommendations and permits to remove or reduce the hazards caused by sandhill cranes using airport property. Sandhill cranes weigh on average 8–10 pounds, creating an extremely hazardous situation when encountered by aircraft while in flight. In 2004, APHIS was contacted by five airports who requested Federal depredation permits to lethally remove sandhill cranes that posed a risk to human health and safety and aircraft. In 2005, eight airports have requested these services.

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#### QUESTIONS SUBMITTED BY SENATOR MARY L. LANDRIEU

##### WILDLIFE SERVICES

*Question.* What Wildlife Service methods development efforts are underway to reduce blackbird damage to the rice industry?

*Answer.* In fiscal year 2005, APHIS' Wildlife Services Methods Development efforts to reduce blackbird damage to the rice industry include investigating non-lethal solutions. These include development of chemical bird repellents and baits to deter blackbirds from seeded and ripening rice, and improving methodology for reducing depredating blackbird populations on rice farms in Louisiana, Arkansas, Texas and Missouri.

*Question.* What resources are allocated to this effort, and what additional resources would be required to accelerate methods development to reduce blackbird depredations on rice?

*Answer.* In fiscal year 2005, APHIS allocated \$313,998 (\$289,998 for personnel and \$24,000 operating expenses) to work on this problem, including two research biologists and two technicians. APHIS projects that an additional \$400,000 is required to accelerate laboratory and field research efforts to develop and register a repellent for protecting seeded and ripening rice; to develop an improved lethal bait for reducing depredating blackbird populations; and to evaluate alternative management strategies on rice farms to reduce blackbird damage to rice in Louisiana, Arkansas, Texas and Missouri.

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#### QUESTIONS SUBMITTED BY SENATOR TOM HARKIN

##### SOYBEAN RUST

*Question.* Over the last few months, since the finding of soybean rust in Louisiana, a lot of work has been undertaken to establish an extensive surveillance and monitoring program to track the progress of soybean rust. Officials from USDA hosted a workshop in Indianapolis in early February to lay out their plans to establish a network of sentinel plots in cooperation with State governments and private groups. Soybeans were planted more than a month ago in the southern-most growing regions in the United States, and soon will be planted across our Nation. It is critical to have an early warning system in place to alert producers to treat their fields. I wrote to you on January 27, 2005 to urge you to allocate funds from the Commodity Credit Corporation to launch this early warning system against soybean rust, and I understand that this recommendation was endorsed by career USDA staff. What action has the Department taken to create this system?

*Answer.* USDA's coordinated framework for the soybean rust (SBR) response includes five components: (1) monitoring and surveillance; (2) predictive modeling; (3) web-based dissemination of information; (4) decision criteria for fungicide application; and (5) outreach. The activities under these components build on our efforts to prepare for the arrival of the disease, which include cooperating with the soybean industry on a range of educational and awareness efforts and sponsoring the development of a predictive modeling system for SBR. The predictive modeling system is already functioning, and APHIS and cooperating officials are entering survey data into the system as it becomes available. Survey data is available on USDA's comprehensive SBR website, which also provides detection and identification tips, information on fungicide use, and local extension agents' contact information, among other things.

APHIS is releasing \$1.19 million from the Agency's contingency fund to support the monitoring and surveillance network with State cooperators and continued maintenance of USDA's comprehensive SBR website. APHIS is providing \$800,000 of these funds to State cooperators through the Cooperative Agricultural Pest Survey (CAPS) network to establish sentinel plots for surveillance. APHIS officials have completed many of the CAPS agreements and are working diligently to complete the remaining agreements. State cooperators have already established sentinel plots in many areas, especially in southern States, and the results of surveys are already displayed on USDA's SBR website. APHIS is using \$180,000 of the contingency funds to establish five mobile monitoring teams to provide timely support for the detection network. The remaining funds will support continued development and maintenance of USDA's SBR website and modeling system.

##### ORGANIC COST-SHARE FUNDING

*Question.* Section 10606 of the 2002 farm bill created a national organic cost-share program to offset the cost of certification under the National Organic Program for organic producers and handlers. Five million dollars was provided for this program, to be available until expended. At this time, it appears there is roughly \$1.5 million left for cost-share funding. It is unclear how long these funds will remain available for producers and handlers before running out.

How long does USDA/AMS perceive the remaining roughly \$1.5 million in cost-share funding will last before running out?

*Answer.* AMS has obligated essentially all of the initial \$5,000,000 provided for cost-share funding. Of the total, \$30,000 has been retained to cover unexpected spikes in utilization by the States.

*Question.* Will sufficient funds last throughout fiscal year 2006? How much in additional funding would AMS need to keep this program active until the next farm bill?

*Answer.* Based on current utilization patterns, we anticipate that the initial funding will be fully exhausted by the States by the third quarter of fiscal year 2006. It should be noted, however, that the use of funds by the States, in terms of amounts and timing, can be highly variable. We estimate that the States would require \$1,200,000 in additional funding to keep the program active between the third quarter of fiscal year 2006 and passage of the next farm bill.

#### NATIONAL ANIMAL IDENTIFICATION SYSTEM

*Question.* As USDA moves forward with implementation of a national animal identification system, it still remains unclear exactly where data will be kept as it is submitted by producers from across the United States. Does USDA plan to maintain and control a central database for all species of animals? Or, does USDA plan to maintain and control regional databases as a repository for all or certain selected species?

*Answer.* The primary information system components of the National Animal Identification System (NAIS) would include the National Premises System and National Animal Identification and Tracking System. The two main NAIS information repositories would be maintained and centrally managed by APHIS. The overall system would allow for the identification of each premises and the recording and reporting of animal identification and animal movement data. Additionally, the system would associate or link the animal identification data to each premises where the animal or group was located and the specific dates on which the animal(s) was at the premises. Only information essential to the enhancement of animal disease surveillance and monitoring would be stored in a Federally-managed database under the NAIS.

Premises registration systems for all species are currently maintained and operated by the States or regional alliances or third parties, and essential data is forwarded to the National Premises Information Repository. USDA is in the process of building a National Animal Identification and Tracking System and a National Animal Records Repository. Once participating State/regional and third-party systems have been evaluated for data compliance, APHIS would support the establishment of interfaces between these systems and the national repositories. The State/regional systems or third-party systems would be able to collect and maintain more information than is required for NAIS, but only the federally required data would need to be sent to the national repositories. NAIS data would be kept confidential to the extent allowed by law, and routine access would be restricted to State and Federal animal health officials when information is required to perform their responsibilities for maintaining the health of the U.S. herd.

*Question.* Exactly who will house the data?

*Answer.* The premises information and animal records repository will be maintained by APHIS at the Centers for Epidemiology and Animal Health facility in Fort Collins, Colorado. In the future, the system will be housed at the National Technology Information Center in Kansas City, Missouri. This move will give NAIS a more robust hardware infrastructure will full system security and 24/7 surveillance for system operation.

*Question.* If private firms maintain the data how will USDA have control of and have access to that information?

*Answer.* To ensure that animal health officials would have immediate, reliable, and uninterrupted access to essential National Animal Identification System information in the event of a disease concern, certain basic data would be maintained at the Federal level. Accordingly, the two main NAIS information repositories, the National Premises Information Repository and the National Animal Records Repository, would be maintained and managed by APHIS. If data that is required by animal health officials to perform their duties is held privately, the same degree of access must be assured.

#### CONCLUSIONS OF HEARINGS

Senator BENNETT. Thank you very much, Senator Kohl.

I have no further questions. Gentlemen, thank you for your service to the country and to the department.

The hearing is recessed.

[Whereupon, at 2:56 p.m., Thursday, April 14, 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 2006**

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

### **MATERIAL SUBMITTED BY AGENCIES NOT APPEARING FOR FORMAL HEARINGS**

[CLERK'S NOTE.—The following agencies of the Subcommittee on Agriculture, Rural Development, and Related Agencies did not appear before the subcommittee this year. Chairman Bennett requested these agencies to submit testimony in support of their fiscal year 2006 budget request. Those statements submitted by the chairman follow:]

#### **DEPARTMENT OF HEALTH AND HUMAN SERVICES**

##### **FOOD AND DRUG ADMINISTRATION**

PREPARED STATEMENT OF LESTER M. CRAWFORD, DVM, PH.D., ACTING  
COMMISSIONER

##### **INTRODUCTION**

Mr. Chairman, members of the Committee, I am honored to testify on FDA's fiscal year 2006 President's budget request. I'd like to begin by conveying my appreciation to the Subcommittee members for providing the Food and Drug Administration (FDA) with several key increases in the fiscal year 2005 appropriation. We received increases for food defense, medical device review, Bovine Spongiform Encephalopathy, medical countermeasures, and the FDA consolidation project at White Oak. These increases will allow FDA to continue to meet the expanding range of challenging public health issues that we face. I can assure you that FDA will continue to spend these resources wisely. I believe that the American people would be impressed if they really knew how much return on investment they get from FDA.

I am fully aware of the difficult funding decisions you face in the current session, and I believe that every dollar invested in FDA's programs can have a major positive impact—from the consumer to the farmer to the drug and medical device manufacturer and beyond. FDA plays a lead role in protecting and advancing the public health of the United States.

Our mission is to ensure that U.S. consumers continue to enjoy the safest food, and the most effective medical supplies in the world, and that we continue to foster medical product innovation. We have a good track record of accomplishment. Near the beginning of fiscal year 2004, we unveiled a comprehensive strategic action plan to "protect and advance America's health" in the 21st century. Our plan outlined a series of specific steps to combat the increasingly complex public health challenges we face as a Nation—and to capitalize on the myriad health innovations occurring each day—in order to help U.S. consumers live longer, healthier, and happier lives.

##### **FDA'S 2006 PRESIDENT'S BUDGET REQUEST**

Our fiscal year 2006 Budget request maximizes the performance of our on-board assets—the greatest of which is our scientific staff—and focuses additional requests

on the areas of highest risk and highest yield. Overall, our fiscal year 2006 request is for \$1.50 billion in budget authority, a \$50 million increase above fiscal year 2005. Total funding, including user fees, is \$1.881 billion, \$81 million above fiscal year 2005. Key budget authority increases include: \$30.074 million for Food Defense, \$5.996 million for Medical Device Review, \$5.0 million for the Office of Drug Safety (\$6.5 million including user fees), \$4.1 for rental costs, and \$7.0 million for Buildings and Facilities. The proposed budget allows FDA to continue to work towards meeting statutory regulatory responsibilities while initiating new efforts to address challenges that fall within our mission. Now I'd like to tell you more about these proposed increase requests.

#### FOOD DEFENSE

In the post 9/11 environment, FDA has made fundamental changes in how we implement our mission of protecting the food supply. We are doing this so that all U.S. consumers can have confidence that their food is not only safe, but also secure. We are requesting a \$30 million increase for food defense, to build upon gains achieved with food defense funds appropriated in fiscal year 2005. Funds requested directly support Homeland Security Presidential Directive-9, which established the national policy to protect the Nation's food and agriculture system from terrorist attacks. FDA and the USDA, in conjunction with the White House Homeland Security Council, have continued to coordinate efforts to protect the agricultural and food sectors.

FDA is responsible for ensuring the safety of approximately 80 percent of the Nation's food supply. The possibility of food products being used as a vehicle for attack is a major concern. The direct effects on public health, adverse impacts on public confidence in the U.S. food supply, and economic impacts on the food industry are all potentially devastating. Over the past year we have implemented major enhancements to our food safety and security program.

Shortly after 9/11, FDA focused its Food Security resources on traditional tools to bolster the security of the Nation's food supply. Since then, FDA has conducted classified assessments of strengths and vulnerabilities in the U.S. food system, and has structured its Food Defense plans accordingly. This risk-based strategy deals with the risks of contamination of both imports and domestically produced and processed foods. FDA has also instituted new systems that give advance notice of upcoming food imports, improving FDA's ability to target inspections.

Implementing FDA's strategy is an Administration priority for which an increase of \$30 million is requested. Within the \$30 million increase, \$20 million will support a national network known as the Food Emergency Response Network (FERN). FERN will increase our analytic surge capacity in the event of terrorist attack by developing adequate laboratory testing capacity for biological, chemical and radiological threats and targeted food defense research efforts. This will enable us to test thousands of food samples within a matter of days in the event of an act of terror, or other emergency, and quickly determine what food is safe, and what food is not. This network will be complemented by a strong research program to develop effective protection strategies to shield the food supply from terrorist threats. FDA seeks to detect contaminants more quickly, and, where possible, modify food processing in ways that would neutralize pathogens before they caused harm. An additional \$5.6 million is requested for targeted food defense research on prevention technologies, methods development, determination of infectious dose for certain agents when ingested with food, and agent characteristics within specified foods. A \$3.0 million increase is requested to improve coordination and continue integrating our food defense capabilities with the Department of Homeland Security's, as part of the government-wide Bio-Surveillance Initiative. Finally, \$1.5 million is requested to upgrade our crisis management capabilities so that we are prepared to minimize the impacts of potential problems with the food supply.

#### MEDICAL DEVICE REVIEW

To provide more timely and cost-effective review of new medical devices, we have worked to implement the 2002 Medical Device User Fee and Modernization Act (MDUFMA), which allows us to collect user fees from companies that submit medical device applications. In fiscal year 2006, we are requesting an increase of \$5.996 million to continue to meet the fiscal year 2006 performance and funding expectations in MDUFMA. In fiscal year 2006, we expect to complement the FDA-wide device review program with \$40.3 million in medical device user fees, which is an increase of \$6.362 million over fiscal year 2005.

These additional funds will be used to hire more staff and to develop better systems to support more effective and timely review. The law requires us to pursue a complex and comprehensive set of review goals. Each year brings additional goals,

and the goals become more aggressive. We must report on performance relative to the specified goals at the end of each year.

We have also committed to two ambitious long-term goals for reducing average total approval time for medical device premarket applications, and have already achieved one of these goals, even though it was targeted for fiscal years 2005–2007. It is for a 30-day reduction in average approval time for premarket applications given expedited approval, which is similar to priority approval for drugs and biologics. We have already achieved that goal—a 33 day reduction in average approval time compared with the baseline of fiscal years 1999–2001.

#### OFFICE OF DRUG SAFETY

FDA approves medical products after a sponsor demonstrates that they are safe and effective. However, the full magnitude of potential risks does not always emerge during the clinical trials that are conducted to evaluate safety and effectiveness. Monitoring the safety of marketed products requires close collaboration between our clinical reviewers and safety staff to evaluate and respond to adverse events identified in ongoing clinical trials or reported to us by physicians and their patients.

Ensuring drug product safety is a mission-critical function of FDA's Center for Drug Evaluation and Research (CDER), and is an important component of both the premarket and postmarket review process. FDA is requesting a \$6.5 million increase to strengthen the drug safety functions within CDER's Office of Drug Safety (ODS), of which \$5.0 million is in budget authority and \$1.5 million increase is in PDUFA user fees. One of ODS' primary roles is to provide expertise in the review of post-marketing safety data and to maintain and coordinate CDER's postmarketing surveillance and risk assessment program. ODS plays a significant role in the CDER drug safety mission, however, their role is only a small subset of the total effort expended and resources spent by CDER on drug safety.

This increase will allow us to hire additional staff to manage and lead safety reviews, provide further expertise in critical areas such as risk management, risk communication, epidemiology, and to increase access to a wide range of clinical, pharmaceutical and administrative databases. It will also help increase transparency by sharing drug safety information sooner and more broadly and strengthening FDA's post-market surveillance capacity, using a network of information sources to analyze postmarket drug safety information. The requested increase will also support patient safety initiatives and extend partnerships with the Centers for Medicare and Medicaid Services, the Agency for Health Research Quality and other HHS agencies.

#### WHITE OAK MOVE

FDA is continuing the White Oak Consolidation project, which upon completion will house over 7,700 staff in 2.3 million square feet of space. By the end of fiscal year 2005, the campus will have almost 700,000 square feet completed with 1,850 staff on site. The new buildings will eventually replace all 40 of the existing fragmented facilities in 16 locations which support the Office of the Commissioner, and all of our Centers and the Field headquarters, except the Center for Food Safety and Applied Nutrition and the National Center for Toxicological Research. This project will allow FDA to standardize and modernize document handling, provide shared use facilities such as libraries and conference areas, further reduce redundancies in administrative tasks and allow conversion to a single computer network. In fiscal year 2005, over 1,700 review staff are moving to White Oak, so a significant portion of costs are being financed by PDUFA fees. Fiscal year 2006 costs need to be financed through budget authority; as a result, FDA requests an increase of \$4.128 million in additional budget authority, to provide the needed infrastructure and to move the staff to the CDRH Engineering/Physics Laboratory and a portion of FDA's shared use data center facilities.

#### RENT COSTS

In prior years, FDA's rent costs were budgeted separately from the programs that used the space. To facilitate management improvement, FDA's fiscal year 2006 budget proposes to move funding for rent to the program lines. This will place accountability for rental and other associated costs within the operating programs, and eliminate the need to transfer funds between budget lines when program space needs change. The FDA program lines include increases of \$6.0 million to cover projected increases in rent charges; of this, \$4.1 million is requested in budget authority and \$1.9 million in user fees.

## BUILDINGS AND FACILITIES

In fiscal year 2005, FDA did not request funding to repair and maintain our building and facilities in order to fund other priority initiatives, but we are now challenged to continue to sustain these buildings, some of which are over 50 years old, in poor condition, and have severely deferred maintenance. The requested \$7 million increase for buildings and facilities will help cover the cost of greatly needed repairs and improvements to existing owned or leased facilities that FDA occupies in 49 States and in the District of Columbia and Puerto Rico.

## MANAGEMENT EFFICIENCIES

FDA is continually working to create a stronger, more unified Agency. The increasing complexity of our regulatory mission requires that we look for new ways to create efficiency, standardize processes, enhance infrastructure and improve planning. FDA has made significant improvements to its business practices that support the agency's mission-critical activities through the implementation of the President's Management Agenda. In fiscal year 2006, proposed management savings will result in a \$1.554 million reduction in administrative costs. In the area of Information Technology (IT), we are developing a roadmap to better align key technologies to our policy goals and objectives, which will better integrate enterprise architecture, capital planning and investment management, and project management into a more comprehensive investment review and governance process. We are consolidating IT functions across the Agency, which allows us to realize our goals and objectives while reducing spending. In fiscal year 2006, we are expecting an IT savings of over \$5.1 million.

FDA has redesigned the way we deliver various administrative and information technology services using the shared services model. This model aligns our administrative resources into a customer focused organization, providing more efficient services in a cost effective manner without jeopardizing our mission. This model also allows us to provide services in a way that maintains close ties to customers through negotiated service level agreements that specify the level of service to be delivered and the costs that will be charged to the customer. FDA has also competed and won all six of the commercial activities studied for competitive sourcing in fiscal year 2003 and 2004, generating millions of dollars in efficiencies. FDA is pleased to announce it just won the seventh competition for clerical support services functions, which when implemented will result in a major change in the way we conduct our clerical support service functions.

In the area of financial management, we received our seventh consecutive "unqualified" or clean audit opinion in January 2005 on our financial statements from the Department's Office of Inspector General. This achievement reflects our ability to produce credible financial statements in a timely manner despite the fact that our existing systems are not fully compliant with today's financial standards. We are pleased to announce that in fiscal year 2005 we will implement the new Unified Financial Management System, which will replace our old accounting system. This system used across the Department, will satisfy financial requirements, and provide timely financial information to executives and managers for better decision making. We have also integrated performance information into the traditional budget presentation, providing better linkages between the resource request and its performance goals.

## USER FEE INCREASES

We are also requesting an increase of \$31.320 million for user fees that support prescription drug review, medical device review, animal drug review, mammography inspections, export certification, and color certification fees. All of these requested fee increases are authorized under current law.

## PROTECTING THE HOMELAND—COUNTERTERRORISM

Since September 11, 2001, public awareness of terrorist threats has changed and has underscored the importance of FDA's consumer protection mission. Because our regulatory authority and responsibility cut across critical elements of counterterrorism efforts, we must assess and respond to a broad range of terrorist related health and safety threats. One example of this coordinated effort is the establishment of the Food Emergency Response Network (FERN), which will enable us to test thousands of food samples within a matter of days in the event of an act of terror or other emergency.

Additionally, I would like to highlight our progress in ensuring the safety of food imports as we continue to direct resources to where they are needed most. Import

food field exams, along with laboratory analyses, were FDA's major tools to physically monitor imports prior to the Bioterrorism Act. One of the new approaches under the Act is the implementation of the risk based Prior Notice system as a basis for triaging and prioritizing the examination of imported food shipments that may pose the greatest risk to U.S. consumers. Our fiscal year 2006 food defense request contains priorities (FERN, research, biosurveillance and crisis management) that Congress funded in fiscal year 2005. This will allow us to take advantage of new authorities provided in the Bioterrorism Act to further our use of risk-based monitoring of food imports.

FDA is also focusing its efforts on medical countermeasures to strengthen our preparedness and response capabilities and to help the Agency remain vigilant against potential threats to the public's health and security. FDA regulated products, such as human and animal drugs, vaccines, blood, and other products, will play a crucial role in countering the effects of a terrorist attack. We are working with industry to develop medical countermeasures using state-of-the-art science, and collaborating with other agencies and organizations to identify existing products that may be useful as medical countermeasures.

One example is Prussian Blue, which has been approved as Radiogardase for the treatment of contamination with radioactive cesium or non-radioactive thallium, released from a "dirty bomb." The product has been used since the 1960s as an investigational drug to enhance excretion of cesium and thallium from the body. To encourage manufacturers to submit marketing applications for the approval of this important medical countermeasure, FDA carefully reviewed the available data and literature, determined that the product would be found safe and effective, and published this finding, along with draft labeling. In fiscal year 2004, FDA approved two other drugs, pentetate calcium trisodium injection and pentetate zinc trisodium injection, for treating certain kinds of radiation contamination. And this February, FDA announced the approval of Vaccinia Immune Globulin Intravenous, the first intravenous human plasma derived product available to treat certain rare complications of the smallpox vaccination. Approval of these countermeasure products was facilitated by FDA guidance documents as part of an ongoing effort to provide the public with the best available protection against nuclear accidents and terrorist threats.

We frequently collaborate with the Centers for Disease Control and Prevention, the Department of Homeland Security, the Department of Defense, and other government agencies to support the availability of essential products in case of a terrorist event. FDA helps to assure the safety and efficacy of the countermeasures held in the Strategic National Stockpile (SNS) that will be used in response to national emergencies. The SNS is a stockpile of critical medical products that includes antibiotics (to treat threats such as anthrax); antitoxins; vaccines (including enough smallpox vaccine for every person in the United States); medical supplies; medications; surgical items; and, other drugs (including treatments for radiation poisoning and chemical agent exposure). The Agency has also conducted vulnerability and needs assessments by reviewing information on available medical countermeasures as well as promising products under development.

#### PATIENT AND CONSUMER SAFETY AND PROTECTION

We continually strive to improve our mechanisms for assuring that patients and consumers are protected from product risks by improving our post-marketing monitoring, analysis, communication and regulatory activities. By partnering with healthcare providers, healthcare institutions and other government agencies, FDA will be able to quickly identify and understand the risks associated with FDA regulated products and effectively communicate concerns and prevention strategies. We also collaborate with foreign government counterparts to share vital information, coordinate enforcement actions, and to leverage our resources, so we can expand FDA's protective functions even more broadly.

FDA grants approval to medical products only after a sponsor demonstrates they are both safe and effective. Unfortunately all approved products pose some level of risk. Unless a new product's demonstrated benefit outweighs its known risk for an intended population, FDA will not approve the product. However, the full scope of risks does not always emerge during the mandatory clinical trials conducted before approval. Occasionally, serious adverse effects are identified after approval either in post-marketing clinical trials being conducted for unapproved indications, or through spontaneous reporting of adverse events. Such reactions can range from a minor, unpleasant reaction to a product, to an event that is life-threatening or deadly. An adverse reaction may also result from errors in prescribing, dispensing or use. The issue of how to detect and limit adverse reactions is challenging. How to weigh

the impact of an adverse reaction against the benefit of a product to a patient and the public health is multifaceted and complex, involving scientific as well as public policy issues. FDA often relies on input from over thirty advisory committees to provide advice and guidance during and after the review process.

The number of serious adverse drug events reported to the FDA grew more than four-fold between 1992 and 2003. About 45 percent of these adverse events are caused by medication errors that occur in dispensing or administration. These troubling statistics demonstrates why Congress has supported FDA in creating a post-market safety program designed to assess these postmarket adverse events. This complements the pre-market safety reviews required for approval of medical products in the United States.

There is evidence that spontaneous reporting systems alone do not allow for adequate characterization of the true safety profile of a regulated product. We have been working with Federal, State and private organizations to identify useful sources of data using adverse event monitoring systems such as MedSun, which is a post-market reporting system that serves as an advance warning system and provides two-way communications to report adverse events associated medical devices. A primary focus involves identifying particular risks in specific populations such as children, elderly, and patients from particular demographic groups who may be associated with different risks.

The most recent patient safety issue has involved the drug Vioxx (rofecoxib) which illustrates the vital importance of both the ongoing assessment of the safety of an approved product once it is in widespread use and the effective communication of newly discovered risks to patients and medical providers. FDA has taken a number of steps to improve our drug safety system and thereby better protect the public health. FDA is sponsoring an Institute of Medicine (IOM) study that will make an assessment of FDA's drug safety system and its effectiveness in safeguarding U.S. consumers. This study will focus on the postmarketing phase of FDA's oversight, and assess what additional steps can be taken to improve it. While this IOM process proceeds, FDA will institute a number of steps designed to foster greater independence and transparency in postmarketing safety deliberations.

On February 15, 2005, Health and Human Services Secretary Leavitt and I unveiled a new emboldened vision for FDA that will promote a culture of openness and enhanced oversight within the Agency. As part of this vision, FDA will create a new, independent, Drug Safety Oversight Board to oversee the management of drug safety issues, and will provide emerging information to health providers and patients about the risks and benefits of medicines. This Board will oversee the management of important drug safety issues within CDER. The Board will be comprised of medical experts from FDA and other HHS agencies and government departments (e.g., Department of Veterans Affairs), and will consult with other medical experts and representatives of patient and consumer groups.

FDA will also increase the transparency of our decision-making process by establishing new and expanding existing communication channels to provide targeted drug safety information to the public. These channels will help ensure that established and emerging drug safety data are quickly available in an easily accessible form. The increased openness will enable patients and their healthcare professionals to make better-informed decisions about individual treatment options. The Agency is also proposing a new "Drug Watch" Web page for emerging data and risk information and increased use of consumer-friendly information written especially for healthcare professionals and patients.

As FDA develops these communications formats, we will solicit public input on how FDA should manage potential concerns associated with disseminating emerging information prior to regulatory action. The Agency will issue draft guidance on procedures and criteria for identifying drugs and information for the Drug Watch page. In addition, we will actively seek feedback from healthcare professionals and patients on how best to make this information available to them.

As one effort to help prevent medical administration errors, FDA has issued a rule requiring bar codes on the labels of thousands of human drugs and biological products. This measure will help protect patients from preventable medication errors, reduce the cost of healthcare and harness information technology to promote higher quality care. Monitoring the safety of marketed products requires close collaboration between our clinical reviewers and safety staff to evaluate and respond to adverse events identified in ongoing clinical trials or reported to us by physicians and their patients.

Children are a particularly vulnerable population. Until recently, they have not usually benefited from the knowledge that is gained by studying the products that are being used to treat them. Utilizing the tools Congress gave FDA in the Modernization Act, the Best Pharmaceuticals for Children Act (BPCA) and in the Pedi-

atric Research Equity Act (PREA), we have made enormous progress in obtaining information about the safety and efficacy on over 100 products that are prescribed to children. Of these, 87 have new labeling information for children. From these studies, it was determined that almost one in four of the products did not work, had a pediatric safety issue or required a change in dose. Almost all of the information that was developed concerning the safety of Selective Serotonin Reuptake Inhibitors (SSRIs) and their use in pediatrics came from studies FDA requested using these new tools.

BPCA contains important, new disclosure requirements. Under BPCA, a summary of FDA's medical and clinical pharmacology reviews of pediatric studies is publicly available regardless of the action taken on the application. Since 2002, FDA has posted the summaries of 41 product reviews on FDA's website at: <http://www.fda.gov/cder/pediatric/Summaryreview.htm>. This information provides a rich source of valuable safety information to allow pediatricians to make more informed decisions about whether and how to use these drugs in their patients.

After a year of hard work by our dedicated staff, I am pleased to report that we have made significant progress in achieving our goals for protecting and advancing America's health and safety. We have empowered consumers to improve their own health through better information about the foods they eat and the medicines they consume. The Agency introduced a national education campaign to give consumers advice on how to safely use over-the-counter pain relief products like non-steroidal anti-inflammatory drugs (including aspirin and ibuprofen) and acetaminophen. In addition, FDA is asking the manufacturers of all OTC non-steroidal anti-inflammatory drugs (NSAIDs) to revise their labels to include more specific information about potential cardiovascular and gastrointestinal risks as well as information to assist consumers in the safe use of such drugs. This effort on OTC NSAIDs is consistent with FDA's efforts to address similar concerns about prescription NSAIDs.

I am also proud to report that one of FDA's top priorities is the implementation of the Food Allergen Labeling and Consumer Protection Act. Beginning in 2006, the Agency plans to ensure that manufacturers provide improved food labeling information that will help the millions of consumers who suffer from food allergies. The act specifically requires food labels to identify in plain English if the product contains any of the eight major food allergens—milk, eggs, fish, crustacean shellfish, peanuts, tree nuts, wheat and soybeans. The new labeling will be especially helpful in teaching children who suffer from food allergies to recognize the presence of substances they need to avoid.

The final rule prohibiting the sale of dietary supplements that contain ephedra, went into effect in April 2004, paving the way for greater consumer protection and removal of risky products from the market. FDA has developed a four-pronged approach for ensuring the safety of dietary supplements, including supplements promoted for weight loss. This approach includes guidance on assuring the safety of new dietary ingredients, development of good manufacturing practices guidelines for dietary supplements, guidance on the scientific evidence needed to substantiate label claims on dietary supplements, and diligent enforcement.

We are also working collaboratively with Federal and other partners to develop the scientific evidentiary base FDA will use to make safety and enforcement decisions on dietary supplements that contain ephedra. Partners in this effort include, FDA's Center for Food Safety and Applied Nutrition, National Center for Toxicological Research, the National Institutes of Health's Office of Dietary Supplements and National Center for Complementary and Alternative Medicine, and the National Toxicology Program in the Department of Health and Human Services. We are also partnering with the University of Mississippi's National Center for Natural Products Research, as well as others, on dietary supplement issues.

I am also pleased to report that a training program was also developed for health educators to help teach food safety to pregnant women and women who might become pregnant. In January of this year the HHS, in conjunction with USDA released the "Dietary Guidelines for Americans 2005", an update of the Federal Government's science-based advice to promote health and reduce risk of chronic diseases through nutrition and physical activity. FDA was instrumental in developing the Dietary Guidelines. However, FDA will continue to confront complex challenges in fiscal year 2006.

As you can see, FDA is further protecting the public health by constantly exploring new ideas, modernizing our rules, streamlining our procedures and carrying out ground-breaking reforms, which began with the FDA Modernization Act. We are experiencing one of our greatest periods of innovation. The strategies we are putting to work are designed to deliver optimum health gains for each tax dollar while eas-

ing regulatory burden on industry and removing obstacles in the path of product innovation across all industries in the FDA's purview.

The FDA strives to be a respected steward of the public's trust and ensures that benefits outweigh the risks of regulated products. We will keep the promise of the FDA mission by putting in place more rigorous oversight and by collecting and sharing important and emerging information about product safety and effectiveness. The 21st Century has brought unprecedented new challenges to patient and consumer safety and FDA is aggressively moving ahead on a number of important protections, old and new.

#### USING RISK BASED MANAGEMENT PRACTICES

Our mission has become much more complicated as public health protection continues to entail a wide range of unprecedented challenges and threats. The number of medical products that we regulate now exceeds 150,000, and the products are becoming increasingly more complex. Access to this rapidly growing range of products offers opportunities for improving health, improving lives, and enhancing lifestyles, but it also creates new kinds of vulnerabilities and risks to the public health.

FDA has identified efficient risk management as the primary way to make the most effective use of resources to address the growing number of FDA regulated products on the market and the increased complexity of many of these products. The Agency has initiated a critical, comprehensive review of its practices related to planning and prioritizing its inspections, conducting inspections as effectively and efficiently as possible, and, achieving compliance with the Federal Food, Drug and Cosmetics Act.

FDA accomplishes these goals through rigorous analysis to consistently identify the most important risks and the use of a quality system approach to designing and conducting our core business processes. Another integral component in the risk-based management strategy is the use of risk-based Current Good Manufacturing Practices (cGMP), to provide a greater focus on product quality. This was initiated under FDA's Good Manufacturing Practices for the 21st Century initiative. The objectives of risk-based GMPs will encourage industry to adopt new technological advances early in the process; to facilitate application of modern quality management techniques, including implementation of quality systems approaches, to all aspects of pharmaceutical production and quality assurance; and, to implement risk-based approaches that focus industry and Agency attention on critical areas. This new approach will also ensure that regulatory review and inspection policies are based on state-of-the-art pharmaceutical science and will also enhance the consistency and coordination of FDA's drug quality regulatory programs, in part, by integrating enhanced quality systems approaches into our business processes and regulatory policies concerning review and inspection activities.

These strategies have resulted in an inspection and enforcement program that provides the foundation for a strong, robust Agency centered on the protection of public health. An example of an innovation stemming from the FDA's recent GMP initiative is the Pharmaceutical Inspectorate, which created a cadre of highly-trained field investigators that focuses on conducting inspections of highly complex or high-risk drug products and processes. Given the environment of fiscal restraint, the Agency must make informed decisions on how the workload can be best accomplished, while still safely monitoring regulated products. This is being accomplished by covering the highest risks in regulated products.

An example of efficient and effective use of risk management in our operations is the Prior-Notice Import Security Reviews conducted at the Prior Notice Center. These reviews are just one example of the expanded targeting and follow through on potentially high risk import entries that FDA is developing to complement the import field exam. Nearly 20 percent of all imports into the United States are food and food products consumed daily by the public, making imported foods potential vehicles to carry out terrorist attacks in the United States by contamination of our food supply. The Prior-Notice system requires food importers to provide the FDA with advance notice of human and animal food shipments imported or offered for import into the United States.

By requiring advance notice for imported foods, we gain critical new tools that could help identify shipments containing potentially dangerous foods and prevent them from entering the country. For example FDA would know in advance, when and where specific food shipments will enter the United States, what those shipments will contain, from where and from whom they are imported, and the facility where the food was manufactured. This advance information, along with other information from the intelligence community, allows FDA to more effectively target inspections and ensure the safety of imported foods.



FDA receives on average, 27,000 notifications about incoming food shipments each day, and works closely with the Customs and Border Protection (CBP) at the prior-notice Center which is co-located with CBP's National Targeting Center to ensure that the Prior-Notice regulations promote a coordinated strategy for border protection. Using the electronic data required under those regulations, the science-based knowledge of the Agency, and a sophisticated automated targeting system, FDA works side-by-side with CBP while making decisions about food shipments that could pose a potential threat to the United States. Those identified as potential threats will be subject to thorough inspections upon arrival at our ports. This integrated risk-management process increases our security and facilitates the movement of legitimate commerce.

FDA is also helping vaccine manufacturers overcome challenges such as the problems Chiron is experiencing. Under the Good Manufacturing Practices for the 21st Century Initiative, we are working with industry to encourage use of advanced technologies as well as quality systems and risk-based approaches that build quality into the manufacturing process. We are also increasing our surveillance of influenza vaccine manufacturers and have expanded our ability to communicate with our foreign regulatory counterparts on critical public health issues.

#### CLOSING

We at the Food and Drug Administration are working hard to address key challenges in fulfilling our public health mission. Our goal is to maximize the benefits and minimize the risks from the products we regulate. We work to provide high quality and consistent oversight in an environment of changing public health risks, new technologies and global market dynamics. We recognize that our responsibilities are growing in scope and complexity, and we are responding by focusing on our core public health mission, by making high-yield investments and by seeking effective collaborations and partnerships.

Our vision for the future of FDA is one of transformation, requiring the broad use of new technology and new ways of thinking, developed in collaboration with a broad network of partners—public and private, United States and international. By capitalizing on 21st century information technology and regulatory process innovation, we will leverage public investment in FDA to yield an even greater level of public health protection, and lower barriers on the critical path to medical innovation. This will allow us to further implement a quality systems approach in all of our operations, improving regulatory business processes, increasing productivity, and promoting better health outcomes. We are committed to fostering increased predictability and transparency in every aspect of what we do.

We would like to thank you for your continued support of the agency and its public health mission. This year is expected to be another exciting one for the Agency and we look forward to working with you throughout the 109th Congress.

#### DEPARTMENT OF AGRICULTURE

##### OFFICE OF THE INSPECTOR GENERAL

##### PREPARED STATEMENT OF PHYLLIS K. FONG, INSPECTOR GENERAL

Good morning, Mr. Chairman and Members of the Subcommittee. Thank you for inviting me to testify before you today to discuss the activities of the Office of Inspector General (OIG) and to provide you information from our work pertaining to the programs and operations of the U.S. Department of Agriculture (USDA).

I would like to introduce the members of my senior management team who are here with me today: Joyce Fleischman, Deputy Inspector General; Robert Young, Assistant Inspector General for Audit; Mark Woods, Assistant Inspector General for Investigations; and Walt Kowal, Director of our Business Management and Procurement Division.

I am pleased with the opportunity to provide the Subcommittee with some of the highlights of our audit and investigative activities over the past year, inform you about the results we achieved, and give you a preview of projects of interest that are pending or are planned for fiscal year 2005.

To ensure that our audit and investigative resources are directed at the most important challenges facing USDA, we have begun planning, organizing, and budgeting our work according to three major objectives that define our priorities.

My testimony today will be focused on our work directed towards the major challenges facing the Department in the areas of safety, security and public health, program integrity, and management of public resources.

## SAFETY, SECURITY, AND PUBLIC HEALTH

The highest priority for our audit and investigative work is to support USDA in the enhancement of effective safety and security measures to protect USDA and our Nation's agricultural resources.

*Food Safety: Improving USDA Oversight and Inspection Systems*

Ensuring a safe domestic food supply and providing an effective and reliable system of import safeguards for foreign-produced food products is a vital responsibility of the Department. Public and congressional concerns continue regarding the ramifications of Bovine Spongiform Encephalopathy (BSE) in Canada's cattle herd and its impact on the U.S. cattle market. We are continuing our work on the Department's surveillance efforts to detect and estimate the prevalence of BSE in the U.S. cattle herd. We are focusing our efforts on whether USDA has established effective management control processes over inspection-related activities, including animal disease surveillance programs. OIG will devote significant audit and investigative resources to BSE and other food safety issues in fiscal year 2005 to assist the Department as it addresses the challenging questions that have arisen.

*Investigating the USDA Response When BSE-Suspect Cattle Are Identified*

Last year, I advised the Subcommittee that OIG was investigating allegations surrounding the health status of the BSE-positive cow found in Washington State in December 2003. Allegations were raised in the media pertaining to the potential falsification of USDA inspection records that described the cow's condition before its BSE status was confirmed. OIG investigated whether any USDA personnel or private parties provided false information or engaged in any intentional misconduct. We also examined whether USDA personnel and employees of the beef processing facility followed proper procedures during the inspection of the BSE-positive cow and during their collection, handling, and delivery of tissue samples from the infected cow.

In July 2004 testimony before a joint hearing of the House Agriculture and Government Reform Committees on BSE issues, I reported that we found no instances where USDA personnel knowingly conveyed false information or engaged in intentional misconduct. APHIS and the Canadian Food Inspection Agency (CFIA) concluded that they accurately identified the BSE-positive cow. We examined their work and agreed with their conclusion. OIG discovered no evidence that USDA personnel falsified any records pertaining to the condition of the BSE cow at the time of inspection. Our investigation also found that the former employee of the facility, who alleged that the BSE-positive cow was ambulatory and healthy when it arrived at the facility, described a different animal from the one that arrived in the same trailer and later tested BSE-positive.

A second OIG investigation into the handling of a BSE-suspect cow by Department officials resulted from the premature condemnation of a cow in San Angelo, Texas. On May 4, 2004, the FSIS Acting Regional Director in Dallas, Texas, reported that a cow identified as having Central Nervous System (CNS) symptoms by an FSIS veterinarian at a beef processing facility in San Angelo, Texas, was not tested for BSE after it had been slaughtered. The initial decision by the FSIS Veterinary Medical Officer (VMO) on-site at the facility to test the cow for BSE was overturned by a senior APHIS official, and the cow's carcass was subsequently sent to a rendering plant.

OIG investigated whether an APHIS official in Austin, Texas, provided a false statement to USDA/FSIS investigators during their inquiry into his decision not to test the animal at the facility. The OIG investigation found no evidence that any of the USDA officials responsible for the decision not to take brain tissue samples from the cow for BSE testing, or any other USDA personnel, provided false information or engaged in intentional misconduct. The cow did not enter the food supply; its carcass was disposed of at a local landfill in accordance with applicable environmental standards.

After the incident, FSIS and APHIS Veterinary Services announced a new joint policy regarding BSE sampling of condemned cattle at slaughter plants. The policy establishes protocols for the agencies' responsibilities to obtain samples from condemned cattle exhibiting signs of CNS disorders, regardless of age.

*The USDA BSE Surveillance Plan and BSE Enforcement Issues*

The Department's testing of cattle for BSE had centered on high-risk cattle—those that exhibit a CNS disorder or died from unclear causes. After the discovery of a BSE-infected animal in Washington State in December 2003, APHIS expanded its surveillance program beginning June 1, 2004.

As I testified last year, we initiated an audit to assess whether the surveillance program in place in December 2003 had been adequately implemented and whether the expanded program would accomplish its stated goal to determine if “. . . BSE is actually present in the population and, if so, at what level.” We concluded that several limitations inherent in the expanded sampling plan needed to be clarified to convey what the results of the testing actually imply. Among the major issues we identified were: sampling was not truly random because participation in the program is voluntary; APHIS could not obtain a statistically appropriate geographical representation of the U.S. cattle population, so the chances of detecting BSE, if it exists, would be reduced; and the projected maximum BSE prevalence rate may be unreliable.

Our review also determined that cattle condemned at slaughter plants for CNS disorders were not always tested for BSE. The Department needed to increase testing of rabies-negative brain samples from animals that exhibit clinical signs not inconsistent with BSE. At the time of our review, a process for obtaining samples from cattle that “died on the farm” had not been developed. USDA also needed to standardize the age requirement for BSE testing.

Based on our audit findings, we recommended that APHIS fully disclose the assumptions behind its sampling plan, clarify the limitations, and ensure that all high-risk animals are sampled and tested in accordance with USDA policy and the 2004 Surveillance Plan. We also recommended that APHIS expedite development of a new system to track and report accomplishments and implement performance measures and a continuous risk assessment. APHIS agreed with all of our recommendations and advised OIG it is moving to correct the weaknesses we identified.

Currently, OIG has four audits in progress pertaining to BSE. In our BSE Surveillance Program—Phase II audit, OIG is monitoring the Department’s implementation of its BSE-Expanded Surveillance Program, involving both APHIS and FSIS. This audit will evaluate the effectiveness of APHIS’ expanded BSE Surveillance program; whether BSE laboratories are meeting their objectives and are in compliance with program policies and procedures for conducting tests on submitted BSE samples and reporting test results to APHIS and stakeholders; and if APHIS and FSIS took prompt and proper corrective actions in response to recommendations in the BSE Surveillance Program—Phase I audit report previously cited.

In our Phase III review, we will evaluate whether the USDA enforcement of the ban on specified risk materials (SRMs) in meat products and controls to prevent central nervous system (CNS) tissue in advanced meat recovery (AMR) product have been effectively implemented. The review will also cover FSIS ante mortem condemnation procedures and procedures for obtaining brain tissue samples from condemned cattle for BSE testing. Our target date for completing these two efforts is early summer, 2005. This week, we released our audit of the Department’s (APHIS, FSIS) Oversight of the Importation of Beef Products from Canada. In May 2003, USDA halted imports of live cattle, ruminants, and ruminant products from Canada after a Canadian cow tested positive for BSE. In August 2003, the Department announced that it would allow the importation of low-risk beef and other ruminant products from Canada. In response to congressional concerns, we evaluated APHIS’ oversight of Canadian beef imports and whether proper controls were established to ensure that only low-risk product entered the United States. Among our key objectives were determining whether APHIS met existing regulatory and policy requirements regarding permits that allowed the importation of some Canadian beef products and whether APHIS properly considered and implemented risk-mitigation measures for animal and public health. We found that while APHIS allowed the import of beef products they considered low risk in an attempt to further trade, they did not publicly communicate or explain their actions to all interested parties. APHIS changed its policies relating to required risk mitigation measures to allow the import of low-risk product produced at facilities that also handled higher risk product, thereby increasing the potential risk for cross-contamination. OIG made a number of recommendations that would strengthen the USDA process for communicating such changes in policy and improve controls over Canadian beef product imports. The Department has generally agreed with our recommendations and has identified a number of positive actions to address these concerns. Finally, we are completing an audit to evaluate the adequacy of a recall of ineligible product from Canada and will be reporting our results to you.

#### *Food Contamination and Recall Activities*

In my testimony before the Subcommittee for the last 2 years, I discussed OIG work regarding FSIS recall operations that involved the adulteration of ground beef products by *Escherichia coli* (E. coli) in a Colorado plant. Our audit of the Colorado

facility determined that the facility and FSIS had not fulfilled their responsibilities under the Hazard Analysis and Critical Control Point (HACCP) system. OIG made extensive recommendations to improve their inspection processes and recall procedures in this audit. As a result, FSIS directed plants to reassess their HACCP plans for raw ground beef products and issued a directive requiring inspectors to obtain processing plants' pathogen test results at least on a weekly basis. FSIS issued a second directive that clarified when trace-back samples should be taken and that suppliers shall be notified of test results.

At the time of my testimony last year, two audits on *Listeria* adulteration recalls were still underway. In two audit reports issued in June 2004, we determined that similar to the Colorado recall incident, weaknesses in FSIS' management control and oversight of the recall process were again evident. In response to our recommendations, FSIS issued a new directive on recall procedures, which implemented a process for selecting customers for effectiveness checks, and enhanced instructions to agency personnel for performing effectiveness checks on products distributed to the National School Lunch Program. We are still working with FSIS to address the development of a supportable methodology for determining the success, or failure, of a recall.

Regarding our investigative work on incidents of food adulteration, we investigated the owner of a California food service management storage and distribution business for supplying 47 California school districts with poultry products containing rodent hair, feces, and signs of being gnawed by rodents. The owner and plant manager were convicted, placed on probation, and fined over \$10,000.

#### *Controls Over Germplasm Storage Material and Genetically Engineered Organism Field Testing*

USDA plays a major role in regulating and monitoring genetically engineered organisms (GEOs), ranging from the storing of germplasm used to produce seeds for such crops, to approving field tests of genetically engineered crops, to monitoring the movement and import of GEO crops. In March 2004, we issued a report on the adequacy of USDA controls over the identification, accountability, and security of plant germplasm at USDA facilities. We found that guidance and policies were lacking and that inventory accountability and physical security needed improvement. The agencies responsible for storing germplasm and controlling its movement (ARS and APHIS) agreed to take action on our recommendations.

Because of the sensitivity and potential impact biotechnology has on U.S. trade, we are continuing our work in this area. We have an audit that is nearing completion that will report our evaluation of USDA controls over field tests and movements of GEOs. We are examining APHIS' procedures for approving, controlling, and monitoring field tests of genetically engineered crops to prevent the inadvertent release of GEOs in the environment. Uncontrolled and inadvertent release of GEOs, particularly high-risk GEOs such as those containing pharmaceutical and industrial compounds, cannot only seriously impact the safety of the food supply, but adversely impact trade. Further, the genetic diversity of plant life can be compromised. We expect to issue a final report on our work by late spring.

#### *Homeland Security and Program Implementation*

We place a high priority on work that will assist USDA officials in strengthening the Department's defenses against threats to our Nation's food supply, production agriculture, and Federal facilities.

We reviewed the Department's progress in addressing the specific security, inventory, and access deficiencies identified in a previous OIG report on USDA research laboratories and examined its implementation of new policies to improve controls on inventories and biosecurity. To do so, OIG made unannounced visits to 16 laboratories previously identified as having deficiencies. We found that while agency officials had made great progress to implement biosecurity measures, particularly for BSL-3 laboratories, further improvement is needed with respect to accountable records, internal reviews, and cybersecurity.

Our work has shown that subjects of OIG investigations are also of interest to other members of the Federal Bureau of Investigation (FBI) Joint Terrorism Task Forces. This has led to several recent cases. OIG participated in the FBI's JTTF in Columbus, Ohio, and we assisted in the investigation of an individual for providing material support to the al Qaeda terrorist network. The individual pled guilty in the Eastern District of Virginia to one count of conspiracy to provide material support and resources to al Qaeda and one count of Providing Material Support and Resources to al Qaeda. He was sentenced to 20 years in prison.

OIG created a nationwide task force in order to coordinate with Federal, State, and local law enforcement agencies in identifying and prosecuting violators who

steal infant formula from large chain stores. Stolen infant formula is a nationwide problem due to the resale value of the merchandise on the black market and the potential for overseas transfers of the illegal proceeds. OIG is particularly concerned with the health and wholesomeness of the stolen infant formula because previous investigation indicates it is often relabeled and resold in smaller grocery stores—often through the Women, Infants, and Children (WIC) program. We have found that expired, stolen infant formula is often relabeled with new expiration dates, and some of the relabeled formula does not contain the nutrients/ingredients listed on the label. Currently, we have 14 open investigations involving stolen infant formula. We are working with JTTFs in order to assist other Federal and local law enforcement agencies and to insure that this issue remains an investigative priority.

*Evaluation of the Implementation of the Listed Agent or Toxin Regulations*

Select agents or toxins are those biological agents listed by APHIS as having the potential to pose a severe threat to animal and plant health or to animal and plant products. APHIS is required by the Public Health Security and Bioterrorism Preparedness and Response Act to ensure that anyone possessing, using, or transferring these agents is registered with the Government.

We are examining whether adequate controls are in place at APHIS headquarters to ensure that entities known to use or store listed agents or toxins are registered, that laboratory reported security measures are assessed, and that movement of select agents between scientists and laboratories can be documented and tracked. We are also participating in an Interagency Working Group reviewing the export licensing process for biological and chemical commodities. The Interagency Working Group is interested in the responsibilities and actions of APHIS concerning the possession, use, and transfer of biological agents and toxins and their relationship to export licensing.

*Homeland Security-Related Audit Work Planned in Fiscal Year 2005*

We have several security-related audits that we expect to begin work on in fiscal year 2005. OIG will conduct an audit on the Department's implementation of the Bioterrorism Act of 2002. This Act requires, in part, that warehouses and elevators that are used to store Government-owned commodities register with the Food and Drug Administration (FDA) and establish and maintain records that can be used to identify producers. We will assess whether USDA has properly verified or required FDA registration and compliance prior to entering into storage agreements with warehouse and elevator firms. We will also follow up on our prior audit of Forest Service (FS) security over explosives/munitions magazines located within the National Forest System (NFS). We will assess FS' action to implement our prior recommendations and determine if explosives/munitions magazines are adequately secured.

*Protecting the Safety of USDA Employees*

A fundamental duty of OIG is to expeditiously investigate any incidents of violence or threats of violence against USDA employees. USDA employees must be protected against harassment or intimidation as they discharge their duties, whether they are engaged in protecting public safety as food inspectors, or serving as law enforcement personnel in our national forests. Last fall, OIG helped secure a conviction for a crime that took the lives of two dedicated FSIS employees. In October 2004, after a 6-month jury trial in Alameda County, California, the owner of a sausage factory was convicted of homicide with special circumstances (first degree murder) for the murder of two FSIS Compliance Officers and one California Department of Food and Agriculture Investigator while they were on official business at his facility in June 2000. In January, the jury recommended that the owner be sentenced to death for this crime. An OIG Special Agent played a primary role in investigating the murders and assisting the prosecution's case. Sentencing by the judge is imminent.

Last week, OIG submitted our statutorily mandated investigative report to Congress pertaining to the deaths of two FS employees who died fighting the Cramer Fire in the Salmon-Challis National Forest (Idaho). OIG found that certain FS personnel at the fire, primarily the Incident Commander, failed to comply with established FS firefighting policies and tactics. Our investigation found that the contract firefighting teams, who were brought in to assist FS firefighters, performed poorly. Therefore, we initiated a review of FS' use of private contract crews to determine the effectiveness of FS' procedures and oversight pertaining to the contract crews' readiness, training certifications, and communication proficiencies, among other issues.

*Reducing USDA Program Vulnerabilities and Enhancing Program Integrity*

OIG's second priority is to help USDA reduce vulnerabilities and ensure or restore integrity in the various benefit and entitlement programs of USDA, including a variety of programs that provide payments directly and indirectly to individuals or entities.

*Targeting Risk and Improper Payments Within USDA*

The Improper Payments Information Act of 2002 (IPIA) requires the head of each agency to annually review all programs and activities the agency administers to identify those that may be susceptible to significant improper payments. Once these programs are identified, the agencies must estimate the annual amount of improper payments, and, if the estimate is over \$10 million and greater than 2.5 percent of program payments, report the estimate to Congress along with the actions the agency is taking to reduce those improper payments. The Department's farm programs and food and nutrition programs, which amounted to \$34 billion and \$46 billion, respectively, last year, are subject to this statute's requirements. Three primary agencies (the Risk Management Agency (RMA), the Farm Service Agency (FSA), and the Natural Resources Conservation Service (NRCS)) administer USDA's crop insurance, crop disaster, and conservation programs, respectively, while the feeding programs are administered by the Food and Nutrition Service (FNS). We audited implementation of the IPIA in these agencies. We found that FNS had available information from numerous sources to establish baseline information the agency could have used to establish error rates for feeding programs in response to OMB's data request for improper payment information. However, the agency did not believe the information was statistically valid and, therefore, could not be used to report on improper payments.

Our review of IPIA implementation in FSA and NRCS disclosed little progress being made. The agencies did not take necessary action to comply with the Act and implement OMB's guidance. The agencies stated the guidance provided by OMB and the Department's Office of Chief Financial Officer (OCFO) was unclear; and, therefore, they were unsure of what actions to take. Our audit of OCFO's implementation measures disclosed that OCFO's direction and guidance to the agencies needs to be strengthened in order to provide reasonable assurance that program areas vulnerable to improper payments are fully identified. We will continue to monitor the Department's implementation of the IPIA.

We have initiated a multifaceted and comprehensive review of USDA's farm programs to identify improper payments and address fraud and abuse. This initiative is now focusing on crop insurance, disaster payments, and payment limitations but will be expanded to other USDA farm programs. Our audit and investigative staffs, which have extensive experience with these programs, are now reviewing previously conducted audits and investigations and are compiling data on program vulnerabilities and their causes. Efforts will then shift to the development of innovative solutions and the means to identify abuse. OIG is working with RMA this year to access and learn how to better use data mining tools that will help us proactively target crop insurance fraud by farmers, agents, and adjusters involving suspicious patterns of claims. Our computer forensics unit will play a major role in the latter phase, as it will use its recently enhanced capability to develop processes that will analyze, manipulate, and cross-match computer data in the various agencies' databases and detect those most likely to be involved in abuse. We were very successful in our initial development of computerized targeting of fraud in the Food Stamp Program and hope to achieve similar success with USDA's farm programs. We also plan to work with RMA to enhance our ability to use satellite imagery to strengthen the hard evidence used in crop insurance fraud cases.

*Food and Nutrition Programs*

OIG has continued to work with FNS to improve program integrity and to identify improvements in program administration. In fiscal year 2004, we evaluated internal controls related to National School Lunch Program (NSLP) meal accountability, procurement, and accounting systems in six States. We identified control weaknesses in meal accountability procedures, including lack of proper edit checks, to ensure the accuracy of the daily meal counts and claims for reimbursement and procurement procedures. For instance, in the 2000 school year, the Philadelphia school district claimed reimbursement for 241,852 meals served in excess of students in attendance, 147,954 meals in the incorrect reimbursement category, and 109,778 more free and reduced-price meals than could be supported by approved applications and direct certifications. This resulted in excess reimbursements of over \$800,000. In Chicago, nearly 27 percent of the 598 schools in the district submitted undetected inflated meal claims, over-claiming 642,102 breakfasts and lunches in the period of

October 2003-May 2004. Due to the school district's limited oversight, we questioned over \$1.2 million in program funds and recommended collection of over \$650,000.

In fiscal year 2004, FNS received about \$5 million to enhance program integrity in Child Nutrition Programs by expanding assessment of certification accuracy in the school meals programs. FNS is using this funding to conduct a study aimed at providing a reliable, national estimate of over and under payments in the NSLP and the School Breakfast Program (SBP). The study will analyze data for school year 2005-2006, and we will monitor the study results to assure it meets its intended purpose. Depending on the significance of the error rates that will be identified by the study, FNS should be better able to determine whether changes are needed in eligibility requirements for NSLP and SBP to reduce ineligible participation.

OIG also conducted investigations involving over \$1 million in false claims involving inflated meal claims for reimbursement from the NSLP and the Child and Adult Care Feeding Program. Through court actions, we have recovered \$570,000 in California, Louisiana, and Wisconsin and have \$1 million in claims pending in a New York case along with three persons sentenced from 6 to 30 months in prison.

#### *Food Stamp Program Investigations*

Illegal trafficking in Food Stamp Program (FSP) benefits, whether issued through electronic benefits transfers (EBT) systems or food coupons, continues to be a major area of concern. Over the last year, we spent approximately 20 percent of our investigative time on investigations of FSP fraud. The use of EBT systems to deliver FSP benefits, in addition to saving administrative program costs by eliminating costs of printing, issuing, and reconciling millions of paper food stamps every month, has also provided a wealth of electronic data of enormous benefit in detecting and investigating suspicious patterns of activity and in compiling evidence that is used to successfully prosecute corrupt retailers.

Using the Computer Forensic Unit's (CFU) capabilities, we can analyze the EBT database and track recipient and store redemption patterns to prove fraud and determine the total amount of money involved. The investigation of an authorized store in Chicago illustrates how we are able to use the data. The subjects of the investigation had moved the authorized point of sale device to different locations in Chicago so they could exchange cash for EBT benefits away from the authorized store. We were able to analyze the EBT data to track recipient and store redemption patterns to prove the fraud, as well as determine the total amount of fraud involved in the case. For example, recipients redeemed benefits in two stores that were miles apart and physically impossible to travel to in the time indicated in the redemption data. Our work resulted in four individuals being sentenced to serve from 15 to 57 months in prison and ordered to pay \$29.1 million in restitution.

#### *RMA: Reducing IT Security and Operations Vulnerabilities*

RMA administers the Federal Crop Insurance Corporation (FCIC) and oversees all programs authorized under the Federal Crop Insurance Act. RMA's fiscal year 2004 crop year potential liability exceeded \$46 billion. FCIC's 2004 crop year premium subsidy and producer-paid premiums are \$2.5 billion and \$1.6 billion, respectively. As of August 30, 2004, insurance indemnities paid on the 2003 crop year were \$3.2 billion.

We audited RMA's IT security and operations, which disclosed serious internal control weaknesses in the overall management and organizational structure for these activities. RMA's IT environment is highly vulnerable due, in part, to the overall control of IT operations by production managers who also control the financial commitments and outlays. This vulnerability resulted in material noncompliance with OMB and Presidential Decision Directives. Our electronic vulnerability scans of RMA's network revealed over 300 high- and medium-risk vulnerabilities, insufficient system policy settings, and serious and recurring access control weaknesses, compounded by inadequate firewalls and intrusion detection devices. Overall, RMA managers did not adhere to the Department's system development lifecycle methodology for software application development, installation, and/or maintenance.

We recommended that RMA provide sufficient resources to its new Chief Information Officer to effectively oversee IT security and preclude undue influence by production managers. We additionally recommended that RMA include the noted material control weaknesses in its Federal Managers' Financial Integrity Act (FMFIA) report; take immediate action to eliminate the vulnerabilities noted; and establish appropriate policies, procedures, and controls for the agency's IT operations. We also recommended that RMA obtain background investigations for all IT contractor employees before access to systems, hardware, and facilities is authorized. RMA officials have indicated that they plan to take aggressive action by prioritizing the recommendations and acting first on those that will mitigate the FMFIA material in-

ternal control weakness. We will follow up to see that corrective actions will be taken.

*RMA: Investigations into Crop Insurance Payment Fraud*

We have a number of investigations ongoing into crop insurance fraud, as well as disaster payment fraud. Most of these investigations involve substantial dollar amounts. For example, in two of our cases, OIG investigated 9 persons who schemed to gain over \$20 million in fraudulent RMA and FSA payments. The investigations have resulted in forfeiture of \$13 million in cash and property to the Government in order to recoup some of these losses. One of the persons has been sentenced up to 60 months in prison, and the others pled guilty and are waiting to be sentenced.

*FSA: Investigations into Payment Limitation Fraud*

In addition to fraud cases involving crop insurance and disaster payments, we have a number of open investigations pursuing fraud involving payment limitations. Our investigations have found variations of a common scheme, such as: fraudulently including the names of individuals on farm operating plans who do not meet FSA's requirement that one be "actively engaged in farming operations"; establishing farming partnerships where alleged partners do not actually share in the farming operation; failing to disclose that partners in one farming partnership have an interest in another farming operation; and falsifying documents to hide the fact that the financial accounts are actually commingled with those of another farming entity.

As an example, OIG investigated a case of fraud committed by one of Mississippi's largest farmers and his brother. This resulted in both of them pleading guilty in June 2004 to conspiracy to defraud FSA of \$11.2 million in subsidy program payments, submitting false statements to FSA, wire fraud, mail fraud, money laundering, and witness tampering. The plea agreement included the criminal forfeiture of approximately 400 acres and one of the farmer's houses that had been built with the proceeds from this scheme. The farmer's accountant actively participated in the conspiracy and also pled guilty. From 1999 through 2001, the conspirators created 13 partnerships and 64 different corporations to fraudulently obtain payments from FSA and RMA. They recruited and paid individuals for the use of their names and Social Security numbers to secure enough stockholders for each entity and misrepresented those names to FSA to obtain the subsidy payments. The conspirators also attempted to persuade those individuals to testify falsely before a Federal grand jury and to OIG agents. The farmer was sentenced to 5 years imprisonment and ordered to repay \$11.2 million to the Government in restitution. The brother was fined \$5,000 and sentenced to 2 years probation. The accountant was sentenced to 7 months imprisonment and fined \$20,000.

*Natural Resources Conservation Service (NRCS)*

We are also evaluating the potential for improper payments in NRCS conservation programs, as well as determining the impact of any improper payments on other farm program payments. Under various conservation programs administered by NRCS, the Government pays landowners to take marginal agricultural land out of production and put it into environmentally friendly conservation uses. At the same time, FSA agricultural programs provide payments to eligible producers predicated on the number of crop-specific "base acres" on the farm used for agricultural activities, as determined by FSA. In general, producers are prohibited from receiving both an NRCS conservation easement payment and FSA agricultural program payments on the same base acres. Landowners are also paid for conservation easements based on agency appraisals. If appraised values are not properly established, significant overpayments can be made for conservation easements. We are finalizing our work and expect to release a report by late spring, 2005.

*Forest Service*

Each year, wildfires destroy 2 to 7 million acres of resources in the United States, and the Forest Service (FS) faces significant challenges in utilizing its personnel and resources to suppress and control wildland fires and to protect the health of our public forests. OIG will conduct extensive audit work in fiscal year 2005 related to FS firefighting programs, activities, and management actions. We recently completed a review of FS' firefighting safety program. Our review found that while FS had excellent written firefighting safety policies and procedures, improvements were needed in the agency's overall fire safety program. OIG determined that FS had not fully implemented recommendations from past internal and external safety reviews and that the agency did not have documentation to support the qualifications of all its firefighters. OIG will monitor FS management actions to follow up on this audit and related issues that arose in our aforementioned Cramer Fire investigation.



The accumulation of hazardous fuels has been one of the major contributors to the increase in large destructive wildfires. OIG will examine FS' Hazardous Fuels Reduction efforts to assess the agency's controls over the funds, activities, and effectiveness of reducing the accumulation of hazardous fuels. Our review of FS' National Fire Plan Large Fire Suppression Costs will assess FS' efforts to control, account for, and report its large fire suppression costs. FS' costs to fight fires now exceed an average of \$1 billion per year. As part of our audit, we will assess the agency's implementation of recommendations from prior reviews, including FS' action plan, to determine whether FS has taken the necessary actions to reduce its fire suppression costs.

OIG will also assess FS' use of Emergency Equipment Rental Agreements (EERAs) to rent equipment on a short-term basis to assist in fighting wildland fires and the agency's use of collaborative ventures and partnerships with non-Federal entities. FS' use of such partnerships has increased significantly, and our review will focus on whether they are well managed, meeting program objectives, and avoiding potential conflicts of interest. OIG will also review FS' management procedures pertaining to the control and potential elimination of invasive species, which cost more than \$138 billion per year in damage, losses, and control efforts. Non-native insects and diseases have infested over 3.5 million acres in the national forests, and approximately half the species on the endangered species list are at risk because of competition and loss of habitat traceable to invasive species.

#### USDA'S MANAGEMENT OF PUBLIC RESOURCES

OIG conducts audits and investigations that focus on improved financial management and accountability, information technology security and management, protection of public assets, employee corruption, Forest Service resources, and rural development programs, among others.

##### *Financial Management and Accountability*

Both the Congress and the President's Management Agenda have placed emphasis on improving financial management in all Federal departments. Improvements made by the Department to its financial systems have allowed USDA to maintain an unqualified opinion on its consolidated financial statements for the third consecutive year. While this is a major achievement, the Department still needs to improve its financial management processes to correct internal control weaknesses. Strong financial management is required to ensure the availability of accurate and timely financial data needed to properly manage USDA programs.

##### *Information Technology (IT), Security, and Management*

In 2004, we assessed the adequacy of IT security in the Rural Development (RD) mission area; Risk Management Agency; APHIS; the Economic Research Service; the Grain Inspection, Packers and Stockyards Administration (GIPSA); the Office of Budget and Program Analysis; and the Office of the Chief Economist. Advances in technology have increased the Department's vulnerability to unlawful destruction and penetration by hackers and other individuals. USDA agencies manage multibillion dollar programs that are integral to homeland security, food safety, and critical infrastructure that must be protected. We found weaknesses in IT security programs due to inadequate implementation at each agency we reviewed. IT security improvements are still needed at USDA's second largest data center, the Office of the Chief Information Officer/National Information Technology Center's (OCIO/NITC). We recommended improvements in access controls, security plans, risk assessments, disaster recovery plans, and identification and correction of potential system vulnerabilities. OCIO stated that corrective action either has been taken or is underway to address each issue.

#### FISCAL YEAR 2006 BUDGET REQUEST

We are very proud of the accomplishments of OIG and pleased to report that, in fiscal year 2004, we continued to more than pay our own way. In the investigations arena, OIG issued 425 investigative reports that resulted in 370 indictments and 350 convictions. These actions resulted in \$292.9 million in fines, restitutions, other recoveries, and penalties during the year. In the audit arena, we issued 97 audit reports, and management made decisions based on 77 of the reports. Our audits resulted in questioned and unsupported costs of \$15.2 million. Of this, management agreed to recover \$9.2 million. In addition, management agreed to put another \$748.2 million to better use. Equally as important, implementation of our recommendations by USDA managers will result in more efficient and effective operations of USDA programs.

During the past year, we have continued to review and evaluate OIG activities and made changes as needed to provide the most effective support to the Department's programs and operations. One of our most critical efforts continues to be in our IT arena. With the essential funding provided by this Committee, we were able to continue rebuilding our crucial IT infrastructure. Specifically, the agency was able to continue improvements and updates to the network operating system and associated software. In addition, new servers were acquired for headquarters and each regional office. These servers include remote management capabilities, which should allow quicker resolution and more efficient use of resources. We have also successfully mirrored our program databases at two locations. This balances workload during normal operations and provides a real-time backup if a major outage or emergency would occur at one of the sites.

We are continuing to see results through improvement in our audit processes and our investigative forensic efforts. The new IT equipment and specialized software has continued to help OIG complete its audits faster and target its analyses to the highest USDA risk areas. The reduced staff-time allows OIG to review additional high-risk or vulnerable programs and operations. As I mentioned earlier, we also plan to continue to increase our use of our IT capabilities to further our effort in the improper payments area.

For example, we use automated data mining and analysis software to extract, sort, analyze, and summarize large volumes of financial and program data to support our opinions on USDA agency and consolidated financial audits. In contrast, in a manual environment, analysis of such large volumes of data would not be feasible for OIG due to resource constraints and mandatory audit deadlines.

On the Investigations side, the IT funding has allowed our Computer Forensics Unit (CFU) to process cases utilizing the most up-to-date forensic hardware and software tools. The CFU has also designed and developed its own specialized software, for example, to analyze millions of food stamp EBT transactions in order to identify fraud in this program. An example of the CFU's capabilities was demonstrated during the investigation of a recent \$3 million rural development business and industrial loan fraud investigation. During the execution of a search warrant, a laptop was seized, and the subjects stated that the laptop had been "reformatted" and that nothing would be found on the laptop. Through CFU analysis, a copy of Quick Books was found on the restored computer; once recovered, we were able to prove how the fraud was committed. Hardware and software used in the CFU allow servers and workstations to be restored in a forensics laboratory setting, meeting required professional and judicial standards in a manner that maintains the integrity of the data so that they can be used in a court of law.

These forensic tools must be regularly upgraded and replaced in order to keep pace with the ever-changing IT hardware and software standards and investigative needs.

Again, I want to especially thank the Committee for its support in this area.

The President's fiscal year 2006 request of \$81 million for OIG provides for an increase of \$1.6 million for mandatory pay costs and \$1.7 million for program changes. The program change increases are \$1.1 million to fund the Nationwide Emergency Response Program, \$300,000 for continued improvements to the CFU, and \$300,000 for secure IT communications at the "secret" level. The increase for the Emergency Response Program will allow OIG to staff, train, and equip specially trained, quick-response teams to investigate biohazard threats against American agriculture and, as mandated by Public Law 107-203, the duty-related deaths of FS firefighters. The increase for the CFU will be primarily for a storage network to efficiently store voluminous amounts of electronic evidence that can potentially translate to higher case convictions. The increase for secure communications will allow OIG to target IT investments to enable our special agents and auditors to access Homeland Security information at the "secret" level.

I believe adequate funding for our OIG activities makes good sense. OIG audits and investigations save money for the taxpayers, help ensure the safety and wholesomeness of the Nation's food supply, promote USDA Homeland Security efforts, and ensure the integrity of USDA programs. As such, I support the President's budget request for OIG.

This concludes my statement, Mr. Chairman. I appreciate the opportunity to appear before you today and would be pleased to respond to any questions you and the Committee may have at this time.

## ADDITIONAL SUBMITTED QUESTIONS

QUESTIONS SUBMITTED BY SENATOR ROBERT F. BENNETT

DEPARTMENT OF HEALTH AND HUMAN SERVICES

FOOD AND DRUG ADMINISTRATION

MEDICAL DEVICES

*Question.* I appreciate the Administration's request for nearly \$6 million for the Devices and Radiological Health program for fiscal year 2006, which comes on top of the nearly \$26 million the committee enacted in fiscal year 2005. These significant investments have been difficult in the current environment but are critical to ensure timely patient access to increasingly complex medical technologies, and are consistent with the appropriations targets contained in the Medical Device User Fee and Modernization Act (MDUFMA).

Can you tell the committee the steps you are taking with these funds to improve the device review function in terms of hiring FTE's, making improvements in your IT infrastructure, and meeting performance goals?

*Answer.* Medical device user fees, combined with appropriations, have made it possible for FDA to make substantial improvements to the process for the review of device applications.

FDA has used the greatest portion of the resources made available by MDUFMA to hire additional staff to enhance the review process and to enable FDA to meet the MDUFMA performance goals. The following table shows the increase in staffing made possible by MDUFMA resources.

[The information follows:]

## ADDITIONAL STAFF-YEARS ADDED TO DEVICE REVIEW

[Compared with fiscal year 2002]

FDA Component	Fiscal year 2003	Fiscal year 2004	Fiscal year 2005 (Current Estimate)
CDRH .....	12	63	152
CDER .....	14	25	36
ORA .....	5	6	10
Total .....	31	91	198

The increased staffing shown for fiscal year 2005 is the current planning estimate, assuming that Congress acts quickly to ensure that MDUFMA continues in effect with no changes other than modification of the appropriations trigger requirement to forgive the shortfall in appropriations for fiscal year 2003 and 2004.

MDUFMA funds have also enabled FDA to strengthen the device review process by initiating a Medical Device Fellowship Program to make more use of expertise in academia and the private sector, and by expanding training and professional development for staff dedicated to device review.

FDA has also undertaken several significant, ongoing projects to modernize its information technology infrastructure. These efforts are critical to meeting the performance goals under MDUFMA and they require continued funding to be completed or to remain viable. These projects include:

- Establishing premarket database and tracking systems for ODE/OIVD, including specialized reports and tracking for each review division. These systems will help FDA better manage review times and processes.
- Developing of assignment tracking systems for the Office of Compliance, including integration with ODE/OIVD systems.
- Developing of a streamlined pre-approval inspection program, with clear timeframes and monitoring systems.
- Establishing Turbo 510(k) to provide for rapid review and clearance of in vitro diagnostic products.
- Establishing the eConsult Pilot to make reviews more efficient.
- Scheduling, systematic upgrading of reviewer PCs (on a 3-year cycle) to ensure data security, compatibility with industry submissions, and more efficient operating systems and program.

- Upgrading hardware and software for the CDRH document imaging, storage, and retrieval system.

- Issuing new guidances to implement MDUFMA and establishing a guidance tracking system to prioritize guidance development and revision.

Modernized infrastructure will help FDA meet the demands placed on it while ensuring continued high quality reviews.

FDA has made excellent, sustained progress towards meeting MDUFMA's performance goals. We are confident that our performance for fiscal year 2005 will reflect the time and effort we are investing in improving our device review processes and in making the other improvements called for by MDUFMA. The goals for fiscal year 2006 and fiscal year 2007 are even more challenging, and will require a sustained commitment by FDA if they are to be met. Our actions and performance to date provide a sound foundation on which we will continue to build.

Our performance during fiscal year 2003 and fiscal year 2004 and the first quarter of fiscal year 2005 shows we are on track to meet the goals for fiscal year 2005 and later years; we have attached FDA's performance reports for fiscal year 2003 and fiscal year 2004. Although it is too early to provide precise forecasts for fiscal year 2005, we are pleased with our progress to date and we would be glad to provide you an update later in the year.

During fiscal year 2005, FDA is focusing on building our capacity to conduct the high-quality reviews expected by Congress, the Administration, and our stakeholders, including:

- Providing new and updated guidance to industry,
- Making our review processes more efficient, more predictable, and more interactive,
- Developing innovative review processes such as modular and expedited reviews,
- Recruiting scientific, engineering, and medical experts, and making greater use of experts outside FDA, to improve the scope and timeliness of our review processes, and
- Modernizing our data systems and IT infrastructure to ensure the sound management and accountability of our review programs.

This Committee enacted a nearly \$26 million increase for the device program in fiscal year 2005 and the President has proposed a nearly \$6 million increase for fiscal year 2006, putting appropriations on the trajectory contained in MDUFMA. However, these appropriations increases will not keep the program viable beyond this fiscal year without a change to the MDUFMA law that would forgive the appropriated shortfall amount for those years when the Administration did not request enough funding to meet the appropriations target.

*Question.* Does FDA still intend to request that the Authorizing Committees make this change to the MDUFMA law? If so, when will the change need to be enacted in order to keep the program from terminating? What is FDA required to do with the MDUFMA fees and staff if this legislative fix is not enacted?

*Answer.* On October 29, 2003, OMB Administrator Joshua Bolten, sent a letter to the Speaker of the House, agreeing to a "clean fix" of the appropriations trigger problem. The Administration's proposal would forgive the fiscal year 2003 and 2004 appropriations shortfalls, thereby ensuring that MDUFMA would not sunset at the end of fiscal year 2005, and pledging Administration support for full appropriations funding in the remaining years of MDUFMA. At that time, industry supported a clean trigger fix, and the Administration did request and Congress appropriated full funding for the program for fiscal year 2005. FDA continues to work with stakeholders to ensure the success of MDUFMA.

If Congress does not enact corrective legislation, FDA will lose its authority to collect medical device user fees beginning October 1, 2005 and the performance goals negotiated for the medical device program will end. FDA would have to reduce staffing levels, abandon critical infrastructure modernization, reduce interaction with applicants, abandon planned guidance development, terminate the Medical Device Fellowship Program and largely eliminate our use of contract expertise in academia and the private sector, and take a variety of other steps to limit expenditures to the amounts made available in our fiscal year 2006 and fiscal year 2007 appropriations. FDA would expect review times to deteriorate, resulting in significant delays in the introduction of new medical devices.

*Question.* What effect, if any, would a continuing resolution have on MDUFMA?

*Answer.* FDA's most critical need for this program is for Congress to enact corrective legislation before the end of the fiscal year to modify the "appropriations trigger" requirement to forgive the shortfall in appropriations for fiscal year 2003 and 2004. If Congress does not enact corrective legislation, FDA will lose its authority to collect medical device user fees beginning October 1, 2005 and the performance goals negotiated for the medical device program will end. The problems associated

with a continuing resolution are small compared with the prospect of an early, abrupt end to the MDUDMA user fee program.

If the MDUFMA fee program dies, FDA would have to reduce staffing levels, abandon critical infrastructure modernization, reduce interaction with applicants, abandon planned guidance development, terminate the Medical Device Fellowship Program and largely eliminate our use of contract expertise in academia and the private sector, and take a variety of other steps to limit expenditures to the amounts made available in our fiscal year 2006 and fiscal year 2007 appropriations. FDA would expect review times to deteriorate, resulting in significant delays in the introduction of new medical devices.

Any continuing resolution would create its own challenges. Assuming the MDUFMA appropriations trigger issue is resolved, FDA's primary concern is the length of any continuing resolution. A year-long CR that is at levels below the MDUFMA-specified appropriation would cause the program to terminate. FDA will be unable to collect fees during a continuing resolution. This is not a small problem, it is an effect of the continuing resolution.

The Agency appears to be making progress on meeting the MDUFMA performance goals. However, I have heard from some device company constituents that they are concerned about the increases in the application fees they are paying. For example, application fees for breakthrough products (Premarket Applications) have grown by over 50 percent in the first 3 years. Unless such increases are limited in the remaining 2 years, PMA fees will grow from the MDUFMA-envisioned \$250,000 in the final year of the program to over \$350,000. Some have suggested limiting fee increases in the last 2 years of MDUFMA to the rate of inflation—similar to the rate of growth for appropriations expected for the next 2 years.

*Question.* Would you support limiting fee increases in the remaining 2 years of the program to preserve the larger goals of MDUFMA? If not, can you tell the committee why the agency could not accept such a limitation and what impact such a proposal would have specifically in terms of FDA's ability to meet performance goals, recruit and retain staff necessary to meet the performance goals and fulfill non-goal related activities?

*Answer.* FDA is committed to working with our stakeholders and Congress to save the MDUFMA user fee program and its performance goals. FDA staff are now working with Congressional staff and stakeholders to save the MDUFMA user fee program and the many benefits it offers. FDA sincerely hopes this process will lead to quick action on a solution that is acceptable to FDA and the Administration, our stakeholders, and Congress.

It is my understanding that part of the growing frustration on the part of the medical technology companies with regard to MDUFMA is the feeling that the Center for Devices and Radiological Health still does not have baseline information on what it costs to review each type of application, and has dedicated more user fee revenue to reserve funds than hiring actual reviewers.

*Question.* Can you tell the committee what it costs to review the different application types? If not, will this information be available in time for reauthorization? How many new FTE reviewers has CDRH hired with this massive infusion of appropriations and fees?

*Answer.* FDA has contracted for a study to develop information on the standard costs of various types of medical device applications, but the contractor has not yet provided his report of findings to FDA. The study results, showing costs per completed application in fiscal year 2003 and fiscal year 2004, will be available in time for reauthorization.

[This information follows:]

#### ADDITIONAL STAFF-YEARS ADDED TO DEVICE REVIEW

[Compared with fiscal year 2002]

FDA Component	Fiscal year 2003	Fiscal year 2004	Fiscal year 2005 (Current Estimate)
CDRH .....	12	63	152
CBER .....	14	25	36
ORA .....	5	6	10
Total .....	31	91	198

## FOOD SAFETY

*Question.* According to statements made by former HHS Secretary Thompson, the food supply is extremely vulnerable to attack. However, I note in the budget request that FDA plans to do fewer food import physical exams in fiscal year 2005 and fiscal year 2006 than it did in fiscal year 2004. This is particularly troubling because the Committee provided an increase of \$35.5 million for food safety activities in fiscal year 2005 and FDA has requested an increase of slightly more than \$30 million in fiscal year 2006.

Has FDA changed its food safety strategy so that import physical exams are no longer a priority? If so, what other activities are you undertaking to protect the food supply?

*Answer.* Food import physical exams have always been just one part of FDA's import strategy. A field examination is a visual and physical examination of a product to determine whether it complies with FDA requirements for admissibility. During food import physical exams, FDA personnel check attributes such as damage during storage or transit, inadequate refrigeration, rodent or insect activity, presence of lead in dinnerware, appearance of decomposition, and compliance with labeling requirements. However, a food import physical exam cannot be used to test for microbiological or chemical contamination and must be supplemented with other activities.

FDA cannot rely solely on the physical examination of a product through a food import physical exam to reduce the potential risks posed by imported foods. Currently, a significant effort is underway to broaden and develop appropriate knowledge based risks. ORA continues to think that the best approach to improving the safety and security of food import lines is to devote resources to expanding and refining targeting and by following through on potentially high risk import entries rather than by simply increasing the percentage of food import lines that receive a physical field exam.

To manage the ever-increasing volume of imported food shipments, FDA is using risk management criteria to achieve the greatest food protection possible. While we cannot physically inspect every shipment, it is important to note that every shipment containing FDA-regulated products entered through the Bureau of Customs and Border Protection's (CBP) automated system is electronically reviewed by FDA's system. FDA's Operational and Administrative System for Import Support (OASIS) determines if the shipment meets identified criteria for physical examination or sampling and analysis or warrants other review by FDA personnel. This electronic screening allows FDA to concentrate its enforcement resources on high-risk shipments while allowing low-risk shipments to proceed into commerce.

The Public Health Security and Bioterrorism Preparedness and Response Act of 2002 provided a significant new tool that enhances FDA's ability to electronically review all FDA-regulated imported food shipments. That law requires that FDA receive prior notice submissions before food is imported or offered for import into the United States. Advance notice of imported food shipments, called "Prior Notice," provides FDA with detailed information regarding the product, shipment and supply chain before imported food arrives in the United States. This not only allows the electronic system to review and screen the shipments for potential serious threats to health, intentional, alleged or otherwise, before the food enters the United States but also allows FDA staff to review prior notice submissions for those products flagged by the systems as presenting the most significant risk. Screening and review of the augmented data allows FDA, with the support of the Customs and Border Protection also known as the CBP, to target import inspections more effectively and help protect the Nation's food supply against terrorist acts and other public health emergencies. FDA worked very closely with CBP to develop the screening system. FDA receives approximately 27,000 prior notice submissions about incoming food shipments every day. FDA believes this new system, which complements food import physical exams, provides for risk based targeting and follow through on potentially high-risk import entries.

*Question.* What is FDA doing with the funding provided in fiscal year 2005 and what does the Agency plan to do with the fiscal year 2006 request amount?

*Answer.* We appreciate the committee's support for the Administration's food defense initiative. The fiscal year 2006 budget continues to fund the programs initiated with fiscal year 2005 appropriations. Below is a short summary of what the agency is doing with the \$35.2 million provided by the congress last year, and what we plan to do with the \$30 million increase requested for fiscal year 2006.

[The information follows:]

## FDA FOOD DEFENSE INCREASES FISCAL YEAR 2005 AND FISCAL YEAR 2006

*Fiscal year 2005 Appropriations: + \$35,216,000 and + 99 FTE*

*Food Emergency Response Network (FERN) + \$14,880,000*

FDA, along with USDA's FSIS, is building a national laboratory network that will enable us to test thousands of food samples within a matter of days in the event of a food terrorism crisis or other emergency event. The fiscal year 2005 appropriations increase will add 6 FDA-funded State laboratories to the 10 FDA Federal laboratories already a member of FERN. It will also continue efforts to expand the electronic Laboratory Exchange Network (eLEXNET). The Request for Applications (RFA) for cooperative agreements to fund 6 State laboratories was published in the Federal Register in May 2005.

*Research + \$9,920,000*

The enacted increase will help ensure that we have the capability to anticipate, prevent, detect, inactivate and recover from a broad range of agents that could pose serious threats to the food supply. The increase will also enable us to understand the behavior of threat agents in foods and the lethal/toxic dose needed to cause illness or death. FDA's intramural and extramural food defense research projects focus, in particular, on developing and validating field-deployable methods, as mandated by section 302 of the Public Health Response and Bioterrorism Preparedness Act of 2002.

*Inspections + \$6,944,000*

The enacted increase helps ensure that domestic and imported foods are safe for consumption. FDA is planning to conduct 60,000 import field exams and 38,000 Prior-Notice Security Reviews using targeted information gleaned from prior-notice submissions and intelligence made available to the Prior-Notice Center.

*Bio-Surveillance + \$1,984,000*

FDA will contribute to the Administration's Bio-Surveillance Initiative by developing nationally recognized standards for data messaging and communication in the health area and by researching the appropriate connectivity method with the National Biosurveillance Integration System at the Department of Homeland Security.

*Crisis/Incident Management + \$1,488,000*

The enacted increase will support the Emergency Operations Network Incident Management System Project. This project will provide a comprehensive system for managing emergencies and related incidents handled throughout the FDA, including its centers and field offices. The development of such a system is in accordance with Homeland Security Presidential Directive (HSPD-5), "Management of Domestic Incidents", and the establishment of a National Incident Management System.

*Requested Fiscal Year 2006 Budget Authority Increase + \$30,074,000 and + 17 FTE*

*Food Emergency Response Network + \$20,000,000*

The requested increase will add 19 FDA-funded State laboratories to the 6 funded in fiscal year 2005 and to the 10 FDA Federal laboratories already members of FERN.

*Research + \$5,574,000*

The requested increase will continue to ensure that we have the capability or "science tools" to anticipate, prevent, detect, characterize, confirm, inactivate, and recover from a broad range of agents that could pose serious threats to the food supply in accordance with section 302 of the Bioterrorism Act.

*Bio-Surveillance + \$3,000,000*

FDA will continue to contribute to the Administration's Bio-Surveillance Initiative by integrating existing surveillance systems with the Department of Homeland Security.

*Crisis/Incident Management + \$1,500,000*

The enacted increase will continue to support the Emergency Operations Network Incident Management System Project.

*Import Examinations and Inspections*

(No increase is requested, but FDA will focus base resources on more effective Prior-Notice Security Reviews)

The enacted increase helps ensure that domestic and imported foods are safe for consumption. Funds allow for 60,000 import field exams and 38,000 Prior-Notice Security Reviews (new Goal) using intelligence made available to the Prior-Notice Center.

In the Food and Drug Administration's fiscal year 2006 request, the agency has requested an increase of \$20 million for the Food Emergency Response Network. When FERN is completed, this collaborative effort with USDA, will include a mix of chemical, radiological, and microbiological labs that total 100 across the United States. The Committee has already provided significant funding increases for FERN and completing this project promises to be a sizable investment that is not currently known by the Committee.

*Question.* What does this investment buy and what is the anticipated outcome of increasing lab capacity through FERN? Also, please provide, for the record, a table that displays the complete investment for the FERN project to date and in future fiscal years. In addition, include the number of labs that have been and will be added in each year.

*Answer.* We would be happy to provide this information on the FERN project.

[The information follows:]

The first two tables below describe our planned expenditures for the total food defense increases in fiscal year 2005 and fiscal year 2006. The third table displays FERN lab output data from fiscal year 2005 to the outyears. The number of USDA and FDA funded FERN laboratories needed to respond to a terrorist event involving food was based on discussions with the White House Interagency Food Working Group. These discussions included the development of a plausible scenario in which 100,000 units of a specific food was contaminated with a threat agent. Based on this scenario, we estimated that 100 laboratories would be required to provide the needed surge capacity to respond to the attack. Please note that FDA will fund 50 chemical/radiological labs and FSIS plans to fund 50 microbiological laboratories, for a total of 100 FERN laboratories. For specific funding information for FSIS, please see the USDA/FSIS Budget Submission transmitted to this Subcommittee.



## FERN PERFORMANCE—FISCAL YEAR 2006

Request	What the funds provide	Related program goals
\$35,216,000 Budget Authority .....	<p>6 new State Labs added to Food Emergency Response Network (FERN). Laboratory equipment, supplies, training and security to enhance State capability to assist in FDA's Food Defense activities.</p> <p>A secure food laboratory IT network (eLEXNET) for the real time sharing of information on a national basis.</p> <p>60,000 import field exams, 38,000 Prior-Notice Security Reviews.</p> <p>Increased research on prevention technologies, agent characteristics, new methods, and dose response relationships.</p> <p>Improved coordination and integration of existing food surveillance capabilities with the Department of Homeland Security's integration and analysis function, as part of the government-wide Bio-Surveillance Initiative.</p> <p>Improved Crisis Management capabilities.</p>	<p>Increase national laboratory capacity to test food samples in the event of a terrorist attack.</p> <p>Expand Federal/State/local involvement in FDA's eLEXNET system by having 95 laboratories participate in the system by the end of fiscal year 2005.</p> <p>Provide more targeted, risk-based inspectional coverage of imported foods to reduce the risk of contaminated products entering domestic commerce.</p> <p>Develop effective protection strategies to "shield" the food supply from terrorist threats.</p> <p>Improve early attack warning and bio-surveillance capabilities at the national level to prepare against a potential terrorist attack.</p>

## FERN PERFORMANCE—FISCAL YEAR 2006

Request	What the increase buys	Related program goals
Increase \$30,074,000 Budget Authority .....	<p>19 new State Labs added to Food Emergency Response Network (FERN). Laboratory equipment, supplies, training and security to enhance State capability to assist in FDA's Food Defense activities.</p> <p>Increased research on prevention technologies, agent characteristics, new methods, and dose response relationships.</p> <p>Improved coordination and integration of existing food surveillance capabilities with the Department of Homeland Security's integration and analysis function, as part of the government-wide Bio-Surveillance Initiative.</p> <p>Improved Crisis Management capabilities.</p> <p>60,000 import field exams and 38,000 Prior-Notice Security Reviews.</p>	<p>Increase national laboratory capacity to test food samples in the event of a terrorist attack.</p> <p>Develop effective protection strategies to "shield" the food supply from terrorist threats.</p> <p>Improve early attack warning and bio-surveillance capabilities at the national level to prepare against a potential terrorist attack.</p>
Base Resources .....		Provide more effective, risk-based inspectional coverage of imported foods to reduce the risk of contaminated products entering domestic commerce.

# FDA TOTAL LABORATORY CAPABILITY DISTRIBUTION

[Dollars in millions]

	Fiscal year 2005 output	Fiscal year 2005 enacted <sup>1</sup>	Fiscal year 2006 cumulative out- put	Fiscal year 2006 request	Project outyear cumulative output	Two Year outyear estimate <sup>2</sup>	Total State labs
Microbiological Screening & Confirmatory <sup>3</sup>							
Chemical	6	\$9.9	20	\$22.4	36	\$46.6	36
Radiological	5	5.9	14	16.3	14		
Food Lab Response and Methods Validation/Proficiency Testing/Training		5.0		6.6		13.9	
TOTAL	6	14.9	25	34.9	50	76.8	50

<sup>1</sup> Fiscal year 2005 Request includes enacted rescissions.

<sup>2</sup> Outyear estimates reflect projected costs to complete FDA's 50 FERN labs, based on a 2 year estimate. Amounts requested in future budgets are contingent upon availability of funds. Once the 50 FERN labs are complete, FDA estimates that the FERN cost will be limited to annual recurring needs.

<sup>3</sup> USDA funded.

*Question.* How did you determine that 100 would be the appropriate number of FERN labs?

*Answer.* The Administration based the number of USDA and FDA funded FERN Laboratories needed to respond to a terrorist event involving food on discussions with the Interagency Food Working Group or the IFWG. These discussions included the development of a plausible scenario in which 100,000 units of a specific food was contaminated with a threat agent. Based on this scenario, we estimated that 100 laboratories would be required to provide the needed surge capacity to respond to the attack.

However, it should be noted that this number of 100 reflects laboratory capabilities for chemical, microbiological and radiological analyses rather than actual laboratory locations, because some State laboratories will have the capability to analyze samples for multiple agents at one location. Although the FERN strives to include laboratories with the ability to analyze foods for several types of agents, it is also realized that some laboratory locations may only have capabilities for one type of threat agent, but not the others. Hence, that is why the number of physical locations included within the FERN network could range from 50 with 50 laboratory locations performing multiple analyses to 100 laboratory locations performing one type of analysis each. Laboratories will need to be capable of being operational around the clock, 7 days a week, have trained personnel, use validated methods, and have satisfactorily completed proficiency test samples.

*Question.* Once labs are added to the network, I assume maintenance of equipment and lab supplies in the facilities will begin. What is the annual cost of maintaining FERN labs? Will the cost be born by the FDA or State partners?

*Answer.* Once FDA establishes a FERN lab, we also fund the maintenance costs, which we estimate at \$350,000 per year for each laboratory. FDA continues to provide support to the States for the Annual Surveillance Sampling Program and to maintain capability for threat agents.

#### DRUG SAFETY

*Question.* In recent months, FDA has received a significant amount of news coverage related to the withdrawal of some widely prescribed pain relievers over safety concerns. I note that the FDA has included an increase of \$5.0 million for drug safety in the fiscal year 2006 budget. What does FDA plan to do to reduce the likelihood that events like this will happen in the future?

*Answer.* On November 5, 2004, Acting FDA Commissioner Lester Crawford announced a 5-step plan for enhancing our efforts in drug safety and on February 15, 2005, HHS Secretary Mike Leavitt and Acting FDA Commissioner Lester Crawford unveiled a new vision for FDA that will promote a culture of openness and enhanced oversight within the Agency. We would be happy to provide references to these documents and an outline of the information they contain.

[The information follows:]

FDA Acts to Strengthen the Safety Program for Marketed Drugs (11/05/2004) <http://www.fda.gov/bbs/topics/news/2004/NEW01131.html>.

The elements of this plan are:

- Sponsor an Institute of Medicine (IOM) Study of the Drug Safety System: An IOM committee, under an FDA contract, will study the effectiveness of the United States drug safety system with emphasis on the post-market phase, and assess what additional steps could be taken to learn more about the side effects of drugs as they are actually used. The committee will examine FDA's role within the health care delivery system and recommend measures to enhance the confidence of Americans in the safety and effectiveness of their drugs.
- Implement a Program for Adjudicating Differences of Professional Opinion: CDER will formalize a program to provide an improved process to ensure that the opinions of scientific reviewers are incorporated into its decision-making process. In most cases, free and open discussion of scientific issues among review teams, and with supervisors, managers and external advisors, leads to an agreed course of action. Sometimes, however, a consensus decision cannot be reached, and an employee may feel that his or her opinion was not adequately considered. Such disagreements can have a potentially significant public health impact, so CDER's program provides for a review of the involved differing professional opinions by FDA and outside experts. An ad hoc panel, whose members were not directly involved in disputed decisions, will have 30 days to review all relevant materials and recommend to the Center Director an appropriate course of action.
- Appoint Director, Office of Drug Safety: CDER will conduct a national search to fill the currently vacant position of Director of the Office of Drug Safety,

which is responsible for overseeing the post-marketing safety program for all drugs. The Center is seeking a candidate who is a nationally recognized drug safety expert with knowledge of the basic science of drug development and surveillance, and has a strong commitment to the protection of public health.

—Conduct Drug Safety/Risk Management Consultations: In the coming year, CDER will conduct workshops and Advisory Committee meetings to discuss complex drug safety and risk management issues. These may include emerging concerns for products that are investigational or already marketed. Examples of input that might be sought include whether a particular safety concern alters the risk to benefit balance of a drug; whether FDA should request a sponsor to conduct a particular type of study to further address an issue; what types of studies would best answer the question; whether a finding is unique to one product or seems to be a drug class effect; whether a labeling change is warranted and, if so, what type, and how to otherwise facilitate careful and informed use of a drug. These consultations will include experts from FDA, other Federal agencies, academia, the pharmaceutical industry and the healthcare community.

Publish Risk Management Guidance: By the end of this year, FDA intends to publish final versions of three guidances that have been developed by our agency to help pharmaceutical firms manage risks involving drugs and biological products. These documents are “Premarketing Guidance,” covering risk assessment of pharmaceuticals prior to their marketing; “RiskMAP Guidance,” which deals with the development and use of risk-minimization action plans; and “Pharmacovigilance Guidance,” which discusses post-marketing risk assessment, good pharmacovigilance practices and pharmacoepidemiologic assessment.

(Note: these were published on 3/24/05 and can be found at the following websites: Premarketing Risk Assessment: <http://www.fda.gov/cder/guidance/6357fnl.htm>

Development and Use of Risk Minimization Action Plans: <http://www.fda.gov/cder/guidance/6358fnl.htm>

Good Pharmacovigilance Practices and Pharmacoepidemiologic Assessment: <http://www.fda.gov/cder/guidance/6359OCC.htm>

On February 15, 2005, HHS Secretary Mike Leavitt and Acting FDA Commissioner Lester Crawford unveiled a new vision for FDA that will promote a culture of openness and enhanced oversight within the Agency.

Reforms Will Improve Oversight and Openness at FDA 02/15/2005: <http://www.hhs.gov/news/press/2005pres/20050215.html>

In keeping with this vision, the FDA will create a new independent Drug Safety Oversight Board to oversee the management of drug safety issues. In addition, the FDA is proposing a Drug Watch web page through which the Drug Safety Oversight Board would share drug safety information sooner and more broadly, including information on potential safety problems even before the Agency has reached conclusions that would prompt a regulatory action. The new communications include:

—*The Proposed Drug Watch Page.*—At the direction of the new Drug Safety Oversight Board, this page would include emerging information about possible serious side effects or other safety risks.

—*Healthcare Professional Information Sheets.*—We have increased our efforts to develop and make these sheets available to better communicate emerging risk information to the medical community. We will continue to develop these information sheets, or will update existing ones, as we become aware of possible serious new side effects for a drug. The sheets will contain FDA Alert describing emerging information.

—*Patient Information Sheets.*—We have also increased our efforts to develop and make available on CDER’s Website user friendly information for patients and consumers on drugs about which we have identified emerging issues. We will continue to develop these sheets, or update existing ones, as we become aware of possible serious new side effects for a drug. The sheets will contain FDA Alert describing emerging information.

#### COUNTERFEIT DRUGS

*Question.* In last year’s hearing record, FDA inserted its report on counterfeit drugs. In this report FDA identifies eight critical elements that need to be addressed in order to safeguard the drug supply. Please update the Committee on the progress you have made on these items.

*Answer.* FDA has been actively working with stakeholders such as manufacturers, wholesalers, retailers, health professionals, State and Federal regulatory agencies, technology experts, and standard-setting bodies to put into place the measures outlined in the FDA Counterfeit Drug Task Force Report. We have made considerable

progress in some areas, while in other areas there is still work to be done. FDA currently is finishing drafting a report that provides an update on the progress on the recommended measures. We expect that this update will provide you with the type of comprehensive update that you ask in your question.

[The information follows:]

COMBATING COUNTERFEIT DRUGS: A REPORT OF THE FOOD AND DRUG ADMINISTRATION  
ANNUAL UPDATE—MAY 18, 2005

On February 18, 2004, FDA issued a Report entitled “Combating Counterfeit Drugs: A Report of the Food and Drug Administration.” The comprehensive Report highlights several measures that can be taken to better protect Americans from counterfeit drugs. These measures address six critical areas:

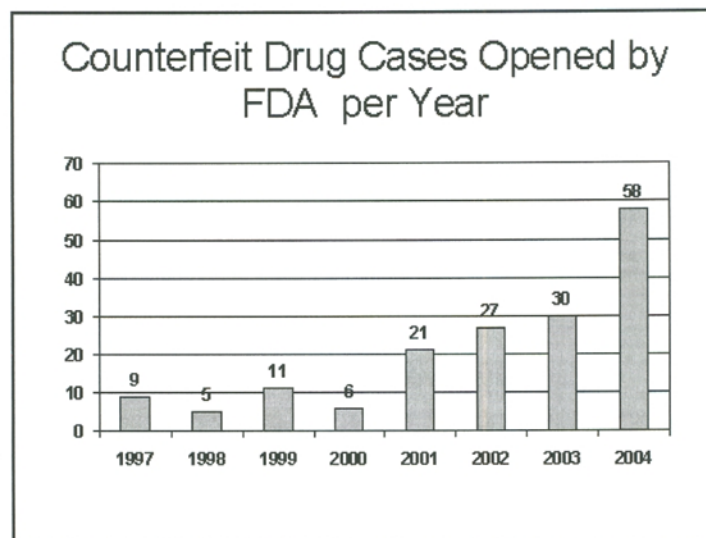
- Securing the actual drug product and its packaging
- Securing the movement of the product as it travels through the U.S. drug distribution chain
- Enhancing regulatory oversight and enforcement
- Increasing penalties for counterfeiters
- Heightening vigilance and awareness of counterfeit drugs
- Increasing international collaboration

Over the past year, we have worked with manufacturers, wholesalers, pharmacies, consumer groups, technology specialists, standard-setting bodies, State and Federal agencies, international governmental entities, and others to advance the measures outlined in the Report. Significant progress is being made in many of these areas. Although we continue to believe that the U.S. drug supply is among the safest in the world, more work needs to be done to further implement these measures and further secure our Nation’s drug supply.

In 2004, FDA’s Office of Criminal Investigations (OCI) initiated 58 counterfeit drug cases, a significant increase from the 30 cases initiated in 2003. We believe that this is in part due to an increased awareness and vigilance at all levels of the drug distribution chain as a result of the Combating Counterfeit Drugs Report released last year. In addition, this increase in investigations is due to increased referrals from and coordination with other State and Federal law-enforcement agencies and communication with drug manufacturers.

Fortunately, most of the counterfeit drugs at issue did not reach consumers because we focused our limited resources and developed proactive investigations that enabled us to identify components of counterfeit products and interdict finished counterfeit drug products before they entered domestic distribution.

Although the number of counterfeit drug cases has increased and the threat to the public health is real, most of the suspect counterfeits that we discovered in 2004 were found in smaller quantities, compared to those found in 2003. Most of these drugs were destined for the black market or internet distribution, rather than for widespread distribution in the Nation’s drug supply chain.



*Previously reported data for FY 1997-2003 were revised due to new information indicating involvement of counterfeit drugs in other previously uncounted criminal investigations.*

#### TECHNOLOGY: SECURING THE PRODUCT, PACKAGING, AND MOVEMENT THROUGH THE SUPPLY CHAIN

In the Report, we stated that it is critical to implement new technologies to better protect our drug supply. We concluded that a combination of rapidly improving track and trace technologies and product authentication technologies could be used to provide a greater level of security for drug products. These technologies are intended to secure the product, packaging, and movement of the product as it travels through the drug supply chain.

##### *Track and Trace Technology*

In the Report, we stated that adoption and wide-spread use of reliable track and trace technology is feasible by 2007. This would help secure the integrity of the supply chain by providing an accurate drug “pedigree,” a record documenting that the drug was manufactured and distributed under secure conditions. We particularly advocated for the implementation of electronic track and trace mechanisms and noted that radio-frequency identification (RFID) is the most promising technology to meet this need. RFID technology uses a tiny radio frequency chip containing essential data in the form of an electronic product code (EPC). Implementation of RFID will allow supply chain stakeholders to track the chain of custody (or pedigree) of every package of medication. By tying each discrete product unit to a unique electronic serial number, a product can be tracked electronically through every step of the supply chain.

Over the last year stakeholders have made tremendous progress in the development and implementation of EPC/RFID. This is a huge endeavor that requires close collaboration among all constituents of the pharmaceutical distribution system. We have observed and supported this collaboration, and we continue to support it today.

A critical piece of this undertaking is the development of standards for the type of technology to be used and the systems for storing and sharing pedigree information. This activity will ensure that the electronic track and trace technologies adopted are comprehensible and data communication systems are interoperable. We have been present at and actively participated in many industry, standard-setting, and government meetings and workshops where implementation issues have been discussed. We appreciate the opportunities we have been given to participate in the discussions and provide input when needed.

We received a number of questions over the past year regarding RFID and regulatory issues from members of the supply chain. In response to these common questions, on November 15, 2004, we issued a Compliance Policy Guide (CPG) for imple-

menting RFID feasibility studies and pilot programs as an important and essential step in moving this technology forward. The CPG presents FDA's current thinking regarding several labeling, current Good Manufacturing Practices (GMP), and other regulatory issues that may arise by affixing an RFID tag to a drug product for a feasibility study or pilot program. Several members of the supply chain simultaneously announced their intention to move forward with pilot programs (joint programs across the supply chain or within an individual company) that will involve the tagging of products susceptible to counterfeiting. In fact, three major pharmaceutical companies said that they will incorporate an RFID tag into at least one of their products by the end of 2005. We have been in close communication with participants in these and other pilot studies and provided input when appropriate.

Also in November, we announced the creation of an internal, cross-agency "RFID Workgroup." This group is charged to monitor adoption of RFID in the pharmaceutical supply chain, pro-actively identify regulatory issues raised by the use of this new technology, and develop straightforward processes for handling those issues. We believe that the workgroup will improve communication with members of the supply chain on RFID related issues and will facilitate both the performance of pilot studies and the collection of data needed to formulate policy.

It is important to gain a better understanding of the effects of RFID on drug products, particularly biological products because they may be more susceptible to change in their environment. In the past year, we developed a protocol for the Product Quality Research Institute (PQRI) (a collaboration of FDA, academia, and industry) to evaluate the effects of radio-frequency on specific biological protein-based products. This study is in its very early stages. Also, a laboratory within FDA's Center for Devices and Radiological Health is conducting analyses of the heating and the radio-frequency field strengths induced in certain liquid pharmaceuticals by some RFID systems. We are encouraged by the response of individual companies informing us that they are conducting studies. In addition, the Health Research Initiative of the Auto-ID Laboratories is conducting additional studies on the effects of radio-frequency on various drug products and storage conditions. We look forward to the results of such studies.

*Next Steps.*—FDA will continue to play an active role in public and private sector efforts toward developing an "electronic safety net" for our drug supply, including the adoption and widespread use of reliable track and trace technology by 2007. We will continue to facilitate and monitor standard-setting activities, including efforts by epcGlobal (an entity that has taken a lead role in developing standards) to establish standards for numbering systems, chip frequency, electronic pedigree, and data-sharing and security. In addition, we will continue to encourage and foster research on the use and potential impact of RFID on drug and biological products. Finally, we will regularly review the extent and pace at which RFID is being adopted.

#### *Authentication Technology*

In the Report, we noted that authentication technologies for pharmaceuticals (such as color-shifting inks, holograms, taggants, or chemical markers imbedded in a drug or its label) have been sufficiently perfected that they can now serve as a critical component of a layered approach to control counterfeit drugs. FDA's Report acknowledged the importance of using one or more authentication technologies for drug products, in particular those most likely to be counterfeited. Over the past year, we have worked with individual drug manufacturers who sought to incorporate such technologies into their product, labeling, or packaging. When asked, we have provided advice and suggestions regarding application and use of authentication technologies and worked with sponsors on the regulatory issues associated with making changes to approved product labeling.

In the Report, we said that in order to facilitate the use of authentication technologies on or in approved products, we would consider publishing a draft guidance on notification procedures for making changes to products, their packaging, or their labeling. We decided not to issue guidance in the past year because we would like to gain additional experience working with companies in their application and use of authentication technologies so the guidance can have appropriate general applicability.

*Next Steps.*—We will continue to work with companies and organizations to facilitate use of authentication technologies in products, labeling, and packaging.

### REGULATORY OVERSIGHT AND ENFORCEMENT

#### *Electronic Pedigree*

In the Report, we said that adoption of electronic track and trace technology would help stakeholders meet and surpass the goals of the Prescription Drug Mar-

keting Act (PDMA). We said that we intend to focus our efforts on facilitating industry adoption of this technology. To allow stakeholders to move toward an electronic pedigree we said that we would further delay the effective date for certain provisions in a final rule that FDA promulgated in December 1999 to implement the Prescription Drug Marketing Act of 1987 (PDMA), as modified by the Prescription Drug Amendments of 1992 (PDA). On February 23, 2004, we published a notice in the Federal Register delaying the effective date until December 2006.

As stated above, we are pleased with the progress stakeholders, standard-setting bodies, and software and hardware companies have made thus far toward implementing an electronic pedigree for drug products. We recognize that there have been, and continue to be, challenges along the way. However, we are optimistic that this progress will continue in an expeditious manner toward meeting our 2007 goal. If it appears that this goal will not be met, we plan to consider the options regarding implementation of the PDMA provisions that are the subject of the stay.

*Next Steps.*—We are closely monitoring the progress of widespread use of electronic pedigrees as we assess whether to lift, maintain, or pursue other options regarding the stay of implementation of the provisions in the PDMA final rule. We will continue to work with stakeholders to facilitate implementation.

#### *State Efforts*

In the Report, we recognized the important role that the States have in regulating the drug supply chain, and we stated that adoption and enforcement of strong, proven anti-counterfeiting laws and regulations by the States would help in our collective effort to detect and deter counterfeit drugs. FDA strongly supported the efforts taken by the National Association of Boards of Pharmacy (NABP) in revising the Model Rules for Licensure of Wholesale Distributors for States to adopt. These Model Rules make it difficult for illegitimate wholesalers to become licensed and then to transact business. Four States have laws in place that are similar to the Model Rules (Florida, Nevada, California, and Indiana), and other States are considering adoption (e.g., New Jersey, Iowa). FDA has provided advice and input on a few State legislative proposals and we recommend that more States move in this direction in the coming year.

NABP last year also announced the creation the Verified-Accredited Wholesale Distributors (VAWD) program as a complement to the Model Rules. Applicants for VAWD accreditation undergo a criteria compliance review, licensure verification, an inspection, background checks, and screening through NABP's clearinghouse. It is intended to provide assurance that the wholesale distribution facility operates legitimately, is validly licensed in good standing, and is employing security and best practices for safely distributing prescription drugs from manufacturers to pharmacies and other institutions. Recently, Indiana was the first State to pass a law that requires VAWD accreditation for all drug wholesale distributors who do business in Indiana.

In the Report, we said 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. The Model Rules called for such a national list as a starting point for application of pedigree requirements in the short term so that there would not be 50 different State lists. In December 2004, NABP convened a National Drug Advisory Coalition, which included industry and State and national government representation. FDA has served in an ex-officio role on this Coalition. The Coalition developed criteria for inclusion or removal from such a list and created a national list that includes 31 drugs. FDA applauds NABP on this accomplishment.

We recognize that States have implemented and are considering provisions requiring a pedigree (in some cases electronic) for drug products. We are pleased that these efforts complement Federal requirements and believe that rapid and uniform implementation of a pedigree that starts at the point of manufacture and accompanies the drug product until it is dispensed would be beneficial. As stated in the Report, adoption and enforcement of the Model Rules by all States would have the greatest impact on protecting the Nation's drug supply.

In the Report, we also said that increased penalties would help deter counterfeiting and more adequately punish those convicted. As we continue the efforts on the Federal level, it is equally important that States adopt stronger penalties (like those outlined in the Model Rules) so the penalties associated with counterfeiting drugs are commensurate to the significant threat they pose to the public health.

*Next steps.*—FDA will continue to support efforts by the States to adopt and enforce stricter laws and to pursue increased Federal penalties for drug counterfeiting.



### *Secure Business Practices*

In the Report, we described the important role that all participants in the drug supply chain have in adopting secure business practices. Around the time the Report was issued several trade associations for wholesale distributors issued guidelines for their members regarding best practices for drug distribution system integrity. In fact, in the past year, the Healthcare Distribution Management Association (HDMA) released new membership rules that require active members to adopt best practices that include extensive regulatory, financial, security, and due diligence processes and procedures.

It is also important to note that many of the secure business practices outlined in these trade associations' best practices guidelines are included in the Model Rules for Licensure of Wholesale Distributors for adoption by the States.

*Next Steps.*—We will continue to work with stakeholders who would like to develop secure business practices.

### *Heightened Vigilance and Awareness*

#### *Health Professional Reporting Via MedWatch*

In the Report, we indicated that we would encourage and educate health professionals to use the MedWatch form as a mechanism to report suspect counterfeit drugs to FDA. To make the reporting of suspect counterfeits easier, we changed the instructions for the MedWatch reporting form, both paper and electronic versions, so reporters will know how and when to report suspect counterfeits. We have also amended the MedWatch website description of product problems and added "suspect counterfeit" to the list of product problems to report to FDA using the MedWatch form. FDA staff has promoted the use of MedWatch for reporting suspect counterfeits in numerous speeches to health professional organizations over the past year. A small number of such reports are starting to come in using the MedWatch form.

*Next steps.*—FDA will continue to educate health professionals to use the MedWatch form to report suspect counterfeit drugs.

#### *Counterfeit Alert Network*

In the Report, we stated we would create a Counterfeit Alert Network (CAN) and partner with health professional and consumer groups to provide timely and effective notification to their members or constituents of a verified counterfeit event. By signing the CAN co-sponsorship agreement, organizations become CAN partners and agree to deliver time-sensitive messages and information on specific counterfeit incidents and educational messages about counterfeits in general, as well as information about how and when to report suspect counterfeit drug products. In the past year, we have formed the CAN and currently 13 organizations have signed the CAN co-sponsorship agreement.

Also, in the Report, we stated we would develop internal guidelines for the informational contents of outgoing FDA messages that would be useful to communicate a counterfeiting incident to CAN partners. In the past year, we have developed these guidelines, in the form of a template, in collaboration with CAN partners. This template will allow for the efficient preparation and delivery of uniform counterfeit alert messages for partners to further disseminate.

*Next Steps.*—FDA will encourage stakeholders to become members of the CAN and continue to work with CAN partners to be ready to disseminate effective and appropriate counterfeit alerts when needed.

#### *Streamline FDA's Internal Rapid Response to Reports*

In the Report, we said that we would streamline our internal processes to respond quickly to reports of suspect counterfeits by improving coordination and communication among all initial responders in the agency. In the past year we amended our internal standard operating procedures and developed a protocol for more efficient internal communication and coordination when a suspect counterfeit drug is reported to the agency, regardless of where the report is received (e.g., MedWatch, an FDA field office, call to the FDA hotline).

*Next Steps.*—No additional action is required.

#### *Educating Consumers and Health Professionals*

In the Report, we noted that educating consumers about the risks of counterfeits is a critical piece of the effort to stop counterfeits from entering the stream of commerce. In the past year we have taken many steps towards educating consumers. First, we developed two public service announcements (PSAs) geared to consumers. These PSAs ran in 4.5 million magazines. In addition, 4.6 million medication leaflets distributed by retail pharmacies with patient's prescriptions also carried these PSAs along with additional consumer information about counterfeit drugs. Also,

FDA drafted an article about counterfeit drugs that was printed in several local papers nationwide, with an estimated readership of about 9.5 million consumers.

We also set up a webpage on the FDA website for consumers to obtain information about counterfeit drugs, FDA initiatives, and educational information. This website can be found at [www.fda.gov/counterfeit](http://www.fda.gov/counterfeit). In addition, the National Consumers League (NCL) developed a highly informative website containing useful consumer information about counterfeit drugs.

In the past year, FDA partnered with the National Health Council (NHC) to jointly create and disseminate educational messages on counterfeit drugs. NHC is a private, non-profit organization of over 100 national health-related organizations. Under this partnership, messages to raise awareness of the dangers of counterfeit drugs and how to avoid them will be developed and tested to measure their effectiveness. In addition, products will be created to deliver these messages to the target audience.

In addition, FDA is developing educational messages to inform pharmacists about how to recognize counterfeits, counsel patients on how to minimize the risk of exposure to counterfeits, and on how to notify FDA if a counterfeit drug is suspected. These efforts are in the early stages.

In the Report, we said that we would re-launch our safe online buying practice campaign. In March 2005, we launched a new campaign with tips for consumers on how to buy drugs safely on the Internet and minimize their risks of getting a counterfeit or otherwise substandard drug.

*Next steps.*—We will increase dissemination of the PSAs and counterfeit drug messages. We will continue to update and post relevant information on the counterfeit drug webpage. We will also continue to work with the NHC to finalize educational messages and develop a dissemination strategy for those messages. In the coming months, we will also work with pharmacy organizations to finalize educational messages for pharmacists and develop a strategy to disseminate these messages.

#### *International Collaboration*

In the Report, we recognized that counterfeit drugs are a worldwide concern, and we stated that we would collaborate with foreign stakeholders to develop strategies to deter and detect counterfeits globally. In February 2004, the World Health Organization (WHO) hosted a meeting to discuss an approach for developing global strategies for combating counterfeit drugs. FDA participated in this meeting and supports WHO's efforts in this area. It was decided at the WHO meeting that a concept paper would be drafted with a proposed strategy to address this problem. In March 2005, we attended the 4<sup>th</sup> Pan American Conference on Drug Regulatory Harmonization held by the Pan-American Health Organization (PAHO) where a report was presented and recommendations were discussed regarding combating counterfeit drugs in the Americas. FDA's counterfeit drug initiative is consistent with the recommendations of the PAHO report.

FDA's Office of Criminal Investigations (OCI) continues to work with foreign law-enforcement agencies directly and through Interpol on individual international counterfeit cases.

OCI also has provided training on counterfeit drugs to foreign law-enforcement, customs and judicial officers from various parts of the world through the U.S. Patent and Trademark Office (PTO) Intellectual Property Enforcement Academy. In addition, in the past year, several individual countries have sought FDA's insights, advice, and/or training on combating counterfeit drugs. Although the approaches that we outlined in the Report were specific to the U.S. drug distribution system, many of the principles outlined in the Report are applicable generally.

*Next Steps.*—To the extent that resources permit, FDA will continue to work with international organizations, foreign law enforcement agencies, and individual governments to provide training and advice concerning drug counterfeiting and to collaborate on coordinated strategies to combat the problem of counterfeit drugs globally.

#### *Conclusion*

Significant progress has been made towards implementing the measures outlined in FDA's Combating Counterfeit Drugs Report issued in February 2004. Although the use of electronic track and trace technology is still in the implementation stage, adoption and widespread use is closer to becoming a reality as stakeholders work diligently to find solutions to the challenges faced along the way. The use of authentication technologies is gaining acceptance as manufacturers realize that steps should be taken to protect their products from sophisticated counterfeiters. States are starting to adopt stricter laws and harsher penalties to ensure that only legitimate wholesalers do business in their State and they are taking measures to do

their part in protecting supply chain integrity. Trading partners in the drug supply chain are also taking steps to ensure secure business practices are adopted and utilized as drug products are bought and sold. Educational efforts have been undertaken to help health professionals and consumers develop a greater awareness and knowledge about counterfeit drugs and how to minimize the risks of exposure. In addition, efforts are underway to tackle counterfeit drugs on a global level.

Despite the progress made, there remains a viable and concrete threat of counterfeit drugs entering the U.S. drug distribution system. We must all continue to work together to expeditiously pursue the measures outlined in the Report to further protect the safety and security of the U.S. drug supply.

<b>Combating Counterfeit Drugs Strategy Status Report</b>		
<b>Critical Components:</b>	<b>Completed</b>	<b>Ongoing</b>
Track and trace (RFID)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Authentication technologies	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Electronic Pedigree	<input type="checkbox"/>	<input checked="" type="checkbox"/>
States adopt stricter laws	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Secure business practices	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Reporting via MedWatch	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Counterfeit Alert Network	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Internal rapid response	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Educate consumers and health professionals	<input type="checkbox"/>	<input checked="" type="checkbox"/>
International collaboration	<input type="checkbox"/>	<input checked="" type="checkbox"/>

#### APPENDIX: SIGNIFICANT COUNTERFEIT CASES CLOSED IN THE PAST YEAR

Below are a number of significant counterfeit drug cases that were closed in the past year:

##### *Counterfeit Lipitor*

During the first quarter of 2005, three men pled guilty to Federal criminal charges in a multi-million dollar Lipitor smuggling and counterfeiting conspiracy. The pleas are a result of an ongoing OCI investigation involving the manufacturing, smuggling, and interstate distribution of counterfeit pharmaceuticals that was initiated by OCI in April 2003. To date, eight people have been indicted; four have pleaded guilty, and another was convicted by a trial jury.

In another counterfeit Lipitor case, an OCI undercover operation resulted in the arrest and conviction of a Belize citizen for violating Title 21, U.S.C. § 331 (a)—Introduction into Interstate Commerce of a Misbranded Drug. In September 2004 the defendant was sentenced to 10 months incarceration and 1 year probation.

##### *Genapharm.com (Counterfeit Human Growth Hormone)*

On March 9, 2004, an Austin, Texas man pled guilty to four counts of conspiracy to introduce misbranded and unapproved new drugs into interstate commerce, counterfeiting human growth hormone, and possessing controlled drugs with intent to distribute. Two other persons involved in these offenses were previously convicted and sentenced.

##### *Counterfeit Viagra*

On June 23, 2004, an individual pled guilty to charges of conspiracy, trafficking in counterfeit goods, and a felony violation of the Federal Food, Drug and Cosmetic Act. In pleading guilty, the defendant admitted that he conspired with a manufac-

turer in Beijing to import thousands of counterfeit Viagra tablets into the United States, which he would then resell. The defendant was sentenced on March 25, 2005 to 18 months in prison, followed by 3 years probation and was fined \$6,000.

#### *Counterfeit Serostim*

On June 16, 2004, an indictment was unsealed in San Diego that charged an individual with conspiring to unlawfully distribute human growth hormone and trafficking in counterfeit goods. According to the indictment, this individual obtained counterfeit Serostim and sold it to bodybuilders who did not possess lawful prescriptions for the drug. Another individual involved in this investigation pled guilty to similar charges on February 19, 2003. Serostim is a prescription drug containing the active ingredient "somatropin," a form of human growth hormone. Serostim is approved by the FDA for use in the United States to treat AIDS wasting disease.

#### *Counterfeit Labeled Pharmaceuticals*

An Alabama drug wholesaler was convicted for violating Title 21, U.S.C. § 331 (i) (3)—Selling and Holding for Sale a Counterfeit Drug. In October 2004 the company was sentenced to 5 years probation and fined \$24,000.

#### *Counterfeit Viagra*

In January 2005, a Southern California man pled guilty to importing counterfeit Viagra from China and manufacturing 700,000 counterfeit Viagra tablets at a lab in the United States. An accomplice was convicted of similar charges in September 2004. The total value of the counterfeit Viagra in this case is more than \$5.65 million.

#### *World Express Rx*

In January 2005, a San Diego man was sentenced to serve a 51-month prison term and forfeit substantial cash proceeds for his role in operating a large Internet pharmacy scheme. The drugs distributed included a variety of products counterfeited in Mexico, smuggled into the United States and sent throughout the country. Some of the ingredients for the drugs were shipped from India and China. In other instances, unapproved and counterfeit drugs made in India and Pakistan entered the United States via the Bahamas. At least 14 other individuals are also being prosecuted in California or Florida as part of this international conspiracy.

### NATIONAL ANTIMICROBIAL RESISTANCE MONITORING SYSTEM

*Question.* Can we get a current accounting of funds available to FDA to fund the NARMS program and the distribution of these funds to the various agencies?

*Answer.* At this time, FDA has not determined the exact amount of NARMS funding for CDC and USDA for fiscal year 2006 but plans to make decisions in the Fall of 2005. In fiscal year 2005, the NARMS program took a reduction due to competing Agency priorities, however, FDA funded USDA and CDC at the same level they were funded in fiscal year 2004 with FDA absorbing any reduction in program funding. FDA believes that all three arms are integral to the success of the NARMS program and to achieve the benefits envisioned at its inception and agreed upon by all three agencies. We would be happy to provide a chart showing the allocation of NARMS funding in fiscal year 2004 and fiscal year 2005.

[The information follows:]

#### NARMS FUNDING FISCAL YEAR 2004–2005

[In millions of dollars]

	Fiscal year 2004	Fiscal year 2005
USDA .....	1.606	1.606
CDC .....	2.037	2.037
FDA <sup>1</sup> .....	3.991	3.686
Total .....	7.634	7.329

<sup>1</sup> Included in this figure are laboratory supplies FDA purchases for USDA, CDC and FDA.

*Question.* Permanent funding needs to be established to allow ARS to hire permanent staff positions. Also, current funding is inadequate to allow for the collection of samples in a scientifically-based, randomized and statistically-sound manner. Can funding be line-itemed to insure on-going designated funding stream?

*Answer.* All three components of NARMS are critical to monitor the development of bacterial resistance from the use of antibiotics in animals and subsequent public

health impacts. NARMS is foremost a public health surveillance system. Emergence of bacterial antibiotic resistance among livestock is certainly critical to establish links between use in food producing animals and public health consequences. However, it is of equal importance to the other arms and should not be singled out as the most responsive measure of the NARMS program.

FDA is planning an independent external review of all three components of the NARMS program, the human, retail meat, and slaughter components and is holding a public meeting, June 23–24, 2005, to address sampling issues and how the NARMS funds have been spent, as well as other issues.

*Question.* Can an independent panel be formed to direct the activities and funding for the NARMS program?

*Answer.* FDA is planning an independent external review of all three components of the NARMS program, the human, retail meat, and slaughter components and is holding a public meeting, June 23–24, 2005, to address sampling issues and how the NARMS funds have been spent, as well as other issues.

*Question.* There was report language in last year's appropriations bill requiring adequate funding for the 3 arms of NARMS. Are the three portions of the NARMS program adequately funded as directed in this report language?

*Answer.* FDA strongly supports NARMS and all its components, and believes that it is important to maintain NARMS funding, to the extent possible, even when there are competing public health priorities. FDA has funded NARMS since NARMS was conceived in 1996 and is committed to the continued funding of this program as much as possible without compromising our other core programs.

In fiscal year 2005, the NARMS program took a reduction, however, FDA funded USDA and CDC at the same level they were funded in fiscal year 2004 with FDA absorbing any reduction in program funding. FDA believes that all three arms are integral to the success of the NARMS program and to achieve the benefits envisioned at its inception and agreed upon by all three agencies.

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#### QUESTIONS SUBMITTED BY SENATOR HERB KOHL

##### FDA PAY COSTS

*Question.* In fiscal year 2005, the FDA's top priority was to provide funding to cover necessary increased salaries and expenses for their staff. The FDA's budget, in fact, is 60 percent salaries and expenses. In the fiscal year 2006 budget request, however, no funding is requested at all to cover the required pay increases, effectively resulting in a \$36 million shortfall.

Why isn't funding requested for increased salaries and expenses in the fiscal year 2006 budget, since it was the top priority for the previous fiscal year?

*Answer.* In fiscal year 2006 FDA needs approximately \$36 million to cover the cost of a pay increase. The agency will cover the costs of the pay raise within the total request.

*Question.* How does FDA propose to absorb the funding for employee pay increases, approximately \$36 million? What specific programs, and in what amounts, will that funding come from?

*Answer.* This will be accomplished in fiscal year 2006 through instituting hiring freezes and attrition of over 250 FTE. In select areas where we are still hiring, we will carefully targeting the areas for backfills, such as import field exams. FDA will use risk-based management principles throughout the program areas to ensure we are properly targeting programs to protect public safety.

##### CITIZEN PETITIONS

*Question.* It has been brought to my attention that FDA recognizes the need to expedite the decision making process for citizen petitions and that the current system may be contributing to agency delay in approval of abbreviated new drug applications (ANDAs). Further, I understand that FDA is currently exploring reforms to this process as a way to accelerate consumer access to more affordable medicines.

Please provide a chart listing the citizen petitions filed with FDA in fiscal year 2003 and fiscal year 2004 that target ANDAs, including the name of filer, date the petition was filed and completion date for each petition.

*Answer.* There were 42 citizen petitions filed with FDA in fiscal year 2003 and fiscal year 2004 that relate specifically to ANDAs. We would be happy to provide this information. The petitions are in alphabetical order by the topic of the petition so that related petitions are grouped together and where no completed date is provided, the petition is still pending with the Agency. The information describes only petitions that relate to ANDAs specifically and does not include certain types of pe-

titions that are necessary to approving some ANDAs, but do not on their face relate to ANDAs, for example, relisting petitions. When a drug is no longer being marketed, an ANDA applicant seeking to reference that drug product must file a relisting petition requesting that the FDA determine that the drug product was not withdrawn for reasons of safety or effectiveness. Also, in some instances there were additional citizen petitions relating to a particular drug product that may have been filed outside of the requested timeframe. For example, only one petition relating to fentanyl transdermal products is shown, but a total of four petitions were filed, some in fiscal year 2005.

[The information follows:]

BLOCKING PETITIONS—SUBMITTED IN FISCAL YEAR 2003 AND FISCAL YEAR 2004

*180-day; Gabapentin, can exclusivity be waived?*

PETITIONER: Pfizer.  
DOCKET #: 04P-0227.  
SUBMITTED: 5/11/2004.  
COMPLETED: 7/2/2004.

That FDA acknowledge that 180-day exclusivity is not a right or asset subject to transfer or waiver in favor of one or more specified subsequent ANDA applicants; specifically that FDA not approve Teva during the running of Purepac's exclusivity.

*180-day; para IV recertification for CMC changes*

PETITIONER: Biovail.  
DOCKET #: 03P-0121.  
SUBMITTED: 3/26/2003.

That FDA require paragraph IV re-certification in the case of ANDAs when there is an amendment to the CMC portion of the ANDA.

*30-month; DuoNeb (Ipratropium /Albuterol)*

PETITIONER: Dey, L.P.  
DOCKET #: 04P-0324.  
SUBMITTED 7/16/2004.

That FDA determine that Ivax' ANDA 76-724 is subject to 30-month stay of approval. Related to Docket No. 04P-0520.

*Agrylin (anagrelide HCl)—CP*

PETITIONER: Shire.  
DOCKET #: 04P-0365/CP1.  
SUBMITTED: 8/16/2004.  
COMPLETED: 4/18/2005.

That FDA refrain from approving ANDAs that reference Agrylin.

*Agrylin (anagrelide HCl)—PSA*

PETITIONER: Shire.  
DOCKET #: 04P-0365/PSA1.  
SUBMITTED: 9/3/2004.  
COMPLETED: 4/18/2005.

Petition for Stay of Action (PSA) to CP1.

*Alphagan; refuse ANDAs for 0.2 percent*

PETITIONER: Allergan.  
DOCKET #: 02P-0469.  
SUBMITTED: 10/28/2002.  
COMPLETED: 5/21/2003.

That FDA refuse to approve ANDA's for brimonidine tartrate 0.2 percent. A newer (and allegedly safer) 0.15 percent product has recently been approved. See relisting CPs, Docket Nos. 02P-0391 and 02P-0404.

*Amino acid solutions*

PETITIONER: Braun Medical.  
DOCKET #: 02P-0450.  
SUBMITTED: 10/16/2002.  
COMPLETED: 6/19/2003.

Withhold approval of any ANDA for amino acid drug products packaged in DEHP-plasticized PVC and intended for use in infant populations.

*Amlodipine/Benazepril*

PETITIONER: Frommer Lawrence.

DOCKET #: 04P-0339.

SUBMITTED: 7/29/2004.

That FDA refuse to accept for filing ANDAs for this combination drug that do not include fed and fasted BE studies.

*Desmopressin BE*

PETITIONER: Ferring Pharm Inc.

DOCKET #: 04P-0068.

SUBMITTED: 2/13/2004.

That FDA establish specific BE requirements for oral products containing desmopressin (DDAVP).

*Doryx and Suitability Petition*

PETITIONER: Warner Chilcott.

DOCKET #: 04P-0417.

SUBMITTED: 9/13/2004.

That FDA require ANDAs for Doxycycline Hyclate Capsule products containing powder or similar fill and using Doryx as the RLD first obtain FDA's acceptance of a suitability petition for a change in dosage form.

*Fentanyl—Palo Alto*

PETITIONER: Palo Alto Health.

DOCKET #: 04P-0340.

UBMITTED: 7/29/2004.

COMPLETED: 1/28/2005.

That FDA require ANDA applicants for transdermal fentanyl (Duragesic) to perform BA/BE studies on both intact and stripped skin.

*Ferrlecit (CP1)*

PETITIONER: Watson Pharma/CRG.

DOCKET #: 04P-0070/CP1.

SUBMITTED: 2/13/2004.

That FDA not approve any ANDA for Ferrlecit (sodium ferric gluconate complex in Sucrose) until all conditions in the petition are met.

*Ferrlecit (CP2)*

PETITIONER: Watson Pharma.

DOCKET #: 04P-0070/CP2.

SUBMITTED: 8/18/2004

That FDA refuse to receive an ANDA for Ferrlecit until FDA establishes guidelines to determine sameness of a generic sodium ferric gluconate complex product.

*Flonase (Fluticasone Nasal Suspensions)*

PETITIONER: GSK.

DOCKET #: 04P-0239.

SUBMITTED: 5/19/2004.

That FDA refrain from approving ANDAs for nasal suspension formulations and issue a BE guidance.

*Flonase (Fluticasone Propionate Nasal Spray)*

PETITIONER: Bell Boyd & Lloyd.

DOCKET #: 04P-0206.

SUBMITTED: 5/3/2004.

That FDA make a determination that no ANDA seeking FDA premarket approval of a generic formulation of Fluticasone Propionate Nasal Spray, 50 mcg, shall be received for substantive review, or granted final approval, unless such an ANDA contains successful results of BA and BE studies conducted under the methodologies set forth in FDA's.

*Levothyroxine—allow Unithroid only as RLD*

PETITIONER: Jones Pharma.

DOCKET #: 03P-0097.

SUBMITTED: 3/13/2003.

COMPLETED: 10/1/2003.

*Levothyroxine—ANDA guidance*

PETITIONER: Jerome Stevens.

DOCKET #: 04P-0061.

SUBMITTED: 2/10/2004.

COMPLETED: 6/23/2004.

That FDA establish guidance and clarify requirements for levo ANDAs.

*Levothyroxine—BE methodology*

PETITIONER: Abbott.

DOCKET #: 03P-0387/CP1.

SUBMITTED: 8/25/2003.

COMPLETED: 6/23/2004.

That FDA make certain requirements for BE studies of levothyroxine.

*Levothyroxine—BE methodology (PRC)*

PETITIONER: Abbott.

DOCKET #: 03P-0387/PRC1.

SUBMITTED: 7/23/2004.

That FDA reconsider its denial of earlier petition requesting that FDA require certain BE studies of levothyroxine.

*Levothyroxine—CP and PSA re BE standards*

PETITIONER: Jones Pharma.

DOCKET #: 03P-0126/CP1.

SUBMITTED: 3/28/2003.

COMPLETED: 6/23/2004.

That FDA refrain from approving or accepting for filing any levo ANDA that shows BE via 2001 Guidance or as announced at Mar 12-13 2003 meeting of Pharm Sci AC; that FDA convene a joint mtg of Pharm Sci AC and E&M Drugs AC to establish BE standards.

*Levothyroxine—name Levoxyl as 3RLD—PSA*

PETITIONER: Abbott.

DOCKET #: 03P-0113/PSA.

SUBMITTED: 5/13/2003.

COMPLETED: 11/7/2003.

That FDA stay the effective date of the decision to grant Mylan's request that Levoxyl be named a RLD.

*Levothyroxine—name Synthroid as 2RLD—PSA*

PETITIONER: Abbott.

DOCKET #: 03P-0107/PSA.

SUBMITTED: 5/13/2003.

COMPLETED: 11/7/2003.

That FDA stay the effective date of the decision to grant Mylan's request that Synthroid be named a RLD.

*Levothyroxine—PRC on CP/PSA re BE standards*

PETITIONER: Abbott.

DOCKET #: 03P-0126/PRC1.

SUBMITTED: 7/23/2004.

*Levothyroxine—w/d Synthroid & Levoxyl as RLDs*

PETITIONER: Abbott.

DOCKET #: 03P-0210.

SUBMITTED: 5/13/2003.

COMPLETED: 11/7/2003.

That FDA withdraw the decision in Docket Nos. 03P-0107 and 03P-0113 to name Synthroid and Levoxyl as RLDs.

*Loratadine and b2*

PETITIONER: GenPharm.

DOCKET #: 03P-0160.



SUBMITTED: 4/16/2003.

COMPLETED: 6/24/2004.

That FDA require 505(j) applications for generic OTC loratadine (Claritin), and not permit b2 applications.

*Lovenox—not approve ANDAs*

PETITIONER: Aventis.

DOCKET #: 03P-0064.

SUBMITTED: 2/19/2003.

That FDA not approve any ANDA using Lovenox (enoxaparin sodium injection, a low molecular weight heparin) as the RLD unless (a) the manufacturing process is determined to be equivalent, or equivalent s&e is supported by clinical trials, and (b) the generic product contains a 1,6 anhydro ring structure at the reducing ends of between 15 percent and 25 percent.

*Metaxalone*

PETITIONER: King.

DOCKET #: 04P-0140/CP1.

SUBMITTED: 3/19/2004.

That FDA (a) rescind the 3/1/2004 “Dear Applicant” letter, (b) require ANDA applicants using SKELAXIN as the RLD to certify re the 128 patent, and (c) prohibit a carve out of PK information.

*Metaxalone—PSA1*

PETITIONER: King.

DOCKET #: 04P-0140/PSA1.

SUBMITTED: 3/19/2004.

PSA to CP1.

*Metaxalone—PSA2*

PETITIONER: Mutual.

DOCKET #: 04P-0140/PSA2.

SUBMITTED: 4/5/2004.

That FDA stay approval of any sNDA for Skelaxin, specifically s-046 regarding dosing with food.

*Methylphenidate—Concerta*

PETITIONER: McNeil.

DOCKET #: 04P-0139.

SUBMITTED: 3/19/2004.

That FDA apply additional BE metrics other than the average BE parameters to ensure that the approval of generic versions of Concerta (methylphenidate HCl) extended-release tablets are both bioequivalent and clinically equivalent to Concerta.

*Methylphenidate—Metadate CD—BE*

PETITIONER: Celltech.

DOCKET #: 04P-0225.

SUBMITTED: 5/7/2004.

That FDA require an additional BE test for generic versions of Celltech's Metadate CD (ER methylphenidate).

*Mupirocin Calcium (topical)*

PETITIONER: Glaxo.

DOCKET #: 04P-0290.

SUBMITTED: 7/8/2004.

That FDA refrain from approving any ANDAs for topical mupirocin calcium products containing the amorphous form of the active ingredient.

*Mupirocin ointment; BE requirement for*

PETITIONER:—GlaxoSmithKline.

DOCKET #: 03P-0140.

SUBMITTED: 4/8/2003.

COMPLETED: 11/7/2003.

That FDA not approve ANDAs for topical mupirocin ointment products absent additional data to support the full labeling of the RLD (Bactroban).

*Oxandrolone BE*

PETITIONER: Savient Pharm Inc.  
 DOCKET #: 04P-0074.  
 SUBMITTED: 2/18/2004.

That FDA establish specific BE requirements for oral products containing oxandrolone.

*Oxycontin, ANDAs and RMPs*

PETITIONER: Purdue Pharma.  
 DOCKET #: 04P-0006/PSA.  
 SUBMITTED: 1/7/2004.  
 COMPLETED: 3/23/2004.

That FDA stay approval of modified-release ANDAs that reference Oxycontin until FDA has evaluated supplements from Purdue that incorporate an RMP into labeling.

*Periostat—2003 CP*

PETITIONER: CollaGenex.  
 DOCKET #: 03P-0315/CP1.  
 SUBMITTED: 7/14/2003.

That FDA refuse to approve any ANDA for Periostat.

*Periostat—2003 CP re West-ward*

PETITIONER: CollaGenex.  
 DOCKET #: 03P-0372.  
 SUBMITTED: 8/15/2003.

That FDA refuse to approve West-ward's ANDA for Periostat.

*Periostat—2003 PSA*

PETITIONER: CollaGenex.  
 DOCKET #: 03P-0315/PSA1.  
 SUBMITTED: 7/18/2003.

PSA to CP1. That FDA refuse to approve any ANDA for Periostat.

*Restasis*

PETITIONER: Allergan.  
 DOCKET #: 03P-0275/PSA.  
 SUBMITTED: 8/6/2003.  
 COMPLETED: 12/18/2003.

Stay approval of all Section 505(j) ANDAs and Section 505(b)(2) NDAs for generic versions of Restasis because it is not an antibiotic and therefore is entitled to 3-year exclusivity.

*Ribavirin*

PETITIONER: ICN Pharm.  
 DOCKET #: 03P-0321.  
 SUBMITTED: 7/16/2003.  
 COMPLETED: 4/6/2004.

That FDA not approve generic Rebetol under 505(j) with labeling that omits information on the use of ribavirin with PEG-Intron because such a product would be misbranded; any guidance with respect to labeling and cross-labeling of generic ribavirin products must be done according to GGP regs and therefore requests that FDA defer action on. . .

*Sirolimus with Rapamune*

PETITIONER: Wyeth.  
 DOCKET #: 03P-518.  
 SUBMITTED: 11/5/2003.  
 COMPLETED: 9/20/2004.

Refrain from approving any ANDA for Sirolimus with Rapamune as the RLD before the expiration of the statutory exclusivity that applies to Rapamune.

*Therapeutic proteins and b2*

PETITIONER: BIO.  
 DOCKET #: 03P-0176.

SUBMITTED: 4/24/2003.

That FDA not approve anything less than a full NDA for a therapeutic protein product regulated under the FDCA. This petition generally relates to the can-there-be-generic-biologics question.

*Question.* Which offices at FDA are involved in reviewing citizen petitions that target ANDAs? What role, if any, does the HHS Office of General Counsel play?

*Answer.* A number of offices within the Center for Drug Evaluation and Research are involved in reviewing citizen petitions that relate to ANDAs. The Office of Regulatory Policy or ORP is responsible for drafting responses to these types of citizen petitions. ORP consults the Office of Generic Drugs on all of these petitions and consults with the appropriate medical review division within Office of New Drugs regarding issues relating to the approval of the innovator product that is the basis for the ANDA. If a citizen petition raises safety issues, the Office of Drug Safety is also involved in reviewing the petition. In addition, other offices may be consulted, as needed, for example the Office of Compliance, Controlled Substances Staff. ORP consults with the Office of Chief Counsel FDA, the Food and Drug division of the HHS Office of General Counsel, regarding petitions that raise legal issues, and the Office of Chief Counsel reviews all citizen petition responses for litigation risk and legal sufficiency. The Office of Commissioner, Office of Policy, may be consulted and the Associate Commissioner of Policy and Planning has signed some of the citizen petition responses in the past.

FDA's Office of Chief Counsel, which is the Food and Drug Division of HHS OGC, assists in resolving legal issues raised in incoming citizen petitions, assists in drafting citizen petition responses, and reviews citizen petition responses and administrative records supporting those responses for legal sufficiency. The Food and Drug Division of HHS OGC consults the Immediate Office at HHS OGC when a citizen petition raises issues that are particularly sensitive, novel, or complex.

*Question.* Currently, how many citizen petitions targeting ANDAs have been under review by the FDA Office of General Counsel for more than 180 days? How many FTEs are dedicated to reviewing citizen petitions in the FDA Office of General Counsel?

*Answer.* Currently there is one citizen petition that raises ANDA-related issues that has been under review by the Food and Drug Division of HHS OGC for more than 180 days. The Food and Drug Division of HHS OGC devotes approximately .7 FTE per year to responding to ANDA-related citizen petitions.

*Question.* What specifically is FDA doing to reform the FDA citizen petition review process, and what potential solutions are under consideration?

*Answer.* We are examining our citizen petition process very thoroughly. During the past 8 months, the Office of Regulatory Policy, or ORP, has undertaken an extensive review of how we handle citizen petitions assigned to CDER. The purpose of this review is to identify areas where we can work more efficiently and effectively, despite the significant increase in the number of citizen petitions received. For example, CDER has seen approximately a 50 percent increase in the number of citizen petitions received in CY04 over CY03, and we anticipate an additional increase in the number of citizen petitions submitted in CY05, based on the current rate of receipt for CY05. As part of this review process, ORP worked with the Office of Generic Drugs or OGD, the Office of New Drugs, and the Office of Chief Counsel to determine causes of delay. We have already begun implementing changes to our internal processes and will track whether these changes improve the overall response time for citizen petitions. As part of this process, ORP will increase its interactions with other offices early in the process to provide better direction on what information is needed for a citizen petition response. We believe that increased communication will help to avoid misunderstandings, wasted efforts, or unnecessary delays. ORP and OGD are also increasing communications relating to priorities and anticipated timetables, so that we can coordinate citizen petition responses with upcoming ANDA approvals. In addition, we have added recommended goal dates for each stage of the citizen petition review process.

We also note that outside of ORP's process improvement efforts, OGD has made organizational changes designed to improve the citizen petition review process. OGD has established a specific group of scientists who will be responsible for addressing citizen petition review issues. This organizational change will increase the consistency, quality, and speed of OGD input on citizen petition responses.

*Question.* Do you believe FDA needs additional FTEs and/or funding to make the citizen petition review process more efficient? If so, please provide an estimate of the increased funding amount needed in fiscal year 2006.

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#### MDUFMA SHORTFALL

*Question.* As you know, the MDUFMA user fee program is set to expire this year, unless additional authorizing language is passed by the Congress. We have provided significant increases for CDER since this program was initiated, and further increases are requested this year.

Has authorizing language been submitted by the FDA to forgive previous MDUFMA funding shortfalls, enabling the MDUFMA program to continue past the current fiscal year?

*Answer.* The Administration informally transmitted its legislative proposal to alter the appropriations triggers for fiscal year 2003 and 2004 to Congress in May 2004. FDA staff are now working with Congressional staff and stakeholders to save the MDUFMA user fee program and the many benefits it offers to industry, FDA, the health care community, and patients. FDA sincerely hopes this process will lead to a proposal that is acceptable to FDA and the Administration, our stakeholders, and Congress.

*Question.* If not, what is the status of that language, and specifically when do you expect it to be sent to Congress?

*Answer.* The Administration informally transmitted its legislative proposal to alter the appropriations triggers for fiscal year 2003 and 2004 to Congress in May 2004. Since that time, some of the stakeholders have asked for further changes in the MDUFMA law. FDA staff are now working with Congressional staff and stakeholders to develop the legislative language required to save the MDUFMA user fee program and the many benefits it offers to industry, FDA, the health care community, and patients. FDA sincerely hopes this process will lead to a proposal that is acceptable to FDA and the Administration, our stakeholders, and Congress.

*Question.* What will happen if the language is not submitted or passed by the Congress before October 1, 2005? Does FDA have a plan to make up for the potentially lost user fee income?

*Answer.* If Congress does not enact corrective legislation, FDA will lose its authority to collect medical device user fees beginning October 1, 2005 and the performance goals negotiated for the medical device program will end.

FDA would have to reduce staffing levels, abandon critical infrastructure modernization, reduce interaction with applicants, abandon planned guidance development, terminate the Medical Device Fellowship Program and largely eliminate our use of contract expertise in academia and the private sector, and take a variety of other steps to limit expenditures to the amounts made available in our fiscal year 2006 and fiscal year 2007 appropriations. FDA would expect review times to deteriorate, resulting in significant delays in the introduction of new medical devices.

#### TISSUE SAFETY

*Question.* What is the status of the FDA rule that was proposed in 1997 that would provide guidelines for current good manufacturing practices for establishments that produce human cells, tissues, and related products?

*Answer.* In 2004, FDA published the last two of three final rules to implement a new risk-based approach for the regulation of human cells, tissues, and cellular and tissue-based products, HCT/PS. Together, these three rules are expected to prevent the spread of communicable diseases, assure that safety and effectiveness are demonstrated for cellular and tissue-based products that are also drugs, biological

products, or devices, and enhance public confidence in these products so that they can fulfill their potential for saving and improving lives.

FDA published the third and last final rule on November 24, 2004. The Good Tissue Practice Rule requires manufacturers to recover, process, store, label, package, and distribute human cells, tissues, and cellular and tissue-based products in a way that prevents the introduction, transmission, or spread of communicable disease. Good tissue practice includes the methods, facilities and controls used to manufacture HCT/Ps. The rule also contains provisions for FDA inspection of establishments and enforcement of the regulations.

FDA published the second of the three final rules on May 25, 2004. The Donor Eligibility rule requires donor screening and testing to prevent the unwitting use of contaminated tissues with the potential to transmit infectious disease. The new rule extends the protections provided by FDA's previously issued tissue rules by requiring testing and/or screening for additional communicable diseases that can be transmitted through transplanted tissues and cells. The new regulation adds requirements to screen for human transmissible spongiform encephalopathies, including Creutzfeldt-Jakob disease, and to screen and test for syphilis. Screening and testing for still other relevant communicable disease agents, such as human T-lymphotropic virus, will be required for viable cells and tissue rich in leukocytes such as semen and hematopoietic stem cells. For reproductive tissues, the regulation also addresses potential risks associated with Chlamydia trachomatis and Neisseria gonorrhoeae.

The Donor Eligibility rule also provides a framework for identifying and addressing new or emerging diseases that may pose risks to recipients of transplanted HCT/Ps and for which appropriate screening measures or testing are available. Thus, this regulation gives FDA the flexibility to rapidly address new disease threats as they appear, providing substantial additional protections for patients receiving tissue transplants. The Donor Eligibility final rule and the Good Tissue Practice final rule will become effective on May 25, 2005.

FDA previously published the Establishment Registration and Listing final rule requiring human cell, tissue, and cellular and tissue-based product establishments to register and list their products with the Agency. On January 21, 2004, this rule became effective for certain establishments, for example, reproductive tissue and cord blood establishments, which had previously been exempt from its provisions. The rule is now fully effective. This complete database of HCT/P establishments and their products will provide important information to FDA, and will assist the agency to improve communications with industry and the public.

#### NUTRITIONAL PRODUCTS, LABELING AND DIETARY SUPPLEMENTS

*Question.* This month, FDA published two Advance Notices of Proposed Rulemaking regarding the appearance and usefulness of food labels. Specifically, these ANPRMs discussed how calories and serving sizes are shown on food labels.

How much funding is included in the fiscal year 2006 budget request for the Office of Nutritional Products, Labeling and Dietary Supplements?

*Answer.* The estimated fiscal year 2006 budget for the Office of Nutritional Products, Labeling and Dietary Supplements is \$10 million.

*Question.* Would these proposed rules come under the FDA Office of Nutrition Products, Labeling and Dietary Supplements?

*Answer.* Yes, the two Advance Notices of Proposed Rulemaking regarding the appearance and usefulness of food labels will come under the FDA Office of Nutrition Products, Labeling and Dietary Supplements.

*Question.* Please provide a summary of the activities under the jurisdiction of this office, including funding allocated for each activity, for the past 5 years.

*Answer.* We would be happy to provide the budget and FTE for the Office of Nutritional Products, Labeling and Dietary Supplements also known as ONPLDS for fiscal year 2001–2006, and an estimate breakdown of budgetary resources and FTE among major activity areas appears below. Compliance, international activities, outreach and education, and research activities are included within the major activity areas listed below.

[The information follows:]

Office of Nutritional Products, Labeling and Dietary Supplements												
Estimated Resources FY 2001 - FY 2006												
	FY 2001		FY 2002		FY 2003		FY 2004		FY 2005 est.		FY 2006 est.	
Major Activity Areas	FTE	\$	FTE	\$	FTE	\$	FTE	\$	FTE	\$	FTE	\$
Dietary Supplements	26		26		26		26		26		26	
Nutrition, Health Claims and Labeling	40		55		53		50		50		50	
Infant Formula/Medical Foods	7		7		7		7		7		7	
Totals	73	\$6.8	88	\$9.70	86	\$8.60	83	\$10.00	83	\$10.0	83	\$10.0

#### DRUG LABELING

*Question.* As you know, once FDA approves a drug, they are no longer able to direct the drug manufacturer to ensure that labels on the approved drug appear a certain way. Vioxx, the drug recently pulled from the market because of serious safety questions, negotiated with the FDA for 14 months before finally changing their drug label to reflect an increased risk of heart attacks, and FDA couldn't force them to change the label earlier. There are serious concerns about the potential number of people who died as a result of taking this drug during this time of negotiation. An FDA official has recently said that FDA needs additional authority to be able to force drug manufacturers to present labels in a specific way, without negotiation.

Dr. Crawford, do you believe FDA needs additional authority to force manufacturers to present drug labels in a manner deemed appropriate by the FDA, without negotiation with the drug companies?

*Answer.* I do not believe additional authority is needed. FDA has significant authority to determine that a drug is misbranded if its labeling is false or misleading. We can seek judicial relief to mandate changes to the label or take action to remove the product from the market. However, both of these actions take time. The process would normally begin with a warning letter to the company expressing FDA's position, and the company would have a chance to respond. If the company does not make the changes voluntarily, FDA would then have to pursue judicial relief, which is a time-consuming process.

When FDA considers removing a product from the market over a sponsor's objections, FDA would first evaluate whether the risks of marketing the product with false or misleading labeling outweighed the benefits to the population of patients that rely on the product. In many cases, the risks may not outweigh the benefits. And again, if the sponsor does not agree to stop marketing, the procedures for removing a drug from the market are very time consuming. They require publication of a notice and opportunity for hearing in the Federal Register, and a possible administrative hearing if the sponsor demonstrates that there is a genuine issue of material fact to be decided in a hearing.

*Question.* If you don't believe additional authority is needed, what steps can FDA take to make sure that situations and questions such as those surrounding Vioxx and the need for stronger labels on certain drugs don't present themselves again? Essentially, how do you keep this from happening time and again?

*Answer.* FDA is taking a number of steps to help ensure that patients and health care professionals have access to current information about drug safety. As we explained in our response to a previous question, we are proposing a Drug Watch Web Page to respond to the needs of patients and health care providers. This web page will contain emerging information for both previously and newly approved drugs about possible serious side effects or other safety risks. This information may alter the benefit/risk analysis of a drug for some patients, and affect patient selection or monitoring decisions. FDA is also improving communication through more widespread development of Healthcare Professional and Patient Information Sheets.

Healthcare Professional Information Sheets are one-page information sheets for healthcare professionals for all new molecular entities as well as some other drugs (e.g., drugs on FDA's Drug Watch and all drugs with Medication Guides (FDA-approved patient labeling). The information sheets will contain the most important new information for safe and effective product use, such as known and potential

safety issues based on reports of adverse events, new information that may affect prescribing of the drug, and the approved indications and benefits of the drug. Patient Information Sheets are one-page information sheets for patients containing new safety information as well as basic information about how to use the drug in a consumer friendly format.

Finally, it is important to recognize that, as Dr. Janet Woodcock emphasized before the Senate Health, Education, Labor and Pensions Committee last March, another significant issue is that once a label change is made, old labels in paper form are still in distribution and it takes time to get newer labels in circulation. Dr. Woodcock testified that the new strategy of posting drug safety information sooner using the Drug Watch mechanism will help alleviate this concern because it will enable the FDA to get information directly to the people who need it in a more timely manner. We are confident that the new drug safety actions we are implementing will help ensure that consumers and healthcare practitioners have access to the most recent safety information about drug products.

*Question.* How do you respond to the findings of this study?

*Answer.* There is a common misconception that FDA issued new regulations in 1997. In fact, that is not the case. As a result of the changing social, health, and marketing environments, FDA issued guidance clarifying existing regulations governing how sponsors could comply with the requirements for presenting risk information.

Existing regulations require that drug advertisements not be false or misleading. FDA closely monitor all prescription drug promotion including direct-to-consumer (DTC) promotion. For most drugs, there is no requirement that manufacturers submit promotional pieces to FDA for review prior to use. As a result, FDA often reviews promotional pieces at the same time as they are used in the public domain to promote the drug. When FDA finds that promotion is misleading, FDA works to ensure that the promotion ceases, typically by issuing enforcement letters, known as untitled letters and Warning Letters.

Overall, the results of the study that you cite corroborate one of the primary findings of FDA's research on DTC promotion—that DTC advertising has positive and negative outcomes. Specifically, higher prescribing rates were seen among those patients who showed symptoms of the relatively more ambiguous adjustment disorder and requested prescription medication than those who did not. However, when patients presented with the symptoms of major depression, their requests resulted in more of the acceptable steps in the care for major depression, the clearer of the two disorders to diagnose.

FDA's own work has examined this issue in research on the impact of DTC advertising on the doctor-patient relationship. In our study sample, FDA research showed that 32 percent of patients asked about a prescription drug. Of this proportion of responses, 49 percent reported that they received the drug they had asked about (51 percent did not get the drug they asked for). Forty-one percent said they received advice to change diet or behavior, and 34 percent said they received a prescription for another drug. FDA's final report of its three surveys entitled Patient and Physician Attitudes and Behaviors Associated with DTC Promotion of Prescription Drugs can be found online at <http://www.fda.gov/cder/ddmac/researchka.htm>.

FDA's physician data showed that when patients asked for a specific brand, 64 percent of primary care physicians and 46 percent of specialists prescribed the requested drug (i.e., 36 percent and 54 percent did not provide requested drug). The most common reasons reported for not prescribing a requested drug were that a different drug was more appropriate or the drug was not right for the patient. Of those physicians who recalled a patient asking about a prescription drug, 88 percent reported the patient had the condition the drug treats.

*Question.* Do you believe that doctors are commonly prescribing medication that may not be necessary due to increased public requests? Do you believe this is a public health issue?

*Answer.* The issue of inappropriate prescribing predates Direct to Consumer or DTC, TV advertising. Of note, it is arguably most problematic for antibiotics, a class of drugs that is very rarely advertised DTC.

Patients do ask about prescription medications, but DTC advertising is not the primary driver of those requests. FDA survey research shows that among patients who had been to their doctor in the last 3 months, approximately 4 percent reported that they made an appointment because they wanted a prescription for a product they had seen advertised.

Physicians use their clinical judgment when deciding to prescribe or not prescribe. The simple act of a patient requesting treatment should not automatically trigger the presumption that the request is inappropriate. The question is when we should

give deference to clinical expertise and let science be the final arbiter of “appropriateness.”

*Question.* How much money is allocated in the FDA budget to be spent on monitoring of drug advertisements?

*Answer.* An estimated \$1,948,000 is planned in the FDA 2005 budget and an estimated \$2,140,000 is planned in the FDA 2006 budget for monitoring of drug advertisements.

*Question.* What role is FDA playing in trying to ensure that drug advertisements include appropriate information regarding potential benefits, warnings and side effects?

*Answer.* The Division of Drug Marketing, Advertising, and Communications, or DDMAC is responsible for regulating prescription drug promotion. DDMAC’s mission is to protect the public health by insuring that prescription drug information is truthful, balanced, and accurately communicated. DDMAC accomplishes its mission through a comprehensive surveillance, enforcement, and education program, and by fostering optimal communication of labeling and promotional information to both health care professionals and consumers.

Based in part on discussion at FDA’s September 22–23, 2003 public meeting, FDA developed guidance to encourage advertising that provides understandable 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: Options for presenting risk information in consumer-directed print advertisements for prescription drugs, to encourage use of consumer-friendly language and formats; criteria FDA uses to distinguish between disease awareness communications and promotional materials, in an effort to encourage manufacturers to disseminate disease educational messages to the public; and, 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.

*Question.* Do you believe the FDA needs to play a greater role in drug advertisement monitoring? Is more money required for these activities?

*Answer.* The pharmaceutical industry spends more than \$20 billion a year on promoting prescription drugs to healthcare professionals and consumers. Expenditures on DTC promotion has increased from \$791 million in 1996 to over \$4 billion in 2004.

FDA’s monitoring program includes reviewing promotional pieces that are submitted at the time of initial use and monitoring companies’ websites, TV and print DTC advertisements, medical journal advertisements, and promotion in the exhibit halls at medical conferences. Any violations noted in promotion are prioritized using a risk-based approach so that the most serious violations are addressed first. FDA issues untitled and warning letters to address violations. These letters almost always result in the cessation of the misleading promotion. In the case of more serious violations that are addressed with Warning Letters, the company agrees to disseminate remedial information to correct the misleading messages presented in the violative promotion. In addition, FDA uses its resources to encourage voluntary compliance by companies to the regulations. These efforts include providing advisory comments to companies when requested, and for accelerated approval drugs, issuing guidance and conducting outreach programs.

*Question.* What percentage of drug advertisements are seen and approved, even unofficially, by FDA before they are put on television? Do you believe this percentage should be higher? How often does FDA send out warning letters regarding drug advertisements, and how effective is this method of monitoring?

*Answer.* There were 143 proposed Direct to Consumer, or DTC broadcast ads submitted to the Division of Drug Marketing, Advertising and Communication for comment and 485 DTC broadcast ads disseminated in 2004. However these numbers cannot be simply used to calculate a percentage of ads that are seen before they are disseminated because of the following factors. Companies sometimes choose not to proceed with specific ads after they receive comments from FDA. In addition, some of the disseminated ads are different versions of the proposed ads. It is not unusual for a company to generate several ads during the same promotional campaign.

FDA issued 2 Warning Letters and 8 untitled letters in 2004 for DTC promotion. These letters are effective in stopping the misleading promotion. In addition, the Warning Letters resulted in the company disseminating remedial ads to correct the misleading promotional messages contained in the cited ads.



## COUNTERTERRORISM/FOOD AND AGRICULTURE DEFENSE INITIATIVE

*Question.* Since fiscal year 2002, funding for FDA's counterterrorism activities, including regular increases and emergency supplemental funding, has increased from approximately \$7 million to \$244 million, an increase of \$237 million in less than 4 years, including a requested increase of more than \$30 million in fiscal year 2006. While I don't doubt the necessity of increased funding and activities related to counterterrorism, I do believe that it is imperative that we maintain tight control and knowledge over how these funds are being spent, and specifically how they are benefiting and keeping the public safe.

Is all of the \$244 million funding requested for counterterrorism this year part of the President's Food and Agriculture Defense Initiative? If not, how much is considered a part of this initiative?

*Answer.* The fiscal year 2006 counterterrorism (CT) request includes \$65 million for continued implementation of Homeland Security Presidential Directive 9, also known as HSPD-9, relating to "Defense of United States Agriculture and Food." This includes a \$30 million increase above the initial fiscal year 2005 HSPD-9 implementation of \$35 million. The balance of the \$244 million was provided to FDA prior to the issuance of HSPD-9 in February 2004 and funds a number of initiatives and efforts supported by Congress. These includes FTE hired for field operations under the fiscal year 2002 Supplemental; counterterrorism research, including the food defense research mandated by section 302 of the Bioterrorism Act; vulnerability assessments to identify high priority products and likely threat agents; countermeasures to protect the public from harm caused by a terrorism; and physical security for FDA facilities, including Agency laboratories.

*Question.* How is FDA working with other agencies on FADI? What is the FDA's proportion of the funding? Is it your belief that other agencies are paying a proportionate share of their cost for FADI, and how is that determined? Who makes that determination?

*Answer.* FDA is working with the USDA/FSIS, Department of Homeland Security, White House Homeland Security Council, and the intelligence community to implement the initiative. We believe the fiscal year 2006 President's budget appropriately reflects funding levels government-wide to implement the initiative. Section 26 of HSPD-9 appears below and describes the budget process for implementing the initiative.

## Budget

(26) For all future budgets, the Secretaries of Agriculture, Health and Human Services, and Homeland Security shall submit to the Director of the Office of Management and Budget, concurrent with their budget submissions, an integrated budget plan for defense of the United States food system.

*Question.* Please provide the total amount of funding transferred to other agencies, and specifically how this funding will be used.

*Answer.* The agency anticipates that a portion of the \$3 million requested in fiscal year 2006 for food defense may be made available to Department of Homeland Security as part of the biosurveillance initiative. The funds will be used to integrate FDA's food defense biosurveillance systems with the Department of Homeland Security. Funds also will be used to support staff sent to the National biosurveillance analysis center to provide technical expertise to DHS led information integration and analysis efforts.

*Question.* When will FADI and the other FDA counterterrorism initiatives be fully implemented? Should the Committee expect continued requests for increases in the years to come?

*Answer.* The U.S. Government's counterterrorism initiatives, including FDA's efforts, are anticipated to continue in the near term and will be re-evaluated, as appropriate, based on future intelligence and threat assessments conducted by the intelligence and homeland security officials in collaboration with FDA and other Federal agencies. Therefore, it would be difficult to predict a meaningful timetable for full implementation of counterterrorism initiatives by FDA or any other agency. If the \$30 million request for food defense is fully funded, we anticipate that most out-year requirements can be funded with recurring base funds. Below is specific information on our request for enabling the agency to protect the food supply.

[The information follows:]

## COUNTERTERRORISM FUNDING

*FERN—\$20.0 million*

FERN, which is managed by FDA's Office of Regulatory Affairs, or ORA, is a multiyear effort to establish a comprehensive network of Federal and State labora-

tories across the United States that will enable FDA to test thousands of food samples within a matter of days in the event of an act of terrorism or other emergency.

The requested increase, in conjunction with base funding, will provide an additional 19 FDA-funded State laboratories, adding to the six that were funded in 2005 and to the 10 FDA laboratories that are already up and running. Currently, 99 labs in 44 States and Puerto Rico have satisfactorily completed the FERN Laboratory Qualification Checklist, which provides vital information to determine if a lab meets the criteria for participation in FERN and is eligible for Federal funding.

These funds will also permit FERN's National Program Office to manage the laboratory response in the event of a food related emergency and coordinate the FERN support programs which provide validated food testing methods, proficiency testing for laboratories, electronic communications, and training programs for laboratory personnel.

FERN, developed in accordance with HSPD-9, integrates the Nation's laboratory infrastructure to detect and identify biological, chemical or radiological threat agents in food at the local, State, and Federal levels. Its primary objectives include prevention (Federal and State surveillance sampling programs); preparedness (strengthen laboratory capacity and capabilities); response (surge capacity to handle terrorist attacks or a national emergency involving the food supply); and, recovery (support recalls, seizures, and disposal of contaminated food to restore confidence in the food supply). FERN resources are leveraged by collaborating and coordinating with other lab networks including the Laboratory Response Network (LRN) and the National Animal Health Laboratory Network.

Below is FDA's plan to fully implement FERN. For specific funding information for FSIS, please see the USDA/FSIS Budget Submission transmitted to this Subcommittee.

# FDA TOTAL LABORATORY CAPABILITY DISTRIBUTION

[Dollars in millions of dollars]

	Fiscal year 2005 output	Fiscal year 2005 enacted <sup>1</sup>	Fiscal year 2006 cumulative output	Fiscal year 2006 request	Projected outyear cumulative output	Two year outyear estimate <sup>2</sup>	Total State labs
Microbiological Screening & Confirmatory <sup>3</sup>							
Chemical	6	\$9.9	20	\$22.4	36	\$46.6	36
Radiological			5	5.9	14	16.3	14
Food Lab Response and Methods Validation/Proficiency Testing/Training		5.0		6.6		13.9	
TOTAL	6	14.9	25	34.9	50	76.8	50

<sup>1</sup> Fiscal year 2005 Request includes enacted rescissions.

<sup>2</sup> Outyear estimates reflect projected costs to complete FDA's 50 FERN labs, based on a 2 year estimate. Amounts requested in future budgets are contingent upon availability of funds. Once the 50 FERN labs are complete, FDA estimates that the FERN cost will be limited to annual recurring needs.

<sup>3</sup> USDA funded.

*Food Defense Research—\$5.574 million*

This applied and targeted research initiative addresses the significant need for research funding to ensure our ability to detect or inactivate a broad range of agents that could pose serious threats to the food supply. These funds will:

- Expand and accelerate the food defense research plan by identifying additional agent/commodity combinations which will effect the relevant food defense research thrusts of methods development, agent characteristics, prevention technologies, and dose-response relationships;
- Provide the required base support from FDA for the microbial forensics program that the Interagency Agreement with the DHS/National Biodefense Analysis and Countermeasures Center specifies; and,
- Help to maintain the foods defense research enterprise infrastructure (equipment maintenance and repair, BSL-3 labs, select agent inspections, animal care inspections, and LRN/FERN methods validation labs).

In the food defense area, mission-critical knowledge gaps are addressed through an integrated portfolio of intramural, extramural, and consortia-based programs, which address the need to anticipate, prevent, detect, respond, and recover from a terrorist attack on the food supply. This requires research activities in:

- Knowledge of the behavior and susceptibility of the population to microbiological, chemical, radiological, and biologically-derived toxic agents in priority vulnerable foods during the stages of production, distribution, marketing, and preparation;
- Identification and/or development of new techniques for “shielding” priority vulnerable foods through the development of new prevention and/or security technologies;
- Development of enhanced sampling and detection methods for priority agents in vulnerable foods including field deployable and in-line sensor-based screening, analytical, and investigational (forensic) technologies;
- Development of effective methods for ensuring that critical food production and manufacturing infrastructure can be rapidly and effectively decontaminated if a terrorism event were to occur;
- Assessments of vulnerabilities of foods and identifying areas where enhancements in preventive measures could increase the security of the food supply, and,
- Knowledge of consumer behaviors and the critical role consumers play in preventing illness associated with an attack on the food supply, to ensure timely and relevant information about threats and/or an attack is understood by consumers.

*Crisis Management: Emergency Operations Network Project and Incident Management System—\$1.5 million*

The request also supports the Emergency Operations Network/Incident Management System Project to provide a comprehensive system for managing emergencies and related incidents in FDA’s centers and field offices. The development of this system conforms to HSPD-5, “Management of Domestic Incidents”, and the establishment of a National Incident Management System. The Emergency Operations Network Incident Management System (EON IMS), managed by the FDA Office of Crisis Management, is the central hub for exchanging and relaying all emergency-related information into, within, and outside of FDA. One of its overarching objectives is to integrate multiple data streams from other electronic systems—such as the FERN, eLEXNET, Epidemic Information Exchange, and from FDA laboratories/investigators and external agencies—into a coherent fashion during critical decision points. This improved information management will create a safety net that significantly reduces the probability that terrorists will achieve their aims and minimize the impact of these threats if they occur. The EON IMS is important in all emergencies and exercises requiring efficient receipt and dissemination of large volumes of information to our stakeholders, including the public and other Federal and State agencies. This system will provide a web-based connection for all FDA offices and our partners, through which accurate real-time information about various incidents can be shared and discussed.

The EON IMS, which is critical for the agency to manage, plan for, and respond to emergency situations, has three components: incident tracking and contact management, a collaboration and knowledge management tool for meetings and document management, and a Geographic Information System for mapping and impact assessment.

By developing and incorporating agency-wide guidance in the EON IMS, FDA will ensure that its emergency response is uniform, consistent, and coordinated. Participants coordinating an emergency will be able to provide input and access real-time

data regarding a specific emergency, Agency operating plans and procedures, contact databases, and analysis tools which will enhance the agency's capability of responding in the most efficient way possible.

*Biosurveillance/NBIS—\$3.0 million*

The Department of Homeland Security is leading the development of the National Biosurveillance Integration System (NBIS), which is intended to integrate systems that monitor health, environment, and intelligence information in order to provide early detection of threats, guided responses to events, and information sharing among agencies. eLEXNET and FERN data capture system, have been identified as a food sector data system that would address an unmet need in the DHS-led information integration effort that is a candidate system to participate in NBIS. FDA's ORA will contribute to the Administration's Bio-Surveillance Initiative by developing nationally recognized standards for data messaging and communication in the health area and by establishing the appropriate connectivity with the NBIS. FDA also will provide its technical expertise by providing staff to the national biosurveillance analysis center at DHS.

*Question.* Can you tell us what FDA has achieved and what work remains to be done? How does FDA measure success in achieving these goals?

*Answer.* As stated in the previous answer to a question, full implementation of the Administration's counterterrorism initiatives, including FDA's efforts, is an ongoing activity that depends on current as well as future intelligence and threat assessments. Therefore it we cannot accurately predict a timetable for full implementation. In the area of food defense, however, the President's budget places high priority on fully developing the Food Emergency Response Network so that there is adequate lab testing surge capacity in the event of a terrorist attack on the food supply, food defense research so that we have the ability to identify threats and the science tools to address them, crisis management, and biosurveillance. The goal of FERN is to establish 100 State laboratories, 50 of which are chemical and radiological laboratories funded by FDA and the remaining 50 are microbiological laboratories funded by USDA/FSIS. The fiscal year 2006 budget fully funds 25 of the planned 50 FDA FERN State labs. We would be happy to provide specific examples of FDA's on-going CT activities and accomplishments.

[The information follows:]

FDA'S CT ACTIVITIES AND ACCOMPLISHMENTS

*Foods*

*Working with industry to reduce threats and contain outbreaks of foodborne illness.*—FDA has issued new industry guidance on security measures, and has encouraged specific additional industry security measures in response to the increased threat level. The guidance will help food producers, warehouses, importers, stores, restaurants, and other food establishments minimize the risk that their food will be subject to terrorism.

*Increasing risk-based surveillance of domestic and imported food.*—FDA has increased risk-based inspections of domestic food facilities and sampling and lab analysis of foods produced here and abroad.

*Expanding the Food Emergency Response Network.*—With the U.S. Department of Agriculture, FDA is designing a network of labs that will help prevent and respond to chemical, biological or radiation contamination of our Nation's food supply.

*Implementing the 2002 Bioterrorism Act.*—Under the Public Health Security and Bioterrorism Preparedness and Response Act of 2002, FDA has developed and published regulations requiring the estimated over 400,000 domestic and foreign food facilities to register with FDA. This will allow FDA to contact food facilities in the case of a bioterrorism or food-borne illness incident. Also, the new regulations require importers to tell FDA in advance about food shipments, improve FDA's ability to detain food, and require food companies to keep records that will help FDA address a bioterrorism or food-borne illness incident. To implement the prior notice regulation and screen intelligence data on food imports, the agency also established the Prior Notice Center, which is co-located with the Customs and Border Protection's National Targeting Center.

*Increasing ability to quickly identify outbreaks of foodborne illness.*—FDA is working with the U.S. Centers for Disease Control and Prevention to ensure that outbreaks or unusual patterns of illness are investigated quickly.

*Increasing participation in the first Internet-based food safety system.*—FDA's goal is to have 105 laboratories in fiscal year 2006. Currently there are 95 laboratories around the country participating in eLEXNET (Electronic Laboratory Exchange

Network). This shared electronic data system consolidates and shares microbial food contamination findings among Federal, State and local laboratories.

#### Medical Products

*Helping to speed development of new emergency treatments and diagnostic tests.*—FDA is adapting its review processes and working vigilantly to speed the development of products to diagnose, treat or prevent outbreaks from exposure to anthrax, smallpox, plague, and other biological, chemical and radiological agents that could be used by terrorists. FDA is even assuming many of the responsibilities normally carried out by drug sponsors. Specific efforts to date have focused on:

- Products to reduce the effects of radioactive elements;
- New antitoxins to prevent or treat botulism and anthrax;
- Novel vaccines to prevent smallpox;
- Antimicrobials to treat pneumonic plague;
- Approval of Levaquin (levofloxacin) for inhalational anthrax post-exposure prophylaxis in adults;
- Approval of new labeling for Cipro (ciprofloxacin), based on the information obtained from the CDC's program evaluation conducted after the anthrax events of October 2001;
- A number of generic ciprofloxacin drug products have been approved, which will ensure an adequate supply of product should a biologic event occur.

#### *Speeding Availability of Critical Medical Products*

FDA has made it possible for critically important treatments and diagnostic tests to be made rapidly available for use during emergencies. Flexible, creative ways are being found to share information about these new products (for example, videos for patients who might receive smallpox vaccine).

#### *Providing Researchers With Early Guidance and Assistance*

FDA is providing guidance early on to researchers so that discoveries made in the laboratory can be more quickly turned into counterterrorism products available to first responders, health professionals and the military. FDA published the Draft Guidance for Industry: Vaccinia Virus-Developing Drugs to Mitigate Complications from Smallpox Vaccination.

#### *Relying on Animal Efficacy Studies*

Under a new regulation, FDA can now approve medical treatments against chemical, biological, radiological, or nuclear agents based on evidence of effectiveness from animal studies when human studies are not ethical or feasible. Human data supporting the safety of such products is still required.

#### *Ensuring an Adequate Stockpile of Emergency Medical Products*

FDA is working with the CDC's Strategic National Stockpile, as well as with industry, the National Institutes of Health, the Defense Department, and foreign governments to ensure the safety and effectiveness of stockpiled vaccines and other medical products so that the products are available for use during terrorist attacks. FDA and CDC formed a Post-event Surveillance Working Group and developed a plan for the collection of post-event safety and outcome information on medical countermeasures deployed from the SNS and distributed due to a mass casualty situation caused by a terrorist event.

#### *Offering Research Grants and Other Funding*

FDA continues to facilitate the ongoing human trials in plague in Africa and monkey studies in pneumonic plague, funded in previous years through interagency agreements with the CDC and NIAID, respectively. Concomitantly with the human plague studies, an investigational rapid plague diagnostic test kit is being evaluated. Previously funded trials are ongoing to study the impact of long-term use of antibiotics that could be used for post-exposure prevention in healthy adults and in special populations (such as pregnant women).

#### *Working With the Military*

FDA has worked with the Joint Chiefs of Staff to help obtain critical medical products for combat readiness. It has helped U.S. Special Forces obtain medical countermeasures for airborne hospitals used in evacuating battlefield casualties. It has provided intensive consultation and review to help make available needed investigational and licensed medical products such as antisera and vaccines. FDA approved pyridostigmine bromide for combat use by U.S. military personnel to protect them from the lethal effects of the nerve gas Soman. The agency also cleared a high-tech battlefield wound dressing that can stop massive bleeding within minutes and

a decontamination lotion for use by the military to remove or neutralize chemical warfare agents and other toxins from the skin, preventing serious burns and death.

#### *Protecting Children*

FDA has been providing guidance to parents and health professionals when they use antibiotics and other drugs to treat children and pregnant and nursing women stricken by bioterrorist attacks. The advice covers such areas as:

- Proper dosage,
- Adverse effects, and
- How to pulverize the tablets and mix them with foods or drinks to give to children in an emergency.

FDA has now approved pediatric dosage forms of the AstroPen atropine autoinjector to treat children, from infants to adolescents, exposed to certain nerve agents or organophosphate insecticides.

Two forms of potassium iodide, appropriate for pediatric use, have been approved as a thyroid blocking agent for use in radiation emergencies. ThyroShield is an oral solution, and ThyroSafe Tablets are half the strength of previously approved tablets. ThyroSafe is also scored in quarters for dosing very young children.

#### *Detecting Bioterrorism Agents*

FDA is helping develop methods to detect biological agents that terrorists might use in an attack.

#### *Blood Donations*

*Keeping the blood supply safe.*—FDA has provided guidance to blood donation centers and healthcare facilities on prudent measures to reduce any possible risk of transmitting anthrax through blood donated by people who may be infected with the disease.

#### *Radiation Protection*

*Helping companies develop drugs to prevent and treat radiation exposure.*—Radiogardase (insoluble Prussian blue) capsules were approved to treat people internally contaminated with radioactive Cesium-137 or Thallium. Pentetate calcium trisodium injection (Calcium DTPA) and pentetate zinc trisodium injection (Zinc DTPA) were approved for the treatment of internal contamination with plutonium, americium, or curium. FDA also posted a draft guidance on “Internal Radioactive Contamination—Development of Decorporation Agents.” This guidance to industry is to encourage the development of drugs that help eliminate radioactive materials from the body.

*Reviewing radiation devices used against terrorism.*—FDA is monitoring the safety and effectiveness of radiation-emitting devices used to detect potential security threats in airports and other locations, devices used to destroy biological agents released in a terrorist attack, and used to treat victims of radiation exposure.

#### *Veterinary Products*

*Increasing security measures for animal feed.*—FDA is working with other government agencies, the animal feed industry and other producer groups to minimize the risk of terrorist attacks on feed for animals that are raised for human food.

*Facilitating the supply of critical animal drugs.*—FDA is ensuring the availability of veterinary drug products to meet emergency needs.

#### *Cosmetics*

*Working with the cosmetic industry to reduce threats.*—In November 2003, FDA issued final guidance to industry on security steps they can take to help ensure that their products are secure against terrorism.

#### *Field Operations*

*Improving inspections.*—Thanks to increased bioterrorism funding from Congress, FDA has hired over 650 new inspectors and other field personnel to keep watch on imports and other avenues our enemies might try to use to contaminate our food or tamper with other FDA-regulated products. FDA has also increased inspections of facilities that manufacture medical products that could be used in response to a terrorism threat.

*Upgrading laboratories.*—FDA has upgraded its laboratories to handle the increased number of sample analyses. Lab scientists are developing rapid methods for detecting bacterial and viral food contaminants.

*Scrutinizing imports.*—FDA has expanded its coverage to an additional 45 ports of entry where there are significant shipments of FDA-regulated products. The agency is also strengthening its import information systems to improve targeting of suspect products. The links between import and domestic information are being tightened so imported products can be better traced in this country.

#### Toxicological Research

*Enhancing research facilities and technologies.*—FDA is developing a Level 3 lab at its National Center for Toxicological Research to safely allow analysis and research on select agents. The lab will be used to test food samples that may be contaminated by biological, chemical or radiological means. The center is continuing research to identify and characterize biological warfare agents using technologies involving DNA and proteins.

*Developing methods to detect explosives.* The center is developing sensor technologies to detect nitrogen-based explosives in airline cargo by refining its patented methodology currently used to detect and identify deteriorating food.

#### NARMS

*Question.* How much money is in the FDA fiscal year 2006 budget request for NARMS? How much of that money will be transferred to CDC, to USDA, and how much will be used to collect and test retail meat samples?

*Answer.* At this time, FDA has not determined the exact amount of NARMS funding for CDC and USDA for fiscal year 2006 but plans to make decisions in the Fall of 2005. FDA believes that all three arms are integral to the success of the NARMS program and to achieve the benefits envisioned at its inception and agreed upon by all three agencies.

*Question.* What is the status of the report requested in the fiscal year 2005 Senate Report regarding the distribution of NARMS funding between USDA, FDA and CDC? By what date can we expect to receive this report, which is currently overdue?

*Answer.* The requested NARMS report is currently in the clearance process.

#### FDA OFFICE OF DRUG SAFETY

*Question.* As you are aware, the FDA Office of Drug Safety has been under significantly increased scrutiny in recent months due to the removal of several drugs such as Vioxx and Bextra from the market and high levels of media coverage. Part of FDA's response to this has been to conduct a 3 day panel on Cox-2 Inhibitors, the creation of a new Drug Safety Oversight Board, and increased efforts to ensure that adverse events are properly monitored and the public is aware of risks associated with different drugs, such as the creation of a new Drug Watch web page. The fiscal year 2006 budget request includes an increase of \$5 million for the Office of Drug Safety, bringing total funding to \$22.9 million. Although this is nearly a 25 percent increase in funding, in a budget that totals nearly \$1.5 billion, \$22.9 million seems like a small amount for a subject under such scrutiny and facing so many difficulties. Further, many of the new efforts recently announced by the FDA appear as though they will be under the jurisdiction of the Office of Drug Safety.

Please provide a chart showing specifically how much all of the new activities announced on February 15 regarding drug safety will cost, and from where that funding will come.

*Answer.* We believe that additional funding beyond what is in our fiscal year 2006 budget request would significantly improve our oversight of drug safety. Additional funding would enable the Agency to increase its access to large population-based databases and to develop software tools to manage and analyze the data. The following information provides background on the current postmarketing surveillance system and explains why we believe that system should be expanded.

On February 15, 2005, HHS Secretary Leavitt and Acting FDA Commissioner Crawford unveiled a new, emboldened vision for FDA that will promote a culture of transparency, openness, and enhanced oversight within the Agency. As part of this vision, FDA plans to create a new Drug Safety Oversight Board or DSB to provide independent oversight and advice on the management of important drug safety issues and to manage the dissemination of certain safety information through FDA's web site to health care professionals and patients.

Under this proposal, FDA plans to enhance the independence of internal deliberations and decisions regarding risk/benefit analyses and consumer safety. The DSB will oversee the management of important drug safety issues within CDER. The DSB will include individuals from FDA, as well as medical experts from other HHS agencies and government departments, such as the National Institutes of Health and Department of Veterans Affairs. Individuals on the Board who have conducted the primary review of data or served as deciding officials for any regulatory action under consideration will be recused from voting on issues concerning those particular drugs. CDER's Deputy Director will serve as the Chair of the DSB. The DSB also may consult with other medical experts and representatives of patient and consumer groups. CDER is updating its Manual of Policies and Procedures or MAPP, to reflect the organizational structure, roles, and responsibilities of the DSB in



CDER. Among other responsibilities described in the MAPP, the DSB and its staff will; Identify, track, and oversee the management of important drug safety issues; Adjudicate organizational disputes concerning the management of drug safety issues; Establish policies regarding management of drug safety issues in CDER; Select drugs to be placed on Drug Watch (described below) and update their status (including deciding to remove drugs from Drug Watch) as appropriate; Oversee the development of patient and professional information sheets in CDER; Track important emerging safety issues and ensure that they are resolved in a timely manner; and Ensure that CDER decisions about a drug's safety benefit from the input and perspective of experts within and outside FDA who have not conducted the primary review or served as a deciding official in the ongoing pre-market evaluation or post-market surveillance activities with respect to that drug.

FDA also plans to increase the transparency of the Agency's decision-making process by establishing new and expanding existing communication channels to provide drug safety information to the public. These communications will help ensure that established and emerging drug safety data are quickly available in an easily accessible form. The increased openness will enable patients and their health care professionals to make better-informed decisions about individual treatment options.

One communication mechanism the Agency is proposing is a new Drug Watch webpage that would include emerging information about possible serious side effects or other safety risks for previously and newly approved drugs. Per our proposal, this resource would contain important information that might affect patient selection or monitoring decisions. The web resource might also contain information about measures that patients and practitioners could take to prevent or mitigate harm. Once implemented, this information resource will significantly enhance public knowledge and understanding of safety issues by discussing emerging or potential safety problems, sometimes even before FDA has reached a conclusion that would prompt a regulatory action.

We are also intensifying our current efforts to provide the public with the most important information for the safe and effective use of drugs in patient-friendly language. We are doing this through two tools: Patient Information Sheets and Healthcare Professional Information Sheets.

*Patient Information Sheets.*—Are intended to convey critical facets of a product's approved labeling in lay terms. These sheets will also include a section for "emerging safety information" in those instances when we determine that there is information on the Drug Watch that a patient should consider. This "emerging safety information" will match the information on the Drug Watch. Information from the Drug Watch that is not in the final labeling of the product will be clearly identifiable and accompanied by a disclaimer, such as: "This information reflects FDA's preliminary analysis of data concerning this drug. FDA is considering, but has not reached a final conclusion about, this information. FDA intends to update this sheet when additional information or analyses become available." Our ultimate objective is to develop Patient Information Sheets for all approved drugs, most of which will not have an emerging safety section.

*Healthcare Professional Information Sheets.*—Are intended to highlight the most up-to-date information practitioners may want to consider in prescribing drugs for their patients. We ultimately intend to develop these sheets for all new molecular entities as well as some other drugs. This is not a new approach. When available, the highlights section of a product's approved labeling will be used to develop the Healthcare Professional Information sheets.

We would be happy to provide a chart that provides estimates for costs associated with the activities announced by Secretary Leavitt in February.

The activities described below were announced in February 2005 and we have an estimate of the total FTE resources that we plan to use to conduct these additional drug safety activities in fiscal year 2005 and fiscal year 2006. However, because we have just launched these new activities—the Drug Safety Oversight Board, the Drug Watch Web Page, and Patient and health care professional information sheets—we do not have an historical basis to definitively estimate the share of resources that each of these activities will command from the total resources allocated to perform the activities announced in February, 2005. For example, we cannot reliably predict whether the work associated with the Drug Watch Web Page will be more or less demanding compared to the work to support the Drug Safety Oversight Board or to prepare the information sheets. However, we have committed a total of 8 FTEs in fiscal year 2005 and 4 additional FTEs in fiscal year 2006 (for a cumulative commitment of 12 FTEs) to these three areas.

[The information follows:]

## DRUG SAFETY ACTIVITIES

New Drug Safety Activities	Budgeted from current fiscal year 2005 base resources		Projected additional funding with fiscal year 2006 increase	
	Dollars in mil- lions	Amount FTE	Dollars in mil- lions	Amount FTE
Drug Safety Oversight Board (DSB) .....	.....	.....	.....	.....
Drug Watch Web page .....	.....	.....	.....	.....
Patient and Healthcare Professional Information Sheets and related drug safety communications efforts .....	.....	.....	.....	.....
TOTAL .....	\$1.08	8	\$0.552	4

*Question.* Do you believe additional funding beyond what is in the budget request will be necessary to significantly improve FDA's oversight of drug safety?

*Answer.* We believe that the funding requested in the fiscal year 2006 Budget for drug safety oversight, combined with other FDA initiatives, will significantly improve our oversight of drug safety. Today, FDA's post-marketing risk monitoring and assessment rely primarily on two methods of adverse event reporting to the Agency through direct, voluntary reporting by health professionals and consumers and required reporting by pharmaceutical manufacturers. Required reporting by manufacturers is based primarily on reports they receive voluntarily from user facilities, healthcare professionals, and consumers. In 2003, FDA received more than 370,000 such reports. The Agency's medical, statistical, and epidemiological experts use these reports to continually evaluate a product's safety profile. Our post-marketing monitoring programs focus primarily on identifying events that were not observed or recognized before approval and identifying adverse events that might be happening because a product is not being used as anticipated.

The system has inherent limitations—mainly that it relies on healthcare providers being able to recognize and then voluntarily report an adverse event. We usually do not know if we are missing important problems or whether underreporting is obscuring a problem. During the past 7 years, we have made vast improvements in the way we manage and analyze this large amount of data. We now use a variety of electronic and statistical tools that have increased our ability to get information to our safety evaluators in a timely way, but these improvements do not address the inherent limitations in the system.

The United States lacks a systematic approach to monitoring and assessing the safety of medicines that are in general use. This fact is particularly concerning for newly marketed products. In the case of a new drug, the only safety data we have comes from the product's use in clinical trials, where small numbers of carefully screened and closely monitored patients use a drug for a relatively short time period. The clinical trial world is very different from the real world where a drug is suddenly available to millions of people who may have multiple conditions, may be taking multiple drugs, and may be working with multiple healthcare providers. If the United States had a systematic approach to monitoring and assessing drug safety, it would contain systems to help identify and quantify risks, programs to investigate and analyze the risks, and methods to intervene and inform as needed to prevent further harm.

To ensure that the FDA is fulfilling its responsibility to monitor the safety of drugs, we can no longer rely on information gleaned solely from voluntary reporting. Instead, the FDA needs a drug safety system dedicated to the timely collection, triage and analysis of post-marketing data. Such a Drug Safety Net would have four major components. The first component is access to large clinical and drug use data sets to help detect adverse events and medication errors and to conduct population-based safety studies. In fiscal year 2006, using the increased resources requested in the President's budget for drug safety activities, we estimate that we will allocate \$2.24 million in budget authority and \$0.4 million in user fees to this first activity. The second component is a network of partnerships to increase the power to detect problems. In fiscal year 2006, we estimate that we will allocate \$0.8 million in budget authority and \$0.2 million in user fees to this second component. The third component is strong analytic tools to rapidly identify drug safety signals. In fiscal year 2006, we estimate that we will allocate \$1.4 million in budget authority and 0.5 million in user fees for this third component. The fourth component is communicating timely and practical information to help healthcare providers and consumers make good choices regarding medicines. In fiscal year 2006, the estimated allocation for

this fourth component is \$0.5 million in budget authority and \$0.2 million in user fees.

To appropriately assess post-marketing safety of drugs, FDA needs access to a wide range of clinical, pharmacy, and administrative databases. Given the highly fragmented healthcare system in the United States, there is no single healthcare database that the Agency can rely on to monitor drug adverse events. It is essential that the FDA have access to a wide range of databases to adequately assess drug safety. Such databases include: Existing Federal databases, such as those maintained by the Center for Medicare and Medicaid Services (CMS), the Department of Veterans Affairs (VA), the Department of Defense (DOD), the Indian Health Service (IHS); clinical and hospital networks, and insurers, for example, health maintenance organizations, preferred provider organizations, Blue Cross/Blue Shield; and pharmacy benefit management organizations such as Advance PCS, Premier.

In addition, access to a greater variety and breadth of data will give the FDA the opportunity to perform broad epidemiologic studies that can examine the risks of adverse events and the risk factors associated with these events for individual medicines or drug classes.

Tools to manage and analyze the large databases described above are essential if the value of the information contained therein is to be realized. The FDA is currently pilot testing tools such as desktop data mining techniques. A much greater effort is needed on the part of the FDA, in consultation with experts in government, academia, the private sector, and the pharmaceutical industry, to help us realize the potential of these data mining and analysis tools.

#### MERCURY

*Question.* The fiscal year 2005 Senate Report included language encouraging FDA to "implement an outreach and education effort with physicians and other appropriate outlets in order to increase awareness among potentially affected consumers, and to measure the effectiveness of the efforts on target group behavior and impact on their overall consumption of seafood." The EPA is currently working to determine and outline what safe levels of mercury are.

What has FDA done in response to the Senate report language? How is FDA working with EPA on the mercury issue?

*Answer.* FDA and EPA are jointly sponsoring a public education campaign to reach women who may become pregnant, pregnant women, nursing mothers, and parents of young children about the methylmercury advisory. An extensive outreach effort to over 9,000 print and electronic media outlets, including outlets that specialize in reaching women, has been conducted.

Information about the advisory has been sent to over 50 organizations of health care providers to women and children, such as the American Academy of Pediatrics, the American Academy of Family Physicians, the American College of Obstetricians and Gynecologists, and the American College of Nurse Midwives; directors of the Women, Infant, and Children, or WIC, program; and all local health departments. The advisory has also been distributed through exhibits at medical professional association meetings that took place in 2004 and will be distributed at similar meetings scheduled during 2005.

Brochures about the methylmercury advisory have been sent to practicing pediatricians, obstetricians and gynecologists, nurse midwives, and nurse practitioners and physician assistants specializing in pediatrics or obstetrics throughout the country for distribution through their offices. These health professionals can order additional copies of the brochure, as needed, from FDA and EPA for their patients. In November and December of 2004, EPA and FDA were filling additional requests for these brochures at a rate of approximately 35,000 brochures per week.

An educational program for pregnant women on food safety for use by health educators will be launched in spring 2005 that will highlight information from the methylmercury advisory. This program will include an educational video and a curriculum and will be sent to 35,000 health educators working with pregnant women. A special web page for pregnant women will be part of the program.

Special funding has been set aside for community outreach efforts in several different geographic locations to insure that the message reaches women in special populations at greater potential exposure. Examples include Native Americans and certain Hispanic and Asian groups who have high fish consumption practices. Some of these projects are already underway; others will begin later this year.

A Federal-State Working Group on the Coordination of Methylmercury advisories has been established to examine ways to join the Federal advisory with the State advisories as much as possible.

This outreach campaign will be evaluated through the FDA-USDA consumer survey on food safety knowledge, attitudes, and behaviors that will be completed in 2005.

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QUESTIONS SUBMITTED BY SENATOR TOM HARKIN

IMPORTED GELATIN

*Question.* Imports into the United States of gelatin and gelatin products, such as unfilled capsules, have increased significantly since 2000. U.S. producers of gelatin products have raised serious questions about the safety of the raw materials and manufacturing practices used in facilities producing gelatin for shipment to the United States. It is my understanding that Food and Drug Administration inspectors have not to date inspected any gelatin-producing facilities in developing countries.

In particular, imports of these products from India have increased nearly 1300 percent over the period since 2000. In fact, many countries bar beef exports from India because of widespread cattle and livestock diseases, such as rinderpest and foot and mouth disease. Those diseases should not be a problem if the gelatin is produced with modern manufacturing practices, but without FDA inspection it could not be known what practices and facilities are used in gelatin production in India. Further, although the Indian cattle population is deemed to be BSE-free by the OIE, that alone would not assure the wholesomeness and safety of cattle products and byproducts from India—including gelatin produced from cattle bones.

What criteria does FDA use to determine which overseas food processing facilities it should inspect as a condition of shipping to the United States and which it should allow to ship products to the United States without any inspection?

*Answer.* In general, FDA focuses foreign inspections on the same high-risk food products highlighted for domestic coverage, and FDA does not inspect overseas food processing facilities as a condition of shipping products to the United States. The number of foreign inspections conducted each year for CFSAN regulated products is minuscule compared to the number of firms exporting to the United States. For these reasons, it is very important that FDA carefully select the foreign firms it inspects. The results of triaging the Center's "databases" of inspectional information are used to better identify the risks associated with particular imported products and allow the Center to prioritize and efficiently use resources to inspect at the port of entry or for onsite inspections in the identified foreign countries. The Center must assure the broadest use of the information obtained by carefully selecting the products, firms and countries to be as representative as possible.

Countries are selected if they are significant sources of product for U.S. markets or if FDA identifies or suspects there is a food safety or security concern that must be further evaluated. Product selections focus on products produced commercially and shipped in large quantities into the United States or shipped in smaller quantities but intended for consumption by vulnerable populations. These inspections are considered "mission critical."

*Question.* By what date can this Committee be assured that FDA will have inspected the plants in India from which gelatin shipments to the United States are made?

*Answer.* FDA does not have the authority to require inspection of foreign facilities and the agency must be invited by the country of interest to inspect facilities in that country. This process can become quite protracted, and requires coordination with the authorities of the exporting country. The first step in scheduling inspections of foreign food manufacturers is to contact the regulatory agency in India that has authority over the firms to be inspected.

CFSAN has tentatively identified 12 gelatin manufacturing facilities in India that it would like to inspect. FDA also hopes to inspect some of the bone suppliers to these gelatin manufacturing facilities as they are identified. The Indian agency with regulatory authority over gelatin manufacturers usually provides a representative to accompany the FDA investigator during the inspections.

FDA has initiated contact with the regulatory agency in India and expects to conduct inspections during this fiscal year.

NATIONAL ANTIMICROBIAL RESISTANCE MONITORING SERVICE

*Question.* The National Antimicrobial Resistance Monitoring Service (NARMS) is a tool used by three Federal agencies—the Food and Drug Administration (FDA), the Department of Agriculture (USDA), and the Centers for Disease Control and

Prevention (CDC)—to monitor changes in antimicrobial resistance in bacterial pathogens.

In December of 2004, I submitted a request to you for more information about the operation of NARMS and the distribution of NARMS funds, but I have not received any new information about this important program.

Answer. On March 7th, 2005, FDA sent a response to you addressing your request for information about the operation of NARMS and the distribution of NARMS funds. We would be happy to provide a copy of this letter, for your convenience.

*Question.* Have FDA, USDA and CDC planned a meeting to discuss the distribution of NARMS fiscal year 2005 funds?

Answer. Quarterly meetings on NARMS are conducted and the budget is one of the items discussed. In addition, FDA is planning an independent external review of all three components of the NARMS program including human, retail meat, and slaughter, in conjunction with a public meeting, June 23–24, 2005, to address sampling issues and how the NARMS funds have been spent as well as other issues. If there are any particular Senate staff members whom you would like us to invite to this meeting, please let us know.

*Question.* When will the annual report on NARMS activities for 2002 and 2003 be prepared and released to the public?

Answer. FDA published the first annual NARMS retail meat report on September 30, 2004. This can be found on line at the NARMS website. See [http://www.fda.gov/cvm/narms\\_pg.html](http://www.fda.gov/cvm/narms_pg.html). This report provides data on the prevalence of antimicrobial resistant foodborne pathogens and commensal bacteria among retail meat and poultry samples. The 2003 retail meat report is currently in preparation. CDC is responsible for the annual report on the human arm of NARMS and USDA for the animal arm of NARMS. CDC and USDA annual reports can also be viewed from the NARMS website.

*Question.* What was the level of funding for NARMS in fiscal year 2004, and what are the current expenditures (fiscal 2005) for this program?

Answer. FDA's total funding of NARMS in fiscal year 2004 was \$7.6 millions and \$7.3 million in fiscal year 2005. This level reflects both the fiscal year 2005 across the board rescission and FDA efforts, announced in the fiscal year 2005 Congressional Justification, to find efficiencies across FDA programs.

*Question.* How are NARMS funds being distributed among FDA, USDA and CDC, and what specific activities are being conducted through this program?

Answer: At this time, FDA has not determined the exact amount of the National Antimicrobial Resistance Monitoring System, or NARMS, funding for FDA, CDC and USDA for fiscal year 2006 but plans to make decisions in the Fall of 2005. FDA believes that all three arms are integral to the success of the NARMS program and to achieve the benefits envisioned at its inception and agreed upon by all three agencies. The Agency has continued the retail meat arm of NARMS at FDA. Ten participating FoodNet sites collect samples from local grocery stores and submit the isolates to the FDA laboratory for antimicrobial susceptibility testing. This allows FDA to have a more representative picture of the contribution of the food supply to antimicrobial resistance and helps sponsor with their antimicrobial drug submissions to FDA under GFI#152. In addition, FDA has improved NARMS methods including the development of a standardized *Campylobacter* broth microdilution method approved by the National Committee for Clinical Laboratory Standards, and completed the first annual NARMS retail meat report on September 30, 2004 which can be found on line at [http://www.fda.gov/cvm/narms\\_pg.html](http://www.fda.gov/cvm/narms_pg.html). This report provides data on the prevalence of antimicrobial resistant foodborne pathogens and commensal bacteria among retail meat and poultry samples. Also, FDA has enhanced the robustness of the NARMS retail meat arm by training personnel in participating State public health labs in isolation and testing methodologies as well as instituted randomized sampling strategies; screened animal feeds and animal feed components for the presences of resistant pathogens including *Salmonella*, *E. coli* and *Enterococcus*; presented numerous abstracts, posters, and scientific talks on NARMS at national and international scientific meetings. CDC and USDA also have accomplished numerous activities under NARMS. Please contact CDC and USDA directly for information on their specific activities under NARMS.

## QUESTIONS SUBMITTED BY SENATOR BYRON L. DORGAN

## MANUFACTURING SUPPLEMENTS AND ANNUAL REPORTS

*Question.* How many applications did the FDA receive and review from drug manufacturers under section 506A of the Federal Food, Drug, and Cosmetic Act in fiscal year 2004? How many of those applications were approved?

Answer. I would be happy to provide that for the record.

[The information follows:]

## Manufacturing Supplements and Annual Reports Submitted to CDER / CBER in FY 2004

		CDER NDA Manufacturing Supplements	CDER ANDA Manufacturing Supplements	CDER BLA Manufacturing Supplements	CBER BLA Manufacturing Supplements (User Fee Submissions)	CBER BLA Manufacturing Supplements (Non User Fee Submissions)	Total
Prior Approval	Received	523	878	69	230	353	2053
	Approved*	480	617	64	179	291	1631
CBE	Received	1094	2326	147	437	835	4839
	Approved*	1056	2069	137	380	823	4465

\*Approvals to date

	CDER NDA Annual Reports	CDER ANDA Annual Reports	CDER BLA Annual Reports	CBER BLA Annual Reports (User Fee Submissions)	CBER BLA Annual Reports (Non User Fee Submissions)	Total
Received	2578	5180	84	162	468	8472

*Question.* How many drug manufacturing facilities has the FDA inspected overseas from fiscal year 2000 through fiscal year 2004? In how many countries are those facilities located? Please provide a list of those countries.

Answer. For fiscal year 2000-fiscal year 2004 FDA conducted 1,159 inspections at 858 facilities located in 41 foreign countries. These inspections took place in: Italy, Germany, United Kingdom, Canada, India, France, Japan, China, Switzerland, Ireland, Spain, Sweden, Netherlands, Denmark, Belgium, Mexico, Australia, Israel, Austria, Czech Republic, Hungary, Taiwan, Singapore, Slovenia, Finland, South Africa, South Korea, Portugal, Norway, Turkey, Croatia, Argentina, Romania, Jordan, Poland, Slovakia, Russia, Thailand, Macau, Latvia, and Malta.

## 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. The recent rise of concerns about antibiotic resistance transferred from food animals to humans and mad cow disease underscore the need for change. Our Federal food safety statutes need to be modernized to more effectively ensure that food safety hazards are minimized and research and education programs are bolstered. I introduced a bill last week—S. 729—that would do just that.

President Bush and former Homeland Security Secretary Ridge have both publicly discussed the concept of combining Federal food safety responsibilities into a single

agency, and outgoing HHS Secretary Tommy Thompson noted in December that he had trouble sleeping at night, worrying about attacks on our food supply.

Just last Thursday, the trade press reported that Gerald Masoudi, FDA's chief counsel, said the lack of coordination among the agencies with responsibility for beef safety as one of the greatest challenges to protecting the public against mad cow disease. Masoudi said: "The responsibility of contaminated food products is spread out among three Federal agencies that do not regulate the problem in a consistent manner."

With all these high-ranking officials raising concerns about the safety of the food supply, has FDA decided to embrace the concept of a single food safety agency? 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 with the intention of increasing the effectiveness of the food safety system. In 2002, the White House examined into food safety issues, including the single food agency issue, and concluded that the goals of the Administration are better advanced through enhanced inter-agency coordination rather than through the development of legislation to create a single food agency.

From FDA's viewpoint, the important question is whether the various Federal agencies with food safety authorities are working together effectively. The answer to that question is yes. The existing system is working. The American food supply continues to be among the safest in the world. Food safety agencies are working more closely together than ever before.

With regard to the Federal Government's efforts to protect the public from mad cow disease, or Bovine Spongiform Encephalopathy known as BSE, the Federal agencies with responsibility for food and animal feed have a harmonized national food safety policy for BSE. For example, the Interim Final Rule published by FDA that bans the use of specified risk materials and other prohibited cattle materials in all FDA-regulated foods and cosmetics parallels USDA's Interim Final Rule for meat and meat products. Both FDA and USDA closely coordinated the Federal Government's actions in response to the finding of a BSE-positive cow in the State of Washington in December 2003. This coordinated response was successful in quickly containing adulterated food and feed products and in limiting food safety concerns in the general public.

FDA appreciates your continued leadership in food safety issues. Ensuring the safety of the food supply is a top priority for FDA and for the Administration. A great deal has been done in the past few years to improve food safety and security. FDA has worked with food safety agencies at the Federal, State and local levels to significantly strengthen the Nation's food safety system across the entire distribution chain, from farm to table, to better protect our food supply against deliberate and accidental threats. This cooperation has resulted in greater awareness of such vulnerabilities, the creation of more effective prevention programs, new surveillance systems, and faster foodborne illness outbreak response capabilities. An effective food defense system is built on a strong food safety system.

The fiscal year 2006 budget requests an increase of \$30 million for food defense activities. Of this amount, \$20 million will support a national laboratory network known as the Food Emergency Response Network, or FERN. FDA and USDA have worked in close collaboration to establish this network. A critical component of controlling threats from deliberate food-borne contamination is the ability to rapidly test large numbers of samples of potentially contaminated foods for a broad array of biological, chemical, and radiological agents. FERN will increase the Nation's laboratory surge capacity through a nationwide network of Federal and State laboratories capable of testing the safety of thousands of food samples, thereby enhancing the Nation's ability to swiftly respond to a terrorist attack. The additional \$10 million will be used for targeted food defense research, for continued coordination and sharing of data with the Department of Homeland Security as part of the government-wide Bio-Surveillance Initiative, and for upgrades in FDA's crisis management capabilities.

Significant new tools to enhance the safety of the food supply were provided by the Public Health Security and Bioterrorism Preparedness and Response Act also known as the Bioterrorism Act, which the President signed in 2002. This landmark legislation represents the most fundamental enhancement to FDA's food safety authorities in many years, and FDA has been working hard to implement it. In response to the provisions included in the Bioterrorism Act, FDA has: Published a final rule to implement recordkeeping requirement on 12/9/2004; Published a final rule to implement the administrative detention provision on 6/4/2004; Signed a Memorandum of Understanding with Customs and Border Protection or CBP, on 12/

3/2003 to allow FDA to commission CBP officers in ports and other locations to conduct investigations and examinations of imported foods; and Published Interim Final Rules to implement the requirement for domestic and foreign facilities to register with FDA and the requirement for prior notice of imported food on 10/10/2003.

In addition to implementing the Bioterrorism Act, FDA has many other ongoing counterterrorism activities. For example, since September 11, 2001, FDA has increased its emergency response capability by realigning resources to counterterrorism and by reassessing and strengthening its emergency response plans. FDA has also conducted numerous emergency response and preparedness exercises to further strengthen our response to a terrorist event involving our Nation's food supply. These exercises have included Federal, State, and industry partners.

FDA has completed vulnerability assessments focused on specific foods, suspect agents, and processing steps where an agent could be intentionally introduced. These vulnerability assessments have assisted the agency in focusing on those commodities considered to be most at risk for intentional contamination. Government and industry have worked together on specific and targeted mitigation steps to address the vulnerabilities identified in our assessments. These assessments have also assisted the agency in focusing intramural and extramural research on four major areas: new methods for detection of agents, prevention technologies, agent characteristics, and dose response.

FDA has also issued food security guidance documents to different segments of the food industry on the preventive measures they can take to minimize the risk that food or cosmetics under their control will be subject to tampering or other malicious, criminal, or terrorist actions.

Other Counterterrorism Activities over past 3 years include: Increasing laboratory surge capacity by expanding participation in the Food Emergency Response Network, constructing BSL-3 laboratories in the Field and supporting the construction and deployment of two mobile laboratories; Enhancing an early-warning system to identify hazardous foods by expanding the number of Federal, State, and local laboratories providing data through our Electronic Laboratory Exchange Network; Conducting numerous research projects to improve our ability to detect contamination, focusing on rapid test methods for use in the Field; Carrying out food defense activities under Homeland Security Presidential Directives; the Interagency Security Plan; the Secretary's Bioterrorism Strategic Plan; and FDA's Strategic Action Plan; Enhancing FDA's ability to plan, manage, and respond to food emergencies through the Emergency Operations Network or EON, an electronic incident management system; and Enhancing law enforcement and intelligence gathering/analysis by, for example, participating in select Joint Terrorism Task Forces and establishing a dedicated Counterterrorism Section in FDA's Office of Criminal Investigations.

*Question.* Do you believe the creation of the Department of Homeland Security could serve as a model for the creation of a single food safety agency?

*Answer.* As we explained in our response to the previous question, the Administration has looked at the issue of consolidation and has determined that the goals of the Administration are better advanced through enhanced interagency coordination rather than through consolidation.

*Question.* Can you explain the rationale for cutting back the inspections budget for all FDA products at a time when we are facing greater risks to the food supply?

*Answer.* FDA's Field Program budget has increased every year since fiscal year 2002. However, as Agency resources for particular programs and activities fluctuate due to funding changes, budget priority changes or demands of higher priority work, we have responded by working to ensure that we use available resources strategically.

To manage the ever-increasing volume of imported food shipments, we are using risk management strategies to achieve the greatest food protection with our available resources. While we cannot physically inspect every shipment, it is important to note that every shipment containing FDA-regulated products entered through the Bureau of Customs and Border Protection's (CBP) automated system is electronically reviewed by FDA's system. FDA's system, OASIS, determines if the shipment meets identified criteria for physical examination or sampling and analysis or warrants other review by FDA personnel. This electronic screening allows FDA to concentrate its inspection resources on high-risk shipments while allowing low-risk shipments to proceed into commerce.

The Prior Notice provision of the Public Health Security and Bioterrorism Preparedness and Response Act of 2002 provided a significant new tool to the agency. It requires that FDA receive prior notice before food is imported or offered for import into the United States. Advance notice of imported food shipments, called "Prior Notice," allows FDA, with the support of the CBP, to target import inspections more effectively and help protect the Nation's food supply against terrorist acts



and other public health emergencies. With the new prior notice requirement, specific information mandated by the Bioterrorism Act must be submitted to FDA before the imported food arrives in the United States. This not only allows the electronic system to review and screen the shipments for potential serious threats to health (intentional or otherwise) before food arrives in the United States, but it also allows for FDA staff review of prior notices for those products flagged by the system as presenting the most significant risk. FDA worked very closely with CBP in developing this screening system. FDA receives approximately 27,000 prior notice submissions about incoming food shipments every day. The Prior Notice electronic system uses intelligence data, known risk factors, and information about the shipper and consignee to identify prior notice submissions that warrant additional scrutiny for security purposes.

#### SEAFOOD SAFETY

*Question.* The New York Times reported on Sunday, April 10, that six out of eight major stores selling salmon as wild were in fact selling farm-raised salmon labeled as wild salmon. As you know, in the last 2 years, scientific bodies have warned that farm-raised salmon contains higher levels of polychlorinated biphenyls, or PCBs, than wild salmon. The EPA says PCBs can cause cancer and other effects on the immune system, the reproductive system and the endocrine system. So consumers are paying premium prices for what they may consider "safer" salmon, and they are not getting what they pay for.

What is FDA doing to investigate this potential case of misbranding that may affect the public health? Does the agency have plans to implement a more rigorous sampling system to ensure that consumers are in fact buying what is on the label?

*Answer.* Reported polychlorinated biphenyls or PCBs residue levels found in farmed salmon are far below the FDA's tolerance level of 2 parts per million for total PCBs in fish tissue and do not justify any restrictions in fish consumption. FDA advises that consumers should not alter their consumption of salmon. This fish is an excellent source of protein and omega 3-fatty acids. From a public health perspective, there is no need to make a distinction between farmed vs. wild salmon. Both are low in chemical contamination and should be consumed as a part of healthy, nutritional diet.

FDA has limited ability to increase enforcement action of labeling violations. In the broader interest of the consumer, food safety issues continue to take precedence. Moreover, most of the alleged misbranding occurred in retail establishments. In these cases, FDA usually defers to the States in matters related to retail food safety. The Agricultural Marketing Service, or AMS, recently announced mandatory labeling of fish and shellfish in retail food stores to indicate country of origin and method of production (i.e., wild-caught or farm-raised). AMS is responsible for implementing this country of origin labeling program, which went into effect on April 4, 2005.

*Question.* With most food plants going un-inspected for 5 years or more at a time, what resources do you need to assure the food industry that the cop is on the beat?

*Answer.* Inspection frequencies vary depending on the products produced and the nature of the establishment, although our statistics indicate that it is not true that most food plants go un-inspected for 5 years or more. Inspection priorities may be based on a firm's compliance history or coverage of new firms that have not been previously inspected. Food firms producing high-risk products are inspected annually with provisions that allow for less frequent inspections of high-risk firms that have a good inspection history. After accounting for resources needed to cover their high-risk responsibility, FDA districts apply their remaining resources, including available State contract inspections, to non-high risk food firms in their jurisdictions. On average, non-high risk establishments are inspected once every 3.7 years. These include FDA, State contract, and State partnership inspections. In fiscal year 2006, the requested funds will provide for a total of 21,325 domestic inspections. Of these, FDA investigators will perform 10,025 inspections and States will perform 11,300 inspections. These 11,300 State inspections include an estimated 2,000 State partnership inspections which are voluntarily provided. In addition, FDA follows up on consumer and trade complaints, voluntary recalls conducted by the industry.

#### DIETARY SUPPLEMENT

*Question.* The agency has promised to finalize the regulations for the last several years and both consumer groups and the dietary supplement industry agree that these requirements would go a long way toward implementing the Dietary Supplement Health and Education Act of 1994.

What is the status of the final rule on dietary supplement good manufacturing practices?

**Answer.** The proposed rule was published on March 13, 2003, and included responses to numerous comments received after publication of the ANPRM in 1997. The comment period for the proposed rule was extended until August 2003. We held public stakeholder meetings on April 29, 2003 in College Park, MD, and on May 6, 2003 in Oakland, CA. We also held a public meeting, via satellite downlink, on May 9, 2003, with viewing sites at our district and regional offices throughout the country. After the comment period closed, we began the process of analyzing the comments submitted to the proposed rule. The issues raised by the comments are complex, and in some cases, novel. We have expended significant internal resources on reviewing and preparing responses to the comments received.

The publication of a final rule on the current good manufacturing practice requirements for dietary supplements is a very high priority at FDA's Center for Food Safety and Applied Nutrition. I can assure you that this final rule is one of FDA's highest priorities and will be published as soon as possible.

I have been working with Senator Hatch to develop a requirement that dietary supplement companies report serious injuries, known as adverse events, to FDA. FDA's support would GREATLY speed our progress.

**Question.** Would you support our efforts to require mandatory adverse event reporting?

**Answer.** At this time, the Administration has not established a position on legislative proposals requiring manufacturers of dietary supplements to report serious adverse events related to use of their products to the FDA.

Following the removal of ephedra from the market in 2003, FDA said it would conduct a full safety review of the twelve dangerous supplements identified by Consumer Reports by October 2004. This has not happened, to my knowledge, even though four of these supplements that are known to be carcinogenic or to cause liver failure—aristolochic acid, androstenedione, chaparral, and kava—appeared with warnings on FDA's website.

**Question.** What is the status of FDA's review of the dozen dietary supplements that have been identified as dangerous by Consumer Reports?

**Answer.** Under section 402(f)(1)(A) of the Federal Food, Drug, and Cosmetic Act (21 U.S.C. 342(f)(1)(A)), a food is considered adulterated if, among other things, it is a dietary supplement or contains a dietary ingredient that presents a significant or unreasonable risk of illness or injury under the conditions of use recommended or suggested in labeling, or if no conditions of use are suggested or recommended in the labeling, under ordinary conditions of use. FDA bears the burden of establishing that the product presents a significant or unreasonable risk. We continually monitor the marketplace and the scientific literature to identify dietary supplements and dietary ingredients that may present safety concerns. Regulatory actions are based upon the totality of the scientific evidence available, including the pharmacology of the substance, scientific literature, adverse event reports, and evidence-based reviews.

We continue to consider emerging information on the safety of all dietary supplements, including those listed in the Consumer Reports Magazine article, as it becomes available. Based on information available to FDA at this time, we have no basis to conclude that any of the dietary supplements containing the substances identified in the Consumer Reports Magazine article violate the act.

#### MAD COW

**Question.** I requested, with Senators Harkin, Cochran and Chambliss, a GAO report which found that FDA's oversight of the feed ban contains "program weaknesses that continue to undermine the Nation's firewalls against BSE." While FDA has banned the use in cattle feed of certain cattle parts suspected to cause BSE transmission, there are loopholes in the ban and loopholes in its enforcement. The report suggested that FDA more frequently inspect animal feed facilities, sample cattle feed for the presence of banned materials, and work more closely with USDA. You introduced legislation last year, S. 2007, that we are in the process of revising to concur with these recommendations.

How will FDA address the recommendations in the new GAO report highlighting weaknesses in FDA's enforcement of the feed ban, such as implementing more frequent inspections and testing for banned materials?

**Answer.** As noted in the FDA response to the GAO report, while a few areas to further strengthen the feed ban program were identified, for which FDA has or will implement the recommendations suggested, FDA does not believe that material weaknesses were identified.

It is important to understand that FDA's risk-based approach to implementation of the ruminant feed ban regulation. This regulation potentially impacts a wide va-

riety of firms involved in the animal feed industry. For example, every firm that manufactures, transports, distributes or sells animal feed or feed ingredients for any animal species is subject to inspection under the FDA ruminant feed ban compliance program, regardless of whether prohibited material is utilized. Even swine and poultry farms that mix their own feed and grocery stores that sell pet food are potentially subject to inspection under this rule. All operations that involve feeding ruminants, such as dairy and beef cattle are also subject to the rule. In consideration of the limited resources for inspecting this large population of firms, FDA is obligated to set priorities for inspecting a meaningful subpopulation of these regulated firms.

FDA informs FDA and State investigators of its inspection priorities via its publication of the BSE/Ruminant Feed Inspection Compliance Program guidance document. FDA's highest inspection priority is firms that manufacture or process animal feeds or feed ingredients that contain prohibited material. It is most important that these products are not used for ruminant feed so this industry segment, which includes renderers, protein blenders, and feed mills, is inspected on an annual basis.

Firms outside of this segment generally, have a lower inspection priority since they pose a lower risk of producing contaminated feed. Other segments, such as cattle feeders, are of interest to the FDA, but according to estimates, there are over one million ruminant feeders in the United States. The agency continues to develop and utilize educational tools to complement inspections and to promote voluntary compliance in these large industry segments. FDA will additionally implement inspectional initiatives to increase its presence in some of these less inspected segments, such as transporters and animal feed salvagers, based upon our assessment of compliance and risk in these industry sectors.

FDA has been collecting and testing animal feed samples since August 18, 2003, when FDA issued a sampling assignment to the FDA field staff for the collection of 600 domestic samples. In fiscal year 2005, we will collect 900 samples for testing. The characteristics of the ruminant feed ban sampling assignment are unique and more complex when compared to other FDA sampling programs. Other programs are more simply based on a methodology that can definitively detect the presence of the objectionable contaminant or pathogen. Further, the nature of the contaminants in some of the other programs allows for the establishment of tolerance levels. The mere detection of a pathogen or some of these other contaminants, in excess of an established tolerance, is sufficient to consider the sample violative in these other programs. In contrast to these other programs, analytical findings alone under the ruminant feed ban program do not establish that the sample violates the ruminant feed ban rule. As the ruminant feed ban sampling assignment notes, positive analytical findings necessitate follow-up evaluations to determine whether the findings were indeed the result of a violation of the ruminant feed ban regulation.

Since no test currently exists for the detection of the infectious prion agent that causes BSE in feed, analysis of feed is not, by itself, a means of verifying the safety of cattle feed. Additionally, feed microscopy and/or PCR analytical results alone are not adequate to make compliance decisions about whether or not the presence of materials does or does not comply with the provisions established in the ruminant feed ban rule. The feed microscopy method has limitations and the rule has exemptions. Feed microscopy generally can only detect the presence of mammalian tissue, through the identification of either bone or hair. In certain other situations, feed microscopy can only detect the presence of animal tissue when blood is detected. The present ruminant feed ban allows for certain exemptions regarding the application of the mammalian protein prohibition. Exempted materials include pure porcine meat and bone meal, blood from any animal species, including ruminants; gelatin, and milk protein. Further, there is no prohibition on the use of non-mammalian proteins such as poultry meal. The detection of certain non-specific materials, such as bone or muscle, may be the result of exempt ingredients, such as ruminant blood meal, pure porcine meat and bone meal, or poultry meal. PCR has similar limitations since the test cannot differentiate between prohibited material ingredients and certain ruminant-containing exempt ingredients, such as ruminant blood, ruminant milk products, and plate waste. Since feed microscopy and PCR cannot differentiate prohibited material from other acceptable materials, the analytical results cannot be used to verify the presence of prohibited material, nor can they be used for confirming the adequacy of clean-out measures. When research identifies new or better means of identifying the agent that causes BSE in feed or the presence of prohibited material in feed, FDA will further assess how best to use sampling and testing to ensure the safety of animal feed.

We have attached FDA's full response to the nine GAO recommendations for executive action for your information.

*Question.* When does FDA intend to ban cattle feed materials that carry a risk of BSE transmission, such as poultry litter and plate waste?

*Answer.* In July 2004, FDA published jointly with the USDA an advance notice of proposed rulemaking, ANPRM, requesting comments and scientific information on possible measures that would strengthen the animal feed regulations.

See <http://www.fda.gov/OHRMS/DOCKETS/98fr/04-15882.htm>. As part of the ANPRM, FDA also announced that the Agency had tentatively decided to issue a proposed rule to implement the International Review Team's main recommendation to prohibit the use of specified risk materials in all animal feed. Such a prohibition of specified risk materials may preclude the need for prohibiting additional ingredients, such as poultry litter. The present prohibition of specified risk materials in foods for human consumption implemented with the rules published by USDA and FDA in January and July 2004, respectively, may obviate the need for prohibiting plate waste and other human food product waste. FDA analyzed the comments and information received in response to the ANPRM and is currently preparing a proposed regulation that would prohibit the use of certain cattle material that carry the risk of BSE transmission in all animal feed. In developing the proposed regulation, the agency is examining the economic and environmental effects that would be involved with this proposed measure. The proposed regulation is presently undergoing internal Agency review as part of the clearance process.

#### DRUG SAFETY

*Question.* Serious pain medication and antidepressant side effects are the latest in a series of problems that have come to light publicly several years after the drugs were approved by FDA. It has been suggested that FDA appears to be holding back on the release of negative information about new drugs. Companies are not required to publish all the drug safety studies they conduct, but they must provide these studies to FDA.

While the painkillers Vioxx and Bextra have been removed from the market pending the inclusion of an improved warning label, what are FDA's plans for letting the public know in a more timely manner the results of drug studies that do not necessarily favor the drugs?

*Answer.* FDA has authority to determine that a drug is misbranded if its labeling is false or misleading and can seek judicial relief to mandate changes to the label or take action to remove the product from the market. Both of these actions take time. The process would normally begin with a warning letter to the company expressing FDA's position, and the company would have a chance to respond. Unless the company voluntarily made the changes, FDA would then have to pursue judicial relief, a time-consuming process. For FDA to remove the product from the market over a sponsor's objections, FDA would consider whether the risks of marketing the product with false or misleading labeling outweighed the benefits for the population of patients that use the product. The risks may not outweigh the benefits for many drugs, and again, the procedures for removing a drug from the market if the sponsor does not agree to stop marketing are very time consuming. They require publication of a notice and opportunity for hearing in the Federal Register, and a possible administrative hearing if the sponsor demonstrates that there is a genuine issue of material fact to be decided in a hearing.

We understand the concern regarding the time involved in negotiating labeling changes with the company. However, as Dr. Janet Woodcock emphasized in testimony before the Senate HELP Committee last March, another significant issue is that once a label change is made, old labels in paper form are still in distribution and it takes time to get newer labels in circulation. Dr. Woodcock testified that the new strategy of posting drug safety information sooner using the Drug Watch mechanism will help alleviate this concern because it will enable the FDA to get information directly to the people who need it in a timely manner. We are confident that the new drug safety actions we are implementing will help to ensure that consumers and healthcare practitioners will have access to the most recent safety concerns with drug products. As we explained in our response to a previous question, we are proposing a Drug Watch Web Page that would include emerging information for both previously and newly approved drugs about possible serious side effects or other safety risks that have the potential to alter the benefit/risk analysis of a drug, affect patient selection or monitoring decisions, or that could be avoided through measures taken to prevent or mitigate harm. FDA is also improving communication through more widespread development of:

Healthcare Professional Information Sheets one-page information sheets for healthcare professionals for all drugs on FDA's Drug Watch and all drugs with Medication Guides (FDA-approved patient labeling) containing the most important

new information for safe and effective product use, such as known and potential safety issues based on reports of adverse events, new information that may affect prescribing of the drug, and the approved indications and benefits of the drug.

Patient Information Sheets one-page information sheets for patients containing new safety information as well as basic information about how to use the drug in a consumer friendly format.

David Graham, the FDA drug safety analyst responsible for first raising red flags about Vioxx, suggests he was intimidated by the agency before giving Congressional testimony last November. His suggestions that Vioxx and five other new drugs were being approved despite serious safety concerns were recently validated in an HHS Inspector General Office report that indicated nearly one-fifth of FDA scientists surveyed said they had been pressured to approve a drug despite safety concerns.

*Question.* What is FDA's official policy toward whistleblowers?

*Answer.* On January 18, 2005, I personally issued an "all hands" e-mail to Agency staff to address this matter. It specifically stated:

"Let me also remind all employees that, consistent with the law, any act of retaliation against FDA employees resulting from their actions within the law to criticize the agency (either internally or externally, including to Congress) is not acceptable. The Agency has consistently operated using the highest ethical standards, and I expect all Agency employees to continue to uphold the highest standards of conduct and fully comply with all relevant Federal requirements and government policies."

#### DIETARY SUPPLEMENTS

*Question.* Utah District Court ruled on April 13th that FDA's ban on ephedra and ephedra products was illegal.

What action does the agency intend to take to appeal this decision and what legislative authority would be helpful to clarify that FDA has the authority to take deadly dietary supplements such as ephedra off the market?

*Answer.* FDA is reviewing the decision that applies to the Neutraceutical Solarary product line of 10mg or less. Any final decision on whether or not to appeal must be made by the Solicitor General.



## 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 2006 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 coalition<sup>1</sup> composed of the organizations listed below. The coalition supports sustained funding for the concessional sales and Food for Progress (FFP) programs under Title I of Public Law 480 at a baseline level that will ensure the continued viability of the programs.

In recent years, funding appropriated to the Title I account 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 fiscal year 2005, it declined again to \$94.2 million. In the administration's fiscal year 2006 budget, the requested funding is \$65,040,000. According to the fiscal year 2006 USDA Budget Summary, this request, together with carryover funding, will support a fiscal year 2006 program level for concessional sales and FFP donations of \$145 million in commodity and (separately funded) freight costs. Total Title I commodity assistance in fiscal year 2006 is estimated to be 540,000 metric tons.

Mr. Chairman, our coalition has noted that funding for the Title I account in recent years increasingly has been used to support FFP grants. FFP is an essential component of our overall food aid system, and deserves strong support. 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 funding.

### 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.

<sup>1</sup>The 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 Ocean Shipping, Inc., Transportation Institute, USA Dry Pea & Lentil Council, USA Rice Federation, U.S. Wheat Associates, Inc., and Wheat Export Trade Education Committee.

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. Unfortunately, this downward trend has continued. For fiscal year 2006, the President's budget would support only 3.49 million metric tons of food assistance under all program authorities.

#### THE ADMINISTRATION'S BUDGET FOR FISCAL YEAR 2006

The administration proposes Title I funding that would support a direct loan level of only \$43 million. Projected carryover funding and reimbursements from the Maritime Administration would supplement available funding, allowing the administration to project an overall Title I program level (including FFP donations) of \$145 million. The fiscal year 2006 request, however, is limited to \$65 million in new funding to the Title I account. The effect of this drastic reduction in the annual appropriation would be to empty the account of all reserves, leaving the Title I program (and Food for Progress donations) with a greatly diminished baseline and bleak prospects for future fiscal years. 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 reduced from \$1.185 billion in fiscal year 2005 to \$885 million. This initiative was designated as a "major reform" by the administration on February 11, 2005. Under the president's budget, Title II food aid would be reduced by \$300 million and USAID's International Disaster and Famine Assistance (IDFA) program would be increased by an equivalent amount. The effect of this initiative would be to reduce Title II shipments to about 1.75 million metric tons, far below the statutory level established in the authorizing law of 2.5 million metric tons.

Mr. Chairman, our coalition strongly opposes the administration's proposal to convert essential American food assistance to a program under which USAID would use appropriated funds to procure food supplies in markets that are closer to their final destination. Under Public Law 480, the United States has delivered high-quality, nutritious food to billions of people throughout the world for more than half a century. The administration seeks to reverse the longstanding policy that U.S. food assistance should consist of U.S. commodities, produced by American farmers and processed by American enterprises. If USAID requires increased funding for emergency requirements, such funding should not come at the expense of the Title II program, upon which American producers, processors, and shipping companies rely. Furthermore, transfer of Title II funding to the State Department's IDFA program will undermine our negotiating position in the WTO, where the United States has spent the last two years defending our current food assistance programs as a necessity if the world is committed to reducing hunger.

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 2006, with a commodity value estimated at \$151 million. This represents another year of diminished reliance on the 416(b) program, which is CCC-funded.

In its fiscal year 2006 Budget Summary, the Department of Agriculture estimates that CCC-funded FFP shipments will be 300,000 metric tons of grain equivalent. Unfortunately, this falls short of the 400,000 ton level established for CCC-funded FFP shipments in the 2002 Farm Bill.

Finally, the administration has requested \$100 million for the McGovern-Dole International Food for Education and Child Nutrition Program (IFEP), an increase of 15 percent over the fiscal year 2005 level.

The administration's recommendations, taken together, would lead to further reductions in food aid. Of even more significance, the administration's recommendation to reduce Title II funding in favor of USAID cash assistance undermines the foundation upon which U.S. food aid policy has been built in the post-World War II era. The coalition strongly urges this subcommittee to sustain Title II funding at \$1.185 billion, thus ensuring that U.S. food assistance will continue to consist of U.S. commodities produced and processed by Americans.

#### 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 2006, this would require an incremental increase in Title I baseline funding, restoration of the Title II baseline to \$1.185 bil-



lion 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 2006, the subsidy cost of the Title I program is established for the fiscal year at 55.40 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 55 cents. Moreover, Title I 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 2006 will generate only \$43 million in commodity sales. Of course, 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 recent years, 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 2006, 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.

—The Title II program should be restored to its fiscal year 2005 baseline level of \$1.185 billion. This will ensure that funding is not diverted to programs relying primarily upon foreign commodities for food assistance. This action will also 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.

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PREPARED STATEMENT OF THE AMERICAN FARM BUREAU FEDERATION

The Farm Security and Rural Investment Act of 2002 (FSRIA) was enacted 3 years ago following 2 years of exhaustive debate in the House and Senate. The new farm law represents a delicate balance by effectively addressing the stability of our agricultural production base, protecting our important natural resources and enhancing nutrition and food assistance programs in our Nation.

The mandatory programs administered by the Department of Agriculture such as commodity, conservation, crop insurance, export promotion programs, nutrition and forestry are of enormous importance to farmers, ranchers, rural businesses, low-income Americans and our Nation's children. Therefore, we respectfully ask the Appropriations Committee avoid making any changes to mandatory programs within the USDA budget.

Contract-based working lands conservation programs such as the Environmental Quality Incentives Program (EQIP), Conservation Security Program (CSP), Wildlife Habitat Incentives Program and Forest Land Enhancement Program (FLEP) enjoy wide support within the agricultural and landowner community, as shown by current levels of oversubscription. Farm Bureau is concerned that many of these programs have not been funded at optimum levels, especially the Conservation Security Program. This has led to a level of confusion among farmers and ranchers of when and how the program will be implemented within their particular watershed, and whether or not the financial incentives will be adequate to encourage participation. As we move forward in this budget process, Farm Bureau encourages Congress to find an appropriate balance of funding for targeted land idling programs, such as the General and Continuous Conservation Reserve Programs, with our current working lands conservation programs.

Farm Bureau supports the farm bill's energy title that includes provisions for Federal procurement of bio-based products, bio-refinery development grants, a biodiesel fuel education program, renewable energy development program, renewable energy systems, a bioenergy program, biomass research and development and value-added agricultural product development and marketing. These programs play a critical role in assisting in rural economic development as well as in increasing our Nation's energy independence and should be fully funded at authorized levels.

Farm Bureau has identified three areas as priorities for discretionary funding in fiscal year 2006. They are: BSE and animal identification, programs to increase agricultural exports and crop protection.

BOVINE SPONGIFORM ENCEPHALOPATHY AND ANIMAL IDENTIFICATION

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 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 ARS for these activities.

*Animal Identification.*—We have serious concerns about the adequacy of the administration's proposal for \$33 million to continue implementation of the National Animal Identification System (NAIS). Industry estimates of the U.S. Animal Identification Plan (USAIP) forecast an ongoing cost of about \$100 million per year to effectively implement such a system. USDA has expended just \$51 million in the first year of development of the NAIS. When added to this year's budget request, the total Federal fund commitment amounts to approximately \$84 million. This is significantly short of the Department's own cost estimate of \$550 million for the first 5 years of NAIS operation.

If the government were to fund \$33 million each year (the same as their fiscal year 2005 and fiscal year 2006 requests), two-thirds of the cost of the NAIS would be funded by producers and affected industries. Farmers and ranchers cannot afford to bear the brunt of the cost of this program, especially when most of the benefit will accrue to the general public. This program undoubtedly benefits consumers as much or more than it does producers and the industry and a larger portion of the cost must be borne by the government. We appreciate the inclusion of NAIS funding in the fiscal year 2005 agriculture funding bill, and strongly encourage the Committee to significantly increase that amount in this year's version of the agriculture

appropriations bill. Implementation of this critical 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.

**BSE.**—Farm Bureau supports the \$66 million in BSE-related funding proposed by USDA in their fiscal year 2006 budget request. After the discovery Dec. 23, 2003, of a single cow with BSE in the United States, a one-time, enhanced BSE surveillance program was implemented, beginning in June 2004. The enhanced surveillance program will exceed its testing goals in fiscal year 2005, providing an accurate risk profile of the probable prevalence of BSE. However, we must continue our monitoring and surveillance program to protect the health of the U.S. herd. We support the administration's requested \$7.7 million increase for the Animal Health Monitoring and Surveillance (AHMS) program, including both program costs and employee compensation. The AHMS budget request includes \$17.1 million for the Animal and Plant Health Inspection Service (APHIS) to continue BSE testing of at least 40,000 samples (including sampling at rendering plants and on farms) and to continue to use the 12 State diagnostic laboratories that support the work of the national BSE reference lab, APHIS' National Veterinary Services Laboratories.

We support an increase of \$7.5 million for an enhanced BSE research program. The additional research funding would allow Agriculture Research Service (ARS) scientists to increase our understanding of the disease and develop the technology needed by regulatory agencies to establish science-based policies and control programs. This scientific emphasis will not only help us in our current trade negotiations to reopen export markets lost since December 2003, but also to focus on a new understanding of the disease risks in the long run.

In addition, Farm Bureau supports funding for the Agriculture Research Service (ARS) to complete the National Centers for Animal Health (NCAH) in Ames, Iowa. The NCAH will offer facilities and physical resources capable of supporting internationally-recognized animal health research, including efforts to increase the global body of scientific knowledge about BSE. We appreciate the inclusion of \$59 million in the fiscal year 2006 budget request to complete construction of the National Centers for Animal Health. However, we believe that the budget request does not reflect extra-inflationary costs that have occurred since the original construction plan was completed. Therefore, we request at least \$85 million be appropriated to complete the world-class NCAH originally envisioned.

#### CROP PROTECTION AND AGRICULTURE INPUTS

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, and in some cases restored, to the following offices and programs:

**Office of Pest Management Policy (OPMP).**—OPMP has the primary responsibility for coordination of USDA's Food Quality Protection Act (FQPA) and crop protection obligations and interaction with EPA. Proper funding is vital for the review of tolerance reassessments, particularly dietary and worker exposure information; to identify critical uses, benefits 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) must have funding maintained, and research on alternatives to methyl bromide must have funding restored and receive future funding to satisfactorily 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).**—Funding must be maintained, in some cases restored, and full future funding provided for Integrated Pest Management 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).*—USDA and EPA rely on ERS programs to provide unique data information and they should be properly funded including IPM research, pesticide use analysis program and the National Agriculture Pesticide Impact Assessment Program.

*Food Quality and Crop Protection Regulation.*—Additional funding for proper regulation of pesticides is needed in the following programs: National Agriculture Statistics Service pesticide use surveys; Food Safety Inspection Service increased residue sampling and analysis; Agricultural Marketing Service; and the Pesticide Data Program.

#### PROGRAMS TO INCREASE AGRICULTURAL EXPORTS

Creating new and expanding existing overseas markets for U.S. agricultural and food products is essential for a healthy agricultural economy. Continued funding of export development and expansion programs is essential for improving U.S. farm and food income. Farm Bureau recommends maximum funding of all authorized export development and expansion programs in a manner consistent with our commitments in the World Trade Organization agreement. USDA services and programs that facilitate U.S. exports by certifying plant and animal health to foreign customers, that protect U.S. agricultural production from foreign pests and diseases, and fight against unsound non-tariff trade barriers by foreign governments are also critical and should receive priority funding.

*Plant and Animal Health Monitoring, Pest Detection and Control.*—Plant and animal health monitoring, surveillance and inspection are crucial programs. We support funding increases for improved plant pest detection and eradication, management of animal health emergencies and to increase the availability of animal vaccines. Expansion of Plant Protection and Quarantine personnel and facilities is necessary to protect U.S. agriculture from new and often-times virulent, costly pest problems.

*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 (i.e., sanitary and phytosanitary measures), real or contrived, to resist or prohibit the entry of American products into their markets. Only APHIS can respond effectively to this resistance. It requires however, placing more APHIS officers at U.S. ports and overseas where they can monitor pest and disease conditions, negotiate trading 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 and Expansion Programs.*—We recommend full funding of all export development and expansion programs consistent with our WTO commitments. Farm Bureau supports General Sales Manager credit guarantee programs. These important export credit guarantee programs help to make commercial financing available for imports of U.S. food and agricultural products via a deferred payment plan. The Market Access Program, the Foreign Market Development Program, the Emerging Markets Program and the Technical Assistance for Specialty Crops program are all very important and effective export development and expansion programs that increase demand for the U.S. agriculture and food products abroad. These programs also benefit U.S. agriculture by recruiting far more private sector funds into development and expansion activities for U.S. agriculture and food products than the U.S. government contributes.

Direct assistance of U.S. agricultural exports is also authorized by the Export Enhancement Program, a program 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 allows U.S. dairy producers to compete with foreign nations that subsidize their commodity exports. The International Food for Education Program will be an effective platform for delivering severely needed food aid and educational assistance.

*Public Law 480.*—We recommend fully funding Public Law 480. Public Law 480 programs serve as the primary means by which the United States provides foreign food assistance through the purchase of U.S. commodities. The Public Law 480 program provides humanitarian and public relations benefits, positively impacts market prices and helps develop long-term commercial export markets. We oppose any efforts to reduce funding of Public Law 480, especially efforts to transfer funding to other food aid and development programs outside the jurisdiction of USDA.

*APHIS Biotech Regulatory Service (BRS).*—Agricultural biotechnology is an extremely promising technology and all reasonable efforts must be made to allow continued availability and marketability of biotech tools for farmers. BRS plays an important role in overseeing the permit process for products of biotechnology. Funding for BRS personnel and activities are essential for ensuring public confidence and international acceptance of biotechnology products. AFBF supports increased spending of \$4.5 million in this area because it will enable the USDA to increase inspections of genetically-modified crop field test sites and enhance its capacity to regulate transgenic animals, arthropods, and disease agents.

*Foreign Agricultural Service (FAS).*—The USDA's Foreign Agricultural Service will require sufficient funding to expand services to cover all existing and potential market posts.

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#### PREPARED STATEMENT OF THE AMERICAN FOREST AND PAPER ASSOCIATION

The American Forest and Paper Association<sup>1</sup> (AF&PA) supports sustainable forest management on all forest lands and encourages funding for research programs that advance sustainable forestry. In particular, there is a need to focus resources on research that addresses forest productivity, wood utilization, inventory, and conversion of wood to produce bioenergy/bioproductions. The following recommendations concern fiscal year 2006 appropriations for the U.S. Department of Agriculture.

##### *Cooperative State Research, Education, and Extension Service Programs*

There is a critical need for practical research and outreach designed to produce and measure healthier, faster-growing forests. The USDA Cooperative State Research, Education, and Extension Service (CSREES) and the universities that partner with the agency play a key role on-the-ground in meeting this need.

—*Cooperative Forestry Research (McIntire-Stennis) Program.*—AF&PA recommends funding of \$22.2 million, keeping it at the fiscal year 2005 enacted level. This program is the foundation of forest resources research and scientist education efforts at universities. It provides cutting-edge research on productivity, technologies for monitoring and extending the resource base, and environmental quality. The program is a Federal-state-university partnership and one that has been highly effective in leveraging the Federal investment and producing results; in fact, program funding is matched more than three times by universities with State and non-federal funds. The Administration's fiscal year 2006 budget request would cut program funding by 50 percent compared to fiscal year 2005. Proceeding with the Administration's request would devastate our national forestry research capacity; thus, we strongly urge restoring funding to the fiscal year 2005 enacted level.

—*National Research Initiative (NRI) Competitive Grants Program.*—AF&PA supports the President's request of \$250 million, provided at least 10 percent of the total is directed towards forestry research. These NRI grants are a significant source of funding for basic and applied research on forest resources, including their management and utilization. Last year, less than 6 percent of the \$180 million funding was allocated to forestry research proposals. Given the considerable potential of the program to contribute to the nation's sustainable forestry research needs, that percentage should be increased to a minimum of 10 percent, with specific focus on grants that support forest productivity, wood utilization, and biorefining technologies.

—*Renewable Resources Extension Program (RREA).*—AF&PA supports the President's request of \$4.1 million funding, a slight increase over the fiscal year 2005 funding level. This program provides the foundation for extension and outreach efforts delivered to private landowners through universities. Cutting-edge forestry research is of limited benefit unless it can be effectively delivered to the nation's forest landowners.

##### *Agenda 2020*

Agenda 2020 began in 1994 as a partnership between the forest products industry and the Department of Energy's Forest Products Industry of the Future program to accelerate the research, development, and deployment of new technologies in the industry. This collaborative research is focused on forest productivity, and developing

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<sup>1</sup>AF&PA is the national trade association of the forest, paper and wood products industry. AF&PA represents more than 200 companies and related associations that engage in or represent the manufacture of pulp, paper, paperboard and wood products. The forest products industry accounts for approximately 7 percent of total U.S. manufacturing output, employs 1.3 million people, and ranks among the top ten manufacturing employers in 42 States.

processes and technologies that can cut energy use, minimize environmental impacts, and improve overall productivity in the industry to make it more globally competitive. The partnership has expanded to include USDA.

—*Biomass Research and Development Initiative.*—AF&PA recommends \$15 million, with increased focus on production and management of forests and the efficient conversion of forest biomass into energy. USDA funding for this initiative supports key components of Agenda 2020 research, development, and demonstration for the integrated forest products biorefinery (IFPB): cultivation and production of high-quality feedstocks engineered for both bioenergy/bioproducts and traditional forest products; and conversion technologies to produce bioenergy/bioproducts at several points during the traditional harvest and manufacturing process. This IFPB research helps ensure sustained, healthy forest productivity as the industry evolves into a producer of high-valued, renewable, carbon-positive bioenergy and bioproducts.

#### *Conclusion*

AF&PA appreciates the chance to provide the Subcommittee with testimony regarding fiscal year 2006 appropriations for the U.S. Department of Agriculture. The funding levels proposed for the programs listed above will help promote sustainable forest management on our nation's public and private lands.

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#### PREPARED STATEMENT OF THE AMERICAN HONEY PRODUCERS ASSOCIATION, INC.

I am Steve Park of Palo Cedro, California, and I serve as 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 honeybee 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 honeybee 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 2006 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 honeybee research funding at current levels for the ARS laboratory in Tucson, Arizona.

#### *The President's Budget Proposal*

The American Honey Producers Association applauds the President's fiscal year 2006 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 current 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 \$394,000 in cuts for the Baton Rouge facility and \$246,000 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 honeybee 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 very serious and growing 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*

Honeybees fill a unique position in contemporary U.S. agriculture. They pollinate more than 90 food, fiber, and seed crops, valued at more than \$20 billion a year in the United States, according to the Department of Agriculture. Honeybees are necessary for the production of such diverse crops as almonds, apples, oranges, melons, vegetables, alfalfa, soybeans, sunflower, and cotton, among others. In fact, honeybees pollinate about one-third of the human diet. In addition, honeybees 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. For example, the pinhead sized Varroa mite is systematically destroying bee colonies and is considered by many to be the most serious malady of honeybees. In fact, one of the most publicized effects of the devastating mite infestation is the recent shortage of honeybees to pollinate California's almond crop—the biggest crop requiring honey bees for pollination and California's largest agricultural export. California grows 100 percent of the Nation's almond crop and supplies 80 percent of the world's almonds. More than one million honeybee hives are needed to pollinate the half a million acres of almond groves that line California's Central Valley. That means nearly half of the managed colonies in the United States are involved in pollinating almonds in California during February and early March. Having enough bees to pollinate the almond crop can mean the difference between a good crop and disaster. Unfortunately, we estimate that as many as 30 percent of California's almond groves were not pollinated this year due to a lack of honeybees. As one news report noted in January of this year, growing almonds without honeybees "is like sky diving without a parachute." Thus, the damaging effects of mites and other pests reach far beyond the American honey industry.

Tracheal mites are another contributing factor to the loss of honeybees. Tracheal mites infest the breathing tube of adult honeybees and also feed on the bees' blood. The mites essentially clog the bees' breathing tubes, blocking the flow of oxygen and eventually killing the infested bees. The industry is also plagued by a honeybee bacterial disease that has become resistant to antibiotics designed to control it and a honeybee 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 these pests 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 honeybee 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 honeybee 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 honeybee research programs conducted by ARS.

The sequencing of the honeybee 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 honeybee traits. The sequenced honeybee genome is the necessary key that will allow scientists to discover the important DNA sequences. Because of the sequenced honeybee genome, it is now possible to apply molecular biological studies to the development of marker-assisted breeding of honeybees. Marker-facilitated selection offers the first real opportunity to transform the beekeeping industry from one that has been dependent upon a growing number of expensive pesticides and antibiotics into an industry that is free of chemical inputs and that is economically viable in today's competitive global marketplace.

Furthermore, research on honeybees, one of five animals chosen by the National Institutes of Health for genome sequencing, may provide important insight into other areas of science. The honeybee is the first agricultural species to be sequenced, and such work may provide breakthrough advances in many areas of science. In fact, honeybees 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 honeybees' olfactory capabili-

ties are at least on par with that of 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 honeybees. 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 and assuring essential pollination services 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 \$246,000 in funding added by Congress in fiscal year 2001 for the ARS Honey Bee Laboratory at Weslaco, Texas. Retaining the current 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 honeybee colonies annually as well as devastating wild bee colonies. As noted in a February 2005 USA Today article, the Varroa mite has destroyed as much as 60 percent of the hives in some areas.

For example, in Florida, the number of commercial bee colonies has fallen from approximately 360,000 hives in 1990 to just 220,000 today—primarily as a result of the Varroa mite. These tiny parasites—also known as the “vampire mite”—attach themselves to the backs of adult bees and literally suck out their insides. When these mites were first discovered in the United States in the 1980s, beekeepers were able to fight them with strips of the chemical fluvalinate. However, the Varroa mites have evolved into a parasite seemingly immune to current pesticides. The ARS laboratory at Weslaco has been developing alternative chemicals to control the Varroa mite. Presently, there are no other chemicals available for controlling the Varroa mite, and the laboratory is working frantically to develop other means of control. The laboratory also is working with a potent fungus, which may kill the mites without impeding colony development or population size.

Furthermore, 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 the chemical 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 honeybees in the presence of Africanized honeybees, 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. honeybee 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. honeybee industry.

*Research at the ARS Baton Rouge Laboratory*

While we are pleased that the President has requested an increased funding in the amount of \$500,000 for honey bee genome research at the ARS Baton Rouge Laboratory, we are dismayed by and opposed to the Administration's simultaneous request for \$394,000 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 Administra-



tion. 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 and, we believe, in the world, developing long-term, genetic-based solutions to the Varroa mite. Existing stocks of U.S. honeybees are being tested to find stocks that 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 honeybees 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 honeybee 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 honeybee 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 2006. 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 honeybee colony productivity through quantitative ecological studies of honeybee behavior, physiology, pest and diseases, and feral honeybee bionomics. Currently, the Tucson laboratory is working to finalize the development of a pheromone that kills the Varroa mite.

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 honeybee 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 honeybee germplasm in order to maintain genetic diversity and superior honeybee stock. Scientists at the facility also provide authoritative identification of Africanized honeybees 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 honeybee research in the past and for your Subcommittee's understanding of the importance of these laboratories. The American Honey Producers Association would appreciate your con-

tinued support by (1) increasing the level of funding for the ARS Honey Bee Research Laboratory in Baton Rouge, Louisiana, by \$500,000, as proposed by the Administration in its fiscal year 2006 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 \$394,000 for the Baton Rouge facility and \$246,000 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.

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#### 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 33 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 2006.

This statement is presented in three parts: (a) a summary of our fiscal year 2006 funding recommendation, (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 and support needed to maximize the economic development potential of their resources.

#### SUMMARY OF REQUESTS

We respectfully request the following funding levels for fiscal year 2006 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; \$3.3 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 5 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–\$4.5 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—33 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.

All of the 1994 Land Grant Institutions are accredited by independent, regional accreditation agencies and like all institutions, must undergo stringent performance reviews 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.

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

Tragically, 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 starting to rectify this situation and is our hope for future advancement.

Our current land grant programs are small, yet very important to us. It is essential that American Indians explore and adopt new and evolving technologies for managing our lands. We have the potential of becoming significant contributors to the agricultural base of the nation and the world.

*Native American Endowment Fund.*—Endowment installments that are 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 2004) is \$2,180,705, after the USDA's administrative fee of \$87,228 is deducted; \$2,093,477 remains to be distributed among the 33 tribal college Land Grant Institutions by statutory formula. While we have not yet been provided the breakdown of fiscal year 2004 funds as distributed per institution, in the prior year the USDA's administrative fee 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. We ask the Subcommittee to review the Department's administrative fee and consider reducing it for this program, so that more of these already limited funds can be distributed to 1994 Land Grant Institution 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 to help address 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 institutions. This additional funding would be very helpful in our efforts to continue to support faculty and staff positions and program needs within Agriculture and Nat-

ural 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, under treaty rights, warrant the facilities and infrastructure necessary to fully engage in education and research programs vital to the future health and well being of our reservation communities. We respectfully request the subcommittee agree to fund the fiscal year 2006 endowment payment at \$12 million, as included in the President's Budget recommendation.

*1994 Institutions' Educational Equity Grant Program.*—Closely linked with the endowment fund, this program is designed to assist 1994 land grant institutions with academic programs. Through the modest appropriations made available since fiscal year 2001, 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 2005, approximately \$2,160,000 or two-thirds of the authorized level was available for distribution to the 1994 institutions, after across-the-board cuts and Department fees were applied to the initial appropriated level of \$2,250,000. We respectfully request full funding of \$3.3 million to allow the tribal 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 2005, \$3,273,000 was appropriated for the 1994 Institutions' competitive extension grants, a slight increase over fiscal year 2004. Without adequate funding, 1994 Institutions' ability to maintain existing programs and to respond to emerging issues such as food safety and homeland security, especially on border reservations, is severely limited. Increases in funding are needed to support these vital programs designed to address the inadequate extension services provided to Indian reservations, by their respective state programs. It is important to note that the 1994 extension program is designed to complement the Indian Reservation Extension Agent program and does not duplicate extension activities. 1994 Land Grant programs are funded at very modest levels. The tribal college land grants have applied their ingenuity for making the most of every dollar they have at their disposal by leveraging funds to maximize their programs whenever possible. For example, over the last 5 years the College of Menominee Nation (CMN) in Keshena, Wisconsin, has leveraged funding from several programs to expand its extension program focusing its efforts on strengthening the economic capacity of the local community. Partnering with U.S. Department of Health and Human Services, CMN is designing a curriculum that involves tribal elders, relevant service providers, local schools, the Commission on Aging, and health clinics designed to encourage minority youth to enter Allied Health fields. With a grant from the Wisconsin Department of Transportation, the college's extension and outreach offers the Transportation Alliance for New Solutions (TrANS) program. This is a 120 hour program designed to train women and minorities in roads construction. In addition, the Federal Highway Administration and the Wisconsin Department of Transportation have provided grant funds to CMN extension and outreach to conduct a Summer Transportation Institute focusing on middle school students. Students spend 4 weeks exploring various careers within the transportation industry. To continue and expand successful programs such as those being conducted at CMN, 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, \$1,087,000, the fiscal year

2005 appropriated level, is grossly inadequate for a competitive pool of 33 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 agriculturebased 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. Project areas being studied 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).*—In fiscal year 2005, \$4.5 million of the RCAP funds appropriated for loans and grants to benefit Federally recognized Native American tribes was targeted for community facility grants for improvements at Tribal Colleges and Universities. This amounts to a \$500,000 increase over the level that had been allocated to the program each year since fiscal year 2001. This program requires a minimum 25 percent non-Federal match. This has become a barrier for some of the colleges to even consider applying for these funds. Tribal colleges are chartered by their respective tribes which enjoy a government-to-government relationship with the Federal Government. Due to this relationship, tribal colleges have very limited access to non-Federal monies. Non-Federal matching requirements present a significant barrier to our colleges in their ability to compete for much needed funds. In the 2002 Farm Security and Rural Investment Act, (Public Law 107-171) language was adopted with regard to the Rural Cooperative Development Grants that limits non-Federal matching to no more than 5 percent in the case of a 1994 institution. 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 for each of the next 5 fiscal years to afford the 1994 institutions the means to aggressively address critical facilities needs, thereby allowing them to better serve their students and respective communities. Additionally, we request that Congress include language directing the agency to limit the non-Federal matching requirement to no more than 5 percent, the same level as applied to the Rural Cooperative Development Grants program, to help the 1994 land grant institutions to effectively address critical facilities and construction issues at their institutions.

#### CONCLUSION

The 1994 Land Grant Institutions have proven to be efficient and effective vehicles 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 potential for benefiting from 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 help move our communities toward self-sufficiency. 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 2006 appropriations requests.

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#### PREPARED STATEMENT OF THE AMERICAN NURSERY & LANDSCAPE ASSOCIATION AND THE SOCIETY OF AMERICAN FLORISTS

The American Nursery & Landscape Association (ANLA) and the Society of American Florists (SAF) welcome this opportunity to present the nursery and floriculture industry's views regarding the U.S. Department of Agriculture's (USDA) budget for the fiscal year 2006.

ANLA is the national trade organization representing the U.S. nursery and landscape industry. ANLA represents 2,500 production nurseries, landscape firms, retail garden centers and horticultural distribution centers, and the 16,000 additional

family farm and small business members of the State and regional nursery and landscape associations. ANLA's grower members are estimated to produce about 75 percent of the nursery and greenhouse crops moving in domestic commerce in the United States that are destined for landscape use. Members also produce various plants used in the commercial production of tree and small fruits.

SAF is the national trade association representing the entire floriculture industry, a \$19 billion component, at retail, of the U.S. economy. Membership includes some 10,000 small businesses, including growers, wholesalers, retailers, importers and related organizations, located in communities nationwide and abroad. The industry produces and sells cut flowers and foliage, foliage plants, potted flowering plants, and bedding plants, which compete in the international marketplace.

#### ECONOMIC IMPORTANCE OF THE INDUSTRY

Our industries represent the fastest-growing part of American agriculture. The 2002 Census of Agriculture shows a 40 percent increase from 1997 to 2002. According to a 2004 study by the Economic Research Service of USDA, floriculture and nursery crops posted total sales in excess of \$15.3 billion, a value exceeded only by corn, soybeans, and vegetable crops. Nursery and floriculture crops represent about 15 percent of total U.S. crop receipts and are produced in every State in the United States.

#### AGRICULTURAL RESEARCH SERVICE (ARS)

##### FLORICULTURE & NURSERY RESEARCH INITIATIVE

ANLA and SAF developed and jointly submitted a detailed \$21 million proposal to Congress in 1998, establishing a coordinated Research Initiative for the environmental horticulture industry. We are pleased that Congress chose to recognize the growing importance and size of the industry in U.S. agriculture and has continued to increase the funding level of the Initiative to \$6 million in fiscal year 2005. We respectfully request a \$1 million increase in this amount, for a total of \$7 million in fiscal year 2006. This research is currently funding projects of importance to the floral and nursery industry, but its projects are also of importance to agriculture and society in general.

The additional funding would enhance the basic research efforts to address emerging imported insect and disease issues in the floral and nursery industry. It would also allow for the strengthening of ongoing research efforts—for instance, it would allow expansion of *Phytophthora ramorum* (also known as "Sudden Oak Death") research.

The Initiative represents a strong and cost-effective cooperation between industry, ARS scientists, and existing "university centers of excellence" with experience with the industry's needs. In tight fiscal times, the Initiative has a proven track record of results and return on investment. With continued support, crucial research—ranging from pest and disease management to mechanization to reduced chemical use to reduced runoff and environmental management—will not be diminished or on-going projects invalidated before their results can be brought to bear.

The continued funding allows us to move forward modestly on our crucial goals, which are:

- Protect the environment, including human health and safety through research leading to reduced use of chemicals and a reduction in runoff and other wastes.
- Enhance environmental remediation and cleanup, efforts on wetlands, post-industrial sites, air quality and other environmental areas through research on the ability of plants to reverse and mitigate environmental pollution.
- Improve the ability to prevent the spread of plant pests and diseases, in international trade.
- Contribute to the U.S. agricultural economy, and increase United States competitiveness in international markets by conducting research leading to improved nursery/greenhouse and floriculture products and production strategies, and by improving technology transfer of research results to benefit other U.S. agricultural sectors.
- Strengthen rural and suburban economies across the United States by providing improved crop production systems and technologies to growers to increase production efficiency.
- Maintain biodiversity through germplasm preservation enabling useful botanic traits to be transmitted to future generations.
- Enhance Americans' quality of life by increasing the availability and diversity of plants and flowers for the consumers' purchase and enjoyment.

The floriculture and nursery industry supports its own research, which is typically applied research rather than the basic, long-term research funded by ARS. The industry's private foundations fund an average of \$3 million annually on research.

However, the Federal Government also has a recognized role in funding research. The basic, long-term USDA-ARS funding, with projects at major ARS stations and land-grant universities across the country, has brought valuable new tools and help to a segment of agriculture otherwise underserved in the USDA budget. The research funded by the Initiative is of crucial importance to the floral and nursery industry—but it will also benefit other segments of agriculture, and will provide benefits to society at large.

The wave of the future will be found in increased industry-academic-government partnerships and cooperation. The money appropriated by Congress in fiscal year 2005 and previous years is already funding long-term basic research of critical importance to the industry, on projects chosen to compliment industry's privately funded efforts and to address long-term industry needs to:

- Help prevent and deal with the increasing import of foreign pests and diseases, which have a devastating impact on American agriculture and the environment—like *Ralstonia solanacearum* and *Phytophthora ramorum* are being studied and important projects underway will be lost, should funding not be continued.
- Reduce chemical usage
- Find ways to improve the post-harvest life of both flowers and plants
- Develop disease-resistant and pest-resistant flowers and plants to reduce the need for pesticide application in the environment
- Find ways to control root diseases
- Improve spray technology and pest control in greenhouses
- Manage nursery and greenhouse irrigation, fertilization and runoff
- Develop better tests leading to virus-free stock

The Agricultural Research Service, private industry, and universities have developed a strong program of coordination and cooperation to accomplish the goals of the Initiative. We ask Congress to continue and increase funding for this very important effort, which represents a new level of cooperation among industry, the Federal Government, and university researchers, to meet the needs of the floral and nursery industry. We were disappointed that the President's budget request for fiscal year 2006 failed to include the funding appropriated to the Initiative by Congress in fiscal year 2005 and previous years. Were the President's budget to be enacted by Congress, the current \$6 million would be cut back and valuable research efforts already in progress would be lost.

We believe that these Congressional appropriations reflect the voices of constituents to whom this research is of very high importance, and we request that funding be restored. Further, we respectfully request a \$1 million increase in the Floriculture and Nursery Research Initiative, through the Agricultural Research Service budget, for a total of \$7 million in fiscal year 2006.

We very much appreciate this opportunity to present a statement for the record, and will be pleased to answer any questions from the Subcommittee.

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#### 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 43 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 2006 funding priorities within the jurisdiction of the Agriculture, Rural Development, 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 \$10 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 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 commu-

nity'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.

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PREPARED STATEMENT OF THE AMERICAN SHEEP INDUSTRY ASSOCIATION

The American Sheep Industry Association (ASI) is a federation of state member associations representing over 67,000 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 building on the first growth in the U.S. Sheep Industry since 1990 through strengthening our infrastructure primarily through the programs of USDA, APHIS, Veterinary Services, Wildlife Services, and National Sheep Industry Improvement Center to fully funding critical predator control activities, national animal health efforts, and expanding research capabilities.

We appreciate this opportunity to comment on the USDA fiscal year 2006 budget.

RURAL DEVELOPMENT

The National Sheep Industry Improvement Center is critical to the industry and we fully support appropriations for the balance of the authorized spending of \$21 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.

We strongly support the appropriations level of fiscal year 2005 and urge the Subcommittee to continue funding at that level for fiscal year 2006.

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.

ANIMAL AND PLANT HEALTH INSPECTION SERVICE (APHIS)

*Scrapie*

The American Sheep Industry Association is very appreciative for the increased appropriations approved in fiscal year 2005 of \$17.5 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 \$19 million for scrapie eradication in the 2005 budget.

Scrapie is one of the families 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 3 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 \$19 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 the 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 2005 appropriations for Wildlife Services operations and methods development programs, particularly as related to livestock protection. We request the Committee to restore the funding levels that are decreased in the Administration's fiscal year 2006 budget and approve an increase to the livestock protection program of Wildlife Services operations of \$9 million. We encourage and support continued recognition in the appropriations process for fiscal year 2006 of the importance of aerial hunting as one of Wildlife Service's most efficient and cost-effective core programs. 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.

Federal funding available for livestock predation management by the Western Region program has remained relatively constant for approximately 16 years. WS program cooperators have been forced to fund more and more of the costs of the program. WS Western Region base funding has increased only 5.6 percent in the past 10 years while cooperative funding has increased 110 percent (see chart). This increase has primarily come from individual livestock producers, associations, counties, and States.

Additionally, new Federal mandates and program investments such as narrow-banding of radios, computer record keeping and compliance with the Endangered Species Act are requiring a larger portion of the already stretched budget and negatively impacting the amount of livestock predation management work that WS can conduct.

### *Economics of Predation Management*

The WS Western Region predation management program is one of the few government sponsored programs that is cost-shared, and this provides a significant benefit to both the producers and the government. Predation management, as conducted by the WS program, is cost effective and returns more money to the U.S. treasury than it costs. An analysis of 1998 data shows that for every dollar spent for predation management, \$3 worth of livestock were saved. In that same year the total investment in just the predation management program was \$20 million (\$9 million Federal and \$11 million cooperative funds); therefore, the full impact of this investment was a \$250 million net increase in economic activity. Using today's values for livestock, every Federal dollar spent on predation management results in \$10.84 in livestock saved, conservatively, \$97.5 million in livestock saved (\$52.5 million in calves, \$34 million in sheep and lambs, \$11 million in goats). When cooperative funding is included with Federal funds, the benefit cost ratio is \$4.87:1.

Type of Livestock	Number protected	Number saved from predators	Total value of livestock saved
Calves .....	2,500,000	70,000	\$52,500,000
Adult Sheep .....	2,000,000	82,000	8,200,000
Lambs .....	1,850,000	214,600	25,752,000
Goats .....	292,000	110,960	11,096,000

The value of livestock saved is much greater in rural economies than any other type of economic development. Livestock dollars, that would have been lost without adequate predation management, generate an additional three fold increase in non-agricultural economic activity in rural America. The total economic activity (both agriculture and non-agricultural sectors) generated by predation management is \$390.2 million.

#### *Emerging Issues*

Additional issues are emerging in the West that will challenge the Federal WS program.

—*Wolves*.—Recently a Federal judge struck down the threatened species status for wolves in the Western Distinct Population area eliminating the ability of private land ranchers to deal with wolves, thus requiring additional government intervention.

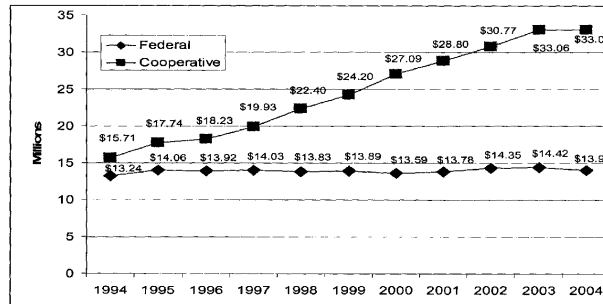
—*Wildlife*.—The declines in predation management that have already occurred, and that will continue to occur without additional Federal funding, have resulted in negative impacts on many native wildlife populations. Several western States currently need to fund predation management to prevent the listing of sage grouse as an endangered species or to recover mule deer herds.

Without additional Federal funding to support existing western livestock protection programs, predation management expertise will be lost and livestock grazing in some areas will be jeopardized. Rural economies need this support, and the return for the investment exceeds the requested assistance.

ASI urges the Subcommittee to provide USDA, APHIS, WS, Western Region an additional \$9 million of Federal funds for livestock protection. At a nominal 16 percent tax rate on the economic activity generated by the investment would result in over \$62 million to the Treasury.

Total Livestock Protected .....	6,642,000
Total Value of Livestock Saved (Using \$10.84:1 Ratio) .....	\$97,548,000
Value incl. Multiplier .....	\$390,192,000
16 percent Nominal Tax rate .....	\$62,430,720

CHART 1. TEN YEAR COMPARISON—WR FEDERAL BASE AND COOPERATIVE FUNDS  
(INCLUDING LIVESTOCK PROTECTION)



#### FARM AND FOREIGN AGRICULTURAL SERVICES

##### *Foreign Agricultural Service (FAS)*

The sheep industry participates in FAS programs such as the Market Access Program (MAP), Quality Samples Program (QSP) and the Foreign Market Development Program (FMD). 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 increased dramatically with approximately 60 percent of U.S. production now competing overseas.

##### *Risk Management Agency (RMA)*

Through ASI, the U.S. sheep industry is working with RMA on the development of "Livestock Risk Protection" for lamb (LRP-Lamb), a price-risk insurance product to help sheep producers manage the primary factor in their operation's financial exposure. The sheep industry is very anxious to begin a pilot project with LRP-Lamb

with the goal of providing a market-based, user-friendly risk management tool that effectively and efficiently protects against price downswings, providing producers and their lenders with a critically needed financial management tool.

We note that the Administration's budget request supports the expanded use of crop insurance and recommends an increase in the crop insurance budget. While we appreciate the Administration request focusing on the traditional crops and crop insurance, the livestock sector and the sheep industry in particular will be well-served to have the opportunity to participate in crop insurance programs. ASI urges the Subcommittee to support the President's request and recommend additional funding especially in the "Delivery and other Administrative Expenses" to help cover the research and developmental costs to design creative new programs for the livestock sector as well as in the "Administrative and Operating Expenses" category to enable RMA to deliver these products, including appropriate maintenance expenses.

ASI understands and supports USDA's goal to provide innovative price protection products for livestock producers. The 2000 Crop Insurance Reform Act authorized funding for fiscal year 2006 at \$20 million and if necessary, we recommend the Subcommittee to approve an increase in the dollars allocated for each year by a nominal amount to provide pilot program monies for LRP-Lamb while continuing to adequately fund pilot programming for cattle and swine.

#### 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. In order for the sheep industry to continue to be more globally competitive, 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 note the President's request for fiscal year 2006 includes \$7.5 million for BSE research. 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. As the Subcommittee is aware unlike scrapie which transmits from sheep to sheep within flocks, BSE doesn't transmit from cow to cow in the absence of recycled protein. This difference between BSE and scrapie transmission explains the need for continuing to concentrate research efforts on scrapie detection and control methods. 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.

Since 2001, Congress has had the foresight to appropriate \$764,195 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 and Ovine Progressive Pneumonia virus (OPPV). Scrapie remains endemic within the United States; however ongoing research efforts continue to provide tools necessary for control and eventual eradication. OPPV causes life-long infection which continues to have significant economic impact for U.S. Sheep producers. Very promising on-going genomic research efforts are directed at early determination of which sheep are susceptible to disease and responsible for economic losses. Early detection of susceptibility and resistance will lead to practical intervention strategies. We respectfully request the Subcommittee to recommend the restoration of \$764,195 to ADRU for the fiscal year 2006 budget.

We also urge the Subcommittee to recommend the restoration of \$489,183 for Malignant Catarrhal Fever (MCF) at the ARS/ADRU in Pullman for the fiscal year 2006 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 and economic losses caused by 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 Johne's disease in sheep should receive more attention at the National Animal Disease Research Center (NADC) with an emphasis on diagnostics.

We note that the President's fiscal year 2006 includes an increase of \$2.5 million in the "Product Quality/Value Added" category for "Bioenergy and Biobased Products" research. Within this category, the budget request recommends a portion of these funds be used for the development of "technologies leading to new value added products from food animal byproducts". We agree that this is an important area of research and urge the Subcommittee to recommend that a significant proportion of funds for this category, as supported by ARS, be directed toward research on wool at the molecular level focusing on flame retardation, and enhancement of fiber properties through enzyme treatments targeting military needs and other niche consumer applications.

#### *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 is administered as a national program "NRSP-7" cooperatively with FDA/CVM to provide research information for the approval process on therapeutic drugs that are needed. 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. We appreciate the Administration's request of \$1,000,000 for this program in the USDA budget, and urge the Subcommittee to recommend that it be funded at least at this level to help meet the needs of the animal industries. FARAD provides veterinarians the ability to accurately prescribe products with appropriate withdrawal times protecting both animal and human health.

On-going research in wool is critically important to the sheep and wool industry. ASI urges the Subcommittee's support to restore and continue the CSREES special grants program for wool research at least to the fiscal year 2005 level of \$300,000 for fiscal year 2006.

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 to continue funding at the fiscal year 2005 level of \$574,000 for 2006.

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 continue the funding for this program to \$1,000,000 for fiscal year 2006.

*Grants to Train Farm Workers in Technologies and to Train Farm Workers in Specialized Skills Necessary for Higher Value Crops*

The shortage of skilled sheep shearers has increasingly become a problem for U.S. sheep producers and strong interest has been expressed in utilizing this grant program through USDA as authorized in section 6025 of the 2002 Farm Security and Rural Investment Act. Grant funds are authorized; however appropriations would be necessary for the program to allow the U.S. sheep industry the opportunity to apply for funds to train U.S. workers as sheep shearers.

PREPARED STATEMENT OF THE AMERICAN SOCIETY FOR MICROBIOLOGY

The American Society for Microbiology (ASM) appreciates the opportunity to submit testimony on the fiscal year 2006 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. 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 plant, animal and human 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 ensuring food availability, quality and safety, as well as a competitive agricultural economy. U.S. 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. ASM urges Congress to provide increased funding for research programs within the USDA in fiscal year 2006.

Microbiological research in agriculture is vital to understanding and finding solutions to foodborne diseases, endemic diseases of long standing, new and emerging plant and animal diseases, development of new agriculture products and processes and addressing existing and emerging environmental challenges. 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. According to the USDA Economic Research Service (ERS) report, *Agricultural Research and Development: Public and Private Investments Under Alternative Markets and Institutions*, the rate of return on public investment in basic agricultural research is estimated to be between 60 and 90 percent.

*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 and the environment 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, NRI was able to fund only 11 percent of the grant proposals it received, while agencies such as the National Institutes of Health (NIH) and the NSF fund between 20–30 percent. ASM urges Congress to fund NRI at the Presi-

dent's requested level of \$250 million in fiscal year 2006. NRI's requested increase comes from the proposal to shift CSREES Integrated Activities, such as food safety and water quality, making up \$40 million of the proposed \$70 million increase, and to reallocate funds from the CSREES formula grants to the NRI in the administration's effort to eliminate the formula grant programs by fiscal year 2007. If new funds cannot be found, ASM supports the proposed 50 percent reduction of formula grant funds, part of which will be redirected to the NRI, and the remaining 50 percent be phased out over a 3-year period rather than a 1-year period of time, giving the institutions currently receiving formula grants time to adjust. ASM supports the Administration's effort to increase competitively awarded funding mechanisms and believes that competitive grants ensure the best science.

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 and products. ASM supports the President's requested level of \$250 million for NRI.

#### *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. ASM supports the President's request for this initiative within the USDA budget of \$376 million for fiscal year 2006, an increase of \$78 million over fiscal year 2005. Of this total, \$59 million is for the completion of the USDA's National Centers for Animal Health in Ames, Iowa. This funding will go towards:

Enhancing food defense by:

- Expanding the Food Emergency Response Network (FERN) with participating laboratories including implementation of the Electronic Laboratory Exchange Network (eLEXNET) and an electronic methods repository;
- Upgrading laboratory capabilities to quickly identify chemical and radiological threats to the food supply; and
- Strengthening research on diagnostic methods for quickly identifying various pathogens and contaminated foods and innovative biosecure foods.

Enhancing agriculture defense by:

- Strengthening research on rapid response systems for bioterror agents, improved vaccines, and identifying genes affecting disease resistance;
- Expanding the National Plant Disease Recovery System to ensure disease resistant seed varieties are continually developed and made available to producers in the event of a natural or intentional catastrophic disease or pest outbreak;
- Substantially expanding the Regional Diagnostic Network with links to the National Agricultural Pest Information System;
- Establishing a Higher Education Agrosecurity Program for 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;
- Establishing connectivity with the Department of Homeland Security (DHS) integration and analysis to improve biosurveillance of pests and diseases in plants;
- Increasing activities to safeguard plants from intentional threats to spread pests and diseases;
- Strengthening the system to track biological disease agents;
- Improving USDA's ability to respond to a disease outbreak, including increasing supplies of vaccines for the National Veterinary Stockpile;
- Providing funds for completing the consolidated state-of-the-art BSL-3 animal research and diagnostic laboratory at Ames, Iowa; and
- Improving biocontainment safeguards at the Foreign Disease Weed Science Laboratory in Frederick, MD.

ASM believes there should be greater emphasis on research in the Food and Agriculture Defense 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.

#### *Food Safety*

Each year foodborne pathogens cause 76 million human illnesses, 325,000 hospitalizations, 5,200 deaths, and an unknown number of chronic conditions, according to the CDC (ERS: Economics of Foodborne Disease: Feature, 2005). The USDA's Economic Research Service (ERS) estimates that the medical costs, productivity

losses, and costs of premature deaths for diseases caused by just five foodborne pathogens exceeds \$6.9 billion per year in the United States. The USDA plays a vital 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. The most significant outcome of food safety research is to provide greater public health protection which, in part, can be measured by reductions in the incidence of foodborne illnesses. The Centers for Disease Control and Prevention reports that the 2003 incidence of illness caused by four major foodborne pathogens exceed the levels outlined in the National Health Objectives for 2010 (CDC: MMWR, April 30, 2004). Although increases are requested for the Food and Agriculture Defense Initiative and the Food Safety and Inspection Service, we note that a reduction in funding for food safety within ARS has been proposed, and level funding is requested within CSREES. Without a sustained significant increase in the level of food safety research funding, meeting the National Health Objectives for 2010 in all likelihood will not become reality. ASM recommends a substantial increase in food safety research, which is essential to ensure the protection of the Nation's health.

#### *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. Determining the function of the sequenced genomes (functional genomics) and analyses of the data (bioinformatics) now need investment for new management techniques and tools. USDA plays an important role in coordinating and participating in inter-agency workgroups on domestic animal, microbial, and plant genomics. Access to genomic information and the new tools to utilize it have implications for virtually all aspects of agriculture. An increase of \$11 million has been requested for the NRI in fiscal year 2006 to support investments in the sequencing and annotation of the maize and swine genomes. A \$9.2 million increase in animal and plant genomics research within the ARS has been requested. ASM supports the requested increases for the genomics initiative and USDA.

#### *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 and opportunistic plant pathogens and soil inhabiting microorganisms can be causal agents of infection and disease in humans. For emerging diseases to be effectively detected and controlled the biology, ecology, and mechanisms for pathogenicity of the causal pathogens must be understood and weaknesses exploited to limit their impact. This research will help address the risk to humans from emerging diseases and opportunistic pathogens, and will ensure the safety of plant and animal products. Additionally, expanded research is needed to accelerate the development of information and technologies for the protection of United States agricultural commodities, wildlife and human health against emerging 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; the USDA has expanded monitoring to include the Collaboration on Animal Health Food Safety Epidemiology (CAHFSE) program. USDA support for these projects 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. 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 of leadership on food, agriculture, and natural resources, based on sound public policy, the best available science, and efficient management should be supported. 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 by increasing funding for agricultural research programs, including providing \$250 million for NRI in fiscal year 2006.

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.



## SCHEDULE OF FEDERAL AWARDS—2005

Federal Grantor/Pass-through Grantor/Program Title	Cost Center	Federal CDA Number	Program or Award Number	Grants Receivable 1/1/2005	Receipts or Revenue Recognized	Disbursements/Expenditures	Grants Receivable 12/31/2005
MAJOR PROGRAMS: Resident Postdoctoral Research	783	93.28	1,157,764.00	83,055.50	.....	.....	83,055.50
Total Major Programs	.....	.....	1,157,764.00	83,055.50	.....	.....	83,055.50
OTHER FEDERAL ASSISTANCE:							
HHS:							
NIGMS—MARC	789	93.88	431,300.00	155,195.00	.....	.....	155,195.00
DNA Repair and Mutagenesis	457	93.39	25,000.00	25,000.00	.....	.....	25,000.00
Candida and Candidiasis	434	93.12	10,000.00	10,000.00	.....	.....	10,000.00
ASM Conf New phage Biology	430	93.86	10,000.00	10,000.00	.....	.....	10,000.00
ASM Conf Cell Cell	470	93.86	18,000.00	17,000.00	.....	.....	17,000.00
ASM Conf Signal Transduction	429	93.86	20,000.00	20,000.00	.....	.....	20,000.00
ASM Conf Viral Immune Evasion	428	93.86	20,000.00	.....	.....	.....	.....
National Science Foundation:							
Plant Biotechnology	678	47.07	15,000.00	.....	.....	.....	.....
Pathogens	697	47.07	110,000.00	.....	.....	.....	.....
Cell-Cell Communications	470	47.07	5,000.00	5,000.00	.....	.....	5,000.00
Colloquium Genome Annotation	672	47.07	63,408.00	2,421.00	.....	.....	2,421.00
U.S. Department of Energy:							
DNA Repair and Mutagenesis	457	81.05	20,000.00	20,000.00	.....	.....	20,000.00
Prokaryotic Development	472	81.05	10,000.00	.....	.....	.....	.....
Geobiology	675	81.05	15,000.00	.....	.....	.....	.....
Microbial Ecology and Genomics	676	81.05	25,000.00	.....	.....	.....	.....
Multicellular Cooperation	671	81.05	15,000.00	.....	.....	.....	.....
Integrating Metabolism	477	81.05	10,000.00	10,000.00	.....	.....	10,000.00
Beyond Microbial Genomics	691	81.05	94,520.00	.....	.....	.....	.....
USDA: Conf Salmonella Pathogenesis	421	10.21	10,000.00	.....	.....	.....	.....
EPA:							
Microbial Ecology	676	66.50	20,000.00	.....	.....	.....	.....
Infectious Disease GI Tract	670	66.61	50,000.00	.....	.....	.....	.....
Total Other Awards	.....	.....	997,228.00	274,616.00	.....	.....	274,616.00
Total Federal Awards	.....	.....	2,154,992.00	357,671.50	.....	.....	357,671.50

## PREPARED STATEMENT OF THE AMERICAN SOCIETY FOR MICROBIOLOGY

The American Society for Microbiology (ASM), the largest single life science society with over 43,000 members, is pleased to submit a statement on the fiscal year 2006 appropriation for the Food and Drug Administration (FDA). The proposed fiscal year 2006 budget request of \$1.9 billion for the FDA represents a 4.5 percent increase over the fiscal year 2005 appropriation. Much of the \$81 million dollar increase is allocated to defending the Nation's food supply and further improving FDA evaluation of medical devices and health care products.

The ASM recommends a 6 percent increase for FDA's budget in fiscal year 2006. FDA is the principal guardian of consumer and medical product safety in the United States. FDA regulations encompass human and veterinary drugs, biological products, cosmetics, medical devices, products that emit radiation, and a wide range of food products. Increased funding will strengthen FDA's responsibilities to ensure safe and effective medical products, food safety, accurate consumer product information and safe and effective drug and device evaluations.

## NATIONAL SECURITY AND THE FDA

FDA researchers and field officers are collaborating with other Federal, State, and local agencies to implement the Bioterrorism Act of 2002. The fiscal year 2006 budget proposes \$244 million for FDA activities to prevent or mitigate bioterrorism, including \$180 million for food defense. Protecting the Nation's food supply from intentional contamination is an ongoing responsibility of the FDA, which now coordinates these efforts with the U.S. Department of Agriculture (USDA) and the Department of Homeland Security (DHS) under the Homeland Security Presidential Directive (HSPD-9) of 2004. Last September, the FDA, DHS, and USDA signed an agreement with the National Association of State Departments of Agriculture to improve cooperation among all levels of government when responding to food and agricultural emergencies, with technical expertise provided by the Federal entities.

Two-thirds of the proposed funding increase would enhance the multi-agency Food Emergency Response Network (FERN), a relatively new nationwide consortium of Federal and State laboratories capable of testing thousands of food samples for biological, chemical, or radiological agents. The network, which continues to add laboratories, incorporates detection and reporting systems that are more comprehensive and better coordinated than previous surveillance and monitoring systems. A variety of FDA programs address the network's objectives of prevention, preparedness, response, and recovery in the event of terrorism. Last year FDA personnel, for instance, conducted training seminars on optimal detection methods for the pathogens *Bacillus anthracis* and *Salmonella*. If approved, the fiscal year 2006 budget request will help elevate FERN's surge capacity, as well as add nineteen additional FDA funded State laboratories to the six funded in fiscal year 2005, joining the ten laboratories already in place.

Data collected from FERN activities are quickly available across the country through the Electronic Laboratory Exchange Network (eLEXNET), one of several surveillance information systems supported by the FDA. Together, the FERN and eLEXNET networks are FDA's contribution to the National Biosurveillance Integration System, developed by the DHS to coordinate health, environment, and intelligence information systems against terrorist threats. Part of the requested fiscal year 2006 increase for food security would underwrite another FDA component as well, the Emergency Operations Network Incident/Management System (EON IMS) managed by the agency's Office of Crisis Management. Its mission is to integrate multiple electronic data systems (e.g., FERN, eLEXNET, Epidemic Information Exchange) into formats conducive to rapid decision making during crisis situations. Among its components is a Geographic Information System (GIS) for mapping and impact assessments. Last year, the system was pilot tested successfully during several outbreaks of foodborne salmonellosis in 15 States.

Basic and applied research projects linked to food defense also would benefit from the proposed fiscal year 2006 increase, in particular those useful in prevention or detection of pathogenic bioagents in food supplies. Subsequent discoveries undoubtedly will benefit the understanding of infectious diseases in general. Among the areas included in the FDA research agenda are population susceptibility factors, new food security technologies to protect particularly vulnerable foods, tamperproof packaging, rapid test methodologies to strengthen a currently overloaded field testing system, and innovative sensor technologies to detect bioagents in consumer products.

Within the FDA mission to protect public health, the agency reinforces the Nation's drug preparedness against bioterrorism, by evaluating and approving vaccines and therapeutics included in the Strategic National Stockpile. Among the

counterterrorism therapeutics evaluated by the FDA are improved smallpox vaccines and treatments for anthrax infections. As with its other national security efforts, the FDA cooperates with other Federal agencies in development, production, and approval of critical vaccines and therapeutics to be used against possible biological weapons. The agency also informs the public with science based updates on candidate countermeasures, explaining the benefits and possible side effects of their use.

After September 11, 2001, the FDA assessed the Nation's food production, transport, and import systems for vulnerability to intentional release of microbial, chemical, or radiological agents. The FDA subsequently hired 655 new employees for its Office of Regulatory Affairs (ORA). Most were given food safety assignments, many at border or port entry locations or otherwise dealing with imports. The ORA's thirteen laboratories analyze more than 41,000 product samples annually, often from inspected import shipments. The number of FDA regulated products imported to the United States each year has exploded from about 1.5 million in 1992 to nearly 10 million today. Under the Bioterrorism Act of 2002, new regulations effective December 2004 require the registration of food facilities, both foreign and domestic, that manufacture, process, or hold food for human or animal consumption in the United States. The agency expects more than 400,000 facilities to register. The new regulations also require prior notification of imported food shipments, an estimated 25,000 notifications daily, to help alert FDA inspectors to suspicious or otherwise questionable shipments.

#### FOOD SAFETY AND PUBLIC HEALTH

The FDA's Center for Food Safety and Applied Nutrition (CFSAN) oversees our entire food supply, excluding meat, poultry, and some egg products regulated by USDA programs. According to the FDA, about \$417 billion worth from U.S. agriculture and an additional \$49 billion imported from worldwide sources, pass through 60,000 businesses that manufacture, process, and store and transport food products. Given the size and complexity, there are multiple possibilities for negligent or accidental contamination. The Centers for Disease Control and Prevention (CDC) estimates that foodborne microbial diseases cause approximately 76 million illnesses, 325,000 hospitalizations, and 5,000 deaths in the United States each year. In 2000, the USDA's Economic Research Service (ERS) estimated the annual cost from just five bacterial foodborne pathogens as \$6.9 billion, including medical costs, lost productivity, and premature death. About one-third of total costs are the result of illnesses in children under the age of ten. Working to update costs, the ERS now calculates that 1.4 million cases due to *Salmonella* alone cost \$3 billion annually.

In the 1990s, the FDA boosted food safety efforts through numerous initiatives and new regulations, after several outbreaks of foodborne illnesses related to *Escherichia coli* O157:H7, *Listeria* and *Salmonella* raised public concerns about food safety. Federal statistics indicated a 20 percent decline in the incidence of several foodborne diseases from 1997 to 1999. Today CFSAN personnel both instigate and implement improved regulations, among them the requirement that more production plants adopt Hazard Analysis and Critical Control Points (HACCP) procedures that prevent problems at the most contamination prone steps in a production process. The center also participates in nationwide surveillance networks, such as FoodNet and PulseNet, that detect disease outbreaks. Prevention goals guide many of the CFSAN programs; e.g., a 50 percent reduction in all salmonellosis cases by 2010.

While the FDA steadily makes advances in preserving food safety, new challenges routinely face agency personnel. The volume and diversity of imported foods continue to expand rapidly, creating new food types and sources to be regulated and evaluated. The dramatic growth of the dietary supplements industry (already \$17 billion in 2000) creates additional demand on FDA resources. The U.S. population continues to age, adding more individuals most susceptible to foodborne illnesses. Scientists are identifying new foodborne pathogens and other contaminants, as well as new routes of transmission through the food chain. Bioengineering of agricultural products and irradiation of processed foods will continue to push FDA oversight duties into unique directions. Most recently the FDA is confronting the economic, political, and public health ramifications of a group of diseases known as transmissible spongiform encephalopathies, thought to be associated with contaminated meat products.

The most controversial and well known of these is bovine spongiform encephalopathy (BSE), more commonly called "mad cow disease." Fifteen years ago, after cases of BSE in Great Britain were linked to eating contaminated beef, the FDA established its first anti-BSE regulations through controls on live cattle im-

ports. In 1997, the agency banned the use of mammalian animal products in ruminant animal feed, to prevent the spread of BSE. Thus far, there has been one proven case of a BSE-infected, Canadian raised cow in this country, in late December 2003. Thirty FDA employees along with State inspectors rapidly mobilized to trace products from the cow to twenty-two facilities, retrieving meat materials from a range of businesses in the meat processor pipeline. During 2004, the agency further strengthened its safeguards against BSE with additional animal feed restrictions, recordkeeping requirements for meat growers and processors, and scientific studies of rapid diagnostic kits that detect animal protein in ruminant feed. The agency also increased its inspections of feed mills and renderers, expecting to conduct 2,800 visits itself and process information from an additional 3,800 State based inspections. Thus far, no additional case of BSE contamination has been detected in this country.

#### CONSUMER PRODUCT SAFETY, MEDICAL DEVICES AND PUBLIC HEALTH

Recently publicized problems with some FDA approved prescription drugs refocused attention on the extent to which FDA regulatory activities affect our daily lives. In addition to the Nation's food supply, the agency evaluates the safety and efficacy of human and veterinary drugs, biological products such as blood and human vaccines, medical devices, and products that emit radiation, as well as cosmetics. The agency rigorously tests drugs and devices in its laboratories, ensures that products are truthfully and clearly labeled for users, and conducts post-market surveillance on approved products. In 2003, for example, the agency handled more than 370,000 reports of adverse effects related to use of pharmaceuticals, a third of which were serious in nature. In fiscal year 2004, the FDA approved 534 new and generic drugs and biological products. The fiscal year 2006 budget proposes significant increases for the FDA's Human Drugs and Biologics program and for the Office of Drug Safety. A \$19 million increase is proposed for the human drugs program and a \$7 million increase is requested for the biologics program. Increased resources will in part be used to access a wide range of databases containing information related to drug safety. The fiscal year 2006 budget also proposes an increase of \$12 million for the safety and efficacy of medical devices. The increase will help improve the device application review process as well as post-market surveillance efforts. Collaboration between the FDA and the National Institutes of Health will develop standards for electronic reporting of adverse events in clinical trials, to eliminate inferior products much earlier in their development.

ASM appreciates the opportunity to comment on the fiscal year 2006 budget request which supports science based FDA activities that will ensure both homeland security and public health.

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#### PREPARED STATEMENT OF THE CALIFORNIA INDUSTRY AND GOVERNMENT CENTRAL CALIFORNIA OZONE STUDY COALITION

Mr. Chairman and Members of the Subcommittee: On behalf of the California Industry and Government Central California Ozone Study (CCOS) Coalition, we are pleased to submit this statement for the record in support of our fiscal year 2006 funding request of \$500,000 from the Department of Agriculture for CCOS. These funds are necessary for the State of California to address the very significant challenges it faces to comply with new national ambient air quality standards for ozone and fine particulate matter. The study design incorporates recent technical recommendations from the National Academy of Sciences (NAS) on how to most effectively comply with Federal Clean Air Act requirements.

First, we want to thank you for your past financial support of the Central California Ozone Study (CCOS) and California Regional PM<sub>10</sub>/PM<sub>2.5</sub> Air Quality Study (CRPAQS). Your support of these studies has been instrumental in improving the scientific understanding of the nature and cause of ozone and particulate matter air pollution in Central California and the nation. Information gained from these two studies is forming the basis for the 8-hour ozone, PM<sub>2.5</sub>, and regional haze State Implementation Plans (SIPs) that are due in 2007 (ozone) and 2008 (particulate matter/haze). As with California's previous SIPs, the 2007-2008 SIPs will need to be updated and refined due to the scientific complexity of our air pollution problem. This request would fund the extension of CCOS to address important questions that won't be answered with results from previously funded research projects.

To date, our understanding of air pollution and the technical basis for SIPs has largely been founded on pollutant-specific studies, like CCOS. These studies are conducted over a single season or single year and have relied on modeling and analysis of selected days with high concentrations. Future SIPs will be more complex than

was anticipated when CCOS was originally designed and involve new technical challenges. The National Academy of Sciences (NAS) is now recommending a weight-of-evidence approach that will involve utilizing more broad-based, integrated methods, such as data analysis in combination with seasonal and annual photochemical modeling, to assess compliance with Federal Clean Air Act requirements. This will involve the analysis of a larger number of days and possibly an entire season. In addition, because ozone and particulate matter are formed from some of the same emissions precursors, there is a need to address both pollutants in combination, which CCOS will do.

Consistent with the new NAS recommendations, the extended CCOS study will involve the conduct of corroborative analyses with the extensive data provided by past studies, advance the state-of-science in air quality modeling, and improve our understanding of multi-pollutant, multi-year air pollution. In addition, it will facilitate continuous data collection, using an expanded monitoring network, over a three-year period. Access to data over a multi-year timeframe will enable us to perform seasonal and annual modeling of all pollutants. It will also allow us to consider year-to-year variations in air quality. The study will incorporate further refinements to emission inventories, develop observation-based analyses with sound theoretical bases, and include the following five general components:

Conducting weight-of-evidence data analyses .....	2006–2008
Developing an enhanced monitoring network .....	2006–2007
Making emission inventory improvements .....	2006–2010
Collecting enhanced monitoring data .....	2007–2009
Performing seasonal and annual modeling .....	2008–2011

As with CCOS and CRPAQS, Policy and Technical Committees consisting of representatives from Federal, State and local governments, as well as private industry, would direct the new study elements. Under CCOS and CRPAQS, these committees set landmark examples of collaborative environmental management. The proven methods and established teamwork provide a solid foundation for this study.

*For Fiscal Year 2006, our Coalition is Seeking Funding of \$500,000 From the Department of Agriculture/CSREES in Support of CCOS.*—Domestic agriculture is facing increasing international competition. Costs of production and processing are becoming increasingly more critical. With the current SJV PM<sub>10</sub> SIP and the upcoming ozone and PM<sub>2.5</sub> 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 on-field 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 funding request is for: (1) Development and evaluation of methods and equipment to reduce on-field particulate matter emissions, (2) Evaluation of baseline livestock emissions (VOCs, PM<sub>10</sub>, ammonia) and effective methods to reduce these emissions, (3) Development of livestock facility emissions models that are based on individual processes emissions, as recommended by the National Academy of Sciences, and (4) Study of agricultural VOC emissions from pesticide application. This work will help answer questions that will be relevant to farmers and regulators throughout the Nation.

Thank you very much for your consideration of our request.

#### PREPARED STATEMENT OF THE CITY OF AVONDALE, ARIZONA

Chairman Bennett, Ranking Member Kohl, thank you for allowing me to testify in support of \$3 million in funding for the expansion of the City of Avondale's waste water treatment facility through the Rural Development Agency's Water and Waste Disposal Grants program in the fiscal year 2006 Agriculture, Rural Development and Related Agencies Appropriations bill.

Mr. Chairman, let me state it bluntly—we are in a desperate situation. The City of Avondale has experienced exponential growth as the sixth fastest growing city in the second fastest growing state in the Nation. In 1990, the population was approximately 16,800. Today, the City has nearly tripled in size to more than 50,000 residents. It is estimated that the population will almost double to 80,000 by 2010. In

1995, it was estimated that the City's population growth would not reach 80,000 until 2020. This rapid and sudden expansion, in conjunction with the city's economic malaise, has placed our finances at a premium to meet our needs to provide water and wastewater capacity that serves the expected population growth. As you may know, Avondale has a majority of minority races (overwhelmingly Hispanic), and a population that is moderate to low-income. Fourteen percent of Avondale's residents live at or below the poverty line.

The City of Avondale has exhausted all state and local funding options prior to seeking Federal assistance. In fact, in 2000, the city passed a one-half of one cent sales tax to fund street, water and sewer projects. The City used this funding source for the first expansion of the Wastewater Treatment Plant, which was completed in January 2003. The previous 2 years economic downturn, resulting in declining sales tax revenue, has left the city with limited local funds for the next expansion of the Treatment Plant, and the City does not have voter authorization to issue bonds required by the State Revolving Fund.

As you know, the EPA mandates that current treatment facilities must be expanded once they reach 80 percent capacity. Even with the recently completed expansion of the facility, it is estimated that the Avondale facility will reach over 80 percent by 2008. Knowing that time and money is needed to design such a large project, the City has begun the necessary preliminary permitting, environmental and pre-design processes in anticipation of the master plan and construction, which will be aided by the \$850,000 of Federal funds received in fiscal year 2004 and 2005. With Federal funding, the city will increase the current 6.4 MGD capacity of the plant to 10 to 12 MGD, while also increasing the capacity of the plant to reuse treated water for irrigation or recharge purposes, and allow the plant to treat effluent to supplement the city's potable water supply.

Furthermore, under the Clean Water Act's outdated formula Arizona ranks last in per-capita and per-need funding under the State Revolving Fund that is designed to help communities finance infrastructure projects. This funding inequity has created problems for communities like Avondale that have limited means but that must still meet Federal water quality standards. The only fair way to rectify this inequity would be for the Federal Government to provide the necessary funds to complete the mandated expansion of the facility.

It is important to note that the City of Avondale's improved and expanded wastewater treatment facility will do more than provide wastewater services to the residents. It will also provide treated effluent that will dramatically reduce its need for potable water supplies. The expansion will also enable the City to better meet its state-mandated 100-year water supply by recharging the remaining effluent into the ground for future use, allowing nature to further purify the water in order for it to be used for future potable purposes.

Not only will this expansion allow the City to remain in compliance with strict local, state and Federal regulatory requirements, it will also add treatment processes that will allow the City to reuse the treated wastewater for irrigation purposes, thereby recharging this valuable resource. Recharging treated wastewater will allow the City to reduce its dependence on imported water sources such as the Colorado River, which benefits all municipalities relying on the river.

Finally, it is important to note that \$850,000 included in the last 2 fiscal years was a critical first step because the waste water plant is reaching full capacity. However, it is critically important to keep this project on an optimal funding schedule to ensure the project is completed before the treatment plant reaches maximum capacity. With that in mind, we can utilize \$3 million in fiscal year 2006 through the Rural Development Agency's Water and Waste Disposal Grants program toward completion of this \$20 million project of which the City will provide 53 percent of the funding.

*This Project Serves a Broad Public Purpose in Three Ways.*—(1) it will allow the City to continue to provide the necessary sewer service for our residents; (2) will benefit the rest of Arizona by helping to cut down on the amount of scarce water the City uses, because the plant also treats the water to allow it to be re-used for irrigation purposes; and, (3) will allow the city to treat the effluent to bring it up to Class A standards and to recharge it into the ground to be withdrawn later as potable water.

Therefore, I ask that you support the City's request for \$3 million for the expansion of our waste water treatment plant through the Rural Development Agency's Water and Waste Disposal Grants program in the fiscal year 2006 Agriculture, Rural Development and Related Agencies Appropriations bill.

PREPARED STATEMENT OF THE COALITION ON FUNDING AGRICULTURAL RESEARCH  
MISSIONS

Dear Mr. Chairman, Ranking Member Kohl and Members of the Subcommittee: The Coalition on Funding Agricultural Research Missions (CoFARM) appreciates the opportunity to submit testimony on the fiscal year 2006 appropriation for the United States Department of Agriculture. CoFARM is a coalition of 23 professional scientific organizations with 130,000 members dedicated to advancing and sustaining a balanced investment in our Nation's research portfolio. CoFARM understands the challenges the Senate Agriculture Appropriations Subcommittee faces with this year's (fiscal year 2006) tight agriculture budget. We also recognize that the Agriculture Appropriations bill has many valuable and necessary components, and we applaud the efforts of the Subcommittee to fund mission-critical research through the USDA-Cooperative State, Research, Education and Extension Service. We are particularly grateful to the Subcommittee for funding the NRI at \$180 million in fiscal year 2005. Below we have highlighted recommendations for the fiscal year 2006 appropriations cycle.

*National Research Initiative.*—CoFARM strongly endorses the President's proposed fiscal year 2006 budget of \$250 million for the National Research Initiative Competitive Grants Program (NRI). According to the USDA's Economic Research Service (Agricultural Economic Report Number 735), publicly funded agricultural research has earned an annual rate of return of 35 percent. This rate of return suggests that additional allocation of funds to support research in the food and agricultural sciences would be beneficial to the U.S. economy.

*NRI Integrated Research.*—CoFARM requests that any new monies appropriated for the NRI, as requested by the administration, allow the Secretary the discretion to apply up to 30 percent towards carrying out the NRI integrated research, extension and education competitive grants program.

*Indirect Costs.*—CoFARM applauds the administration's proposal to eliminate the indirect cost cap on the NRI, set at 20 percent for fiscal year 2005, which will broaden its appeal by putting the NRI on equal footing with other Federal competitive grants programs such as those of NSF and NIH.

*Formula Funding.*—CoFARM believes that cuts to and proposed elimination of CSREES' formula-funded research programs can be detrimental to the entire USDA research portfolio. Because of their timing and potential regional and intra-state impacts, much of the infrastructure needed to conduct competitively funded research would be compromised if formula funds were to be cut. To cut Hatch, McIntire-Stennis, and Animal Health & Disease in a single fiscal year would irreparably harm those projects. This would mean a huge and potentially damaging loss of research data nationwide.

*Food and Agriculture Defense Initiative.*—CoFARM supports the request of the administration that \$30 million be provided for the Homeland Security Program to facilitate protecting America's agricultural production systems. Recent security threats facing America require new and expanded agricultural research to protect our Nation's natural resources, food processing and distribution network, and rural communities that will secure America's food and fiber system.

A balance of funding mechanisms, including competitive and formula funding, is essential if the capacity of the United States to conduct agricultural research, both basic and applied, is to be maintained and the country is to continue to improve crop and livestock quality, and the processes that deliver safe and nutritious food products from farm to table while protecting and enhancing the Nation's environment and natural resources. In order to address these challenges and maintain our position in an increasingly competitive world, we must continue to support research programs funded through CSREES.

Past investments in agricultural research have yielded many breakthroughs in American agricultural productivity, including these few Hatch and NRI funded research success stories:

- Pennsylvania researchers are developing rapid diagnostic tests to curb avian influenza, a disease that could cripple the state's \$700 million poultry industry.
- University of Maryland researchers have created an advanced machine vision technology to detect bone fragments and foreign objects in meat.
- Researchers in Florida have tested a common fern's ability to soak up arsenic, a cancer-causing heavy metal, from contaminated soils. The market for plant-based remediation of wastes is estimated to be \$370 million in 2005.
- NRI funded research supported research by a University of California scientist who has genetically engineered a breed of corn with half the usual amount of carbohydrates and double the protein, which should lead to the development of

new crops that will help alleviate protein deficiencies in children in developing countries.

- Entomologists and Nematologists developed a vaccine for the protection of cattle from the horn fly, a major insect pest in many parts of the world costing the North American cattle industry alone more than \$1 billion annually.
- As a result of NRI funding, a group of economists found that the competitive environment of supermarket retailers encourages patterns of adoption of food products using technologies that are new to the market.
- Through NRI funded research, scientists developed a new assay that allows for rapid identification of *Clostridium perfringens*, which is associated with common food-borne illness, in hospital outbreaks and has resulted in improved diagnostic procedures.
- Florida family and youth researchers have shed light on crime and violence trends in schools and evaluated prevention programs. The result has been a decline in disruptive behavior in classrooms by 40 percent over 2 years. The work is a national model for improving school safety.

Congress must enhance funding for agricultural research to assure Americans of a safe and nutritious food supply and to provide for the next generation of research scientists.

As you lead the Congress in deliberation on funding levels for agricultural research, please consider CoFARM as a supportive resource. We hope you will call on our membership and scientific expertise.

#### PREPARED STATEMENT OF THE COALITION TO PROMOTE U.S. AGRICULTURAL EXPORTS

As members of the Coalition to Promote U.S. Agricultural Exports, we commend the Chairman and members of the Subcommittee for their interest and support of U.S. agriculture and express our appreciation for this opportunity to share our views.

The Coalition to Promote U.S. Agricultural Exports is an ad hoc coalition of over 80 organizations, representing farmers and ranchers, fishermen and forest product producers, cooperatives, small businesses, regional trade organizations, and the State Departments of Agriculture (see attached). We believe the 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 highly 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 previous decade. For fiscal year 2006, the Farm Bill authorizes funding for MAP at \$200 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 2005, U.S. agriculture exports are projected to reach \$59 billion, which would make the current year the 3rd highest export sales year ever following fiscal year 2004 at \$62.3 billion and fiscal year 1996 at \$59.8 billion. However, exports could be significantly higher if it were not for a combination of factors, including continued high levels of subsidized foreign competition and related steep artificial trade barriers. Agricultural imports are also forecast to be a record \$58 billion, continuing a 35-year upward trend that has increased at a faster pace recently. If these projections hold, then agriculture's trade surplus is only expected to be about \$1 billion, a huge decline from the roughly \$27 billion surplus of fiscal year 1996. In fiscal year 1999, the United States recorded its first agricultural trade deficit with the EU of \$1 billion. In fiscal year 2005, USDA forecasts that the trade deficit with the EU will grow to \$6 billion, the largest agriculture deficit the United States runs with any market.

According to recent information from USDA, the European Union (EU) spent more than \$3.25 billion on agricultural export subsidies in 2003, compared to approximately \$30 million by the United States. In other words, the United States is being outspent by more than 100 to 1 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 approximately \$1.2 billion on various market development activities to pro-



mote their exports of agricultural, forestry, and fishery products. A significant portion of this is carried out in the United States. 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 in unlimited amounts under WTO rules to help American agriculture and American workers remain competitive in a global marketplace still characterized by highly 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. Since 1992, MAP participants have increased their contributions from 30 percent (30 cents for every dollar contributed by USDA) to 166 percent (\$1.66 in industry funds for every USDA dollar). For FMD, the contribution rate has risen from 76 percent to the current level of 139 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 in export markets against the treasuries of foreign governments. As a Nation, we can work to export our products, or we can export our jobs. USDA's export programs, such as MAP and FMD, are a key part of an overall trade strategy that is pro-growth, pro-trade and pro-job.

Again, as members of the Coalition to Promote U.S. Agricultural Exports, we appreciate very much this opportunity to share our views and we ask that this statement be included in the official hearing record.

#### COALITION TO PROMOTE U.S. AGRICULTURAL EXPORTS

Alaska Seafood Marketing Institute	California Plum Marketing Board
American Feed Industry Association	California Strawberry Commission
American Forest and Paper Association	California Table Grape Commission
American Hardwood Export Council	California Tomato Commission
American Meat Institute	California Walnut Commission
American Peanut Council	Cherry Marketing Institute
American Quarter Horse Association	CoBank
American Seed Trade Association	Diamond of California
American Sheep Industry Association	Florida Citrus Commission
American Soybean Association	Florida Citrus Mutual
Blue Diamond Growers	Florida Citrus Packers Association
Calcot, Ltd.	Florida Citrus Processors Association
California Agricultural Export Council	Florida Department of Citrus
California Asparagus Commission	Food Export USA—Northeast
California Association of Winegrape Growers	Georgia Poultry Federation
California Canning Peach Association	Ginseng Board of Wisconsin
California Cling Peach Board	Hop Growers of America
California Dried Plum Board	Indian River Citrus League
California Fig Institute	Kansas Livestock Association
California Kiwifruit Commission	Kentucky Distillers Association
California Pistachio Commission	Land O'Lakes, Inc.

Mid-America International Agri-Trade Council	Sunsweet Growers, Inc.
Mohair Council of America	Texas Cattle Feeders Association
National Association of State Departments of Agriculture	The Catfish Institute
National Association of Wheat Growers	The Popcorn Institute
National Barley Growers Association	Tree Top, Inc.
National Cattlemen's Beef Association	United Egg Association
National Chicken Council	United Egg Producers
National Confectioners Association	United Fresh Fruit and Vegetable Association
National Corn Growers Association	USA Dry Pea and Lentil Council
National Cotton Council	USA Poultry & Egg Export Council
National Council of Farmer Cooperatives	USA Rice Federation
National Grain Sorghum Producers	U.S. Apple Association
National Grange	U.S. Dairy Export Council
National Grape Cooperative Association, Inc.	U.S. Dry Bean Council
National Milk Producers Federation	U.S. Hides, Skins & Leather Association
National Oilseed Processors Association	U.S. Livestock Genetics Export, Inc.
National Pork Producers Council	U.S. Meat Export Federation
National Potato Council	U.S. Rice Producers Association
National Renderers Association	U.S. Wheat Associates
National Sunflower Association	Valley Fig Growers
National Turkey Federation	Vinifera Wine Growers Association
NORPAC Foods, Inc.	Virginia Wineries Association
North American Millers' Association	Welch's
Northwest Horticultural Council	Western Growers Association
Ocean Spray Cranberries, Inc.	Western Pistachio Association
Pet Food Institute	Western U.S. Agricultural Trade Association
Produce Marketing Association	Wheat Export Trade Education Committee
Softwood Export Council	WineAmerica (The National Association of American Wineries)
Southern Forest Products Association	Winegrape Growers of America
Southern U.S. Trade Association	Wine Institute
Sunkist Growers	
Sun Maid Growers of California	

#### 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 \$1 billion for fiscal year 2006.

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. Realizing that agricultural on-farm strategies were some of the most cost-effective strategies, the Congress authorized a program for the United States Department of Agriculture (USDA) through amendment of the Colorado River Basin Salinity Control Act in 1984. With the enactment of the Federal Agriculture Improvement and Reform Act of 1996 (FAIRA), the Congress directed that the Program should continue to 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 have been, for the first time in a number of years, opportunities to adequately fund the Program within the EQIP.

The Program, as set forth in the Colorado River Basin Salinity Control Act, is to benefit Lower Basin water users hundreds of miles downstream from salt sources in the Upper Basin as the salinity of Colorado River water increases as the water flows downstream. 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 look for local benefits. These local benefits are in the form of enhanced beneficial use and improved crop yields. They submit cost-effective proposals to the State Conservationists in Utah, Wyoming and Colorado and offer to cost share in the acquisition of new irrigation equipment. The Colorado River Basin Salinity Control Act

provides that the seven Colorado River Basin States will also cost share with the Federal funds for this effort. This has brought together a remarkable partnership.

After longstanding urgings from the States and directives from the Congress, the USDA 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 and receives water from numerous tributaries. The USDA has determined that this effort should receive a special funding designation and has appointed a coordinator for this multi-State effort.

In fiscal years 2003, 2004 and 2005, the Natural Resources Conservation Service (NRCS) directed \$13.6 million, \$19.8 million and \$19.5 million respectively to be used for the Program. The Forum appreciates the efforts of the NRCS leadership and the support of this subcommittee. 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 United States Environmental Protection Agency (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 annually. Over the last three fiscal years, for the first time, funding reached this level on an average annual basis. State and local cost-sharing is triggered by the Federal appropriation. In fiscal year 2005, it is anticipated that the States will cost share with about \$8.3 million and local agriculture producers will add another \$7.5 million. Hence, it is anticipated that in fiscal year 2005 the State and local contributions will be 45 percent of the total program.

Over the past few years, the NRCS has designated that about 2.5 percent of the EQIP funds be allocated to the Colorado River salinity control program. The Forum believes this is the appropriate future level of funding as long as the funding does not drop below \$17.5 million. Funding above this level assists in offsetting pre-fiscal year 2003 funding below this level. The Basin States have cost sharing dollars available to participate in funding on-farm salinity control efforts. The agricultural producers in the Upper Basin are waiting for their applications to be considered so that they might improve their irrigation equipment and also cost share in the Program.

#### OVERVIEW

The Program was authorized by the Congress in 1974. The Title I portion of the Colorado River Basin Salinity Control Act responded to commitments that the United States made, through a Minute of the International Boundary and Water Commission, to Mexico specific to the quality of water being delivered to Mexico below Imperial Dam. Title II of the Act established a program to respond to salinity control needs of Colorado River water users in the United States and to comply with the mandates of the then newly-enacted Clean Water Act. This testimony is in support of funding for the Title II program.

After a decade of investigative and implementation efforts, the Basin States concluded that the Salinity Control Act needed to be amended. The 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 USDA. The Congress has charged the Administration with implementing the most cost-effective program practicable (measured in dollars per ton of salt controlled). 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 (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 Federal agencies and the Congress in support of the implementation of the Salinity Control Program. In close cooperation with the EPA and pursuant to requirements of the Clean Water Act, every three years the Forum prepares a formal report evaluating the salinity of the Colorado River, its anticipated future salinity, and the program elements necessary to keep the salinity concentrations (measured in Total Dissolved Solids—TDS) at or below the levels measured in the river system in 1972 at Imperial Dam, and below Parker and Hoover Dams.

In setting water quality standards for the Colorado River system, the salinity concentrations at these three locations in 1972 have been identified as the numeric cri-

teria. The plan necessary for controlling salinity and reducing downstream damages has been captioned the "Plan of Implementation." The 2002 Review of water quality standards includes an updated Plan of Implementation. In order to eliminate the shortfall in salinity control resulting from inadequate Federal funding for a number of years from the USDA, the Forum has determined that implementation of the Program needs to be accelerated as the President has requested. The level of appropriation requested in this testimony is in keeping with the agreed upon plan. If adequate funds are not appropriated, significant damages from the higher salt concentrations in the water will be more widespread in the United States and Mexico.

Concentrations of salts in the river cause \$330 million in damage in the United States and result in poorer quality water being delivered by the United States to Mexico. Damages occur from:

- a reduction in the yield of salt sensitive crops and increased water use for leaching in the agricultural sector,
- a reduction in the useful life of galvanized water pipe systems, water heaters, faucets, garbage disposals, clothes washers, and dishwashers, and increased use of bottled water and water softeners in the household sector,
- an increase in the use of water for cooling, and the cost of water softening, and a decrease in equipment service life in the commercial sector,
- an increase in the use of water and the cost of water treatment, and an increase in sewer fees in the industrial sector,
- a decrease in the life of treatment facilities and pipelines in the utility sector,
- difficulty in meeting wastewater discharge requirements to comply with National Pollutant Discharge Elimination System permit terms and conditions, and an increase in desalination and brine disposal costs due to accumulation of salts in groundwater basins, and
- increased use of imported water for leaching and cost of desalination and brine disposal for recycled water.

For every 30 mg/L increase in salinity concentrations, there is \$75 million in additional damages in the United States. The Forum, therefore, believes implementation of the USDA program needs to be funded at 2.5 percent of the total EQIP funding.

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 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 the 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 Reclamation, State officials in Utah, Colorado and Wyoming and with NRCS State Conservationists in Utah, Colorado and Wyoming, agreed upon a program parallel to the salinity control activities provided by the EQIP 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 made possible by contracts with the NRCS. 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 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. Prior to the enactment of the Farm Security and Rural Investment Act (FSRIA) in 2002, the salinity control program had not been funded at the level necessary to control salinity with respect to water quality standards since the enactment of the Federal Agriculture Improvement and Reform Act (FAIRA) of 1996. Inadequate funding of the salinity control program also 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. FSRIA authorized a funding level of at least \$1.2 billion for EQIP in fiscal year 2006, and the President's budget for fiscal year 2006 requests an appropriation of \$985 million for EQIP. I urge the Subcommittee to support funding from Commodity Credit Corporation (CCC) of at least \$985 million to be appropriated for EQIP. I request that the Subcommittee designate 2½ percent of the EQIP appropriation, but no less than \$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 \$330,000,000 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 FAIRA in 1996, that the salinity control program could be most effectively implemented as a component of the Environmental Quality Incentives Program (EQIP). However, until 2004, the salinity control program since the enactment of FAIRA was not funded at an adequate level to protect the Basin State-adopted and Environmental Protection Agency approved water quality standards for salinity in the Colorado River. Appropriations for EQIP prior to 2004 were insufficient to adequately control salinity impacts from water delivered to the downstream States, and hampered the required quality of water delivered 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 to address the funding problem, 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 EQIP. 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 improved irrigation practices, and agricultural producers have succeeded in submitting cost-effective proposals to NRCS.

The Basin States, including New Mexico, were very dismayed that funding for EQIP since the 1996 enactment of FAIRA was inadequate until 2004. Years of inadequate Federal funding for the Department of Agriculture prior to 2004 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 the Farm Security and Rural Investment Act in 2002, an opportunity to adequately fund the salinity control program now exists. The President's budget request of \$985 million accomplishes the needed acceleration of the NRCS salinity control program if the USDA continues its practice of designating 2½ percent of the EQIP funds appropriated. The requested funding of 2½ percent of the EQIP funding or no less than \$17.5 million will continue to be needed each year for at least the next few fiscal years.

State and local cost-sharing is triggered by and indexed to the Federal appropriation. Federal funding for the NRCS salinity control program of about \$19.5 million for fiscal year 2005 has generated about \$15.8 million in cost-sharing from the Colorado River Basin States and agricultural producers, or roughly an 80 percent match of the Federal funds appropriated for the fiscal year.

The Department of Agriculture salinity control 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 \$985 million from the CCC in fiscal year 2006 for EQIP. Also, I request that Congress designate 2½ percent of the EQIP appropriation, but no less than \$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 directed to 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 because of the inadequacy imposed by Federal limitations on funding for these needed activities. I urge the Congress to appropriate adequate funds for these support activities essential to the successful implementation of the salinity control program.

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PREPARED STATEMENT OF THE COUNCIL ON FOOD, AGRICULTURAL AND RESOURCE ECONOMICS (C-FARE) AND THE CONSORTIUM OF SOCIAL SCIENCE ASSOCIATIONS (COSSA)

Dear Mr. Chairman, Ranking Member Kohl and Members of the Subcommittee: The Council on Food, Agricultural, and Resource Economics (C-FARE) and the Consortium of Social Science Associations (COSSA) appreciate the opportunity to submit testimony on the fiscal year 2006 appropriation for the United States Department of Agriculture. C-FARE is a non-profit, non-partisan organization dedicated to strengthening the presence of the agricultural, natural resources, and applied economics profession to matters of science policy and Federal budget determination, and we represent approximately 3,500 economists nationwide. COSSA is an advo-

cacy organization for the social and behavioral sciences supported by more than 100 professional associations, scientific societies, universities and research institutions.

Our organizations understand the challenges the Senate Agriculture Appropriations Subcommittee faces given the tight fiscal year 2006 agriculture budget. We also recognize that the Agriculture Appropriations bill has many valuable and necessary components, and we applaud the efforts of the Subcommittee to fund mission-critical research. Below are listed recommendations for the fiscal year 2006 appropriations cycle.

#### USDA COOPERATIVE STATE RESEARCH, EDUCATION, AND EXTENSION SERVICE (CSREES)

##### *National Research Initiative*

- C-FARE and COSSA endorses funding for the National Research Initiative Competitive Grants Program (NRI). The NRI encourages high quality research that is conducted through a peer reviewed format. In particular, the research issues addressed by Markets and Trade and Rural Development are diverse and multi-faceted. Social Science research also enhances ideas and technologies from other fields of science and research which adds value to their role in the NRI.
- C-FARE and COSSA requests that any new monies appropriated for the NRI, as requested by the administration, allow the Secretary the discretion to apply up to 30 percent towards carrying out the NRI integrated research, extension and education competitive grants program.
- Our organizations applaud the administration's proposal to eliminate the indirect cost cap on the NRI, set at 20 percent for fiscal year 2005, which will broaden its appeal by putting the NRI on equal footing with other Federal competitive grants programs.
- Social Science research is highly valued by USDA and much of what our scientists offer can help meet the strategic goals of CSREES. For example, social science research meets CSREES strategic goal number 1, "Enhance Economic Opportunities for Agricultural Producers" by providing science-based information, knowledge, and education to help farmers and ranchers understand risk management, and the long-term impacts of trade barriers. Research by our members also meets CSREES goal number 2, "Support Increased Economic Opportunities and Improved Quality of Life in Rural America," by providing information to help inform decisions affecting the quality of life in rural America. Therefore, we request that the Committee encourage CSREES to fund the social science research components of the NRI at a level sufficient to allowing scientists address these unmet research needs.

*Formula Funding.*—Cuts to and proposed elimination of CSREES' formula-funded research programs can be detrimental to the entire USDA research portfolio. Formula Funds support the continuing costs of research activities while providing for long-term commitments to research that is often essential. Because of their timing and potential regional and intra-state impacts, much of the infrastructure needed to conduct competitively awarded research would be compromised if formula funds were cut. This would mean a huge and potentially damaging loss of research data nationwide. A balance of funding mechanisms, including competitively awarded and formula funding, is essential if the capacity of the United States to conduct agricultural research, both basic and applied, is to be maintained and the country is to continue to excel in areas such as agricultural production and expanding the quality of rural life.

#### REGIONAL RURAL DEVELOPMENT CENTERS

C-FARE and COSSA endorse the continued funding as requested by the President for the RRDCs (Regional Rural Development Centers). They are an important avenue for supporting research and extension work. Utilizing social and economic research, the RRDCs help the engagement of rural people and organizations in the civic life of their communities, promote sound rural economic and workforce development strategies that improve job quality and the competitiveness of workers in rural areas, and they assist rural communities in developing strategies for addressing the challenges associated with the expansion of urban and suburban localities into rural areas.

#### USDA ECONOMIC RESEARCH SERVICE (ERS)

C-FARE and COSSA applaud the House and Senate for their support in the fiscal year 2005 Appropriations Bill of the Flexible Consumer Behavior Survey. The funding from last year helped lay the foundation for this much needed data program. C-FARE and COSSA support the President's proposed funding level of \$5.8 million

to continue the development of the data and analysis framework of the post-farm gate food system. If fully funded it will help identify, understand, and track changes in food supply and consumption patterns. Such information is essential for use in making policy decisions in the food, health and consumer arenas. These funds will help implement the system by creating and developing a rapid consumer response module which will allow USDA to link consumer reactions to food purchases, sales, consumption and price information. It will also help develop a behavioral economic research program, the implementation of system surveys, and a web-based data dissemination program. These surveys and information will provide knowledge for producers to better target products to consumer behavior, while providing policymakers with a better basis for formulating effective nutritional policy.

#### USDA NATIONAL AGRICULTURAL STATISTICS SERVICE (NASS)

C-FARE and COSSA recommend supporting the President's priority activities for NASS. These include:

- Agricultural Estimates (\$7.0 million).*—This increase will build on 2004 and 2005 efforts to restore and modernize NASS's core survey and estimation program, which covers most agricultural commodities produced in the United States and encompasses economic, environmental and rural data. With these funds a restored sample size, and other positive attributes will be utilized by agencies and constituents alike.
- Locality Based Agricultural County Estimation Program (\$1.9 million).*—This funding supports the NASS goal to improve statistically defensible survey precision for small area statistics.
- Census of Agriculture (\$6.5 million).*—The Census of Agriculture provides comprehensive data on the agricultural economy with national, State, and county level details. This increase supports the normal increase in activity levels due to the cyclical nature of the 5-year Census program. Funding will be used to prepare for the 2007 Census of Agriculture and to conclude analysis and publication of the Census of Aquaculture in December 2006.

#### USDA AGRICULTURE MARKETING SERVICE (AMS)

C-FARE and COSSA encourage Congress to continue supporting USDA's AMS at a level that will allow them to continue offering the high value programs they provide. As economists and social scientists we appreciate that the AMS programs promote a competitive and efficient marketplace. AMS services such as standardization, grading, market news, commodity procurement, and other market-facilitating activities benefit both consumers and producers. For the research community specifically, AMS market news services provide in-depth data regarding a wide range of commodities and modes of transportation; such basic information is invaluable for analysis. AMS also supports research on marketing and transportation issues through cooperative agreements and through the Federal-State Marketing Improvement Program.

#### USDA GRAIN INSPECTION, PACKERS, AND STOCKYARDS ADMINISTRATION (GIPSA)

C-FARE and COSSA also value the vital work of GIPSA to help USDA enhance economic opportunities for agricultural producers by promoting fair and competitive trade practices and financial integrity in the grain, livestock, meat and poultry industries. GIPSA reports provide information that aid in the development of industry standards and policy decision-making. Several of these reports are used in the research conducted by social scientists. In particular, the Packers and Stockyards Statistical Report provides researchers with data on industry concentration, plant size, and other industry economic information. The data helps social science researchers study important social and economic issues, including concentration in the meat packing industry. We encourage Congress to continue providing appropriate support for GIPSA and their important programs.

#### USDA NATURAL RESOURCES CONSERVATION SERVICE (NRCS)

Our organizations also support sustained investment in our Nation's natural resources and environment. We applaud USDA NRCS for promoting conservation and sustainable use of natural resources on the Nation's private lands. NRCS helps provide science-based knowledge to improve the management of forests, rangelands, soil, air and water resources. Social science researchers use this vital information to develop policy recommendations that impact the future of our agricultural sector, as well as life in rural America.



## CONCLUSION

Recent security threats facing America require new and expanded agricultural research to protect our Nation's forests, water supplies, food processing and distribution network, and rural communities and insure the future security, safety and sustainability of America's food and fiber system. In order to address these challenges and maintain our position in an increasingly competitive world, we must continue to support research programs such as the NRI and those supported through formula funding.

Thank you for the opportunity to present our recommendations. As you know, past investments in agricultural research have yielded many breakthroughs in American agricultural productivity. If you have any questions or concerns regarding our priorities please do not hesitate to contact us.

## PREPARED STATEMENT OF DEFENDERS OF WILDLIFE

On behalf of our members and supporters, Defenders of Wildlife appreciates the opportunity to comment upon the fiscal year 2006 budget for the U.S. Department of Agriculture. Defenders of Wildlife is a national nonprofit conservation organization committed to preserving the integrity and diversity of natural ecosystems, preventing the decline of native species, and restoration of threatened habitats and wildlife populations.

Defenders of Wildlife has significant concerns about the administration's fiscal year 2006 budget and we strongly oppose a number of changes the Bush Administration's proposed fiscal year 2006 budget would make to Farm Bill conservation programs. The Bush Administration's proposal attempts to rewrite the Farm Bill to the great detriment of USDA voluntary conservation programs. We make recommendations in the following priority areas.

*2002 Farm Bill Conservation Title Programs*

Resource conservation programs within the Farm Security and Rural Investment Act of 2002 (Public Law 107-171) (Farm Bill) provide an integrated approach, through incentives and technical assistance, to both production and stewardship of farm and ranch lands and the environment. Further, these programs have been particularly valuable in providing resources for addressing threatened and endangered species conservation issues. The 2002 Farm Bill tried to achieve a balance between farm commodity provisions and critical conservation, nutrition, research and rural development programs that reach far more Americans than the traditional commodity programs. But, in every year since the passage of the Farm Bill, these conservation programs continue to be funded well under authorized levels. This comes at the expense of meaningful benefits to both sustainable farmers and ranchers and the environment.

The conservation title specifically has borne the brunt of the cuts. Since the farm bill passed, the combination of congressional and administrative actions has reopened the farm bill to reduce promised conservation title funding for programs administered by the National Resource Conservation Service (NRCS) by \$3.7 billion. This includes nearly \$800 million from the fiscal year 2003 through fiscal year 2005 funding cycles, plus an additional \$2.9 billion from the Conservation Security Program (CSP) alone in the out years.

For fiscal year 2006, President Bush is again proposing a cut to conservation programs that will result in a 28 percent decrease in funding originally promised by the 2002 Farm Bill. The 2002 Farm Bill promised mandatory conservation funding in fiscal year 2006 of \$2.435 billion. Yet, the total amount in the President's fiscal year 2006 budget request for all programs is \$1.739 billion, \$700 million less than was promised and is needed. The fiscal year 2005 appropriations bill already drastically scaled back the mandatory farm bill spending for oversubscribed programs by nearly \$500 million. The President's fiscal year 2006 budget request programs would scale them back again. This despite the fact that the USDA's voluntary conservation programs continue to be in demand and oversubscribed. Nationally, there are over 150,000 qualified farmers and ranchers interested in implementing conservation practices to improve soil, water and air quality and add wildlife habitat through the conservation programs, who are waiting for funding; the value of the backlog of these qualified applicants exceeds \$2 billion.

Defenders of Wildlife urges Congress to restore balance to the Farm Bill and to not shortchange progressive voluntary conservation programs. National Farm Bill legislation has a profound impact on native species and wildlife habitat conservation choices of individual private landowners who practice crop, livestock, and forestry activities. Almost 60 percent of at risk species (as defined by The Nature Conser-

vancy) are on private or State lands. Nearly 40 percent of plant and animal species listed as threatened or endangered are found only on private or State lands. Seventy percent of the land in the United States is held in private ownership in the form of range, forestry, or agricultural use. As of 1995, nearly 84 percent of the plants and animals listed as endangered or threatened were listed in part due to agricultural activities. Specifically, we urge Congress to restore balance by protecting funding allocations for the following programs:

*The Conservation Security Program*

The Bush Administration's proposed fiscal year 2006 budget continues to cripple the landmark Conservation Security Program (CSP). CSP supports farmers who implement and maintain effective stewardship practices on their working farm lands. The President's fiscal year 2006 budget reduces the CSP substantially below the level authorized in the Farm Bill with a 58 percent decrease. Moreover, because a significant portion of fiscal year 2006 funding will go to fund the continuation of contracts signed in 2004 and 2005, the proposed funding level will severely curtail the number of watersheds where the program can be offered in 2006 to well below the intent of the 2002 Farm Bill. Current funding levels have permitted enrollment of only about 10 percent of the Nation's watersheds in the first 2 years of program implementation. The President's budget suggests a rollout rate that will result in 10 to 12 year cycle for reaching all of the Nation's farmers. That means many contracts will expire long before farmers get their next chance to re-enroll, which risks the loss of the environmental benefits of the program and turns away many good stewards of the land.

The Conservation Security Program offers long term benefits for continued management of lands to promote environmental health. CSP is structured to reward farmers who have already invested in environmental stewardship, and to encourage them to go even farther to implement stewardship practices on their working lands through the enhancement payment structure. CSP is an essential part of the USDA portfolio of conservation programs to protect our water, soil, and wildlife resources. In order to achieve its promise of continuous income support to all of the country's best stewards, the program must be available to all producers nationwide, and must be implemented on a schedule that permits farmers to re-enroll when their contracts are up. Defenders urges Congress to consider the benefits that these programs can provide to sustainable farmers in all types of agriculture and in all regions of the country, and authorize at appropriated levels. At this point, perpetual cuts seems to have the effect of rewriting the Farm Bill and changing CSP from the first-ever working lands conservation entitlement program envisioned by Congress, to a program with limited enrollment, preferential bidding, and waiting lists.

This program can provide great benefits if funded as intended by the 2002 Farm Bill.

*The Wildlife Habitat Incentives Program*

In the President's fiscal year 2006 budget the Wildlife Habitat Incentives Program (WHIP) gets slashed by 29 percent, a \$25 million cut below the authorized level mandated in the 2002 Farm Bill and was already cut by 45 percent below farm bill authorized levels in 2005. WHIP provides cost sharing and technical assistance for the development of wildlife habitat on private lands. Though small in size, the program provides significant benefits for wildlife and wildlife habitat and provides proactive solutions to dealing with endangered habitat and species issues before they become critical. More than 8,400 projects affecting some 1.4 million acres have been approved under WHIP (source: National Wildlife Federation fact sheet). There is demand for more as backlog statistics from NRCS show us. Nationwide, over 3,000 qualified applicants, likely small farmers and ranchers, are being turned away. The value of the backlogged applications that could be going to these stewards totals \$10 million.

Agriculture Secretary Johanns recently lauded the performance benefits WHIP saying that, "More than \$27 million funded over 3,000 private landowners create, restore and enhance wildlife habitat for upland wildlife; wetland wildlife; threatened, endangered or at-risk species and fisheries as well as other types of wildlife. Of the more than 430,000 acres enrolled in the program last year, 21,000 acres will help threatened and endangered species." Defenders urges Congress to restore full funding to this program and protect the allocation of this program to continue to provide meaningful benefits to sustainable farmers and ranchers and to wildlife.

*The Wetland Reserve Program*

President Bush has stated as a priority his commitment to a goal of "no net loss" of wetlands, yet one of the most progressive and meaningful programs that works towards that goal, the Wetlands Reserve Program (WRP) is slated in the President's

budget to be cut by 20 percent. On April 22, 2004 the President announced his commitment to provide funding for an overall increase of wetlands each year and stated he would seek to “create, improve, and protect at least three million wetland acres over the next 5 years in order to increase overall wetland acres and quality.” (source: White House Press Release, April 22, 2004) To meet this goal the President called on Congress to fund conservation programs—specifically the Wetlands Reserve Program, yet his fiscal year 2006 budget cuts that program by \$80 million dollars.

WRP provides farmers with cost-share assistance and easements to take wetlands converted for agricultural purposes out of production and to restore them to beneficial wetlands. According to statistics by U.S. Fish and Wildlife service, one-third of all bird species, 190 species of amphibians and 5,000 species of plants depend on wetlands habitat. Along with WHIP, WRP has contributed the most to the creation and improvement of habitat for at-risk and declining species. Yet, WRP saw a 38 percent reduction in its acreage allotment in 2005 and, again faces a 20 percent reduction in 2006. This despite a demand that has led to a backlog of over 3,100 applicants nationwide, that would have provided restoration to almost 536,000 acres across the country. This is a substantial amount when one considers that, according to the USDA, overall annual wetlands losses are estimated at some 60,000 acres. Defenders urges Congress to take up the President’s promise to conserve wetlands, and restore funding to this program which is integral to the success of that goal.

#### *The Grasslands Reserve Program*

The Grasslands Reserve Program (GRP) is a voluntary program offering land-owners the opportunity to protect, restore and enhance grasslands on their property. The program received \$254 million over the life of the Farm Bill, and that money has been widely used for projects that benefit wildlife, particularly grassland birds like the sage grouse, and is important to addressing endangered species issues. However, GRP is predicted to use up its entire Farm Bill allocation by the end of 2005, so there is no money in the budget for GRP in 2006. Defenders urges Congress to consider the benefits of this program for addressing threatened and endangered species issues and note that if this amount is capped, it will be more critical then ever to fund other similar conservation programs such as WHIP to help continue the work started under the GRP.

#### *Other Important Conservation Programs in the Farm Bill*

Several other critical programs, that are part of the forward thinking conservation initiatives in the Farm Bill, will also be significantly cut, which in turn will undermine progressive efforts by farmers and ranchers to steward land, conserve soil and water, and provide habitat for wildlife. The Environmental Quality Incentives Program (EQIP), which provides technical assistance, cost-share/incentive funding to assist crop and livestock producers with environmental and conservation improvements on their farms and ranches, is cut by 17 percent. And the Farm and Ranch Land Protection Program (FRPP), which keeps working farms and ranches in production and puts cash in the pockets of farmers and ranchers, will suffer a 17 percent cut. Defenders again urges Congress to protect the restore funding and protect the allocation for these programs, as well as the Conservation Reserve program. Farm Bill conservation programs should be appropriated at authorized levels as intended by the 2002 Farm Bill.

#### *Farm Bill Energy Title Programs*

Inclusion of an Energy Title in the 2002 Farm Bill was a huge bipartisan victory for renewable energy and for rural America. However, the program was allocated \$23 million per year in mandatory funding for fiscal years 2003–2007. The President’s fiscal year 2006 budget request provides only \$10 million in discretionary funding. This title provides programs to spur the growth of renewable energy within the agriculture sector, an immense potential energy source. Sec. 9006 is the only provision specific to renewable energy project development within the Farm Bill. It provides grants, and eventually loans and loan guarantees, to farmers, ranchers, and rural small businesses for the development of renewable energy projects and energy efficiency improvements. The program is designed to help farmers develop much needed new income streams from renewable energy generation, including wind, biomass, geothermal, hydrogen and solar energy, as well as helping to meet the Nation’s critical energy needs in an environmentally sustainable way, and generate economic development in every region of the country. Defenders urges Congress to restore full funding to the Renewable energy program as mandated by the Farm Bill.

### *Wildlife Services*

The Wildlife Services (WS) program housed under the Animal and Plant Health and Inspection Service (APHIS) is tentatively funded, under the President's fiscal year 2006 budget, at a program level of approximately \$76 million. Defenders of Wildlife is pleased to see more engagement in the invasive species issue by APHIS in general and Wildlife Services in particular, as we have been advocating for just such a policy change for many years.

### *Invasive Species*

Defenders of Wildlife recognizes that exotic invasive species are an enormous threat to native ecosystems and biological diversity and urges full funding of efforts to control invasive species. They are also a source of huge economic losses; the Asian longhorned beetle, for instance, potentially threatens maple syrup and tourism industries, as well as street trees, and could cause damage in the hundreds of billions of dollars. Therefore, we urge full funding of efforts to exclude, control, and halt the spread of invasive species. Specifically, we urge the Subcommittee to fund control efforts for the Asian longhorned beetle and the emerald ash borer at \$40 million each in fiscal year 2006; to fund APHIS's work to halt Sudden Oak Death at \$40 million; to fully fund the cactus moth sterile release program at \$1.5 million; to fully fund the Noxious Weed Control and Eradication Act at the \$15 million authorized level; and to fully fund the Department of Agriculture's portion of the Interdepartmental National Invasive Species Crosscut Budget.

### *Livestock Protection*

However, it also appears that the agency continues to spend a disproportionate amount of its annual allocation for livestock protection activities, which translates generally into the killing of predators. The allocation to livestock protection is particularly troubling because a close analysis reveals that in fiscal year 2001, Wildlife Services killed 88,868 coyotes, 386 mountain lions, and 2,467 bobcats. While the agency no longer keeps detailed records on the reported value of resources damaged by livestock, in fiscal year 1997 (the last year for which WS collected such information) WS spent \$9.8 million in response to a reported \$7.7 million in livestock-related damages and spent just \$9.5 million to address the more than \$63 million in damages reported in the 6 other program categories. Considering that in fiscal year 2001, 49 percent of its budget on agriculture-related activities (\$15 million), and divided the remaining 51 percent between human health and safety (\$10.4 million), property (\$2.99 million) and natural resource protection (\$2.26 million) expenditures, the trend suggests that Wildlife Services could expend up to \$38 million for agriculture protection this year. Continuing to increase the amount of money used to kill predators to protect livestock is an inefficient use of taxpayer resources, given that national sheep inventories are declining by roughly 200,000 head per year, and cattle inventories are declining by nearly 600,000 per year. These declines are greatest in the twelve western States where Wildlife Services allocates nearly 63 percent of its agriculture protection dollars.

Defenders is concerned with the consistent lack of attention paid to the directives by Wildlife Services which deal with modernizing the field activities of its staff. Defenders recommends that Congress ask for a report on Wildlife Services' implementation of the directives dealing with the increased use of non-lethal methods.

Defenders of Wildlife requests also that the Committee's report language follow the model of previous years and revise the directive as follows, "The Committee expects that Wildlife Services will make use of the non-lethal methods developed by the National Wildlife Research Center and will make non-lethal controls as the method of choice and resort to lethal means only as a last resort."

Defenders of Wildlife appreciates this opportunity to provide testimony on the fiscal year 2006 USDA budget. Thank you for your consideration of these comments.

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### 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 \$5 million in fiscal year 2006.

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 2005 appropriation of \$4.6 million is funding 24 State projects.

#### *What is AgrAbility?*

AgrAbility is a program authorized through a provision in the 1990 Farm Bill that provides information and technical assistance to farmers, ranchers, and farmworkers with disabilities. Congress began funding the project in 1991 and has continued to do so each year since. The U.S. Department of Agriculture Cooperative State Research, Education, and Extension Service (CSREES)—a network that links research, science, and technology to meet the needs of people where they live and work—administers the AgrAbility Program. CSREES awards program funds through a competitive grant process to land-grant universities that have partnered with at least one nonprofit disability service provider to provide education and assistance to agricultural workers with disabilities and their families.

A network comprised of a National AgrAbility Project and numerous State AgrAbility Projects provides program services in over half of the States in the United States. The National AgrAbility Project partners, University of Wisconsin-Extension, Cooperative Extension Service and Easter Seals, collaborate to support State AgrAbility Project activities. The State projects provide the direct on-site services to farmers, ranchers, and farmworkers with disabilities and other chronic health conditions. AgrAbility Project services are available to people of all races, creeds, genders, abilities, and national origins. The project staff works with operators regardless of the size of their operations or extent of their resources.

#### *Why is AgrAbility Needed?*

Agricultural production is hazardous. Over 700 farmers and ranchers die in work-related incidents yearly and another 120,000 workers sustain disabling injuries from work-related incidents (National Safety Council, 2002). In addition, the USDA National Agricultural Statistics Service estimates that more than 200,000 farmers, ranchers, and other agricultural workers experience lost-work-time injuries and occupational illnesses every year, approximately 5 percent of which have serious and permanent results. Off-farm incidents; health conditions, such as heart disease, arthritis, or cancer; and aging disable tens of thousands more. Nationwide, approximately 288,000 agricultural workers between the ages of 15 and 79 have a disability that affects their ability to perform one or more essential tasks (Bureau of Labor Statistics, 1999).

Additionally, like their urban counterparts, approximately 20 percent of children and other family members in agricultural families have disabilities, such as cerebral palsy, mental retardation, and epilepsy. Physical and attitudinal barriers often prevent these children and adults from participating fully in farm and ranch operations, and from engaging in social and recreational activities enjoyed by other rural residents.

For most of the over 3 million Americans earning their livings in agriculture, the work is not just their livelihood—it is their way of life—a productive and satisfying way of life of which they are very proud. This is also true for the majority of people with disabilities or chronic health conditions who work or live in agricultural settings. These people want to find ways to accommodate their disabilities and continue to farm. All too often, however, they are frustrated in their attempts. Rural isolation, limited personal resources, limitations in rural health delivery systems, and inadequate access to agriculture-oriented assistance, are among the obstacles they face.

#### *How Does AgrAbility Help?*

The AgrAbility Project offers education and assistance to help identify ways to accommodate disabilities and chronic health conditions, eliminate barriers, and create a favorable climate among rural service providers for people with disabilities. AgrAbility helps to prevent people from being forced out of agriculture because of their disabilities and provides them with ideas for safe, affordable solutions that allow them to maintain their businesses and rural lifestyles.

#### *Who Does AgrAbility Serve?*

Farmers, ranchers, and farmworkers involved in all types of production agriculture who have any type of disability (physical, cognitive, or sensory) or chronic health condition may receive services. Family members who have a disability or chronic health condition may also receive assistance.

#### *Who are the AgrAbility Clients?*

Juan Padron, AGE, a dairy farmer, sustained a spinal cord injury that left him paralyzed from the chest down in 2001 while helping a neighbor unload large

square hay bales. AgrAbility staff recommended purchasing a heavy-duty wheelchair that could navigate farm terrain and adding hand controls to the tractor. In addition, his son, who originally contacted AgrAbility on his father's behalf, has developed a unique chute for restraining cows making it possible for his father to continue to artificially inseminate them.

Daun Koke, AGE, is a wife and mother of five and has cerebral palsy. She and her husband have a 100-head beef operation and over 600 acres of row crops. She heard about AgrAbility on television and contacted the project immediately. AgrAbility staff has helped her obtain funding for adding a lift, wide mirrors, and hand controls to the tractor and automatic livestock gates. These changes have increased Daun's ability to work alongside her husband on their operation.

Tyler McElwee, 16, has always been actively involved in his family's beef and crop operation. After sustaining a spinal cord injury (on the farm) 4 years ago, he and his family learned about AgrAbility from a school advisor. AgrAbility provided information on adding lifts and hand controls to the farm equipment. He now is able to help out by cleaning pens, feeding cattle, and working in the fields. He also shows beef cattle and is actively involved in FFA. His plans to one day own his own beef operation.

Randy Jiminez, AGE, who has post-polio syndrome, has what he calls a ranchette with ducks and geese, and teaches gun safety courses. With the assistance of AgrAbility staff and the Department of Vocational Rehabilitation (DVR), his house was to accommodate his wheelchair and a golf cart was obtained and modified to increase his outdoor mobility. A business loan was also secured through DVR for setting-up the gun safety program.

Brenda Besse, AGE, has a purebred Brown Swiss dairy farm and a 2,000-acre grain operation. She lost her right leg above the knee in an entanglement with a combine head. AgrAbility staff helped her get a utility vehicle for hauling feed, wood shavings, hay, straw, and calf bottles around the farm. She now helps other AgrAbility clients learn about the various resources available to them. When Brenda is not farming, you can find her on the golf course where she is ranked the #1 female amputee golfer in the United States.

Bobby Clay, AGE, has a pastured poultry and vegetable farm and also operates a poultry processing enterprise. Following a spinal cord injury, he contacted his local extension agent who, with AgrAbility staff, assisted him in modifying his operation including the addition of 2,000 feet of water lines, chicken tractors, 20 water hydrants, and a front end-loader. With these modifications, Bobby can still maintain his agricultural enterprise and locally market his own poultry.

Larry LeMasters, AGE, and his wife have a 200-head dairy operation, several flocks of chickens, and a "herd of six kids." In 2000, he began having problems getting around the farm and doing his chores due to pain. Larry was diagnosed with fibromyalgia, a form of muscular and soft tissue rheumatism that has limited his mobility, strength, and the amount of bending and lifting he can do. They decided to contact AgrAbility after reading an article about it and reviewing the project website. AgrAbility staff recommended changes to the milking system to alleviate the need for constant bending and reaching.

#### *What Services Do AgrAbility Clients Receive?*

AgrAbility clients benefit from partnerships between the extension services at land-grant universities and nonprofit disability service organizations. Together members of each AgrAbility Project staff provide clients with direct on-site assistance that includes the following activities.

- Assessing agricultural tasks and providing guidance on how to restructure them to accommodate the clients' disabilities.
- Reviewing agricultural worksites and equipment and making suggestions for modifications.
- Identifying ways to prevent secondary injuries and disabilities.
- Coordinating needed community resources and services by
  - putting them in touch with community volunteers who have the ingenuity and contacts to augment AgrAbility project support;
  - linking them to a network of engineers, health and rehabilitation service providers, agricultural experts, product manufacturers and suppliers, educators, skilled tradesmen, and other rural resources; and
  - helping them access existing services within public agencies, including State vocational rehabilitation agencies and assistive technology centers, to maximize benefits available to them.
- Referring individuals and family members to and facilitating participation in peer support groups.

*How Does Collaboration Benefit Clients?*

The AgrAbility projects build collaborations with State offices of vocational rehabilitation, State assistive technology projects, and farm and community business organizations, such as agricultural cooperatives, Farm Bureau, or Lion's Club. AgrAbility clients benefit from the added expertise and resources such collaborations bring to the projects. Many AgrAbility projects have developed contractual arrangements with their State's vocational rehabilitation office that provide a win-win for the client, the project, and the State.

*What Services Does the National AgrAbility Project Provide?*

The National AgrAbility Project staff provides training and technical assistance, and information on available resources to the State AgrAbility project staffs through a variety of means, including

- annual National AgrAbility Project Training Workshops,
- toll-free telephone consultations,
- an online library of technical resources, and
- collaboration on and presentations at statewide educational activities.

In addition, the National AgrAbility Project staff

- provides direct technical consultation on developing assistive technology solutions to clients, rehabilitation engineers, and fabricators;
- presents information about AgrAbility at national agricultural and health-related events; and
- develops and disseminates new educational materials relevant to farming and ranching with disabilities.

These and other activities all help to meet the goal of promoting awareness that with technical assistance, information, and education farmers, ranchers, and farmworkers with disabilities can successfully continue to do the work they know and love.

*How are Federal Resources Maximized and New Resources Secured?*

National and State project staffs seek to form partnerships and alliances with corporations and organizations that will help expand the reach and services of the program. Additional efforts are made to secure financial and in-kind contributions to augment the base funds provided through the USDA-CSREES grants. These efforts help maximize the Federal support and invest community and corporate leaders in the mission and work of the AgrAbility Project—Promoting success in agriculture for farmers, ranchers, and farmworkers with disabilities. Such efforts also provide these leaders with a tangible way to give back to the rural communities in which they live and/or conduct business. By supporting the AgrAbility Project, they are helping their customers who face the challenges of accommodating their disabilities while continuing to work in agricultural production.

*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

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PREPARED STATEMENT OF THE FARMER-RANCHER/OKLAHOMA FARMERS UNION,  
RINGLING, OKLAHOMA

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 funding of the red imported fire ant. I am an agriculture producer in southern Oklahoma, employed with the Oklahoma Farmers Union and a 20-year advocate for research initiatives to combat this growing problem impacting both agriculture and the daily lives of citizens in affected States and counties. Oklahoma Farmers Union is a general farm organization representing over 100,000 families in the State of Oklahoma.

My work on this issue goes back to the 1980's as a House Agriculture Appropriations Subcommittee associate staff member, later as an agriculture producer/research cooperator 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 (13 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 stings.

The fire ant impact on the American economy is approximately \$5 billion per year. Agriculture producers are economically hurt by the loss of animals due to stings, short-circuiting of electrical equipment as a result of 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. Total annual fire ant losses to U.S. agriculture are estimated at \$750 million.

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. Because of the intensity of the fire ant problem within our State, a special State legislature directed fire ant task force is being formed. While 9 Oklahoma counties are currently quarantined from selling products to non-quarantined areas, we anticipate that number to rise given an additional 31 counties now have fire ant populations for a total of 40 impacted counties. Over one-third of our State is now impacted while in 1984 that number was zero!

### *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. While the Administration budget included a request for funding this activity last year, no additional funds were appropriated for the program. We are delighted to see that the President's fiscal year 2006 budget request includes \$600,000 for fire ant research for the Gainesville location for molecular research work, including pathogen discovery as part of an Administration request of \$10 million for Invasive Species Affecting Animals and Plants.

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 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. Contributing to the overall effort is the continued development of novel uses for pheromones in fire and control and technology transfer of repellent and attractant technology to commercial interests.



*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 future.

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 collected in South America, will be quarantine tested and evaluated for use.

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 \$10 million research initiative contained in the ARS budget for further targeted research for Invasive Species Affecting Animals and Plants and specifically the \$600,000 directed to Gainesville site.

Thank you for this opportunity. I would appreciate the Subcommittee's consideration of this most important issue.

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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 the results of their research. Florida State University had over \$182 million this past year in research awards.

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 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 project we are pursuing this year through the U.S. Department of Agriculture.

In fiscal year 2001, Congress passed the Federal Crop Insurance Act, which included funding of partnerships for Risk Management Development and Implementation. This legislation authorized the USDA, working with NOAA, to enter into partnerships for the purpose of increasing the availability of tools for crop loss mitigation. The partnerships give priority for producers of agricultural commodities for specialty crops and under-served agricultural commodities. Congress authorized the program through fiscal year 2008.

The Federal Government can utilize new cost-effective ways to reduce risk by using modern ideas such as decision support tools and using El Niño and La Niña to predict climate variability. This allows for fair pricing of premiums for crop insurance. The Southeast Climate Consortium (SECC), which consists of Florida State University, the University of Florida, the University of Miami, the University of Georgia, Auburn University, and University of Alabama at Huntsville, has been at the forefront of climate prediction work. The SECC has worked throughout the Southeastern United States, with support from NOAA and USDA, to develop new methods to predict the consequences of climate variability for agricultural crops, forests, and water resources. More recently, in actual real-life tests, these methods have been applied to the problems that farmers raising specialty crops face relative to rainfall, temperature and assessing the risk of wild fires. By the use of these methods, these challenges have been successful.

In the SECC, Florida State University provides the climate forecasts and risk reduction methodology, the University of Florida translates this climate information into risks associated environmental impacts and work with Extension Services to provide information to the agricultural community, and the University of Miami provides the economic modeling of the agricultural system. Utilization of these tools and their application to agricultural problems in this project has the strong support of extension managers.

The new tasks for fiscal year 2006 will be to develop drought forecasting methods to help farmers and producers plan for reducing risks of economic losses, develop best management practices (BMPs) that incorporate climate forecasts to give farmers options for compliance with water quality standards, and investigate the possible applications of using climate forecasts to guide disaster preparedness, such as for hurricanes.

FSU, on behalf of the Southeastern Climate Consortium, is requesting \$4,000,000 for this important activity in fiscal year 2006.

Mr. Chairman, this is just one of the many exciting activities going on at Florida State University that will make important contributions to solving some key concerns our nation faces today. Your support would be appreciated, and, again, thank you for an opportunity to present these views for your consideration.

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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 regarding 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—promotes the Center's current and long-term agricultural research, outreach, and educational missions.

Our testimony addresses three main themes:

We begin with our highest recommendation for any item in the President's fiscal year 2006 budget—Systematics Research at the Beltsville Agricultural Research Center.

The Department of Agriculture recently named systematics research at BARC the Department's Number One priority for addressing problems with invasive species. The President's fiscal year 2006 budget recommends \$1 million for systematics research at BARC within \$1.8 million for Invasive Species (Home Land Security). We strongly support approval.

If the proposed \$1 million is approved, BARC capabilities in plant pathogenic fungi, whiteflies, thrips, weevils, and animal parasites will improve substantially. All of these organisms pose serious threats to U.S. agricultural production, yet all are tiny and hard to identify. About 80 percent of the Department's systematics programs are based at BARC. Systematics scientists make up about 10 percent of the BARC scientific staff.

Systematics has suffered from attrition and inflation for the past 20 years. Staff sizes are probably only about half of what they were 20 years ago. Systematics identification depends on priceless BARC collections—some entries being more than a

century old. These collections are critical to accurate identifications. Systematics is essential for identifying exotic or new species, for barring invasive species from entering the United States. Amazingly, only about 10 percent of all insects and fungi have been named and described as to how they relate to other organisms.

Dr. John Marburger, Presidential Science Advisor and Director of the Office of Science and Technology Policy, has said that systematics is part of the Nation's critical scientific infrastructure. Because systematics is critical to foreign trade as well as domestic production, the Department has the largest systematics program in the Federal Government. Authoritative systematics not only protects the United States against invasive species, it also assures our trading partners that United States exports are free of invasive species. At least once, systematics enabled the United States to successfully refute an accusation of biowarfare, an accusation that the United States had deliberately introduced an invasive insect into another country.

Long-term needs for ARS systematics research may exceed \$30 million, not including modernization of facilities. The \$1 million in the President's fiscal year 2006 budget would be an important step toward meeting the needs for this fundamentally important research.

Next, we turn to the urgent need to continue support for specific research areas that the Congress has mandated at BARC in previous fiscal years. These mandates address research that has enormous national impact. The mandates have been strongly endorsed and supported by this Subcommittee and others. We list them below with brief descriptions and our recommendations for continued funding.

*Dairy Genetics.*—For over 75 years, the Animal Improvement Programs Laboratory has created statistical genetic predictions to aid the dairy industry in identifying the best bulls for dairy breeding. Genetic improvement in dairy cattle has steadily increased milk yield per cow and feed efficiency (milk produced per pound of feed) over many years. The result is lower milk prices for consumers and less animal waste to contaminate the environment because fewer cows are needed to produce the Nation's milk supply. We confirm that this mission critical research should continue.

*Barley Health Food Benefits.*—Barley contains soluble fiber compounds called beta-glucans that are beneficial for health. Beta-glucans can lower cholesterol and improve control of insulin and blood sugar. These funds support human-volunteer studies designed to help us better understand how barley could be used in a healthful diet to reduce the incidence of chronic disease. We recommend continued support.

*Biomining Soil Amendments for Control of Nematodes.*—Plant nematodes are microscopic worms that feed on the roots of plants. Nematodes can cause substantial losses in crop yields. This research focuses on using such industrial byproducts as environmentally benign soil additives for controlling nematodes. We recommend funding for these promising approaches.

*Foundry Sand Byproducts Utilization.*—Waste sands from the metal-casting industry currently are dumped in landfills. This project is working with industry on guidelines for beneficial uses of these sands. We recommend continuation.

*Poultry Disease (Avian Coccidiosis).*—Coccidiosis, a parasitic poultry disease, costs the industry \$2–3 billion per year. This research focuses on understanding the genetics of both the parasite and the host chicken to identify targets that will allow better disease control. We recommend this funding.

*Biomedical Materials in Plants.*—Plants can be used as factories to manufacture vaccines and other pharmaceuticals for both animals and humans. This research focuses on development of tobacco as a crop with this beneficial use. This research should continue.

*National Germplasm Resources Program.*—Sources of germplasm for all agricultural crops are maintained either as seed or live plant material at several locations across the country. Much of this germplasm is the result of plant exploration around the world. This group maintains the computer database that indexes all crop germplasm in our repositories with critical information as to where it was obtained, the specific scientific identification, and information on useful traits for plant breeding. We strongly support continued funding for this mission-critical program.

*Bovine Genetics.*—This research focuses on bovine functional genomics, especially for dairy cattle. Scientists are identifying specific genes for quality traits such as easier calving, higher milk production, and resistance to mastitis. We recommend this funding.

*Minor-use Pesticides (IR-4).*—“Minor-use” pesticides are those that are used on crops such as fruits and vegetables that are not one of the “big four” crops like corn, wheat, and soybeans, and cotton. Because markets are much smaller than for major crops, chemical manufacturers have little incentive to obtain all the safety data needed to obtain EPA registration for pesticides used on minor crops. Nevertheless,

producers of minor crops find certain agrochemicals to be essential. This project produces the data needed for EPA registration of minor-use pesticides. We recommend continued funding.

*National Nutrition Monitoring System.*—Scientists at BARC have the unique responsibility of carrying out the national surveys of food consumption by individuals. This is now done in collaboration with HHS's health surveys. BARC scientists also maintain the National Nutrient Database, which includes information on 126 nutrients in thousands of foods. This work supports the school lunch program, WIC, Food Stamps, senior nutrition programs, food labeling, dietetic practices, and even the EPA. We urge continuation of this funding.

*Coffee and Cocoa.*—Producers of chocolate candy are the single largest users of fluid milk, sugar, peanuts, and almonds in the United States. United States specialty coffee shop chains also are one of the major markets for fluid milk. Events that limit the availability of cocoa or coffee can have significant impacts on major U.S. commodity markets. Candy producers need a stable supply of cocoa, but smallholders in developing countries produce most cocoa. Several devastating diseases and insects threaten cocoa. This research is aimed at developing environmentally friendly ways to control pests and diseases. Coffee is threatened by insects very similar to those that infest cacao; thus, work on the two crops benefits from being co-located. We recommend continuation of this funding.

*Johne's Disease.*—Johne's disease is a contagious bacterial disease of the intestinal tract of ruminants. It occurs most often in dairy cattle, causing weight loss and diarrhea. Nearly one-fourth of dairy herds are infected. Producers lose \$54 million annually from reduced milk production. The disease is spread in manure. This research focuses on disease control. We recommend continuation of this funding.

*Food Safety—Listeria, E.Coli, and Salmonella.*—Food-borne illness annually costs \$3 billion in health-care costs, and annually costs the economy up to \$40 billion in lost productivity. This research focuses on diagnostics for food-borne pathogens, and on ways to control pathogens in fruits and vegetables. We recommend continuation of this funding.

*Weed Management Research.*—All farmers must contend with weeds. For organic farmers, weeds are the single biggest challenge to crop production. This research, in collaboration with the Rodale Institute and Pennsylvania State University, focuses on developing systems for controlling weeds in organic production systems. Organic crop production was valued at \$400 million per year in the 2002 Census of Agriculture. These research funds will improve non-chemical weed control.

Last, we turn to our recommendation for construction funds to complete Phase III of the Beltsville Human Nutrition Research Center and construction of a combined facility for swine and other research.

The most urgent facilities need at BARC is funds to modernize building 307—the final phase of the three-phase process to modernize the Beltsville Human Nutrition Research Center. Phases I and II funded two new human nutrition research buildings. Both buildings have been completed, are fully functional, and are contributing to the research mission of the Beltsville Human Nutrition Research Center. Congress provided design money for modernizing building 307, or Phase III, several years ago. We recommend full funding to complete Phase III construction. An estimated \$27 million is needed.

Also, we recommend \$10 million for the construction of a combined research facility for swine, certain related human nutrition research, immunology (human and animal), and parasitological research.

Mr. Chairman, that concludes our statement. We again thank you for the opportunity to present our testimony and for your generous support.

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PREPARED STATEMENT OF THE GREAT LAKES INDIAN FISH AND WILDLIFE  
COMMISSION

Summary of fiscal year 2006 Testimony:

—*Re-affirm Support for Local Decision Making.*—The success of the U.S. Department of Agriculture's Environmental Quality Incentives Program (EQIP) and Wildlife Habitat Incentives Program (WHIP) is due in large part to a program structure that stresses local decision making.

—*Restore \$275,000 for the Wisconsin Tribal Conservation Advisory Council.*—GLIFWC requests Congress restore \$275,000 in funding for the Wisconsin Tribal Conservation Advisory Council (WTCAC) eliminated by the Administration in fiscal year 2006.

—*Maintain EQIP and WHIP Program Funding.*—GLIFWC supports the Administration's budget request for \$1 billion for the Environmental Quality Incentives

Program (EQIP) and \$60 million for Wildlife Habitat Incentives Program (WHIP).

*Disclosure of USDA Grants Contracted.*—GLIFWC 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 (See map). Under the USDA's Environmental Quality Incentives Program, GLIFWC contracted \$10,000 in fiscal year 1998 and an additional \$40,000 in fiscal year 1999. In addition, GLIFWC 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 (GLIFWC). Our eleven member tribal governments thank you for considering our testimony regarding programs funded by USDA's Natural Resource Conservation Service. GLIFWC's testimony stresses three major objectives: (1) Re-affirm support for local decision making in EQIP and WHIP programs; (2) restore funding for the Wisconsin Tribal Conservation Advisory Council (WTCAC) at \$275,000 annually; and (3) provide funding for the Environmental Quality Incentives Program (EQIP) at \$1 billion and Habitat Incentives Program at \$60 million and support intertribal and tribal efforts to participate in conservation partnerships.

*Background.*—GLIFWC is comprised of eleven (11) 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.

*Re-affirm Support for Local Decision Making.*—GLIFWC's success in contracting and implementing USDA's EQIP and WHIP programs is due in large part to a program structure that stresses local decision making. This local decision making process includes: (1) identification of local conservation problems; (2) establishment of local priorities, ranking systems, and cost share rates; and (3) selection of options that best solve problems based upon local environmental conditions. GLIFWC requests Congress reaffirm its support for community based decision making structures within USDA's EQIP and WHIP programs and closely scrutinize any proposals to impose top down ranking systems that may attempt to mandate a one size fits all philosophy.

*Local Decision Making Within the EQIP Program Results in Successful Efforts to Control Purple Loosestrife in the Bad River and Chequamegon Bay Watersheds and Built Conservation Partnerships.*—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.

GLIFWC completed a 5 year EQIP project to control purple loosestrife in the Bad River and Chequamegon Bay watersheds at a cost of \$50,000. GLIFWC incorporated a watershed strategy utilizing funding from the BIA's Noxious Weed Program to control loosestrife on public lands and NRCS EQIP funding to control loosestrife on private lands with land owner consent. GLIFWC also incorporated an integrated pest control strategy utilizing both chemical controls and biological controls—beetles that feed exclusively on purple loosestrife. The beetles were grown and released on a number of sites as a long term control measure. Field assessments indicate that the beetles have established themselves at the release sites. The use of GPS and GIS technology enabled GLIFWC to document the effectiveness of this invasive species control strategy.

GLIFWC has also completed two EQIP education grants in support of its purple loosestrife and leafy spurge control efforts. Under these grants, the GLIFWC: (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 (see <http://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.

These EQIP education grants provided an informational foundation for the Northwood's Weed Initiative (NWI). The Northwood's Weed Initiative (NWI), a partnership including: NRCS, GLIFWC, The Nature Conservancy, USFWS, USFS, WDNR, UWEX and private citizens, is working to slow the spread of leafy spurge and other invasive plants that have been identified in the area. This invasive plant poses a threat to tribal gathering rights as it will disrupt plant communities, out-competing native plants used by tribal members. The first efforts to control and contain leafy spurge were begun on private lands within the ceded territory. An educational poster on leafy spurge is in the development phase and will be distributed State-wide.

*Wisconsin Tribal Conservation Advisory Council.*—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. GLIFWC requests Congress restore funding for WTCAC at \$275,000 in fiscal year 2006 thereby ensuring tribal communities in Wisconsin have the technical resources needed to address their conservation needs.

*WTCAC and EQIP Funding set-asides Increase Program Participation by Indian Nations in Wisconsin.*—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. The WTCAC was allocated \$88,000 in WHIP funding and \$1,100,000 in EQIP funding over fiscal year 2003 and fiscal year 2004. These resources enabled tribes to conserve and protect natural resources through a number of innovative projects including:

—*Supporting Aquaculture Development.*—Tribes have taken a leadership role in integrating aquaculture projects into USDA's EQIP program including: (1) Red Cliff's construction of a wetland filtration system as part of Red Cliff's Coaster Brook Trout Restoration Project at \$75,000—which was critical in supporting the selection of Red Cliff for the State's new \$3 million aquaculture training facility; (2) St Croix's installing an aquaculture effluent treatment system at its St. Croix Waters Aquaculture facility at \$43,162 and establishment of nutrient management of fish waste at \$3,780; and (3) St. Croix's contracting of \$19,918 to improve water volume and quality for the rearing of food fish and walleye and perch fingerlings for restocking efforts on local lakes. NRCS is now working with Lac Courte Oreilles (LCO) on plans to expand the fish rearing ponds currently operated by the tribal hatchery.

—*Decommissioning Abandoned Wells.*—Tribes have used EQIP funding to decommission abandoned wells that are a potential source of groundwater contamination including: (1) \$5,500 contracted at Bad River; (2) \$10,026 contracted at Lac du Flambeau; and (3) \$45,800 at the Sokaogon Chippewa community.

—*Controlling Shoreline Erosion on Wisconsin Lakes.*—EQIP funding has been used to provide shoreline stabilization to prevent sedimentation, adverse effects on water quality, and aquatic habitat damage including projects on: (1) the Chippewa Flowage and Skull Island and Middle Three Sisters Islands by LCO at \$225,000; (2) Flambeau and Pokegama Lakes by Lac du Flambeau at \$40,000; and (3) Big Sand Lake in Burnett County by St. Croix.

—*Wetland and Wild Rice Restoration Project.*—The Sokaogon Chippewa Community contracted \$47,780 (EQIP) 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. St. Croix contracted \$18,750 (EQIP) to install a grade stabilization structure to control soil erosion upstream of the confluence of the Yellow River and the St. Croix River impaired wild rice beds downstream on the St. Croix River. LCO used \$7,050 (WHIP) to re-establish wild rice and install 100 wood duck houses and 12 loon nesting platforms. These efforts build upon the tribe's earlier success in establishing wild rice beds on Billy Boy Flowage.

—*Stream Corridor Restoration Projects.*—Tribes used WHIP funding for habitat projects to support efforts to establish spawning migrations of coaster brook trout from Lake Superior through stream habitat work in Graveyard Creek (i.e. by Bad River at \$15,732) and in Red Cliff Red Cliff Creek (i.e. by Red Cliff at \$10,000).

—*Forest Restoration and Protection Project.*—The Bad River contracted \$74,988 to plant white pine, red pine, balsam fir, and white spruce on tribal lands that, left untreated, would regenerate to aspen and increase erosion problems. Lac du Flambeau contracted \$54,160 in EQIP funding for Forest site preparation on

200 Acres, Forest stand improvement on 250 acres, a prescribed burn on 223 acres, and three water control structures.

*Michigan Tribes Begin to Access NRCS EQIP and WHIP Funding.*—The success of Wisconsin tribes experienced in contracting EQIP and WHIP funding from NRCS is now starting in Michigan. In 2004, the Lac View Desert Band contracted EQIP funding to construct two walleye rearing ponds at \$100,000. The tribe also received an additional \$11,000 in WHIP funding to drill wells for the ponds.

The Keweenaw Bay Indian Community contracted \$50,000 in WHIP funding to construct a walleye rearing pond. Keweenaw Bay also contracted \$20,000 to establish buffer zones to protect coastal wetlands from sedimentation from stamp sands in Keweenaw Bay. Unfortunately, the Bay Mills Indian Community has yet to receive funding through USDA's EQIP or WHIP programs and is looking to rectify this problem in the future.

Once projects move into the implementation phase at Keweenaw Bay and Lac View Desert, GLIFWC will also begin assessing and documenting program delivery to its member tribes in Minnesota.

*Tribal Contributions to NRCS.*—It is import for Congress to acknowledge that while NRCS has provided tribes with fiscal resources, tribes have also provided assistance to NRCS in meeting their conservation mission. GLIFWC, and its professional biologists, have taken a leadership role in assisting NRCS in preparing: (1) Wisconsin Biology Technical Note 4 Wild Rice Seeding Guidelines; (2) Wisconsin Biology Technical Note 5 Invasive Plant Species Control; and (3) Wisconsin Practice Standard 595 Pest Management –Aquatic Invasive species.

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.
- The lessons learned in Wisconsin are useful in supporting efforts to bring NRCS programs to Michigan tribes given those tribes are provided an adequate commitment of staff time and fiscal resources.

A partnership integrating WTCAC, the State NRCS offices, and financial resources from USDA's EQIP and WHIP programs enables Tribal Nations to directly address conservation needs that are prioritized within their respective communities. We ask Congress to support increased funding for these programs and re-affirm support for local decision making processes.

#### 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 2006 funding items of great importance to The Humane Society of the United States (HSUS) and its more than 8.9 million supporters nationwide.

#### ENFORCEMENT OF ANIMAL WELFARE LAWS

We are writing to thank you for your outstanding support during the past few years for improved enforcement by the U.S. Department of Agriculture of key animal welfare laws, and to urge you to sustain this effort in fiscal year 2006. 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 trafficking, 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 that are still conscious; (3) the sale of unhealthy pets by commercial breeders, commonly referred to as "puppy mills"; (4) laboratory conditions that may impair the scientific integrity of animal based research; (5) risks of disease transmission from, and dangerous encounters with, wild animals in or during public exhibition; and (6) injuries and deaths of pets on commercial airline flights due to mishandling and exposure to adverse environmental conditions. For fiscal year 2006, we want to ensure that the important work made possible by the fiscal year 2005 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:

*APHIS/Animal Welfare Act (AWA) Enforcement*

We commend the Committee for responding in recent years to the urgent need for increased funding for the Animal Care division to improve its inspections of approximately 10,000 sites, including commercial breeding facilities, laboratories, 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. We are pleased that the President's budget recommends an increase of \$770,000 (plus allowance for pay costs) and 8 staff years to further improve AWA enforcement in fiscal year 2006. This responds to Animal Care's significantly increased workload as a result of rapid growth in the number of new licensees and registrants, particularly in the Western Region (including the Midwest), which has had an average increase of 109 facilities per month so far in fiscal year 2005. Since fiscal year 2001, the number of licensed/registered facilities in the Western Region has nearly doubled. The Eastern Region is also experiencing growth of an average 57 new facilities per month. We commend Animal Care for reaching out to those that had previously failed to become licensed or registered as the law requires, and bringing them under the agency's oversight for AWA compliance. To ensure that the program's effectiveness is not compromised, we urge you to provide \$17,478,056, as recommended by the President, for Animal Welfare.

APHIS/INVESTIGATIVE AND ENFORCEMENT SERVICES (IES)

The President's budget recommends an increase of \$928,000 and 8 staff years for IES in fiscal year 2006, and 3 of the 8 new field investigator positions are to focus primarily on enforcement of Federal animal welfare laws. This reflects the fact that the volume of animal welfare cases is rising significantly as new facilities become licensed and registered. IES has already initiated more cases in the first half of fiscal year 2005 than it had pursued in each of the previous two years. In fiscal year 2004, IES conducted 288 formal investigations of alleged AWA violations, with 97 cases resolved through either civil penalty stipulations or Administrative Law Judge decisions and a total of \$548,614 assessed in fines. To ensure the vital support for Animal Care's front-line work, we urge you to provide the \$10,398,944 requested by the President for IES.

*Office of Inspector General/Animal Fighting Enforcement*

We very much appreciate the inclusion of \$800,000 in fiscal year 2005 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 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 four children in Asia in 2004 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 2006.

*Food Safety and Inspection Service/Humane Methods of Slaughter Act (HMSA) Enforcement*

We are grateful that Congress provided \$5 million in fiscal year 2005 to sustain no fewer than 63 full time equivalent (FTE) positions dedicated solely to inspections and enforcement related to the Humane Methods of Slaughter Act, plus \$3 million



to incorporate a new tracking system to ensure compliance with this law. The HMSA is designed to ensure that livestock are treated humanely and rendered unconscious before they are killed. The effort to target funds for this purpose was undertaken following reports of lax enforcement of the HMSA and animals being skinned, dismembered, and scalded while still alive and conscious. We urge that \$5 million be provided again in fiscal year 2006 exclusively for HMSA enforcement, and that language again be included to ensure effective implementation. Specifically, we hope such language will encourage USDA to: (1) use a portion of these funds to designate additional FSIS personnel to work with the existing District Veterinary Medical Specialists solely on HMSA enforcement; (2) employ objective scoring techniques (such as ratings on physical plant layout) to determine when regulatory actions are needed and to document improvements or failures in animal handling and slaughter operations; and (3) use location and technologies to enhance enforcement through unannounced observations.

#### *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 gate of Tennessee Walking Horses, unscrupulous trainers use a variety of methods to inflict pain on sensitive areas of the feet and legs for the effect of the leg-jerk reaction that is popular among many in the show-horse industry. This cruel practice continues unabated by the well-intentioned but seriously understaffed APHIS inspection program. We appreciate the Committee's help providing modest increases to bring this program close to its authorized annual funding ceiling of \$500,000. We hope you will provide the \$497,024 requested by the President for fiscal year 2006. 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 in January 2004 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). We hope the Committee will codify this 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 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 through their meat, such as

*E. coli* and *Salmonella*, and these animals, too, suffer when they are moved en route to slaughter.

As the Committee is aware, some segments of industry and members of Congress have recommended weakening the USDA downed cattle ban. They claim that animals unable to walk because of injury pose no health risk. But injury and illness are often interrelated—an animal may stumble and break a leg because of disease that causes weakness and disorientation. And USDA inspectors would have a difficult—if not impossible—task trying to sort out the reason an animal became non-ambulatory. Major consumer groups including Consumers Union and Consumer Federation of America, support groups for victims of food-borne illness, such as Safe Tables Our Priority (S.T.O.P.), Creutzfeldt-Jakob Disease Foundation, and CJD Voice, food safety organizations, companies such as McDonald's and Wendy's, and many others have all pointed out how reckless such a system would be. Of the BSE cases identified in Canada and the United States to date, 3 out of the 5 were identified as downed due to injuries, including the Washington State case ("calving injuries") and the most recent case in Canada ("slipped on ice/broken leg").

From an animal welfare perspective, a comprehensive ban is needed because a downer cow with a broken leg would suffer just as much as a sick one if it's dragged through a slaughterplant—maybe even more. A ban on use of all downers for human food also provides an incentive for producers to treat animals humanely and prevent livestock from going down. Even before the administrative ban, USDA estimated that only 0.4 percent to 0.8 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." Cases that involve broken bones and other injuries are perhaps the most preventable with improved husbandry.

Most Americans had no idea that animals too sick or injured to walk were being dragged with chains or hauled by bulldozer en route to the food supply. When that fact came to light in December 2003, USDA's prompt decision to ban all downer cattle from human food calmed consumers. Unraveling the ban would undermine consumer confidence. More than 99 percent of the 22,000+ public comments USDA received on its downer ban called on the agency to maintain and strengthen its downer ban, with most asking that other species be included. For a report on the comments received by the agency, please go to: [http://files.hsus.org/web-files/PDF/2004\\_06\\_16\\_rept\\_USDA\\_comments.pdf](http://files.hsus.org/web-files/PDF/2004_06_16_rept_USDA_comments.pdf).

USDA testimony before various congressional committees has made clear that the agency need not rely on slaughterplant testing for BSE surveillance purposes. The USDA can conduct a viable surveillance program at rendering plants and farms to track the potential progression of BSE in this country.

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 2006 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 2006. 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.

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#### PREPARED STATEMENT OF THE INTERTRIBAL BISON COOPERATIVE

##### INTRODUCTION AND BACKGROUND

My name is Ervin Carlson, a member of the Blackfeet Tribe of Montana and President of the InterTribal Bison Cooperative. Please accept my sincere appreciation for this opportunity to submit testimony to the honorable members of the Department of Agriculture Appropriations Sub-Committee. The InterTribal Bison Cooperative (ITBC) is a Native American non-profit organization, headquartered in Rapid City, South Dakota, comprised of 54 federally recognized Indian Tribes located across 18 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 first 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 to 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 2005 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 cardiovascular disease and various other diet related diseases. Studies indicate that Type 2 diabetes commonly emerges when a population undergoes radical diet changes. Native Americans have been forced to abandon traditional diets rich in wild game, buffalo and plants and now have diets similar in composition to average American diets. More studies are needed on the traditional diets of Native Americans versus their modern day diets in relation to diabetes rates. However, based upon the current data available, it is safe to assume that disease rates of Native Americans are directly impacted by a genetic inability to effectively metabolize modern foods.

More specifically, it is well accepted that the changing diet of Indians is a major factor in the diabetes epidemic in Indian Country.

Approximately 65–70 percent of Indians living on Indian Reservations receive foods provided by the USDA Food Distribution Program on Indian Reservations (FDPIR) or from the USDA Food Stamp Program. The FDPIR food package is composed of approximately 58 percent carbohydrates, 14 percent proteins and 28 percent fats. Indians utilizing Food Stamps generally select a grain-based diet and poorer quality protein sources such as high fat meats based upon economic reasons and the unavailability of higher quality protein sources.

Buffalo meat is low in fat and cholesterol and is compatible to the genetics of Indian people. ITBC has implemented a health care initiative to provide easy access to buffalo meat on Indian reservations and to educate more Indian families on the health benefits of range fed buffalo meat in their daily diets. 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 preventive health care initiative to utilize buffalo meat as a healthy addition to Tribal family diets.

ITBC strongly urges you to support its request for the amended language as specifically provided above to the Food Stamp Act to allow \$4,000,000 for the purchase of Native American produced buffalo and buffalo meat, to improve the diet of Tribal members.

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#### PREPARED STATEMENT OF THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Dear Chairman Bennett: The Metropolitan Water District of Southern California is writing in support of the following Federal program under the Department of Agriculture's (USDA) budget that we believe is deserving of your Subcommittee's support during the fiscal year 2006 budget process:

Farm Security and Rural Investment Programs, Environmental Quality Incentives Program Activity.

\$25 million earmark for the Colorado River Basin Salinity Control Forum.

The Metropolitan Water District of Southern California is a public agency that was created in 1928 to meet the supplemental water demands of people living in what is now portions of a six-county region of southern California. Today, the region served by Metropolitan includes approximately 18 million people living on the coastal plain between Ventura and the international boundary with Mexico. It is an area larger than the State of Connecticut and, if it were a separate Nation, would rank in the top ten economies of the world.

Included in our region are more than 300 cities and unincorporated areas in the counties of Los Angeles, Orange, San Diego, Riverside, San Bernardino, and Ventura. We provide over half of the water used in our 5,200-square-mile service area. Metropolitan's water supplies come from the Colorado River via our Colorado River Aqueduct and from northern California via the State Water Project's California Aqueduct.

MWD continues to support USDA implementation of conservation programs. MWD firmly believes that interagency coordination, along with incentive-based cooperative conservation programs that facilitate the development of partnerships, are critical to addressing natural resources concerns, such as water quality degradation, wetlands loss and wildlife habitat destruction. It is vital that the Congress provides USDA with the funding necessary to successfully carry out its commitment to natural resources conservation.

## ENVIRONMENTAL QUALITY INCENTIVES PROGRAM (EQIP)

An important program for MWD has been the Colorado River Basin Salinity Control Program, which is funded by USDA at the Federal level through the Environmental Quality Incentives Program Activity of the Farm Security and Rural Investment Programs. MWD recommends that EQIP be funded at \$1 billion in fiscal year 2006, as proposed in the President' Budget, with the Colorado River Basin Salinity Control Program funded at \$25 million, 2.5 percent of the EQIP Activity, as requested by the seven Colorado River Basin States through the Colorado River Basin Salinity Control Forum.

EQIP provides assistance to farmers and ranchers who face threats to soil, water, air and related natural resources on their land. EQIP provides assistance in a manner that will promote agricultural production and environmental quality as compatible goals. The Natural Resources Conservation Service (NRCS) offers the program throughout the Nation.

In Public Law 104-127, Congress amended the Colorado River Basin Salinity Control Act to direct the Secretary of Agriculture to carry out salinity control measures in the Colorado River Basin as part of EQIP. Beginning with the first full year of EQIP funding in 1997 through 2001, USDA's participation in the Colorado River Basin Salinity Control Program (Salinity Control Program) had significantly diminished as compared to the 1996 level of funding for salinity control. After requests had been made by the Colorado River Basin Salinity Control Forum (Forum), the interstate organization responsible for coordinating the seven Basin States' salinity control efforts, and others, as well as directives from the Congress, USDA concluded that the Salinity Control Program warranted a multi-state river basin approach. The Forum is composed of Gubernatorial appointees from Arizona, California, Colorado, Nevada, New Mexico, Utah, and Wyoming. Clearly, Colorado River Basin salinity control has benefits that are not merely local or intrastate in nature, but continue downstream. EQIP is also important because it provides funding for agricultural source water protection measures that protect and improve the quality of Metropolitan's imported supplies from Northern California.

The Colorado River is a large component of Southern California's regional water supply and its relatively high salinity causes significant economic impacts on water customers in MWD's service area, as well as throughout the Lower Colorado River Basin (Lower Basin). MWD and the Bureau of Reclamation (Reclamation) completed a Salinity Management Study for Southern California in June 1999. The study concluded that the high salinity from the Colorado River continues to cause significant impacts to residential, industrial and agricultural water users. Furthermore, high salinity adversely affects the region's progressive water recycling programs, diminishes the effectiveness of water conservation efforts, and is contributing to an adverse salt buildup through infiltration into Southern California's irreplaceable groundwater basins.

In April 1999, MWD's Board of Directors authorized implementation of a comprehensive Action Plan to carry out MWD's policy for management of salinity. The Action Plan focuses on reducing salinity concentrations in Southern California's water supplies through collaborative actions with pertinent agencies, recognizing that an effective solution requires a regional commitment. MWD, the Association of Groundwater Agencies, the Southern California Association of Publicly Owned Treatment Works, and the WaterReuse Association of California have formed a Salinity Management Coalition.

During 2003, the Coalition was expanded to include major water and wastewater agencies throughout Southern California. Presently, the eleven members of the coalition are working to implement a Strategic Action Plan that focuses primarily on local contributions to southern California's high-salinity problem. In addition, Southern California leaders are working with urban areas in Arizona, Nevada, New Mexico, and Texas to find solutions to mutual problems with salinity in imported supplies, such as from the Colorado River, and other sources. In December 2004, these agencies participated in the National Salinity Summit to examine and coordinate salinity management activities.

Concentrations of salts in the Colorado River cause hundreds of millions of dollars in damage in the United States according to the U.S. Department of the Interior. Implementation of salinity control measures:

- increases the yield of salt sensitive crops and decreases water use for leaching in the agricultural sector,
- increases the useful life of galvanized water pipe systems, water heaters, faucets, garbage disposals, clothes washers, and dishwashers, and decreases the use of bottled water and water softeners in the household sector,

- decreases the use of water for cooling, and the cost of water softening, and increases equipment service life in the commercial sector,
- decreases the use of water and the cost of water treatment, and decreases sewer fees in the industrial sector,
- increases the life of treatment facilities and pipelines in the utility sector,
- eases the meeting of wastewater discharge requirements to comply with National Pollutant Discharge Elimination System permit terms and conditions, and decreases desalination and brine disposal costs due to less accumulation of salts in groundwater basins, and
- decreases use of imported water for leaching and the cost of desalination and brine disposal for recycled water.

Absent the Salinity Control Program, impacts would progressively increase with continued agricultural and urban development upstream of California's points of Colorado River diversion. Droughts will cause spikes in salinity levels in the future that will be highly disruptive to Southern California water management and commerce. The Salinity Control Program has proven to be a very cost-effective approach to help mitigate the impacts of higher salinity. Adequate Federal funding of the Salinity Control Program is essential.

The Forum issued its 2002 Review, Water Quality Standards for Salinity, Colorado River System (2002 Review) in October 2002. The 2002 Review found that 1 million tons of salinity needs to be controlled annually to maintain 2001 salinity levels through 2020. From 1994 through 2003, funding for USDA's salinity control program did not equal the Forum-identified funding need for the portion of the program the Federal Government is responsible to implement. While NRCS has designated Colorado River Basin salinity control as an area of special interest, appointed a multi-state coordinator, and allocated about \$19.8 million in fiscal year 2004 and \$19.5 million in 2005, it is essential that implementation of salinity control efforts through EQIP continue to be accelerated to reduce economic impacts. The Basin States and farmers continue to stand ready to pay their share of the implementation costs of EQIP.

The Forum has determined that allocation of 2.5 percent of the EQIP funds, that is \$25 million, is needed in fiscal year 2006 for on-farm measures to control Colorado River Basin salinity. Funding at this level will permit the state adopted and U.S. Environmental Protection Agency approved water quality standards to be met. With 2.5 percent of the EQIP cost share financial assistance, monitoring, and technical assistance funding requested by the President allocated to the Salinity Control Program, an additional \$21 million in States and local cost sharing could be committed.

MWD urges the Subcommittee to support funding of \$1 billion for EQIP, the amount requested in the President's Budget, and advise USDA that \$25 million, or 2.5 percent of the EQIP funds, be designated for the Salinity Control Program. Thank you for your consideration of our testimony. USDA's conservation programs are critical for achieving Colorado River Basin salinity control objectives, as well as broader source water quality protection objectives in the Colorado River Basin and California.

We look forward to working with you and your Subcommittee. Please contact Brad Hiltcher, MWD's Executive Legislative Representative in Washington, D.C. at (202) 296-3551, if we can answer any questions or provide additional information.

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PREPARED STATEMENT OF THE NATIONAL ASSOCIATION OF STATE ENERGY OFFICIALS  
(NASEO)

Mr. Chairman and members of the Subcommittee, I am Sara Ward of Ohio and Chair of the National Association of State Energy Officials (NASEO). NASEO is submitting this testimony in strong support of funding at a \$23 million level in fiscal year 2006 for Section 9006 of the Farm Bill, dealing with energy efficiency and renewable energy for farms and rural small businesses. NASEO also supports a \$14 million funding level for the critical biomass R&D program contained in Section 9010 of the Farm Bill.

The state energy offices implement energy programs in the states in all sectors of the economy and develop energy policies for the States. The energy offices work closely with agricultural extension offices throughout the United States to support a vibrant rural economy, while increasing productivity and the use of energy efficiency and renewable energy. NASEO has long-supported expanded use of ethanol, as part of a balanced national energy policy.

The "Renewable Energy System and Energy Efficiency Improvements Program" (Section 9006 of the Farm Security and Rural Investment Act of 2002 ) (Public Law

107–171) received \$23 million in fiscal year 2005. Despite the budget request of \$10 million, we strongly support level funding of \$23 million in fiscal year 2006. This program has already proven to be effective in promoting the use of renewable energy and energy efficiency in the agriculture sector. The State energy offices are working to promote this program. A number of States have matching efforts to expand the reach of this critical activity. The first 2 years of the program distributed \$44 million in Federal grants across 29 States, for \$300 million in energy projects. These projects have included wind power, energy efficiency, anaerobic digesters, biofuels processing and many other projects.

The State energy offices stand ready to respond to any questions or concerns from the Subcommittee regarding these two important programs.

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## 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 2006. Representing the directors of State forestry agencies from the 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: Research, Education, and Economics, as well as Natural Resources and Environment. We believe the USDA budget for fiscal year 2006, which offers opportunities for advancing the sustainable management of private forestland nationwide, can be strengthened through our recommendations.

### USDA COOPERATIVE STATE RESEARCH, EDUCATION, AND EXTENSION SERVICE (CSREES) PROGRAMS

#### *Cooperative Forestry Research (McIntire—Stennis) Program*

The Cooperative Forestry Research (McIntire-Stennis) Program (CFRP) is a crucial part of the foundation that underlies academic and scientific understanding of the Nation's forest resources. McIntire-Stennis CFRP was originally enacted in order to provide universities with formula funds for the explicit purpose of research in the field of forestry, which was not provided for in similar research funding programs. For more than forty years, CFRP has equipped both private and land-grant universities with the ability to produce invaluable research concerning forest productivity, environmental quality, and technologies for monitoring and extending the natural resource base. The program also provides rigorous scientific education and training for university students—the future managers of the Nation's forest resources.

Universities, supported by base funds from the Federal Government, have consistently supplied science-based forestry research not affiliated with any particular resource use or interest group. Without sufficient base funds from the Federal Government, society will lose the benefits wrought by this productive partnership.

The Administration's proposed fiscal year 2006 budget reduces funding for the McIntire-Stennis CFRP to half the amount enacted in fiscal year 2005 and aims to eliminate the program formula funds in fiscal year 2007. The Administration plans to redirect the funds toward both the National Research Initiative competitive grants program (NRI), and the new State Agriculture Experiment Station competitive grants program (SAES), which would provide competitive grants exclusively to land-grant universities. Although the amount of funding would theoretically be maintained, the proposed change in the funding mechanism would drastically alter the way that the funds would ultimately be used. Neither NRI nor SAES support specific forestry research efforts. The combination of the proposed elimination of McIntire-Stennis formula funds and the shift in the program funding mechanism would significantly reduce universities' ability to conduct necessary and credible forest resource research.

NASF recommends full restoration of program funding for the Cooperative Forestry Research (McIntire-Stennis) Program to \$22 million. The proposed increase in CFRP 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.

#### *The National Research Initiative Competitive Grants Program (NRI)*

The National Research Initiative Competitive Grants Program (NRI) advances fundamental scientific agriculture and forestry research. Two of the notable NRI forestry funding opportunities available in 2005 are Bio-based Products research

grants and Bioenergy Production research grants. While grants such as these have great potential to contribute to forest resource research efforts, only 6 percent of NRI funds were allocated to forestry research proposals in fiscal year 2005.

NASF supports continued funding for NRI, and encourages the President to increase the proportion of spending dedicated to forest research to a minimum of 10 percent. However, NASF strongly disapproves of the proposed shift of McIntire-Stennis funds to NRI, thereby ending the forestry focus of the McIntire-Stennis program.

#### *The Renewable Resources Extension Act (RREA)*

The Renewable Resources Extension Act (RREA) facilitates the transfer of needed forestry information and technology to non-industrial private forest landowners, as well as loggers and small businesses involved with forest resource management.

Extension's education programs aid private landowners in understanding their management options and responsibilities, and encourage them to take advantage of other technical and financial assistance programs.

NASF recommends funding RREA at \$4.1 million for fiscal year 2006, in order to sustain the program's ability to address critical extension and stewardship needs.

#### 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 forestry and agricultural operations. Trees and forestry practices are often the best solution to many of the conservation challenges arising from these operations.

NASF recommends funding for the Environmental Quality Incentives Program (EQIP) at the fiscal year 2005 level of \$1.2 billion, full funding for the Conservation Reserve Program (CRP), \$85 million for the Wildlife Habitat Improvement Program (WHIP), targeting of 321,000 acres under the Wetlands Reserve Program (WRP), and \$150 million for the Emergency Watershed Program (EWP). NASF supports the President's fiscal year 2006 funding proposal of \$274 million for the Conservation Security Program (CSP). NASF recommends that the Subcommittee strongly encourage the Secretary of Agriculture and the NRCS to expand the emphasis on forestry practices in EQIP and the other Farm Bill Conservation Programs.

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. Investing Federal funds in conservation practices on private forest lands produces benefits for all, not simply landowners. These benefits include abundant clean water for drinking and recreation, improved wildlife habitat, open space, viable rural economies, and many other tangible and intangible public benefits.

#### CONCLUSION

The National Association of State Foresters seeks the Subcommittee's support for a USDA fiscal year 2006 budget that will make sure the public's conservation needs—provided by private landowners—are met. Thank you for the opportunity to provide our testimony.

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#### 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 2006 budget 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 for the Cooperative State Research, Education and Extension Service, and the Natural Resources Conservation Service:



[In thousands of dollars]

USDA Agency/Program	Fiscal Year		
	2005 Enacted	2006 President's Budget	2006 NAUFWP Recommended
Coop. St. Research, Education, and Extension Serv:			
Hatch Act .....	178,707	89,354	178,707
McIntire-Stennis Cooperative Forestry .....	22,205	11,103	22,205
Renewable Resources Extension Act .....	4,060	4,093	4,093
Natural Resources Inventory .....	179,552	250,000	250,000
Natural Resources Conservation Service:			
Forest Land Enhancement Program .....			80,000
Conservation Program Monitoring and Evaluation .....			1,000

## COOPERATIVE STATE RESEARCH, EDUCATION AND EXTENSION SERVICE

*Hatch Act.*—The President's fiscal year 2006 request for the Hatch Act proposes a 50 percent cut in these formula funds, moving toward elimination of the program in fiscal year 2007. The Hatch Act supports agricultural research in the States at college and university agriculture experiment stations. Experiment stations conduct research that relates directly to maintaining an effective agricultural industry and promoting 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. Eliminating the base funding for critical agricultural research at land grant universities would be detrimental to rural economies and our natural resources. NAUFWP strongly encourages Congress to continue Hatch Act formula funding into the future, starting with restoring the program to \$178.707 million in fiscal year 2006.

*McIntire-Stennis.*—The proposed budget for McIntire-Stennis Cooperative Forestry in fiscal year 2006 reflects a 50 percent cut, and reports elimination of the program in fiscal year 2007. These funds are essential to the future of resource management on non-industrial private forestlands, where forest products are produced while natural resources, including fish and wildlife, are conserved. As societal pressures for forest products grow, private forestlands will increasingly be needed to supplement wood products and supplies. In the absence of long-term, on-going research on forest health, productivity and environmental quality provided through McIntire-Stennis, the Nation could easily become unable to meet future forest product needs. Replacing formula funds with competitive grants will erode essential base funding for land grant universities, and leave long-term, stable forest research to chance. NAUFWP strongly encourages you to continue the McIntire-Stennis Cooperative Forestry program into the future by restoring the program to \$22.505 million in fiscal year 2006.

*Renewable Resources Extension Act.*—We strongly recommend that the Renewable Resources Extension Act be funded at the President's requested level, \$4.093 million, in fiscal year 2006. RREA funds are apportioned to State Extension Services at land grant universities for educational programs aimed at private forests and rangelands. The programs help landowners improve management, marketing, and utilization of their renewable natural resources. RREA funds are leveraged up to 15-fold (average of 7:1) by State, local, and private funds to develop and disseminate information. Given that 58 percent of the Nation's forestland is privately owned, it is imperative that we provide these landowners with the knowledge to sustainably manage their forests for timber, watershed protection, recreation, biodiversity, and carbon sequestration. Extension programs supported by RREA also offer information about technical assistance, tax incentives, and cost-sharing opportunities.

Recently, CSREES and the Land Grant universities developed a 5-year strategic plan to guide RREA implementation from 2005–2009. The resulting goals and actions, if appropriately funded, will allow State Extension Services to help private forest landowners develop more profitable resource-based enterprises while improving environmental quality, controlling invasive species, decreasing land conversion and fragmentation, and increasing economic and quality of life benefits to landowners and communities.

RREA is a “win-win” program with measurable results. For example, the University of Florida used RREA funds to develop a Wildland Fire Education program, leveraging \$200,000 and reaching 2,000 workshop participants. Cornell University used RREA funds to work with the New York Department of Environmental Conservation's Division of Lands and Forests to implement the State's Stewardship

Plan for the 2002 Farm Bill. As a result of Cornell's RREA-supported involvement, approximately \$323,000 has been leveraged to provide educational assistance to over 57,000 forest owners who control more than 3 million acres of forestland in the State. Texas A&M used RREA funds to initiate creation of an electronic version of the Texas Friendly quality customer service training, to help Texas landowners expand opportunities for nature tourism income sources.

*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 support the President's \$250 million request for National Research Initiative Competitive Grants in fiscal year 2006, provided the increase does not come at the expense of important formula fund programs such as Hatch Act and McIntire-Stennis.

#### 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 2006.

*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.

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#### PREPARED STATEMENT OF THE NATIONAL COALITION FOR FOOD AND AGRICULTURAL RESEARCH

Dear Mr. Chairman, 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 2006 and beyond.

#### SUMMARY POSITION—FISCAL YEAR 2006

With the noteworthy exceptions indicated below, National C–FAR urges the Subcommittee and Committee to fund the Administration's request for food and agricultural research, extension and education for fiscal year 2006, including much-needed increases in the National Research Initiative. National C–FAR urges that funding for research, extension and education be augmented to the maximum extent practicable, as an important next step toward building the funding levels needed to meet identified food and agricultural research, extension and education needs. In particular—

—National C–FAR urges the Subcommittee and Committee to maintain funding for the Hatch, McIntyre-Stennis and Animal Health and Disease formula fund programs at or above fiscal year 2005 enacted levels. National C–FAR is concerned that the Administration's proposal to (1) cut Hatch and McIntyre-Stennis funds by 50 percent in fiscal year 2006 and 100 percent in fiscal year 2007; and (2) eliminate funding for Animal Health and Disease in fiscal year 2006 would destabilize the important research and extension activities currently funded by those programs, as well as the ability to maintain critical scientific expertise at the affected institutions.

—National C-FAR appreciates the Administration's proposed increases for selected programs in the Agricultural Research Service. We also are concerned about the apparent arbitrary reduction in a number of programs without a careful review of their merits, including adequate stakeholder input.

As a coalition representing stakeholders in both the research, extension and education community and the customers' who need and depend upon their outcomes, National C-FAR urges expanded public participation in the Administration's research priority setting and funding decision process and stands ready to work with the Administration and other interested stakeholders in such a process.

#### 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 and extension community. More information about National C-FAR is available at <http://www.ncfar.org>.<sup>1</sup>

#### DEMONSTRATED VALUE OF PUBLIC INVESTMENTS IN FOOD AND AGRICULTURAL RESEARCH, EXTENSION AND EDUCATION

Public and private investments in U.S. agricultural research and practical application of results 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, extension and education to date have 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.

Publicly financed research, extension and education are necessary complements 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, extension and education help provide oversight and measure long-term progress. Public research, extension and education also act 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 contributions of publicly supported agricultural research, extension and education to advances in food production and productivity and the re-

<sup>1</sup>National C-FAR seeks to increase awareness about the value of, and support for, food and agricultural research, extension and education. For example, National C-FAR is hosting an educational series of "Break & a Briefing" seminars on the hill, featuring leading-edge researchers on timely topics to help demonstrate the value of public investment in food and agricultural research, extension and education. National C-FAR also circulates a series of one-page Success Profiles highlighting some of the many benefits already provided by public investment in food and agricultural research, extension and education. Each provides a contact for more information. Profiles released to date are titled "Anthrax," "Mastitis," "Penicillin," "Witchweed," "Making Wine," "Fighting Allergens," and "Harnessing Phytochemicals." The Profiles can be accessed at <http://www.ncfar.org/research.asp>.

sulting 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 funding in recent years for food and agricultural research, extension and education 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 for food and agricultural research, extension and education has been flat for over 20 years, while support for other Federal research has increased substantially. 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.

Reduced public investment in food and agricultural research, extension and education may well be a result of a view that the U.S. food and agricultural system is an unprecedented success story. 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 continuing shortfalls in funding for food and agricultural research, extension and education will jeopardize the food and agricultural community's ability to maintain its leadership role. 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, extension and education so that the food and agricultural system can respond to these challenges on a sustainable basis:

- 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, extension and education are key to providing 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, extension and education 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, extension and education can enhance agriculture's ability to provide renewable sources of energy and cleaner burning fuels, sequester 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 natural fiber 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.

Translational education (extension) is a vital link connecting the research community to those who need and use research outcomes. The extension and education system helps translate basic and applied research outcomes into practical applications and more timely implementation by the end user community, thus helping to realize positive economic, environmental, health, food security and a host of other benefits in the food and agricultural system, and for the consuming public. The USDA's National Research Initiative has made significant progress in recognizing this role, through funding of projects that undertake an integrated research and extension approach. National C-FAR strongly supports funding for extension and education.

Finally, there is a continuing need to build the human capacity of expertise to do quality food and agricultural research, extension and education, and to implement research outcomes in the field and laboratory. The food and agricultural sciences face a daunting task of supplying the Nation with the next generation of scientists and educators. If these basic human resource 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 today and in the future must simultaneously satisfy 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 funding in food and agricultural research, extension and education 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. At the 3-year mark, the larger reality is the threat of funding cuts.

#### NATIONAL C-FAR FISCAL YEAR 2006 FUNDING RECOMMENDATION

With the noteworthy exceptions indicated below, National C-FAR urges the Subcommittee and Committee to fund the Administration's request for food and agricultural research, extension and education for fiscal year 2006, including much-needed increases in the National Research Initiative. National C-FAR urges that funding for research, extension and education be augmented to the maximum extent practicable, as an important next step toward building the funding levels needed to meet identified food and agricultural research, extension and education needs. In particular—

—National C-FAR urges the Subcommittee and Committee to maintain funding for the Hatch, McIntyre-Stennis and Animal Health and Disease formula fund programs at or above fiscal year 2005 enacted levels. National C-FAR is concerned that the Administration's proposal to (1) cut Hatch and McIntyre-Stennis funds by 50 percent in fiscal year 2006 and 100 percent in fiscal year 2007; and (2) eliminate funding for Animal Health and Disease in fiscal year 2006 would destabilize the important research and extension activities currently funded by those programs, as well as the ability to maintain critical scientific expertise at the affected institutions.

—National C-FAR appreciates the Administration's proposed increases for selected programs in the Agricultural Research Service (ARS). We also are concerned about the apparent arbitrary reduction in a number of programs without a careful review of their merits, including adequate stakeholder input.

As a coalition representing stakeholders in both the research, extension and education community and the customers' who need and depend upon their outcomes, National C-FAR urges expanded public participation in the Administration's research, extension and education priority setting and funding decision process and stands ready to work with the Administration and other interested stakeholders in such a process.

#### CONCLUSION

In conclusion, National C-FAR respectfully 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, extension and education;
- Recent funding levels for food and agricultural research, extension and education have been inadequate to meet pressing needs;

- Federal investments in food and agricultural research, extension and education should be enhanced in fiscal year 2006 and beyond;
  - Funding in fiscal year 2006 for USDA, CSREES formula fund programs (Hatch, McIntyre-Stennis and Animal Health and Disease) should be continued, at or above fiscal year 2005 enacted levels; and
  - The Administration should provide for expanded public participation, including during review of programs being considered for possible reforms or cuts.
- National C-FAR appreciates the opportunity to share its views and stands ready to work with the Chair and members of the Subcommittee and Committee in support of these important funding objectives.

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PREPARED STATEMENT OF THE NATIONAL COMMODITY SUPPLEMENTAL FOOD  
PROGRAM ASSOCIATION

Mr. Chairman and subcommittee members, I am Vicki Metheny, 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, low income mothers, infants, and children. The program first authorized in 1969, serves approximately 536,000 individuals every month in 32 States, 2 Tribal Organizations and the District of Columbia.

- The fiscal year 2006 President's Budget has proposed only \$106.9 million for the CSFP and projects total resources of \$112.8 million, with which the Department expects to support only 491,056 caseload slots, an 8 percent cut. 45,140 low-income seniors will no longer receive much needed nutritious commodity foods.
- The \$110.8 million in total resources made available in fiscal year 2005 will only maintain the fiscal year 2004 caseload of 536,196.
- Within the last 7 years, CSFP has added 15 new States to the Program serving 113,792 new program participants, the vast majority being low-income seniors.
- The program is not yet in all 50 States due to budget constraints, not due to a lack of interest or need for the services. In fiscal year 2003 when additional resources were made available to the program, 84,160 additional participants were served, mostly seniors.

The CSFP's 36 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 cost for fiscal year 2005 is \$13.95 with an approximate retail cost of \$50.00.
- The CSFP involves the entire community in the problems of hunger and poverty. Thousands of volunteers as well as 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. Forty-five percent of State and local operating resources are provided at the grassroots level along with an additional \$7.7 million in items donated to participants.

The Agriculture Appropriations Sub-Committee has consistently been supportive of CSFP, acknowledging it as a cost-effective way of providing nutritious supplemental food packages to low income eligible seniors, mothers and children.

This year, your support is needed urgently to provide adequate resources in order to retain the existing services for the 536,196 mothers, children and seniors currently receiving benefits. If the philosophy behind the President's budget is to do no harm to nutrition programs then \$123.2 million must be provided to maintain fiscal year 2005 level services.

The subcommittee itself has provided funding increases over the years to allow States with approved plans to join the growing list of CSFP participants. Five States currently have approved State plans. \$3.5 million would be needed to fund this vital program expansion into Arkansas, Delaware, New Jersey, Oklahoma and Utah.

While it is true that budget times are difficult just now for the government, as they are for many individuals, States already operating CSFP have indicated that there is additional need for the program and have asked for 110,000 slots for expansion of the program. The total cost of this expansion would be \$21.3 million, however, any expansion would be worthwhile and very much appreciated.

#### FISCAL YEAR 2006 PROGRAM SERVICE NEEDS

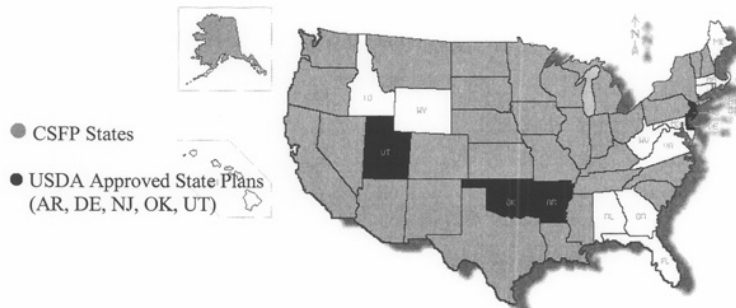
[Dollars in millions]

Description	Funding Need	Service Level
Maintain current service level .....	\$123.2	536,196
Maintain service level and expansion of service into five new States (20,500 people) .....	126.7	556,696
Maintain service level and expansion of service in current States (111,968 people) .....	142.5	648,164
Maintain current service level, expansion of service and five new States .....	148.0	674,664

#### CURRENT SERVICE LEVEL

Participant description	Number
Senior Citizens 60 and over who are at or below 130 percent of poverty .....	472,000
Women, Infants, Children (exclusive of WIC recipients) .....	64,000
<b>TOTAL</b> .....	<b>536,000</b>

#### Current Service Area:



#### FISCAL YEAR 2006 PROPOSED FUNDING IS NOT ADEQUATE

Description	Proposed Funding	Senior Service Decrease
\$106.9 million appropriation + \$6.02 million USDA commodity drawdown .....	\$112.8 million	(45,140)

The Commodity Supplemental Food Program (CSFP) provides Federal commodity food, nutrition education, and related services to senior citizens 60 and over (who are at or below 130 percent of Federal Poverty Income Guidelines). CSFP also serves pregnant and post-partum women, children under 6 (at or below 185 percent of Federal Poverty Income Guidelines), each month who are at nutritional risk due to low income. Eighty-eight percent of our monthly participants are seniors. The remaining 12 percent of those served by CSFP are moms and kids, of whom 9 out of 10 are no longer eligible for the WIC program. CSFP is currently distributed in 32 States, two (2) Indian Tribal Organizations, and the District of Columbia with the help of three (3) million volunteer hours, hundreds of non-profits and faith based organizations.

## CSFP ADMINISTRATIVE EXPENSE/VALUE SURVEY FOR FISCAL YEAR 2004

Programs	USDA Grants	Total Costs	Net USDA	In-Kind Cost	Volunteer Value	Total Value	Percent USDA	Extra Goods
NH	\$423,110	\$467,684	\$44,574	\$1,702	\$151,812	\$621,198	68	\$2,750
NY	1,846,888	3,816,178	1,969,290	9,000	51,570	3,876,748	48	20,425
VT, FB	291,667	291,667	0	0	30,942	322,609	90	268,200
DC	447,667	2,030,320	1,582,653	507,873	12,256	2,550,449	18	0
PA	795,923	1,084,276	288,353	236,891	828,304	2,149,471	37	128,281
KY	943,750	963,000	19,250	.....	55,008	1,018,008	93	0
MS	399,922	426,672	26,750	36,000	422,049	884,721	45	0
NC	82,803	122,803	40,000	0	3,438	126,241	66	20,000
SC	210,562	251,350	40,788	119,386	251,489	622,225	34	21,061
TN	840,733	0	0	0	0	840,733	100	0
IL	946,303	946,303	0	0	336,099	1,282,402	74	0
IN	263,202	298,202	35,000	17,520	358,095	673,817	39	0
MI	4,465,551	4,751,458	285,907	264,202	3,258,607	8,274,267	54	13,012,108
MN	811,741	150,848	339,107	7,508	691,494	1,849,850	44	240,000
RL, MN	7,422	14,844	7,422	0	0	14,844	50	0
OH	713,646	808,976	95,330	57,906	237,910	1,104,792	65	158,754
WI	261,820	306,025	44,205	0	240,110	546,135	48	528,550
LA	4,539,024	4,539,024	0	953,286	1,429,323	6,921,633	66	940
NM	1,113,015	1,428,969	315,954	368,815	237,144	2,034,928	55	646,964
TX	671,165	757,819	86,654	15,000	139,652	912,471	74	75,000
CO	1,158,839	1,289,224	130,385	87,860	597,192	1,974,276	59	577,049
IA	231,552	518,095	286,543	0	67,247	585,342	40	108,510
KS	325,397	394,416	69,019	329,960	255,881	980,257	33	81,424
MS	526,404	579,089	52,685	71,278	223,659	874,026	60	0
MT	357,744	406,496	48,752	116,529	199,301	722,326	50	295,666
NE	757,561	1,051,670	294,109	39,643	261,662	1,352,975	56	69,597
ND	157,368	192,942	35,574	1,135	226,220	420,297	37	23,940
SD	157,921	197,366	39,445	12,980	41,376	251,722	63	15,743
OS, SD	36,848	36,848	0	0	0	36,848	100	0
AK	157,921	176,196	18,275	0	36,271	212,467	74	0
AZ	992,153	1,632,789	640,636	442,950	1,030,066	3,105,805	32	655,000
CA	3,016,611	3,186,426	169,815	404,734	358,180	3,949,340	76	741,872
NV	473,764	490,051	16,287	33,000	30,474	553,525	86	0
OR	53,312	53,312	0	0	0	53,312	100	0
WA	134,194	145,743	11,549	300	62,366	208,409	64	0



TOTAL .....	28,613,503	34,647,814	7,034,311	4,135,458	12,125,197	51,908,469	55	7,691,834
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## PREPARED STATEMENT OF THE NATIONAL COUNCIL OF FARMER COOPERATIVES

Thank you, Mr. Chairman, and members of the Subcommittee for your leadership and support for U.S. agriculture. The National Council of Farmer Cooperatives (NCFC) appreciates this opportunity to submit its views regarding the fiscal year 2006 agriculture appropriations bill, and respectfully requests this statement be made part of the official hearing record.

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.

We appreciate very much the challenges facing Congress in the current budget environment. At the same time, we want to emphasize the continued importance and high priority of policies and programs, together with needed funding, under the 2002 Farm Bill to help promote an economically healthy and competitive U.S. agricultural sector, meet the food and fiber needs of consumers at home and abroad, strengthen farm income, improve our balance of trade, promote rural development, and maintain and create needed jobs.

To help achieve these important objectives, it is also vital to maintain and strengthen the ability of farmers to join together in cooperative self-help efforts. There is a long history of congressional support for public policy to enhance the ability of farmers to join together in farmer cooperatives to improve their overall income from the marketplace, manage their risk, capitalize on new market opportunities, and to compete more effectively in a global economy. Accordingly, in addition to supporting basic farm and commodity programs under the 2002 Farm Bill, we recommend the following:

—*USDA's Rural Business—Cooperative Service (RB-CS).*—The rural development mission area includes responsibility for carrying out a variety of programs to help achieve these objectives, including research, education and technical assistance for farmers and their cooperatives. Since the elimination of a separate agency with responsibility for such programs, funding for such purposes has generally been provided through the salary and expense budget relating to rural development.

For fiscal year 2006, the administration's budget proposal provides \$683 million in both budget authority and program level for salaries and expenses for the rural development mission area, compared to \$639 million for fiscal year 2005. Since there is no separate line item relating to programs in support of cooperative self-help efforts by farmers and their cooperatives, we recommend that specific language be included, as Congress previously has, to ensure that programs to encourage such cooperative self-help efforts be given a high priority.

—*Value-Added Producer Grants.*—USDA's Value-Added Producer 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.

In fiscal year 2005, the program was funded at \$15.5 million. For fiscal year 2006, the administration has recommended approximately \$16 million. Given the importance and success of the program in promoting cooperative self-help efforts by farmers, we would like to see the program fully funded at \$40 million as provided under the 2002 Farm Bill and hope the Subcommittee will be able to move toward that goal. It is also important to note that the program is administered on a matching basis, thereby doubling the impact of such grants and helping encourage needed investment in rural America. As a cost-share pro-

gram, it has served as an excellent example of an effective public-private partnership that has been extremely successful by any measure.

—*Commodity Purchase Programs.*—USDA annually purchases a variety of commodities for use in domestic and international feeding programs, including the school lunch program. NCFC 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 historic 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 2006, the administration's budget proposal provides an overall program level of \$899 million, which represents an increase over fiscal year 2005. 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. We are concerned over proposals that would eliminate funding for this important program. 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 implemented as Congress intended.

We would also like to take this opportunity to express our strong support for USDA's export programs. Such 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. As a member of the Coalition to Promote U.S. Agricultural Exports, we urge that funding be provided at \$200 million, together with \$34.5 million for the Foreign Market Development program, as provided under the 2002 Farm Bill. In addition, we urge full funding for 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.

We also would like to urge support for needed 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.

Another important area of emphasis when it comes to enhancing the global competitiveness of farmer cooperatives and American agriculture is research. NCFC supports the National Coalition for Food and Agriculture Research goal of doubling Federal funding over the next 5 years.

Finally, we also want to express our strong support for important 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 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.

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### PREPARED STATEMENT OF THE NATIONAL FISH AND WILDLIFE FOUNDATION

Mr. Chairman and Members of the Subcommittee: I appreciate the opportunity to submit testimony for the record regarding the fiscal year 2006 funding request for the National Fish and Wildlife Foundation (Foundation). The Foundation respectfully requests that this Subcommittee fund the Foundation at \$4 million through the U.S. Natural Resources Conservation Service (NRCS) appropriation. This request would allow the Foundation to expand its highly successful grant program to better assist the NRCS in maximizing the benefits of the Conservation Title of the 2002 Farm Bill.

Federal dollars appropriated by this Subcommittee allow us to leverage State, local, and private dollars for on-the-ground conservation. The Foundation's relationship with NRCS began in 1996 when we signed a cooperative agreement to protect and restore previously converted agricultural wetlands through the Wetland Reserve Program (WRP). Through that partnership the Foundation received \$5 million in NRCS funds, matched it with \$5.4 million in non-Federal funds and awarded a total of 31 WRP grants. More than 10,000 acres were restored and enrolled in the WRP through this effort. Since that time, the Foundation has received \$15 million in NRCS Federal funds (\$3 million per fiscal year since fiscal year 2000) which it has dedicated to a matching grant program focused on private land conservation. The Foundation has been able to support 330 projects in 49 States by matching the \$15 million with \$47 million in non-Federal funds for a total of more than \$62 million in on-the-ground conservation. These projects have led to the direct restoration of more than 200,000 acres of farmland and rangeland and to 775 miles of restored streams and rivers.

Our general conservation grant program allowed us then and continues to allow the Foundation to be highly successful in assisting the NRCS in accomplishing its mission to help people conserve, maintain and improve our natural resources and environment. Whether it involves farm, range or grassland conservation, species management, or conservation education, the Foundation strategically invests the Federal funds entrusted to us in sound projects. In fiscal year 2004, the Foundation received \$3 million in Federal funds, which it leveraged with over \$9 million in non-Federal funds for a total of more than \$12 million in on-the-ground conservation. This marks the fourth year in a row that the Foundation has been able to average a 3:1 non-Federal to Federal funding ratio. With the funds provided by the Committee in fiscal year 2005, we expect to successfully continue our leveraging of Federal funds to increase on-the-ground conservation benefits.

The Foundation's achievements are based on a competitive grant process where Federal funds are matched by the grantee with non-Federal funds and in-kind services. Those grantees include Resource Conservation and Development Areas, conservation districts, universities, and non-profit organizations who work in partnership with farmers and ranchers to support conservation efforts on private land. The Foundation also works to further maximize Federal funds by providing private funds through the generosity of one of our growing number of corporate and foundation partners. These funds are in addition to the non-Federal funds that are provided by the Foundation's grantees. In the Foundation's partnership with NRCS, Federal funds have been supplemented with funding from the Shell Oil Company, the FMC Corporation, the Anheuser-Busch Companies, Inc., the Summer T. McKnight Foundation, the Charles Stewart Mott Foundation, the William Penn Foundation, and the David and Lucile Packard Foundation. In total, these organizations provided approximately \$700,000 to enhance our NRCS partnership grants.

*Working Landscapes.*—Through our partnership, we work with NRCS to identify and fund projects that have strong support in affected agricultural and rural communities. We place our highest priority on projects integrating conservation practices on ongoing agricultural, ranching, and forestry operations. We fund partners and provide expertise by engaging watershed experts, ranchers, foresters, farmers, local governments, and non-profits to undertake on-the-ground private land activities with willing landowners.

The Foundation has provided critical support to organizations that are assisting farmers and ranchers in implementing private land conservation activities. Through these efforts the Foundation has helped to restore and protect thousands of acres of buffer, wetland, and grassland habitats. One way Foundation grants promote the

integration of conservation practices on farmland and rangeland is by demonstrating the economic benefits that can be obtained through these practices. Our Encouraging Wildlife on Direct-Market Farms project will attempt to demonstrate that preserving and restoring native plant and animal communities can be economically beneficial to direct-market farming operations. The University of Northern Iowa (UNI) will utilize \$31,158 in Foundation NRCS funds that it will match with \$91,308 in non-Federal funds to document the conservation activities on 200 direct-market farms. UNI will then work with five farms to coordinate wildlife habitat restoration plans based on the most successful documented conservation activities found on surrounding farms. Three well-publicized field days will be conducted on participating farms and a variety of media will be used to inform consumers of the links between these farms and wildlife habitat improvements. It is anticipated that this demonstration project will encourage other area farmers to incorporate wildlife management into their operations.

The Foundation has also invested heavily in efforts to improve the ecological health of working agricultural lands. Grantees supported by the Foundation have worked with farmers and ranchers to reduce agricultural runoff, remove invasive species, and restore native ecosystems. One of our stellar projects is the Conservation Agriculture Model Farms (ND)-IV project which is a cooperative effort between government, non-profit organizations, and private landowners to demonstrate the economic efficiency and profitability of designing whole farm plans. These plans identify the best soils to farm and design appropriate alternatives on the rest. The project is funded with \$50,000 in Federal funds and is being match with \$100,000 in non-Federal funds. The project will lower the costs of farming by making farming more efficient and by reducing the use of herbicides and fertilizers, while providing conservation benefits such as improved wildlife habitat, improved water storage, and reduced soil loss due to erosion. The template farm plans developed through this project will be able to be used by other farmers throughout the region.

*Conserving Fish, Wildlife and Plants.*—With our NRCS dollars, the Foundation funds projects that directly benefit diverse fish and wildlife species including, salmon in the west, migratory birds in the midwest and grassland birds in the south. Habitat for native fish has been restored on private lands throughout the United States through vegetative planting, streambank stabilization, livestock fencing and nutrient reduction efforts. In addition to improving water quality, efforts have been undertaken by our grantees to reduce water loss caused by invasive species or from outdated irrigation systems. By reducing the water taken from rivers, there is less chance that drought will negatively impact aquatic life.

A project that highlights one of these efforts is our Wildlife Habitat Enhancement (TX) project. The West Nueces-Las Moras Soil and Water Conservation District, funded with \$31,200 in Foundation NRCS funds that is being matched with \$62,400 in non-Federal funds, will conduct prescribed burns on over 3,000 acres of private lands to reduce densities of ashe juniper. Ashe juniper is an invasive plant species that uses a disproportionate amount of water resources. The removal of ashe juniper in the Edwards Aquifer will result in increases in water quality and quantity and improved wildlife habitat. In addition to the prescribed burns, the grantee will conduct field days and distribute brochures to local landowners on prescribed burning and grazing techniques that can be conducted to decrease ashe juniper infestations.

We also measure our success in part by preventing the listing of species under the Endangered Species Act and by stabilizing and hopefully moving others off the list. Some species that have received support through our NRCS grant program include salmonids, golden-cheeked warblers, southwestern willow flycatchers, whooping cranes, sage grouse, lesser prairie chickens, aplomado falcons, black-tailed prairie dogs, Louisiana black bears, bog turtles, and Karner blue butterflies. We invest in common sense and innovative cooperative approaches to endangered species, building bridges between the government and the private sector.

*Expanding Conservation Education Opportunities.*—Our grants also use our NRCS dollars to expand conservation education opportunities. Of our fiscal year 2004 NRCS partnership grants, approximately one fourth contained an environmental education or outreach component. Some of the conservation education projects supported through our NRCS grant program seek to educate farmers and ranchers on conservation practices while demonstrating how best management practices and wildlife incentives provide both environmental and economic benefits. Other projects have provided training to secondary school teachers on the ecological, economic and cultural benefits of rangeland and farmland conservation. The Sustainable Vineyard Ecosystem Management grant highlights some of the Foundation's environmental education work. In this project the grantee, California Sustainable Winegrowing Alliance, was awarded \$60,000 in Federal funds that is being matched with \$150,000 in non-Federal funds to encourage sustainable on-the-

ground conservation practices that will benefit diverse species and habitats in California's winegrowing region. This sizable educational effort will target more than 4,000 winegrape growers who farm over 500,000 acres through local workshops and outreach events.

*Continued Need.*—The Foundation is uniquely positioned to continue assisting NRCS in meeting its need to implement beneficial conservation practices on our Nation's farms and ranches by leveraging NRCS's scarce Federal resources to maximize the on-the-ground conservation benefits. The Foundation's matching grant program has the flexibility to address many agricultural conservation needs. These include, but are not limited to, increasing instream flow for rivers while continuing to support agricultural irrigation, promoting the recovery of specific threatened or endangered animals on private land, implementing critical conservation practices on private land that does not qualify for funding under a Farm Bill program, and by forging broad community-based partnerships. The need for these projects is evident by the number of grant applications the Foundation receives. On average we receive two times the number of applications we are able to fund. In addition, we regularly fund projects at a reduced level that still permits the project to be successfully completed while allowing the Foundation to fund additional worthwhile agricultural conservation projects.

*Accountability and Grantsmanship.*—All potential grants are subject to a peer review process involving local NRCS staff, State agency staff, academics, commodity and environmental interests, corporations, and others. The review process examines the project's conservation need, technical merit, the support of the local community, the variety of partners, and the amount of proposed non-Federal matching funds. We also provide a 30 day notification to the Members of Congress for the congressional district and State in which a grant will be funded prior to making the grant. In addition, the Foundation requires strict financial reporting by grantees and is subject to an annual audit.

*Basic Facts About the Foundation.*—The Foundation promotes conservation solutions by awarding matching grants using its federally appropriated funds to match private sector funds. We have a statutory requirement to match Federal funds with at least an equal amount of non-Federal funds, which we consistently exceed. No Federal appropriations meet our administrative expenses.

The Foundation is governed by a 25-member Board of Directors appointed by the Secretary of The Interior. At the direction of Congress, the Board operates on a non-partisan basis. Directors do not receive any financial compensation for service on the Board; in fact, all of our directors make financial contributions to the Foundation. It is a diverse Board, representing the corporate, philanthropic, and conservation communities; all with a tenacious commitment to fish and wildlife conservation.

The National Fish and Wildlife Foundation continues to be one of, if not the, most cost-effective conservation program funded in part by the Federal Government. By implementing real-world solutions with the private sector while avoiding regulatory or advocacy activity, our approach is more consistent with this Congress' philosophy than ever before. We serve as a model for bringing private sector leadership to Federal agencies and for developing cooperative solutions to environmental issues. We are confident that the money you appropriate to the Foundation will continue to make a difference.

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#### PREPARED STATEMENT OF THE NATIONAL ORGANIC COALITION

Chairman Bennett, Senator Kohl, and Members of the Subcommittee: My name is Steven Etko. I am submitting this testimony on behalf of the National Organic Coalition (NOC) to detail our recommendations and requests for fiscal year 2006 funding for several USDA marketing, research, and conservation programs of importance to organic agriculture.

The National Organic Coalition (NOC) is a national alliance of public interest organizations working to provide a voice for farmers, ranchers, environmentalists, consumers and others involved in organic agriculture. The goal of the Coalition is to assure that organic integrity is maintained, that consumer confidence is preserved and that policies are fair, equitable and encourage diversity of participation and access. The current members of NOC are the Center for Food Safety, Rural Advancement Foundation International—USA, National Cooperative Grocers Association, and the Northeast Organic Farming Association —Interstate Council.

We urge the Subcommittee's strong consideration of the following funding requests for various USDA programs of importance to organic farmers, marketers and consumers:

*USDA/Agricultural Marketing Service (AMS)*

Organic Standards—Request: \$2.5 million.

Responding to a strong growth in consumer demand for organically produced foods, Congress enacted the Organic Foods Production Act of 1990 (OFPA) to authorize the creation of national organic standards so that consumers across the Nation could be confident that one common set of rules applies to all foods that carry the label “certified organic.”

When the organic agriculture community agreed in the late 1980s to pursue legislation to create a Federal organic standards program, it was done in recognition of the benefits to producers and consumers of establishing one common standard in the Nation for organically produced agricultural products. Yet for many in the organic community, it was done with some apprehension, as well. Many saw the great risks associated with turning the keys to a grassroots effort over to the Federal Government.

To capture both the promise and the apprehension associated with a federalized organic standards program, the Organic Foods Production Act (OFPA) of 1990 was enacted with an emphasis on maintaining a strong public/private partnership in the implementation and administration of Federal organic programs. There is concern, however, that some of the provisions of OFPA that were included to assure strong participation by organic farmers and consumers in the national standard-setting and oversight process have not been fully implemented, in part due to lack of adequate funding.

In fiscal year 2005, Congress specified funding of \$1.98 million for the AMS category of “Organic Standards,” of which the National Organic Program (NOP) is a subset. This level represented funding of approximately \$1.5 million for the National Organic Program, essentially level with the previous year. In the President’s fiscal year 2006 budget submittal, a request was made for \$2.026 million for AMS “Organic Standards,” representing a slight increase of \$46,000 over fiscal year 2005. However, we are requesting \$2.5 million for AMS/organic standards, to provide USDA with the extra resources needed to establish certifier training programs and to respond more fully to the program deficiencies outlined in the outside audit conducted in 2004.

The issue of how AMS spends the money appropriated for organic standards is of great importance and concern to the members of NOC. Congress included report language in fiscal year 2004 that urged AMS to use some of the funding increase received in fiscal year 2004 for the National Organic Program (NOP) to comply more fully with the statutory requirements of the Organic Foods Production Act (OFPA). Specifically, the Senate report language in fiscal year 2004 called on NOP to hire an Executive Director for the National Organic Standards Board (NOSB), to create an ongoing Peer Review Panel, and to improve scientific technical support for the NOSB. These points were reiterated in the fiscal year 2005 Senate Report. The members of NOC very much appreciate the Congressional efforts to provide NOP with the necessary funds and direction to bring about greater compliance with OFPA. This is an important step toward ensuring the public/private partnership intentions of that Act.

However, the Department has not completed action on any of these Congressional recommendations. Therefore, NOC is urging that the Committee reiterate the importance of OFPA compliance on these matters, using the following suggested report language:

“In fiscal year 2004 and 2005 the committee urged AMS to use a portion of their appropriation to comply with unfulfilled statutory requirements of the Organic Foods Production Act (OFPA). While initial efforts are underway, the statutory requirements have not yet been fully complied with and the Committee urges the Department to fully comply with them in the 2006 fiscal year. Specifically, NOP and NOSB should work together to complete the hiring of a NOSB director. The Committee urges the Department to correct problems noted in the outside audit of the NOP conducted in 2004. This one-time audit should not be construed to meet the requirements under OFPA for the creation of an on-going Peer Review Panel to oversee the accreditation process for organic certifiers. Additionally, the committee urges AMS to promptly make available their list of certified organic entities.”

USDA

*Organic Data Initiatives*

Authorized by Section 7407 of the 2002 Farm Bill, the Organic Production and Marketing Data Initiative states that the “Secretary shall ensure that segregated data on the production and marketing of organic agricultural products is included in the ongoing baseline of data collection regarding agricultural production and mar-

keting.” As the organic industry matures and grows at a rate between 15 and 20 percent annually, the lack of national data for the production, pricing, and marketing of organic products has been an impediment to further development of the industry and to the effective functioning of many organic programs within USDA. Reliable, current data is needed by all participants in the organic sector, and are also needed to support USDA organic programs through various USDA agencies.

Because of the multi-agency nature of data collection within USDA, the effort to improve organic data collection and analysis within USDA must also be undertaken by several different agencies within the Department:

*Economic Research Service (ERS)*

Collection and Analysis of Organic Economic Data—Request: \$500,000.

In fiscal year 2005, Congress appropriated \$495,850 to USDA’s Economic Research Service to continue the collection of valuable acreage and production data, as required by Section 7407 of the 2002 farm bill. This funding level was down slightly from the \$500,000 appropriated in fiscal year 2004.

Because increased ability to conduct economic analysis for the organic farming sector is greatly needed, we request \$500,000 million be appropriated to the USDA Economic Research Service to implement the “Organic Production and Market Data Initiative” included in Section 7407 of the 2002 farm bill.

*Agricultural Marketing Service (AMS)*

Organic Price Collection—Request: \$750,000.

Accurate, public reporting of agricultural price ranges and trends helps to level the playing field for producers. Wholesale and retail price information on a regional basis is critical to farmers and ranchers, but organic producers have fewer sources of price information available to them than conventional producers. Additionally, the lack of appropriate actuarial data has made it difficult for organic farmers to apply for and receive equitable Federal crop insurance. AMS Market News is involved in tracking product prices for conventional agricultural products, and with funding, could broaden their efforts to include organic price data as well. We request \$750,000 to be appropriated to the USDA Agricultural Marketing Service for collection of organic price information.

*National Agriculture Statistics Service (NASS)*

Census Follow-up/Organic Grower Survey—Request: \$500,000.

The mission of USDA’s National Agricultural Statistics Service (NASS) is to provide timely, accurate, and useful statistics in service to U.S. agriculture. The Agency is currently in the process of developing the 2007 agricultural census. Although NASS is making an effort to expand the quantity of organic questions in the census, they will need to conduct a follow-up survey in order to collect more in-depth information on acreage, yield/production, inventory, production practices, sales and expenses, marketing channels, and demographics. Therefore, we are requesting \$500,000 for USDA NASS.

*USDA/CSREES*

Organic Transitions Program—Request: \$4 million.

The Organic Transition Program, funded through the CSREES budget, is a research grant program that helps farmers surmount some of the challenges of organic production and marketing. As the organic industry grows, the demand for research on topics related to organic agriculture is experiencing significant growth as well. Extension agents and other information providers report an increase in number of farmers seeking reliable information on making the transition to organic production. The benefits of this research are far-reaching, with broad applications to all sectors of U.S. agriculture, even beyond the organic sector. Yet funding for organic research is minuscule in relation to the relative economic importance of organic agriculture and marketing in this Nation.

The CSREES Organic Transition Program was funded at \$2.1 million in fiscal year 2003, \$1.9 million in fiscal year 2004, and \$1.88 million in fiscal year 2005. Given the rapid increase in demand for organic foods and other products, and the growing importance of organic agriculture, the research needs of the organic community are expanding commensurately. Therefore, we are requesting that the program be funded at \$4 million in fiscal year 2006.

*USDA/CSREES*

National Research Initiative—Request: Report Language on Plant and Animal Breeding.

In recent decades, public resources for classical plant and animal breeding have dwindled, while expenditures by private firms on seed and breed development for



a limited set of major crops and breeds have increased greatly. Unfortunately, this shift has significantly curtailed the public access to plant and animal germplasm, and limited the diversity of seed variety and animal breed development. This problem has been particularly acute for organic and sustainable farmers, who seek access to germplasm well suited to their unique cropping systems and their local environment.

In the Senate Report that accompanied the fiscal year 2005 Appropriations bill, language was included that encouraged “the Department, especially in the establishment of priorities within the National Research Initiative, to give consideration to research needs related to classical plant and animal breeding.” Despite this language, the need to foster classical plant and animal breeding has yet to be reflected in the NRI priority-setting process. Further, the relationship between public plant and animal breeding and meeting the needs of organic and sustainable farmers is still not clearly understood within CSREES. Therefore, we are requesting the inclusion of the following report language to continue to urge CSREES to make classical plant and animal breeding a greater priority in future NRI grant proposal request processes, and to underscore the importance of this effort for organic and sustainable agricultural systems:

Through the fiscal year 2005 process, CSREES was urged to give consideration to research needs related to classical plant and animal breeding, especially in the establishment of priorities within the National Research Initiative. The Committee is concerned that classical plant and animal breeding is still not reflected in the NRI priority setting process, and that the importance of classical breeding to organic and sustainable agricultural systems is still not well understood within the Agency. The Committee would like to reiterate its concern about dwindling public funding for classical plant and animal breeding, and urges the Agency to use the NRI as a tool to revitalize public resources in this important area.

#### *USDA/Rural Business Cooperative Service*

Appropriate Technology Transfer for Rural Areas (ATTRA)—Request: \$3.4 million.

ATTRA is a national sustainable agriculture information service, which provides practical information and technical assistance to farmers, ranchers, Extension agents, educators and others interested in sustainable agriculture. ATTRA interacts with the public, not only through its call-in service and website, but also provides numerous publications written to help address some of the most frequently asked questions of farmers and educators. Much of the real-world assistance provided by ATTRA is extremely helpful to the organic community. As a result, the growth in demand for ATTRA services has increased significantly, both through the website-based information services and through the growing requests for workshops. Currently, given the lack of resources, ATTRA is only able to service 1 out of 5 requests for workshops. Therefore, we are requesting that ATTRA be funded at \$3.4 million for fiscal year 2006, representing a \$920,000 increase over fiscal year 2005.

#### *USDA/ARS*

1.8 percent Set-Aside for Organic Research (No Net Increases)—Request: Report language.

Development of organic production effectively serves USDA strategic objectives for environmental quality, human health and nutrition, and agricultural trade. “Fair share” funding of organic agricultural research, based on relative market size (between 1.5 percent and 2.5 percent of total U.S. retail food sales), translates to at least a 5-fold increase in the proportion of USDA–ARS resources explicitly allocated to organic. In 2004, USDA–ARS spent about \$3.5 million on organic-specific projects, or about 0.35 percent of the \$1 billion fiscal year 2004 ARS expenditures. Under a 1.8 percent “fair share” framework, the ARS would have generated about \$18 million for organic research in its budget.

The 2005 appropriations omnibus bill contained language encouraging ARS, when appropriate, to direct research resources in a manner that reflects the growing interest in organic production and the need to provide enhanced research for this growing organic sector. For fiscal year 2006 we are requesting more explicit report language encouraging the USDA ARS to set aside 1.8 percent of their budget to be used exclusively on organic research at appropriate ARS locations, under direction of the National Program Staff.

#### *USDA/NRCS*

Conservation Security Program—Request: No Funding Limitation.

#### *USDA/Rural Business Cooperative Service*

Value-Added Producer Grants—Request: No Funding Limitation.

The Conservation Security Program (authorized by Section 2001 of the 2002 farm bill) and the Value-Added Producer Grant (authorized by Section 6401 of the 2002 farm bill) are new programs with great potential to benefit organic producers in their efforts to conserve natural resources and to explore new, value-added enterprises as part of their operations.

Unfortunately, while these programs were authorized to operate with mandatory funding, their usefulness has been limited by funding restrictions imposed through the annual appropriations process. We are urging that the Conservation Security Program and the Value-Added Producer Grant Program be permitted to operate with unrestricted mandatory funding, as authorized.

Thank you for this opportunity to testify and for your consideration on these critical funding requests.

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#### PREPARED STATEMENT OF THE NATIONAL POTATO COUNCIL

My name is Jim Wysocki. I am a potato farmer from Wisconsin 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 2006 appropriations priorities are as follows:

#### POTATO RESEARCH

##### *Cooperative State Research Education and Extension Service (CSREES)*

The NPC urges the Congress not to support the President's fiscal year 2006 budget request to eliminate the CSREES Special Grant Programs and the formula funds under the Hatch Act. Both of these programs support important university research work that helps our growers remain competitive in today's domestic and world marketplace.

The NPC supports an appropriation of \$1.8 million for the Special Potato Grant program for fiscal year 2006. The Congress appropriated \$1.417 million in fiscal year 2004, a decrease from the fiscal year 2003 level of \$1.584 million and \$1.509 million in fiscal year 2005. 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 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 after review by the Potato Industry Working Group."

#### AGRICULTURAL RESEARCH SERVICE (ARS)

The NPC urges that the Congress not support the Administration's fiscal year 2006 budget request to rescind all fiscal year 2005 Congressional increases for research projects.

The Congress provided funds for a number of important ARS projects and due to previous direction by the Congress the ARS continues to work with the NPC on how overall research funds can best be utilized for grower priorities.

#### 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 \$200 million for fiscal year 2006 and not support the Administration's budget request to cap this valuable export program at the \$125 million level.

*Foreign Agriculture Service (FAS)*

The NPC supports the President's fiscal year 2006 budget request of \$152.4 million for the USDA Foreign Agriculture Service (FAS). This level is the minimum necessary for the agency given the multitude of trade negotiations and discussions currently underway.

## FOOD AID PROGRAMS

*McGovern Dole*

The NPC supports the Administration's fiscal year 2006 budget request of \$100 million for the McGovern-Dole International Food Aid Program. PVO's have been including potato products in their applications for this program.

*Public Law 480*

The President's fiscal year 2006 Budget requests \$1.2 billion for USAID programs, including \$964 million for USAID Public Law 480 Title II programs. The President's budget also transfers \$300 million from USAID Title II activities funded under the Agriculture Budget to the Foreign Operations Budget. The NPC urges that the \$300 million be reinstated in the regular USAID Public Law 480 Title II budget to avoid a significant loss of applications for dehydrated potatoes in Title II programs and procurement of U.S. food commodities for food aid.

## PEST AND DISEASE MANAGEMENT

*Animal and Plant Health Inspection Service (APHIS)*

*Golden Nematode Quarantine.*—The NPC supports an appropriation of \$1,266,000 for this quarantine which is what is believed to be necessary for USDA and the State of New York to assure official control of this pest. Failure to do so could adversely impact potato exports.

Given the transfer of Agriculture Quarantine Inspection (AQI) personnel at U.S. ports to the Department of Homeland Security, it is important that certain USDA-APHIS programs be adequately funded to ensure progress on export petitions and protection of the U.S. potato growers from invasive and harmful pests and diseases.

*Pest Detection.*—The NPC supports \$45 million in fiscal year 2006, which is the Administration's budget request. 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*.

*Emerging Plant Pests.*—\$101 million was appropriated in fiscal year 2005. The President requests \$127 million in fiscal year 2006 which the NPC supports.

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.

*Trade Issues Resolution Management.*—\$12,578,000 was appropriated in fiscal year 2005 and the President requests \$18 million in fiscal year 2006. The NPC supports this increase ONLY if it is specifically earmarked for plant protection and quarantine activities. These activities are of increased importance yet none of these funds are used directly for plant protection activities. As new trade agreements are negotiated, the agency must have the necessary staff and technology to work on plant related import/export issues. The NPC also relies heavily on APHIS-PPQ resources to resolve phytosanitary trade barriers in a timely manner.

## 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.

## RURAL DEVELOPMENT GRANTS

Since potato growers do not receive direct payments, the 2002 Farm Bill provided for, among other things, grants to allow our growers to expand their business opportunities. One program that has been used by our growers is the value-added grant program. The NPC would urge that the Farm Bill funding level for this program be maintained. In addition, maintaining adequate farm labor is also important to our growers. The NPC urges that farm labor housing grants be maintained and not reduced as proposed by the Administration's budget request.

PREPARED STATEMENT OF THE NATIONAL RESEARCH CENTER FOR COAL AND ENERGY<sup>1</sup>

Chairman Bennett and Members of the Subcommittee: Thank you for the opportunity to offer testimony to the Subcommittee on Agriculture, Rural Development, and Related Agencies. Our testimony concerns three programs under USDA which support small communities. We request funding to continue the National Drinking Water Clearinghouse program (\$1.5 million) and the Special Services for Underserved Communities program (\$1 million) as part of the overall Rural Community Advancement Program. We request new funding to initiate a Rural Brownfields Redevelopment Center (\$1 million). These programs are described below.

## DRINKING WATER AND WASTEWATER TREATMENT PROGRAMS

*Need for Federal Programs*

Clean, safe drinking water and wastewater treatment are critical to public and environmental health. For most of us, it's easy to take water for granted. But not that long ago, most people didn't have indoor plumbing. According to U.S. Census Bureau data, only half of American homes in 1940 had complete plumbing facilities—defined as hot and cold piped water, a bathtub or shower, and a flush toilet. By 2002, the Environmental Protection Agency (EPA) found that the number of homes having complete plumbing facilities increased to 91 percent. Much of this improvement can be attributed to Federal infrastructure investment.

The U.S. Department of Agriculture's Rural Utilities Service (RUS) has provided more than \$20 billion for water and wastewater projects since 1947. In spite of these improvements, however, 670,000 households (with nearly 2 million people) lack access to water, sanitation, or both. Safe, affordable water infrastructure is an investment in the economic viability and public health of rural America.

*Water and Wastewater Challenges*

Over 50,000 water treatment systems serve the U.S. population, with 43,000 of these systems being classified as "small" systems (serving fewer than 3,300 people) and "very small" systems (serving fewer than 500 customers). Because smaller systems have lower revenues and fewer resources, they are more likely to fail in meeting regulatory requirements. Very small systems are 50 percent more likely to incur violations than all other system sizes. When the Safe Drinking Water Act was passed in 1974, eighteen (18) contaminants were regulated. By 2004, that number had grown to 86. Another eight will be added by 2008.

While significant progress has been made, a number of challenges confront communities as they try to safeguard public health. In many communities, water distribution systems and wastewater collection systems are 40 to 50 years old, with many dating back more than a century. In the 2002 report titled Clean Water and Drinking Water Infrastructure Gap Analysis, EPA estimated that we need to invest \$265 billion for infrastructure for drinking water systems through 2022. Wastewater infrastructure systems will need an estimated \$388 billion during the same time period. The report suggests that, without new investment, progress made over the last 30 years is threatened. As a partial solution to addressing the challenges of inadequate funding, the Technical Assistance and Training (TAT) grants under the Rural Community Advancement Program make it possible for small communities to maximize their investments in water infrastructure through deployment of appropriate technology.

## NATIONAL DRINKING WATER CLEARINGHOUSE (NDWC)

For nearly 15 years, the National Drinking Water Clearinghouse at West Virginia University has helped small and rural communities with their water infrastructure management and utility security issues. The NDWC is currently funded at approximately \$1.2 million through the USDA's Rural Utilities Service (RUS) under the Rural Community Advancement Program (RCAP).

The NDWC provides a range of assistance activities for small communities. Telephone callers can obtain toll-free technical assistance from our staff of certified operators, engineers, and scientists. Our quarterly publication "On Tap," a magazine about drinking water treatment, financing, and management options helps communities and small water systems operate, manage and maintain their facilities, while keeping them financially viable. A comprehensive Web site and databases with thousands of entries provide around-the-clock access to contemporary information on

<sup>1</sup>The National Research Center for Coal and Energy is located at West Virginia University. This statement has been prepared by Richard Bajura, Director, Pamela Schade, and Paul Ziemkiewicz. For additional information, contact our web site at <http://www.nrce.wvu.edu>.

small water systems. Training sessions customized for small and rural areas, teleconferences, and more than 400 free and low-cost educational products give people the instruction and tools they need to address their most pressing drinking water issues.

These services are well received by small community officials and service providers and should be continued. We request funding of \$1.5 million to continue the NDWC programs through the Technical Assistance and Training Grants.

#### SPECIAL SERVICES TO UNDERSERVED COMMUNITIES

In addition to the National Drinking Water Clearinghouse's knowledge base and technical support, the NDWC is expanding its assistance to underserved communities through technical field support. The NDWC's funding currently does not provide for direct services to underserved communities, so West Virginia University is piloting an effort to honor requests for site specific technical support. This support gives small and very small communities assistance through site assessments and feasibility studies that they might not otherwise be able to access for planning needed infrastructure improvements, their financing, and management. We request funding for technical services to underserved communities at the \$1 million level.

For fiscal year 2005, we anticipate receiving approximately \$1.4 million in total for the NDWC and the Special Services to Underserved Communities programs from appropriations provided by the Subcommittee.

#### RURAL BROWNFIELDS REDEVELOPMENT CENTER

"Brownfields" is a catch-all term for the approximately 450,000 former industrial and commercial sites across the United States that are contaminated, unused and often abandoned. The cleaning up, or "remediation" of these sites is essential to protect public health, strengthen local economies and encourage local growth. Communities with brownfields often face economic and social concerns, such as unemployment, substandard housing, outdated or faulty public infrastructure, and crime. Although Federal and state programs may be in place to address local issues, too often the programs operate in isolation.

Additionally, Federal resources have been difficult to access by small and rural communities. Through the enactment of recent legislation, more funding with more flexibility in application is available for redeveloping brownfields in rural areas. Rural communities are now at the forefront for assessment and clean-up funds, particularly with the availability of direct grants. There is also widespread recognition that rural communities require different approaches and a variety of models to make brownfield redevelopment possible, and these communities require more technical assistance and other informational materials. The Appalachian Regional Commission (ARC) cites the following obstacles to brownfield redevelopment for rural Appalachian communities:

- Unused open space is often more readily available and cheaper to develop than reclaiming a brownfield site.
- Recruiting an experienced brownfield redevelopment manager is difficult.
- Liability concerns are compounded by insufficient information to establish responsibility for contamination.
- Cleaning up a brownfield site can be expensive.
- There is no formal venue for exchanging information and providing guidance about brownfield redevelopment among rural communities.

West Virginia University (WVU) proposes to initiate a Rural Brownfields Redevelopment Center. This center will merge our water research expertise with our technical assistance skills to enable us to provide support for brownfields redevelopment initiatives in small communities nationwide.

Our work under the proposed Center will focus on developing data bases, information, and redevelopment models that can be deployed nationally to assist small communities in addressing needs for reclaiming brownfield sites and turning these sites into economic engines for developing regional economies. Topics to be addressed include:

- information collection and dissemination,
- map site libraries which include GIS data,
- technical assistance by phone and in person, and field assistance (at the sites),
- demonstration programs,
- assistance to state agency personnel and communities,
- assistance with planning and identifying funding options,
- specialization in rural brownfields redevelopment,
- state-based brownfields conferences,

—manuals, models, and personal consultation and courses to assist other communities based on lessons we learn.

WVU is well positioned to lead a national brownfields redevelopment effort. Our National Drinking Water Clearinghouse, National Small Flows Clearinghouse, and WV Water Research Institute and its Geotechnology Center have technical assistance, education and outreach, and research capabilities relevant to brownfields issues. All three programs have installed and managed successful demonstrations on the ground. Nationally, there is no current brownfields assistance program that has married the practice of brownfields redevelopment with expertise in water issues.

We request funding in fiscal year 2006 at a level of \$1 million to initiate this program. Stakeholders will include regional universities, state offices, development agencies, and industry.

Thank you for the opportunity to offer testimony on the USDA programs.

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#### PREPARED STATEMENT OF THE NATIONAL RURAL HOUSING COALITION

Mr. Chairman and members of the House Subcommittee on Agriculture, my name is Robert Rapoza, 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. The Coalition is comprised of approximately 300 members nationwide. We have testified before the Subcommittee before and appreciate this opportunity to share the views of our members on Federal rural housing and community development policy.

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 targeted directly at the issues facing its population. The Rural Housing Service (RHS) of Rural Development (RD) meets many of these needs, serving low and very-low income families with safe affordable housing.

According to the 2000 Census, there are 106 million housing units in the United States. Of that, 23 million, or 22 percent, are located in non-metro areas. 1.6 million of these units are either moderately or severely substandard. At the same time, many non-metro households are unable to afford adequate housing due to high poverty rates. According to a 1999 Economic Research Service report, the poverty rate in Rural America was 15.9 percent—over 8 million people—compared to 13.2 percent in urban areas. A full 5.5 million people, or one-quarter of the non-metro population, are overburdened by housing costs.

Renters in rural areas are, in fact, the worst housed individuals and families in the country. Thirty-five percent of all rural renters are cost-burdened, paying more than 30 percent of their income for housing. Almost one million rural renters suffer from multiple housing problems, 60 percent of whom pay more than 70 percent of their income for housing.

Prospective homeowners suffer the same problems of high rates of poverty and poor quality of housing as rural renters. Additionally, they suffer from the non-availability of credit, specifically a 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 banks have replaced local community lenders with large centralized institutions located in urban areas. Aside from shifting the locus of loan making, this trend has eroded the competitive environment that, in the past, encouraged rural lenders to offer terms and conditions that were attractive to borrowers.

#### RURAL HOUSING SERVICE

##### *Section 515 Rural Rental Housing Program*

Although we often talk about the surge in homeownership and all of its benefits, not all of us, especially in rural areas, have the means to be homeowners. Thus, USDA's RHS Section 515 rural rental housing program is invaluable to low-income residents in rural communities. The portfolio contains 450,000 rented apartments in

Section 515 developments, the value of which is evident when compared to the 900,000 rural renters in substandard housing. The average 515 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 present investment in rural rental housing is at its lowest level in more than 25 years. Over the last 15 years, Congress and Administrations of both parties have unwisely cut the rural rental housing budget, and lending has declined from over \$500 million a year in 1994 to just \$114 million in fiscal year 2003 and 2004. In fact, for the last 3 years the Administration's budget included no funding whatsoever for rural rental housing production. As a result, there is scant production of new rural rental housing. The Administration claims that low income rural renters can get housing assistance through the section 538 guarantee program. We think that is highly unlikely.

As Congress considers future policy for rural housing, it has two opportunities to protect our Nation's rural renters and homeowners. 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, and as a result of declining Federal resources for the development of new housing developments, it is essential to preserve the existing stock.

The existing Section 515 portfolio is aging. Of the 17,000 developments across the country close to 10,000 are more than 20 years old. To maintain this stock, it will take a commitment of Federal funds for restoration. An injection of new debt or equity is required to finance repairs and upgrades, and keep rural housing safe and available.

The Housing Act of 1987 regulated roughly two-thirds of 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 theory, 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.

However, the lack of adequate funding for incentives has raised a great concern among owners. Many wish to prepay, but cuts to Section 515 have eliminated RHS's means to compel them to keep their properties affordable when they do. Moreover, the law restricts their ability to seek incentives or sell to a nonprofit organization or public body.

In 2004, the administration initiated an important study of the Section 515 portfolio. It determined that only 10 percent of the units were in hot markets in which they could be used for market rate tenants or owners. The balance of the units were in markets in which their highest and best use is low income housing. Most need repair and renovation and the price tag over a 20 year period is over \$2 billion.

So the Administration is to be congratulated in documenting the need for additional assistance for rural rental housing developments. They are also to be congratulated for gaining additional funds in the budget request: \$214 million for housing vouchers for tenants living in development in hot markets where prepayment is a real possibility.

But while it is important to protect vulnerable tenants, this policy ignores the long-term implications of an escalating decline in the affordable housing stock. We believe the administration's approach is too narrow. By focusing solely on protecting tenants in hot markets, the Administration may provide an incentive that encourages prepayment. The policy also ignores the other 90 percent of units that need repair and renovation.

We urge the Subcommittee to approve the request for additional assistance for rural rental housing. However, we also urge that, in addition to providing some funding for vouchers, this assistance be distributed across Section 515 for use as equity loans, financing for transfer to non-profits and repair and renovation of existing projects.

#### *Section 502 Single Family Direct Loan Program*

Section 502 is the only Federal program providing home ownership opportunities to low income-families. 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. Some 46 percent of Section 502 families have incomes at 46 percent of area median. Since its inception, Section 502 has provided loans to almost two million families. The current average budget authority cost to the Federal Government is extremely low, less than \$10,000 per unit.

Despite low cost to the government and failing delinquency rates, the number of home ownership loans for low income people is falling. In fiscal year 2004, RHS provided 14,641 loans and in fiscal year 2005, 10,800 loans, even though RHS had on hand more than 35,000 loan requests of over \$2.3 billion at the end of fiscal year 2004. Even in the face of unprecedented demand the projected total falls in fiscal year 2006 to 9,000.

The decline in direct loans for low-income families has been inversely proportional to the major trend in rural housing: the increase in homeownership loan guarantees. In fiscal year 2005, the total available for guaranteed loans was \$3.309 billion. The fiscal year 2006 request is \$3.374 billion. Unfortunately for low-income people, the average income for families receiving guaranteed loans is roughly double that of those families receiving direct loans.

Under Mutual and Self-Help Housing, with the assistance of local housing agencies, groups of families eligible for Section 502 loans perform approximately 65 percent of the construction labor on each other's homes under qualified supervision. This program, which has received growing support because of its proven model, has existed since 1961. The average number of homes built each year over the past 3 years has been approximately 1,500. Sixty-eight percent of the participants in self-help housing are minority households.

The budget requests \$34 million.

#### *Non-Profit Organizations*

Due to dramatic housing program reductions and the continuing strength of the Nation's real estate market, the private sector delivery system is not as prominent as it used to be and in many rural communities no longer exists. In some rural areas, non-profits have filled the void by pursuing a multiple funding strategy. Skilled local organizations meld Federal, State, local and private resources together to provide affordable housing financing packages to low-income families. But there is yet no comprehensive source of federal support to promote a non-profit delivery system.

The Rural Community Development Initiative 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 in previous years to 240 communities. Yet this valuable program has been eliminated in this year's budget request. For fiscal year 2006, we recommend \$6.5 million for the Rural Community Development Initiative, the current rate.

#### *Farm Labor Housing*

Two additional rental housing programs specifically address the needs of farm laborers. Migrant and seasonal farmworkers, who help keep our local and state economies growing, are some of the Nation's most poorly housed populations. The last documented national study indicated a shortage of almost 800,000 units of affordable housing for farmworkers.

Farmworkers and their families are some of the poorest and least assisted people in the Nation. 61 percent of farmworkers earn incomes below the poverty-level and consequently some 60 percent of farmworker households live below the poverty threshold, almost six times the national rate. Despite this level of poverty, less 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 which specifically target farmworkers and their housing needs: USDA's Section 514 loans and 516 grants. Non-profit housing organizations and public bodies use the loan and grant funds, along with the Rural Housing Service's rural rental assistance, to plan and develop housing and related facilities for migrant and seasonal low-income farmworkers. Section 514 authorizes the Rural Housing Service to make loans with terms of up to 33 years and interest rates as low as one percent. Section 516 authorizes RHS to provide grant funding when the applicant will provide at least 10 percent of the total development cost from his own resources or through a 514 loan.

We appreciate the past support of this Subcommittee and urge an appropriation of \$100 million for section 514 and 516.



## 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 will be required over the next 20 years to provide the 19,000 wastewater treatment facilities needed for communities of fewer than 10,000 people. In all, small communities will need some \$64 billion in order to meet their water and wastewater needs.

The budget request cuts \$99 million from rural water-sewer loans and grants. We urge the Subcommittee to restore these funds.

The issue of affordability is critical to 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, and other amenities, all of which eventually require an efficient wastewater disposal system. Low-income communities often pay as much as they can afford for water service alone and are unable to manage the combined user fees for water and waste. Furthermore, 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 utility rates, they typically underestimate operation and maintenance costs in the budgets for new systems. Therefore, there is often limited or no investment in the kinds of upgrades and expansions of infrastructure needed for community development to stabilize local small businesses, develop affordable housing, and invest in other 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 their state's non-metro median household income.

In providing these important services, RUS 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 and inflict long-term damage on the environment. Additionally, businesses and industries are often 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 to improve their health and their economies.

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), leveraged funds through HUD's Community Development Block Grant program, and the EPA's State Revolving Loan Funds, as well as through some private lenders.

#### *Other Federal Agencies*

Mr. Chairman, for many rural communities the USDA's Rural Development programs are the only source of housing and community development assistance. Other Federal agencies do not have a good record of supporting Rural America.

Rural households have limited access to mortgage credit and the secondary mortgage market and 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 seven 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. For these reasons we oppose the Strengthening America's Community Initiative and urge the Subcommittee and the Congress to continue to provide appropriations for Federal rural development programs.

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 present 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 2006 in the amounts requested in the President's budget for 5 percent direct (\$175 million) and cost of money (\$425 million) and the associated subsidy, as required, to fund those programs at the requested levels. Supporting guaranteed loans in the same amount (\$125 million), as contained in the fiscal year 2005 Agriculture Appropriations Act. Supporting the budget recommendation to transfer \$175 million in lending authority from the Rural Telephone Bank (RTB) to the cost-of-money program in connection with the administration's stated intention to dissolve the bank in fiscal year 2006.
- Supporting the budget request for \$358.9 million in direct loans for broadband facilities and internet service access provided through discretionary funding.
- Supporting, subject to the successful implementation in fiscal year 2006 of the administration initiative to dissolve the Rural Telephone Bank pursuant to Sec. 411 of the RTB enabling act, elimination of the restriction on retirement of Rural Telephone Bank Class A stock, 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.
- 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.

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 1,000, 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 4 percent of total U.S. subscribers. On the other hand, borrower service territories

total 37 percent of the land area—nearly 12 million squares miles. RUS borrowers average about six subscribers per mile of telephone line and have an average of more than 1,000 route miles of lines in their systems.

Because of low-density and the inherent high cost of serving these areas, Congress made long-term, fixed rate loans available at reasonable rates of interest to assure that rural telephone subscribers, the ultimate beneficiaries of these programs, have comparable telephone service with their urban counterparts at affordable subscriber rates. This principle is especially valid today as this administration endeavors to deploy broadband technology and as customers and regulators constantly demand improved and enhanced services. At the same time, the underlying statutory authority governing the current program has undergone significant change. In 1993, telecommunications lending was refocused toward facilities modernization. Much of the subsidy cost has been eliminated from the program. In fact, most telecommunications lending programs now generate revenue for the government. The subsidy that remains has been targeted to the highest cost, lowest density systems in accordance with this administration's stated objectives.

We are proud to state once again for the record that there has never been a loan default by a rural telephone system borrower! All of their loans have been repaid in accordance with their terms, \$12.4 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 3 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 have increased pressures to shift more costs onto rural ratepayers. These 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.

#### ONGOING CONGRESSIONAL MANDATES FOR RURAL TELECOMMUNICATIONS

Considerable loan demand is being generated because of the mandates for enhanced rural telecommunications standards contained in the authorizing legislation. We are, therefore, recommending the following loan levels for fiscal year 2006 and the appropriation of the associated subsidy costs, as required, to support these levels:

5 percent Direct Loans .....	\$145,000,000
Cost-of-Money Loans .....	425,000,000
Guaranteed Loans .....	125,000,000
Broadband Loans .....	358,875,000
<b>Total .....</b>	<b>1,053,875,000</b>

These are the same levels established in the fiscal year 2005 appropriations Act for the 5 percent direct and guaranteed loan programs and the same amounts for 5 percent direct and cost-of-money loans, as requested in the President's budget for fiscal year 2006. The authorized levels of loans in each of these programs were substantially obligated in fiscal year 2004 and current estimates are that authorized program levels will be met in fiscal year 2005. 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 DISSOLUTION INITIATIVE

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. However,

changed circumstances in the rural telephone industry and difficulties associated with accelerating privatization of the Rural Telephone Bank have made this transition to private ownership and control problematic raising difficult questions about the viability of a privatized bank and its future support among rural telephone systems.

In recognition of these factors, the administration has determined to liquidate and dissolve the bank in fiscal year 2006 pursuant to Sec. 411 of the RTB enabling act. We support this action as well as the budget recommendation to transfer the current lending authority of the RTB (\$175 million) to the cost-of-money loan program so that rural telephone systems will continue to have adequate loan resources available for rural telecommunications infrastructure development at the levels intended by the Congress.

#### THE BROADBAND LOAN PROGRAM

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 2006 and in its place the budget requests \$11.7 million in new discretionary authority for these purposes. NRTA supports the administration's budget request of the subsidy cost for this program that will provide approximately \$358.9 million in loan levels for fiscal year 2006. We applaud the administration's continuing commitment to this program to facilitate the deployment of broadband technology throughout our Nation's rural areas.

#### SPECIFIC ADDITIONAL REQUESTS

—Subject to the successful implementation in fiscal year 2006 of the administration's initiative to liquidate and dissolve the Rural Telephone Bank pursuant to Sec. 411 of the RTB enabling act, NRTA supports elimination of the restriction on the retirement of class A government stock in the RTB, the prohibition against transfer of RTB funds to the general fund and the requirement for the payment of interest by Treasury

The Administration has recommended in the budget that the general provision of the fiscal year 2005 act (Sec. 413) containing the 5 percent annual statutory restriction on the retirement of class A government stock in the Rural Telephone Bank be eliminated in its entirety. In principle, the association supports that proposal. However, we urge the Committee to continue this provision in its entirety in the fiscal year 2006 act while providing an exception that would make the provision inapplicable in the event of liquidation or dissolution of the bank. This would assure that the protections provided the private stockholders by this provision would be maintained in the event that, for some unanticipated reason, the administration does not go forward with its stated intention to liquidate the bank or, if its implementation is delayed beyond fiscal year 2006. Previous appropriations acts (fiscal year 1997 through fiscal year 2005) have recognized the ownership rights of the private class B and C stockholders by prohibiting a transfer to the Treasury of the bank's excess, unobligated fund balances which otherwise would have been required by the Federal credit reform act. The balance of the current statutory provision, also contained in previous years' appropriations acts, that requires Treasury to pay interest on bank funds deposited with it should also be continued in fiscal year 2006, except in the event of dissolution of the bank.

—Reject Budget Proposal to Transfer Funds from RTB Liquidating Account for Administrative Costs

The President's budget again 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. As NRTA has pointed out in its testimony in previous years, this recommendation is contrary to the specific language of Sec. 403(b) of the RTB enabling act. 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.

—Grants for Medical Link and Distance Learning Purposes

We support the continuation in fiscal year 2006 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 medical link 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 TURFGRASS EVALUATION PROGRAM

Mr. Chairman and Members of the Subcommittee: On behalf of the National Turfgrass Evaluation Program (NTEP), 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 2005 budget for turfgrass research within the Agricultural Research Service (ARS) at Beltsville, MD. Secondly, we are asking for twelve individual research positions of \$450,000 each. This amount is being requested by House members in individual districts where the positions are located. We appreciate the support of research funding at Logan, UT (\$125,000) and Beaver, WV (\$150,000) provided by the committee in fiscal year 2005 and request that funding be increased to \$450,000 for each position in fiscal year 2006.

*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 within the USDA, ARS at Beltsville, MD, focusing on turfgrass research, that was appropriated in the fiscal year 2005 budget, and in the three previous budget cycles.

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 70 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.

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 Funding for 12 ARS Scientist Positions at ARS Installations Around the United States \$450,000 Each; Total: \$5,400,000 Appropriation Request for the First Installment on the National Turfgrass Research Initiative*

The turfgrass industry also requests that the Subcommittee appropriate an additional \$5,400,000 for the 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. \$450,000 is being requested for each location.

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 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, until the recently appropriated funds become available.

The turfgrass industry has met on several occasions with USDA/ARS officials to discuss the new turfgrass scientist positions, 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 as follows:

#### A 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' credit, the agency has committed staff, planning and technical resources to this effort. However, despite ARS' 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 2006, 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. For each of the individual scientist positions, we are requesting \$300,000 for each ARS scientist position with an additional \$150,000 attached to each position to be distributed to university partners, for a total of \$450,000 per position. We are also asking that the funding be directed to ARS and then distributed by ARS to those university partners selected by ARS and industry representatives.

In fiscal year 2005, in addition to restoring most of the \$490,000 appropriated in fiscal year 2004, the Subcommittee generously provided additional funding for turfgrass research at Beaver, WV (\$150,000) and Logan, UT (\$125,000). We appreciate the support of the Subcommittee for this new funding in fiscal year 2005 and ask for your continued support of that funding in fiscal year 2006 at \$450,000 per location.

In addition, you will be receiving Member requests for funding of each of the twelve positions described above. Therefore, we appreciate your strong consideration of each individual member request for the turfgrass research position in his or her respective congressional district.

In conclusion, on behalf of the National Turfgrass Evaluation Program and the turfgrass industry across America, I respectfully request that the Subcommittee continue the funding appropriated in fiscal year 2005 for Beltsville, MD, (\$490,000), Beaver, WV (\$150,000) and Logan, UT (\$125,000) within the Agricultural Research Service. I also request that the Subcommittee appropriate an additional \$5,400,000 for twelve new turfgrass scientist positions around the country, with \$450,000 provided for each location.

Thank you very much for your assistance and support.

## PREPARED STATEMENT OF THE NATURE CONSERVANCY

Mr. Chairman and members of the Subcommittee, I appreciate this opportunity to present The Nature Conservancy's recommendations for fiscal year 2006 appropriations. The Conservancy urges the Subcommittee to provide funding for Animal and Plant Health Inspection Service (APHIS) eradication efforts for four destructive invasive species—the Asian Longhorned Beetle, the Cactus Moth, the Emerald Ash Borer, and Sudden Oak Death. In addition we urge the Subcommittee to fully fund the Noxious Weed Control Act of 2004, and to place no limitation on the amount of acres to be enrolled in fiscal year 2006 in the Wetlands Reserve Program (WRP) administered by the Natural Resources Conservation Service.

The Nature Conservancy is an international, non-profit organization dedicated to the conservation of biological diversity. Our mission is to preserve the plants, animals and natural communities that represent the diversity of life on Earth by protecting the lands and waters they need to survive. The Conservancy has more than 1,000,000 individual members and 1,900 corporate associates. We have programs in all 50 States and in 27 foreign countries. We have protected more than 15 million acres in the United States and Canada and more than 117 million acres with local partner organizations globally. The Conservancy owns and manages 1,400 preserves throughout the United States—the largest private system of nature sanctuaries in the world. Sound science and strong partnerships with public and private land-owners to achieve tangible and lasting results characterize our conservation programs.

*Asian Longhorned Beetle (ALB).*—The Asian Longhorned Beetle kills a wide variety of hardwood trees, particularly sugar maple. ALB threatens to devastate forests reaching from New England to the Great Lakes. Currently the beetle is found primarily in New York City and New Jersey. APHIS, State, and local officials are succeeding in a 9-year program to eradicate ALB. The President has proposed funding of \$15.521 million in fiscal year 2006 as compared to \$28.933 million in fiscal year 2005. We urge the Subcommittee to fund ALB at \$40 million in fiscal year 2006, so that the ongoing efforts to eradicate this pest are not jeopardized. Failure to eradicate the ALB exposes both urban and rural areas of northern States to substantial risk. If not stopped, ALB could kill 30 percent of the Nation's urban trees at a compensatory value of \$669 billion.

Maple trees are especially threatened. If unchecked, the New England maple syrup industry is threatened as well as autumn foliage tourism which generates \$1 billion in revenue in New England every year.

*Cactus Moth.*—The cactus moth kills prickly pear cacti. First found in Florida, the moth is rapidly moving along the Gulf Coast (currently it has traveled as far as Alabama) killing prickly pear cacti. APHIS has bred a sterile cactus moth that may help control the spread of this pest. Control of the cactus moth before it disperses around the Gulf Coast would protect the vast diversity of prickly pear cacti in the southwestern United States and Mexico. There are 31 likely host prickly pear species (opuntia) for the moth across the United States (9 found nowhere else in the world), including the federally endangered *Opuntia treleasei*, and 56 in Mexico (38 found nowhere else in the world). Additionally, control would protect agricultural interests. Horticultural production of prickly pears occurs in Arizona, California, Nevada, New Mexico, and Texas. Annual revenues for Arizona alone are estimated at \$14 million. In drought years, ranchers in Texas have burned the spines off opuntias and fed them to cattle. This practice is even more important in Mexico, where opuntias are critical for the cattle industry. In Mexico, the agricultural impacts would be devastating: the area of cultivated and harvested wild cactus is estimated to be 3 million hectares. Opuntia products are the seventh most important agricultural product and the third most important subsistence food source. Further, opuntias are cultivated for agricultural purposes in at least 28 other countries. Thus, the cactus moth presents both a critical ecological and agricultural threat. We urge you to fund eradication efforts at \$1.5 million in fiscal year 2006 for a full sterile release program.

*Emerald Ash Borer (EAB).*—The Emerald Ash Borer, an Asian native, was detected in 2002. Control programs began in 2003. The affected area covers 13,000 square miles in Michigan's Lower Peninsula and adjacent areas in Indiana, Ohio, and Ontario. At present, spread of the emerald ash borer to the Upper Peninsula, Illinois, and Wisconsin is partially prevented by lakes Michigan, Erie, and Huron. However, if eradication efforts are not sufficiently aggressive, EAB will spread further south into Ohio and Indiana, and be carried by people across bridges and through tunnels to other vulnerable areas in the East and Midwest. Seven billion ash trees are at risk across the Nation, at an estimated cost of \$282 billion. We urge the Subcommittee to provide APHIS with \$40 million to contain the Emerald Ash



Borer in fiscal year 2006. The President's budget recognizes the urgent need to fight this pest and has requested \$32.586 million for fiscal year 2006. In fiscal year 2005, APHIS is spending \$3.961 million in appropriated funds plus \$11 million in emergency funds drawn from the Commodity Credit Corporation (CCC). As you know, OMB does not usually allow emergency draws over several years from CCC so additional funding is needed in 2006 to eradicate this very dangerous pest.

*Sudden Oak Death (SOD).*—Since 2000, APHIS has worked with California, Oregon, and other States to prevent the spread of SOD. This disease infects at least 38 native tree, shrub and herb species. The disease kills a variety of western and eastern oak trees. SOD has already killed tens of thousands of tanoaks, live oaks and black oaks in California. If SOD spreads into Oregon and Washington, it could severely disrupt production and movement of Douglas-fir seedlings used in replanting. If SOD spreads to the East, it is likely to kill large numbers of red oaks. Collectively the red and white oaks comprise 38 percent of the Nation's total hardwood saw-timber volume.

Containing Sudden Oak Death has become more challenging as the number of host plants has grown from 1 dozen to 3 dozen. The situation became a crisis in March 2004 when officials discovered that infected nursery plants had been shipped nationwide; more than 200 nurseries received these plants. APHIS has adopted highly restrictive regulations to prevent a recurrence of the 2004 crisis; the agency is receiving funding from CCC to fully implement these regulations in fiscal year 2005. In fiscal year 2006, at least \$12 million will be needed to ensure the efficacy of these regulations and curb the spread of this disease, approximately \$10.5 million more than the President has requested. We recognize that funding is tight. However, relatively small investments now will go a long way toward eliminating these invasive species and prevent larger funding demands in the future.

*Noxious Weed Control and Eradication Act.*—We respectfully request \$15 million, the authorized amount, for implementation of the Noxious Weed Control and Eradication. As control and management of invasive species are important for agriculture, natural areas, forestry, and rangeland, this effort has strong bipartisan support. This issue is vital to the health of the Nation's economy and ecosystems.

*Interdepartmental National Invasive Species Crosscut Budget.*—The Conservancy strongly supports the Interdepartmental National Invasive Species Crosscut Budget prepared by the National Invasive Species Council. This effort represents the most cost-effective way for Federal Government agencies to work together and prioritize their invasive species activities, and it will help them to measure success and achieve their goals of prevention, early detection, rapid response, control and management and restoration. When considering the Interdepartmental Crosscut Budget, the Conservancy recommends that you fund four requested increases for the Agricultural Research Service. These increases, on taxonomic knowledge of invasive species, biological control of tamarisk, nursery research for sudden oak death, and research to control yellow star thistle and leafy spurge across the Western States, would each benefit extensive agricultural and natural areas across the United States.

*Wetlands Reserve Program (WRP).*—On Earth Day last year, President Bush committed to increasing the number of wetland acres in the United States. For fiscal year 2006, the President's budget proposes no cap via the appropriations bill on the number of acres that can be enrolled in WRP. We urge the subcommittee to not restrict the enrollment of wetland acres under WRP. Without a cap, we expect the Administration to enroll 250,000 acres consistent with 2002 farm bill authority. In 2005 the appropriations bill limited WRP signups to 154,500 acres. WRP is the Nation's premier wetland protection program and without full funding the Administration will be hard pressed to meet its goal of adding wetlands to our national resources. Wetlands are critical for biodiversity in addition to the flood control and pollution filtering services they provide throughout the United States.

Thank you for the opportunity to present The Nature Conservancy's comments on the U.S. Department of Agriculture's budget.

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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 Tribes, January 26, 1855.

In exchange for the peaceful settlement of what is today most of western Washington, the Tribes reserved the right to continue to harvest finfish and shellfish at all of their usual and accustomed grounds and stations. The Tribes were specifically excluded from harvesting shellfish from areas "staked or cultivated" by non-Indian citizens.

Tribal efforts to have the Federal Government's treaty promises kept began in the first years of the 20th Century when the United States Supreme Court ruled in *U.S. v. Winans*, reaffirming that where a treaty reserves the right to fish at all usual and accustomed places, a State may not preclude Tribal access to those places.

Sixty years later, the Tribes were again preparing for battle in court. After many years of harassment, beatings and arrests for exercising their treaty-reserved rights, western Washington Tribes took the State of Washington to Federal court to have their rights legally re-affirmed. In 1974, U.S. District Court Judge George Boldt ruled that the Tribes had reserved the right to half of the harvestable salmon and steelhead in western Washington.

The “Boldt Decision,” which was upheld by the U.S. Supreme Court, also re-established the Tribes as co-managers of the salmon and steelhead resources in western Washington. As a result of this ruling, the Tribes became responsible for establishing fishing seasons, setting harvest limits, and enforcing Tribal fishing regulations. Professional biological staffs, enforcement officers, and managerial staff were assembled to ensure orderly, biologically-sound fisheries.

Beginning in the late 1970s, Tribal and State staff worked together to develop comprehensive fisheries that ensured harvest opportunities for 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.

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#### PREPARED STATEMENT OF THE OREGON WATER RESOURCES CONGRESS

I am Anita Winkler, Executive Director, Oregon Water Resources Congress (OWRC). Our organization was established in 1912 as a trade association to support member needs to protect water rights and encourage conservation and water management statewide. OWRC represents non-potable agriculture water suppliers in Oregon, primarily irrigation districts, as well as member ports, other special districts and local governments. The association represents the entities that operate water management systems, including water supply reservoirs, canals, pipeline and hydropower production.

This testimony is submitted to the United States Senate Appropriations Committee, Agriculture, Rural Development and Related Agencies Subcommittee in support of the fiscal year 2006 appropriation request of our member irrigation district, the Three Sisters Irrigation District for their McKenzie Canyon Project.

The McKenzie Canyon Project (MCP) focuses on water conservation to improve instream flows in Squaw Creek for fish and water quality and to provide farmers with a more economical and reliable supply of water. The project would be constructed under the Department of Agriculture's Watershed Protection and Flood Prevention Act (Public Law 83-566 program). The Natural Resource Conservation Service (NRCS) has completed the engineering for the project under the Bridging-The-Headgates Program Memorandum of Understanding. NRCS has completed a watershed plan and environmental assessment for the McKenzie Canyon Project. The project has been approved by NRCS Chief Bruce Knight.

The total project cost is \$1,130,148, and OWRC and the Three Sisters Irrigation District are requesting \$386,776 for fiscal year 2006.

This project will significantly decrease system water losses. Currently the water is delivered to 31 farms through a series of open canals and on-farm ditches that experience seepage losses on the order of 40 percent to 50 percent. Phase one of this project will replace approximately 10,265 feet of an open canal irrigation water conveyance system with buried High-Density Polyethylene pipeline. This will return 1.2 cfs instream to Squaw Creek permanently through the Oregon Water Resources Department conserved water program. Squaw Creek is important for providing habitat for Endangered Species Act (ESA) listed bull trout, as well as, redband and other resident trout. Fishery agencies and the tribes are also counting on improving conditions in Squaw Creek to support spawning and rearing for Chinook and steelhead once anadromous fish are reintroduced above Pelton and Round Butte Dams on the Deschutes River. Efforts to reintroduce anadromous fish are expected to start in 2007 as part of the Federal Energy Regulatory Commission (FERC) re-licensing requirements.

Thank you for the opportunity to provide this statement for the hearing record.

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#### PREPARED STATEMENT OF THE ORGANIZATION FOR THE PROMOTION AND ADVANCEMENT OF SMALL TELECOMMUNICATIONS COMPANIES

##### *Summary of Request*

The Organization for the Promotion and Advancement of Small Telecommunications Companies (OPASTCO) seeks the Subcommittee's support for fiscal year 2006 loan levels for the telecommunications loans program administered by the Rural Utilities Service (RUS) in the following amounts:

[In millions of dollars]

5 percent hardship loans .....	145
Treasury rate loans .....	425
Guaranteed loans .....	125

Note: The \$425 million recommended for Treasury rate loans assumes that the President's budget proposal to dissolve the RTB is carried out. Dissolution of the RTB would necessitate additional funds for RUS telecommunications loans in order to maintain the level of funds available to rural telecommunications borrowers.

In addition, OPASTCO requests the following action by the Subcommittee: (1) eliminate the 5 percent limitation on the retirement of Class A stock of the Rural Telephone Bank (RTB); (2) maintain the prohibition on the transfer of unobligated RTB funds to the general fund of the Treasury and the requirement that interest be paid on these funds; and (3) fund the distance learning, telemedicine, and broadband program at sufficient levels.

#### *General*

OPASTCO is a national trade association of approximately 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.

Perhaps at no time since the inception of the RUS (formerly the REA) has the telecommunications loans program 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. In addition, the President has established as a goal that all Americans have affordable access to broadband technology by 2007. However, without continued support of RUS's telecommunications loans program, rural telephone companies will be hard pressed to continue building the infrastructure necessary to bring their communities into this new age and achieve policymakers' objectives.

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 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. Moreover, the ability of consumers to use increasingly popular Voice over Internet Protocol (VoIP) services requires that they first have a broadband connection from a facilities-based carrier. 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. In the FCC's September 2004 report on the deployment of advanced telecommunications capability, the Commission correctly noted that "[r]ural areas are typically characterized by sparse and disperse populations, great distances between the customer and the service provider, and difficult terrain. These factors present a unique set of difficulties for providers attempting to deploy broadband services." Thus, in order for rural telephone companies to continue modernizing their networks and providing 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 program is not a grant program. 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 program is tremendously successful. Borrowers actually build the infrastructure and the government is reimbursed with interest.

*The 5 Percent Limitation on the Retirement of Class A Stock of the RTB Should be Eliminated*

OPASTCO supports the elimination of the provision adopted in prior Agriculture Appropriations Acts that limits the retirement of Class A stock of the RTB to no more than 5 percent. Elimination of this restriction is necessary for the Administration to move forward with its proposal to dissolve the RTB. OPASTCO is receptive to this proposal, assuming it can be accomplished in a manner that equitably compensates the private Class B and C stockholders for their holdings in the bank. In addition, even if the dissolution of the RTB does not occur, elimination of the 5 percent limitation on the retirement of Class A stock would provide the bank's board of directors with the necessary flexibility to accelerate the bank's privatization.

*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 2006 appropriations bill will ensure that RTB borrowers are not stripped of the value of this required investment.

*The Distance Learning, Telemedicine, and Broadband Program Should Continue to be Funded at Adequate Levels*

In addition to RUS's telecommunications loans program, OPASTCO supports adequate funding of the distance learning, telemedicine, and broadband program. 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 2006.

*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.

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PREPARED STATEMENT OF 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 85 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 toward reducing product costs and improving human diets and 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, which 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.

#### VEGETABLE CROPS RESEARCH LABORATORY, MADISON, WISCONSIN

First, we thank the Committee for \$200,000 in 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 Congress to restore this funding in fiscal year 2006, 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 \$655 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 on the safety of our products and development of new processing technologies related to fermented and acidified vegetables. 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 related to protecting our products from acid tolerant pathogens (*E. coli* O157:H7, *Listeria*, and *Salmonella*) this industry needs better technology for waste minimization related to the salt and organic waste generated in our processing plants.

We thank Congress for the additional funding it provided to this laboratory in the fiscal year 2004 (\$270,000) and fiscal year 2005 (\$100,000) budgets to hire a microbial physiologist and to enhance the capabilities of this research program that is so important to our industry. After 6 years of stable funding, these budget increases have made it possible for the laboratory to return to four scientists and to proceed with a very active research program. It is very important that Congress restore the full \$370,000 funding in the fiscal year 2006 budget, since the funds were not included in the budget sent to the Congress.

For the future safety and security of the food supply of the United States, PPI supports the Food Safety and Security Initiative the President has proposed in his fiscal year 2006 budget. It takes continuous vigilance and good science to deal with the natural threats to human health posed by pathogenic bacteria. However, the possibility that the acid tolerant pathogens might be used to intentionally disrupt the food supply, adds a different and more dangerous element to the already difficult job of assuring safety throughout the complex food chain. We believe the special expertise of the ARS Food Fermentation Laboratory scientists in working with



these pathogens in acid and acidified foods can make an important contribution to this initiative.

#### SUGAR BEET AND BEAN RESEARCH UNIT, EAST LANSING, MICHIGAN

The USDA/ARS cucumber post harvest engineering research at East Lansing, Michigan is the only federally funded program that is devoted to developing new and/or improved engineering methods and technology for assessing, retaining, and assuring post harvest quality, marketability, and wholesomeness of pickling cucumbers and other vegetable products. The cucumber post harvest engineering research is one component of the post harvest engineering research program within the Sugar Beet and Bean Research Unit in East Lansing, Michigan. The post harvest engineering research program currently has a full-time research agricultural engineer whose primary research is to develop methods and technology for assessing and assuring post harvest quality of tree fruits. Because of severe under-funding, the location's cucumber post harvest engineering research has not been carried out at the full scope it would have been expected. A postdoctoral research associate has been hired to carry out research on developing nondestructive technology for assessing and grading pickling cucumbers and other vegetables. The ARS East Lansing location has been internationally recognized for developing innovative, practical engineering methods and techniques to improve harvest and post harvest handling systems for vegetables and tree fruits. The location recently developed a new laser-based multi-spectral imaging technology for grading and sorting fruit for texture and soluble solids content. The technology has the potential for inspecting a variety of vegetable crops including cucumbers. The location also developed an advanced hyper-spectral imaging system for automated detection of defects and quality attributes of fruit, which could also be used for pickling cucumber inspection.

Today, consumers have increasing choices of foods and they are demanding for better, consistent safe products. Defective and inferior cucumbers/vegetables will lead to poor quality, inconsistent pickled products and can cause significant economic losses to growers and processors. An effective quality control and assurance system throughout the handling steps between harvest and retail is required for the pickling industry to provide consistent, superior products to the marketplace. Methods currently available for measuring and grading quality of cucumbers and other vegetables are either ineffective or time consuming. New and/or improved technologies are needed to assess, inspect and grade fresh cucumbers rapidly and accurately for various internal and external quality characteristics so that raw products can be directed to, or removed from, appropriate processing or marketing avenues. This will minimize post harvest losses of food that has already been produced and ensure high quality, consistent final product and end-user satisfaction. Research at East Lansing, MI is currently applying technology in imaging, machine vision and spectroscopy and advanced data/image processing methods (neural networks, genetic algorithms, and fuzzy logic) to develop rapid inspection techniques for detecting and segregating defective cucumbers resulting from mechanical and temperature injury, physiological disorders, and diseases. Advanced imaging and spectroscopy techniques are being used for rapid, nondestructive evaluation of internal quality attributes of fresh cucumbers, which will directly impact the processing and keeping quality of pickled products. The research will lead to new inspection and grading technology that will help the pickling industry in delivering high-quality safe products to the marketplace. To enhance research on the development of engineering methods and technology for assuring post harvest quality and marketability of pickled and vegetable products, a full-time research scientist (engineering) will be needed for the ARS East Lansing research program.

#### 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. Cancellations

tion 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<sup>4</sup>)pesticide 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 U.S. 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 head house using the funds appropriated for this purpose in fiscal year 2003 was completed in July 2004. In fiscal year 2004, construction of the head house component of this project was funded. In fiscal year 2005, \$2.976 million was appropriated for construction of greenhouses, but \$8.251 million is still needed for the planned \$11.227 million greenhouse complex. 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 2002, fiscal year 2003, and fiscal year 2004 appropriated funds for expansion of the Charleston research staff is maintained in fiscal year 2006. 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 \$350,000 for their establishment.

Appropriations to Restore	Fiscal year	Gross Funds Impacted
Minor Use Pesticides (IR-4) .....	2002	\$5,000
U.S. Vegetable Laboratory .....	2003	490,000
U.S. Vegetable Laboratory .....	2004	266,000
Total Funds to Restore .....		761,000

New Scientific Staff Needed	Current Status	New Funds Needed
Entomologist .....	Needed .....	\$350,000
Molecular Biologist .....	Needed .....	350,000
Total New Funds .....	.....	700,000

*Food Fermentation Laboratory, Raleigh, North Carolina*

The current funding for the laboratory is \$1,274,000. This includes the new funds provided in fiscal year 2004 (\$270,000) and in fiscal year 2005 (\$100,000) that are not in the fiscal year 2006 budget proposal that was sent to the Congress. We request that the additional funding provided by the Congress in fiscal year 2004 and fiscal year 2005 be restored in the fiscal year 2006 budget, so that the funds available to the Food Fermentation Laboratory remain constant.

Scientific Staff	Current Status	Funds Needed
Microbiologist .....	Active .....	\$300,000
Chemist .....	Active .....	300,000
Food Technologist/Biochemist .....	Active .....	300,000
Microbial Physiologist .....	Hiring process active .....	300,000
Post-doctoral microbiologist .....	Active .....	74,000
Total Funding Required .....	.....	1,274,000
Current funding (fiscal year 2005) .....	.....	1,274,000
Additional Funding Needed .....	.....	0

*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 \$267,600 is needed to fully fund the scientists and support staff, including graduate students and post-doctorates.

Scientific Staff in Place	Current Status	Funds Needed
Geneticist .....	Active .....	\$300,000
Horticulturist .....	Active .....	300,000
Geneticist .....	Active .....	300,000
Total Funding Required .....	.....	900,000
Current Funding .....	.....	832,400
Shortage .....	.....	67,600
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 2006. 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.

*Sugar Beet and Bean Research Unit, East Lansing, Michigan*

The location urgently needs to hire a full-time research engineer to develop a comprehensive research program on nondestructive inspection, sorting and grading of pickling cucumbers and other vegetable crops to assure the processing and keeping quality of pickled products. The current base funding for the cucumber engineering research is \$200,000. An increase of \$100,000 in the current base funding level would be needed to fund the research engineer position.

Scientific Staff in Place	Current Status	Funds Needed
Postdoctoral Research Associate .....	Active .....	\$200,000
Research Engineer .....	Needed .....	100,000
Total Funding Required .....	.....	300,000

Scientific Staff in Place	Current Status	Funds Needed
Current Funding .....	.....	200,000
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 PUBLIC CITIZEN'S ENERGY AND ENVIRONMENT  
PROGRAM

Chairman Bennett, Ranking Member Kohl and Members of the Subcommittee: My name is Wenonah Hauter. I am Director of Public Citizen's Energy and Environment Program. As you know, Public Citizen is a non-profit consumer organization, representing 150,000 members. We welcome this opportunity to present our views on the fiscal year 2006 Agriculture, Rural Development, Food and Drug Administration and Related Agencies Appropriations Bill.

USDA—FOOD SAFETY AND INSPECTION SERVICE (FSIS)

We are adamantly opposed to the Administration's proposal to collect \$139 million in user fees in order to recover the cost of providing inspection services beyond an approved eight-hour primary shift, as it could compromise the effectiveness of FSIS inspectors. This proposal has been rejected in the past by Congress and we request that you do so again this year. Furthermore, FSIS has already taken action to delist foreign establishments that had been previously approved to export their meat and poultry products to the United States on the basis that inspection services were paid for by the companies involved instead of by the foreign government. Given this history, implementation of the Administration's proposal would be hypocritical.

While not fully under its jurisdiction, we believe that the subcommittee needs to look into the mixed signals top USDA officials have been sending in regards to FSIS' authority. On March 19, 2003, former USDA Secretary Ann Veneman delivered a speech before an industry-sponsored conference in which she stated:

"... we are working under a Meat Inspection Act that pre-dates the Model T. In an effort to modernize food safety authorities, we want to work with Congress and our partners to consider various ideas, some of which have been discussed in the past. These include: "Mandatory notification to USDA when a federally inspected establishment has reason to believe that meat or poultry has been adulterated or misbranded; Authority to impose civil penalties after notice in writing and continued lack of compliance. This authority would involve due process before an administrative law judge, and liabilities would be limited to penalties based on continued noncompliance; And cease-and-desist orders and potential suspensions at earlier phases and on an expedited basis arising from HACCP violations."<sup>1</sup>

Industry opposition was quick and ferocious, and nothing has occurred since her speech. In light of adverse court rulings which FSIS has suffered in recent years regarding its attempts to exert authority over meat processors that have violated food safety regulations, we believe that the Congress needs to take action to plug the current legal loopholes.

We are also concerned that FSIS does not have adequate in-plant inspection staffing to ensure that our meat and poultry products are safe. In recent years, the requests for additional staffing by the Administration have been modest. FSIS has been engaged over the past year in a process to realign staffing based on new standards that take into account food safety risk. While the agency claims that the new staffing model is based on "science," we are concerned that the data upon which the agency is basing its decisions may not be sufficient or reliable. The agency is relying on data that it has collected through its Field Automation and Information Management (FAIM) system. We have learned from inspection personnel that the FAIM system has been fraught with problems. For example, inspection personnel have had difficulty logging on to the system and the system often crashes before inspectors' reports have been completely transmitted. Consequently, there may be a "garbage-in-garbage-out" scenario whereby the agency will find itself having re-deployed its inspection staff based on faulty and/or incomplete data. There have been a number of product recalls in recent months that seem to be directly attributable to lack of

<sup>1</sup> <http://www.usda.gov/news/releases/2003/03/0092.htm>.

inspection resources.<sup>2</sup> We request that the subcommittee fully investigate this issue before the agency completes its staffing reassignments.

In a related area, the USDA Office of Inspector General (OIG) found serious security weaknesses in the FSIS information technology systems. Specifically, the OIG stated:

“Our vulnerability scans of selected FSIS systems disclosed weaknesses that may be exploited both internally and externally from the Internet. FSIS had not adequately protected physical access to its headquarters computer facility by limiting it to users who need access to perform their duties, and it had not completed all security plans required by OMB Circular A-130. FSIS database administrators were allowed to make changes to FSIS data without following up with appropriate personnel to verify the validity of the changes.”<sup>3</sup>

On the issue of equivalence and import re-inspections, we believe that FSIS needs to do a better job of safeguarding consumers against unsafe food that may be imported. In July 2003, Public Citizen released a report entitled, “The WTO Comes to Dinner: USDA Implementation of Trade Rules Bypasses Food Safety Requirements” in which we documented shortcomings in the FSIS food safety program for imported meat and poultry products. For example, we have not been able to determine how FSIS permanently bans a country from exporting food to the United States if FSIS finds habitual violations of food safety regulations. We have also become alarmed that since the fall of 2002, when FSIS instituted a new sampling regime, the amount of imported meat and poultry products re-inspected at our ports of entry has dropped precipitously. During a period in which we must be more vigilant about the security of our food supply, FSIS seems to have adopted a policy that is counterintuitive. In 2004, there were three recalls of imported products that should not have entered into U.S. commerce.<sup>4</sup> We ask that the subcommittee review FSIS’ food safety program for imported products.

While we applaud FSIS’ steps in protecting consumers from beef that may be contaminated with bovine spongiform encephalopathy (BSE), the initiatives announced on December 30, 2003 still do not go far enough. First, we are concerned that meat product that is obtained through the use of advanced meat recovery (AMR) systems is still permissible for cattle that are slaughtered under the age of 30 months. AMR systems recover meat close to the spinal column. The spinal column is an area of concern since that is where infected tissue is often found. There have been cases of BSE-infected cattle reported abroad that were younger than 30 months. Consequently, we believe that the 30-month cutoff is too high, and that AMR should be banned entirely. Second, there needs to be a rigorous training program on BSE for FSIS inspectors and veterinarians to ensure that FSIS personnel fully comprehend the symptoms of BSE and the new regulations FSIS has put in place. There have been allegations made by FSIS inspection personnel that the regulation on the removal of specified risk materials from beef entering the food supply has not been fully enforced,<sup>5</sup> and we urge the subcommittee to investigate this matter fully, including requesting copies of non-compliance reports that document these shortcomings. Third, there has been much controversy over the “downer” ban that FSIS announced. We believe that the definition of “non-ambulatory, disabled” animal is adequate to prevent any confusion at the slaughter facilities, but we are concerned about how USDA will continue to thoroughly conduct BSE surveillance since such animals will no longer be presented for slaughter. Fourth, the recall of meat from the slaughtered BSE-contaminated cow in Washington State illustrated, once again, the weaknesses of the FSIS recall process, which restricts state and local departments of health from publicizing recall information. Fifth, we are concerned that USDA may have prematurely lifted its ban on Canadian beef imports in August 2003. It is obvious that there was confusion over what was eligible to be imported into the United States which led to a systematic breakdown between the fall 2003 and spring 2004 that was vividly described in a recent Office of Inspector General

<sup>2</sup>[http://www.fsis.usda.gov/Fsis\\_Recalls/RNR\\_013\\_2005/index.asp](http://www.fsis.usda.gov/Fsis_Recalls/RNR_013_2005/index.asp).

[http://www.fsis.usda.gov/Fsis\\_Recalls/RNR\\_007\\_2005/index.asp](http://www.fsis.usda.gov/Fsis_Recalls/RNR_007_2005/index.asp).

[http://www.fsis.usda.gov/Fsis\\_Recalls/RNR\\_003\\_2005/index.asp](http://www.fsis.usda.gov/Fsis_Recalls/RNR_003_2005/index.asp).

[http://www.fsis.usda.gov/Fsis\\_Recalls/RNR\\_001\\_2005/index.asp](http://www.fsis.usda.gov/Fsis_Recalls/RNR_001_2005/index.asp).

[http://www.fsis.usda.gov/Fsis\\_Recalls/RNR\\_042\\_2004/index.asp](http://www.fsis.usda.gov/Fsis_Recalls/RNR_042_2004/index.asp).

[http://www.fsis.usda.gov/Fsis\\_Recalls/RNR\\_047\\_2004/index.asp](http://www.fsis.usda.gov/Fsis_Recalls/RNR_047_2004/index.asp).

<sup>3</sup><http://www.usda.gov/oig/webdocs/OIG-Report010604.pdf>, p. 6.

<sup>4</sup>[http://www.fsis.usda.gov/News\\_&\\_Events/Recall\\_028\\_2004\\_Release/index.asp](http://www.fsis.usda.gov/News_&_Events/Recall_028_2004_Release/index.asp);

[http://www.fsis.usda.gov/News\\_&\\_Events/Recall\\_038\\_2004\\_Release/index.asp](http://www.fsis.usda.gov/News_&_Events/Recall_038_2004_Release/index.asp);

[http://www.fsis.usda.gov/News\\_&\\_Events/Recall\\_046\\_2004\\_release/index.asp](http://www.fsis.usda.gov/News_&_Events/Recall_046_2004_release/index.asp).

<sup>5</sup><http://www.citizen.org/documents/PiersonLetter12-20-04.pdf>.

Report.<sup>6</sup> In light of the fact all recent cases of BSE-contaminated cows on the North American continent were of Canadian origin, it is too soon to allow the import of beef from Canada.

#### USDA—REGULATORY AND MARKETING AFFAIRS

At the outset, we request that the subcommittee revisit the issue of country-of-origin labeling and provide funding for the full implementation of this provision of the 2002 Farm Bill as quickly as possible. USDA is responsible for implementing country-of-origin-labeling for seafood, which includes notice of whether the seafood is farm-raised or wild caught. Unfortunately, the final rules that the USDA developed fall short of the original mandate by exempting half of imported seafood due to the definition of “processed” put forth by the agency. The USDA’s final rules define “processed” so broadly that any seafood altered from its natural state is exempt from COOL. We urge the subcommittee to allocate sufficient resources to USDA to strengthen and adequately enforce the labeling rule for seafood.

Some industry and non-governmental organizations are also developing organic standards for aquatic species. Without any accountability, these standards will simply confuse consumers and weaken the term “organic.” The USDA must develop national organic standards for aquatic species. A National Organic Standards Board committee is currently being formed and will require resources to thoroughly and effectively develop organic standards for aquatic species.

We believe that recent announcements by the Animal and Plant Health Inspection Service (APHIS) regarding its surveillance program for BSE are less than adequate. First, we do not believe that re-opening our border to live Canadian cattle is prudent at this time. Prior to the finding of the BSE-positive cow in Washington State, APHIS had published a proposed rule permitting the import of live cattle from countries that had a minimal risk of BSE. Published in October 2003, the rule was an attempt to reshape previous U.S. policy which shut our borders to any country that had a reported case of BSE. We believe this proposed rule was APHIS’ attempt to make an exception to existing policy because the border closure which resulted from the May 2003 discovery of a BSE-infected cow in Alberta impacted the U.S. agribusiness interests which have operations on both sides of the border.

Since May 2003, three more cows in North America have been diagnosed with BSE—all of Canadian origin.<sup>7</sup> There have been investigative reports by Canadian journalists that indicate that Canada has had a difficult time enforcing its bovine feed rules.<sup>8</sup> In addition, our own Food and Drug Administration has documented contamination in cattle feed produced in Canada and exported to the United States, issuing at least nineteen import alerts since October 2003.<sup>9</sup> As we have already cited above, the recent USDA Office of Inspector General Report on the importation of Canadian beef clearly showed that APHIS was not equipped to handle this permitting process. Furthermore, we are concerned that there was undue outside influence brought to bear on the agency to expand the importation of Canadian beef products in clear violation of departmental policy.<sup>10</sup>

While the enhanced BSE surveillance program announced by APHIS on March 15, 2004 was a step in the right direction, it still leaves many questions unanswered. The size of the sample is still not finite. We have been critical of APHIS in the past for its sampling techniques,<sup>11</sup> and it seems that the agency is leaving itself vulnerable to criticism with its new program. In fact, Dr. George Gray, Executive Director of the Harvard Center for Risk Analysis recently stated that APHIS was basing its new surveillance regime on faulty assumptions and cautioned APHIS to adjust its sampling to reflect the possibility of BSE being found in so-called low risk animal populations.<sup>12</sup> We are also concerned that APHIS has not decided what its surveillance regime will be after the “enhanced” program is completed later this year.

On the issue of food irradiation, we believe that APHIS is opening up our borders to increased fruit and vegetables imports from abroad, leaving our domestic farmers vulnerable to unfair competition, and possibly exposing American consumers to harmful health effects from consuming irradiated food. In October 2002, APHIS ap-

<sup>6</sup> <http://www.usda.gov/oig/webdocs/33601-01-HY.pdf>, pp. 15–20.

<sup>7</sup> <http://www.citizen.org/cmep/foodsafety/madcow/articles.cfm?ID=12776>.

<sup>8</sup> Skelton, Chad. “Secret tests reveal cattle feed contaminated by animal parts; Mad cow fears spark review of vegetable-only livestock feeds,” Vancouver Sun, December 16, 2004.

<sup>9</sup> Statement of Senator Kent Conrad, Congressional Record, March 3, 2005, pp. S 1964.

<sup>10</sup> Hisey, Peter. “DeLauro: Inspector General said White House pressured USDA on Canadian beef,” The MeatingPlace.com, February 24, 2005.

<sup>11</sup> <http://www.citizen.org/documents/madcowreport.pdf>.

<sup>12</sup> Sugarman, Carol. “USDA’s Ambitious BSE Testing Program Gets Guarded Support,” Food Chemical News, March 22, 2004.

proved the use of irradiation as an approved phytosanitary measure for imported fruits and vegetables. We opposed this rule.<sup>13</sup> When APHIS issued its final rule in October 2002, we were perplexed by the convoluted structure of the rule.<sup>14</sup> APHIS is still reviewing applications from foreign governments that wish to use irradiation as a phytosanitary measure. There has been interest expressed in a number of countries to use this technology on their products for export. On April 1, 2005, APHIS published a proposed rule that will permit the importation of irradiated apples from Australia and New Zealand that will compete with our domestic apple industry.<sup>15</sup>

In 2004, APHIS approved the use of irradiation to treat Hawaiian sweet potatoes to be shipped to the mainland of the United States. This approval came even after mainland sweet potato growers opposed the approval of the rule.<sup>16</sup> What is even more troubling is that APHIS seemed to have approved this rule to assist a financially ailing food irradiation company. In fact, in approving this new rule, APHIS stated: "The irradiation facility in Hawaii will benefit from having more crops available to treat. The treatment available at this facility has enabled many producers in Hawaii to move their products to the mainland, thus providing them with access to markets that were not previously available. For several years, the State of Hawaii has encouraged farmers to diversify agricultural production, given the significant decline in the production of sugarcane as a major crop. The approval of irradiation as a treatment for sweet potatoes moved interstate from Hawaii will help to provide steady throughput for this facility. The facility currently treats seasonal crops whose volume is more variable than that of sweet potatoes and is thus sometimes underutilized. A steady source of revenues from treatment, such as revenues from treating sweet potatoes to be moved interstate, would help assure this facility's continued operation and availability for all the producers in Hawaii who can use it."<sup>17</sup>

The facility in question is owned by Hawaii Pride, a company that was created using a USDA Rural Development Administration loan.<sup>18</sup> The firm was having difficulty making payments on the loan because of its precarious financial condition.<sup>19</sup> In essence, APHIS is running an irradiation "industrial policy" by helping bail out Hawaii Pride from total financial ruin with the approval of this rule. We filed a Freedom of Information Act request with the agency on March 12, 2004 requesting all documents related to this decision and we have yet to receive a response. The subcommittee should review APHIS' activities regarding this rule.

#### USDA—COOPERATIVE STATE RESEARCH, EDUCATION, AND EXTENSION SERVICE

It has come to our attention that the Cooperative State Research, Education, and Extension Service (CSREES) provided funds to Texas A&M University to establish a National Center for Electronic Beam Research at its campus. The initial grant of \$185,000 was approved on July 28, 2003, and certain Texas congressional delegation members were credited for securing the funds.<sup>20</sup> The timing of the grant approval raised suspicions since Texas A&M and the SureBeam Corporation, a leading food irradiation processor and electron-beam irradiation equipment manufacturer, entered into a strategic partnership only 3 years earlier.<sup>21</sup> SureBeam donated to the University \$10 million worth of electron-beam irradiation equipment in exchange for the use of a building on the campus where the company could use the equipment for commercial purposes and University could use it for research purposes. In the summer of 2003, SureBeam's dubious accounting practices began to surface in the press, and among the areas of concern was the manner in which SureBeam was reporting "revenues" from its relationship with Texas A&M.<sup>22</sup> On January 19, 2004, SureBeam filed for Chapter 7 bankruptcy and is in the process of liquidating its as-

<sup>13</sup> <http://www.citizen.org/documents/aphiscomments.PDF>.

<sup>14</sup> <http://www.citizen.org/pressroom/release.cfm?ID=1254>.

<sup>15</sup> [http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=2005\\_register&docid=fr31mr05-16.pdf](http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=2005_register&docid=fr31mr05-16.pdf).

<sup>16</sup> Skrzycki, Cindy. "Approval of Irradiated Sweet Potatoes Has Critics Steamed," Washington Post, March 9, 2004.

<sup>17</sup> 69 FR 7547.

<sup>18</sup> <http://www.hiedb.org/showtext.asp?ArticleID=26&Category=Articles>.

<sup>19</sup> Titan Corporation. Form 10-K filed with the Securities and Exchange Commission, March 10, 2004, p.21.

<sup>20</sup> <http://www.meatandpoultryonline.com/content/news/article.asp?docid={d63bd189-14d2-450d-b399-bd02eac5cbc6}>.

<sup>21</sup> [http://www.ift.org/publications/docshop/ft\\_shop/10-00/10\\_00\\_pdfs/10-00-p&t-proc.pdf](http://www.ift.org/publications/docshop/ft_shop/10-00/10_00_pdfs/10-00-p&t-proc.pdf).

<sup>22</sup> Norris, Floyd. "SureBeam Revenue Policy Questioned," New York Times, August 27, 2003.

sets.<sup>23</sup> On August 12, 2004, CSREES awarded the Texas A&M Electron Beam Facility another \$328,357 grant.<sup>24</sup> In September 2004, the supermarket chain Wegman's revealed that it was offering irradiated frozen hamburger patties in its stores that were treated at the Texas A&M facility.<sup>25</sup> We believe that the subcommittee needs to investigate this matter further to determine whether there were any improprieties in the award of these grants.

#### FOOD AND DRUG ADMINISTRATION

We applaud the Food and Drug Administration (FDA) for revisiting its feeding restrictions for ruminant animals in light of the discovery of a BSE-infected cow in Washington State. Unfortunately, while the FDA made its announcement on January 26, 2004 that it intended to promulgate interim final rules creating new BSE firewalls, none of those rules have yet been published in the Federal Register. That means that cattle in this country are still being fed under the old feeding rules that the FDA has found to be deficient. The FDA needs to take immediate action to place those new restrictions in effect. While we believe the new rules proposed are a step in the right direction, we believe that further restrictions are needed that include the prohibition of any mammalian and poultry protein to be fed to cattle, as recommended by the International Advisory Panel appointed by USDA Secretary Ann Veneman.<sup>26</sup>

We are also concerned that the FDA is not able to increase its surveillance over imported foods that fall under its jurisdiction. In fact, the FDA is being overwhelmed with imports—leaving U.S. consumers vulnerable to unsafe imported food making its way into commerce. The subcommittee needs to review the staffing levels for FDA, especially as they relate to import inspection.

Shrimp is currently the number one seafood choice for American consumers and 80 percent of it is imported, at least half of which is farm-raised. Chemicals banned in the United States, such as chloramphenicol and nitrofurans, are used to raise shrimp that are exported to the United States. Yet the FDA only inspects one to two percent of all imported seafood. The FDA must be appropriated funds to inspect a significant amount of imported seafood.

In his testimony in 2003, then-FDA Commissioner Mark McClellan reported that an FDA working group has been considering a re-definition of the term “pasteurization” to include such new technologies as irradiation. Such a re-definition could be used by food processors on product labeling. The group that has been charged with this responsibility is a subcommittee of the National Advisory Committee on the Microbiological Criteria for Food. As we have testified in the past on this issue, consumers have repeatedly rejected such a re-definition in focus group studies conducted by the USDA and FDA.<sup>27</sup> We believe that such an exercise is a waste of resources since re-defining pasteurization would lead to consumer deception and confusion.

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#### 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 80th Annual Meeting in Bossier City, Louisiana on February 24, 2005, 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 and the war in Iraq; however, we cannot sacrifice what has been accomplished on our Nation's lands.

<sup>23</sup> Freeman, Mike. “SureBeam's Bankruptcy Filing Offers Few Details,” San Diego Union-Tribune, January 21, 2004.

<sup>24</sup> [http://www.usda.gov/wps/portal/tut/p/s.7\\_0\\_A/7\\_01OB/cmd/ad/ar/sa.retrievecontent/c/6\\_2\\_1UH/ce/7\\_2\\_5JM/p/5\\_2\\_4TQ/d/5/th/J\\_2\\_9D/s.7\\_0\\_A/7\\_0\\_1OB?PC\\_7\\_2\\_5JM\\_contentid=2004%2F08%2F0330.xml&PC\\_7\\_2\\_5JM\\_navtype=RT&PC\\_7\\_2\\_5JM\\_parentnavid=LATEST\\_RELEASES&PC\\_7\\_2\\_5JM\\_navid=NEWS\\_RELEASE#7\\_2\\_5JM](http://www.usda.gov/wps/portal/tut/p/s.7_0_A/7_01OB/cmd/ad/ar/sa.retrievecontent/c/6_2_1UH/ce/7_2_5JM/p/5_2_4TQ/d/5/th/J_2_9D/s.7_0_A/7_0_1OB?PC_7_2_5JM_contentid=2004%2F08%2F0330.xml&PC_7_2_5JM_navtype=RT&PC_7_2_5JM_parentnavid=LATEST_RELEASES&PC_7_2_5JM_navid=NEWS_RELEASE#7_2_5JM).

<sup>25</sup> <http://www.wegmans.com/meb/columns/091804.asp>.

<sup>26</sup> [http://www.aphis.usda.gov/lpa/issues/bse/US\\_BSE\\_Report.pdf](http://www.aphis.usda.gov/lpa/issues/bse/US_BSE_Report.pdf).

<sup>27</sup> <http://www.citizen.org/documents/agappropsmarch03.pdf>.



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 2006 budget for NRCS indicates a decrease of \$70 million from what Congress appropriated in fiscal year 2005. In reality, NRCS is taking a major decrease in program funding and staff years. This is reflected in the fact that NRCS manpower for fiscal year 2006 would have to decrease by over 2,000 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. The President's budget included \$767.8 million, which is a decrease of \$69.6 million from fiscal year 2005. Maintaining a "level" funding level is actually a cut, due to mandated increases in pay and benefits, in addition to continuing increases in the "cost of doing business".

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 be placed in "Conservation Technical Assistance", and allow NRCS to provide assistance to all who are in need of assistance.

It is our understanding that the Technical Service Providers (TSP) program has not lived up to its expectations. It has been difficult to fund this initiative at or below what it would cost to use NRCS manpower. Therefore, it is an increase in funding to delivery these services. We believe that TSPs should be used 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 Law 566 & 534).*—We are greatly disappointed that the President's Budget provided no funding for watershed operations. There is no doubt that this is a Federal responsibility, in conjunction with a local sponsor. This program addresses all watershed needs to include: flood protection, water quality, water supply and the ecosystem. There is no Corps of Engineer, Bureau of Reclamation or FEMA program to address small watershed needs, before disaster strikes. We recommend that Congress hold oversight hearings to understand the importance and hear how popular this program is to our communities.

We are very appreciative for the funding level of \$75.6 million enacted in fiscal year 2005. 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. These projects 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.*—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 these projects in fiscal year 2006.

*Red Bayou Irrigation Project, LA.*—The plans and specifications have been completed, making this project ready for construction in fiscal year 2006. 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 2006.

*Watershed Rehabilitation.*—More than 10,400 individual watershed structures have been installed nationally, with approximately one-third in the Red River Valley. 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 \$15.1 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 2005 \$7.1 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 disagree with this low level and ask Congress to fund this 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 2006 appropriation 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 \$250,000 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, and has relied on supplemental appropriations. Since the Administration has decided to "zero out" Watershed and Flood Prevention Operations do they intend to eliminate this program, since both are included in the same authorization?

As our populations expand and shift, land use changes and intensifies. Impacts of severe weather events are becoming more of an impact 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 \$25.6 million is not adequate to accomplish the needs of the Nation. This program leverages its resources at 4 to 1, with communities, local sponsors and non-government organizations. The benefits are realized at over 14 to 1, average per project. What other Federal program can claim such a return on investment?

We request that \$51 million be appropriated for this program.

*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 Farm Bill, wisely increased conservation programs each year. This increased investment, with the multi-year CCC programs, will increase the NRCS workload. It is imperative that NRCS receive the TA funding levels required to administer these programs. If they do not receive full funding these programs will not realize their full capability.

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.

We are all aware of the issue with TMDL levels in our waterways. If our Nation is to seriously address this we must look at the impacts from our farmlands. Assistance for land treatment plans and plan implementation is exactly what the NRCS Watershed programs are intended to address. Watershed programs should be receiving an increase in funds, not zeroed out!

With these new clean water initiatives 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.

These NRCS studies and watershed projects are an example of true cooperative “conservation” initiatives. There is an interface with communities and local sponsors at each step of the process and local sponsors do cost share at the levels expected of them.

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.

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#### PREPARED STATEMENT OF THE SOCIETY FOR WOMEN’S HEALTH RESEARCH

On the behalf of the Society for Women’s Health Research and the Women’s Health Research Coalition, we are pleased to submit testimony in support of increased funding for biomedical research, and more specifically women’s health research.

The Society is the only national non-profit women’s health organization whose mission is to improve the health of women through research, education, and advocacy. Founded in 1990, the Society brought to national attention the need for the appropriate inclusion of women in major medical research studies and the need for

more information about conditions affecting women disproportionately, predominantly, or differently than men.

The Coalition was created by the Society in 1999 as a way to strengthen our grassroots advocacy with scientists and researchers and clinicians from across the country who are concerned and committed to improving women's health research. The Coalition now has more than 620 members from across the country, including leaders within the scientific community and medical researchers from many of the country's leading universities and medical centers, directors from various Centers of Excellence on Women's Health as well as leading voluntary health associations, and pharmaceutical and biotechnology companies.

The Society and the Coalition are committed to advancing the health status of women through the discovery of new and useful scientific knowledge. We believe that sustained funding for the women's health research programs that are conducted across the federal research agencies is necessary if we are to accommodate the health needs of the population and advance the Nation's research capability. Therefore, we urge your support for the Food and Drug Administration (FDA) Office of Women's Health and request funding of \$5 million in order that it may meet its program goals.

#### FOOD AND DRUG ADMINISTRATION OFFICE OF WOMEN'S HEALTH

As you know, the FDA has jurisdiction over drugs, medical devices, vaccines, blood and tissue products, foods and cosmetics. Within the FDA, we would like to highlight women's health and sex and gender-based research, areas in which the Society long has been a proponent.

The Office of Women's Health at the FDA was administratively established in 1994 and has been critical to women's health, both within and outside the agency. The office aims to provide scientific and policy expertise on gender sensitive regulatory and oversight issues; to correct gender disparities in the areas for which the FDA is responsible—drugs, devices, and biologics and to monitor women's health priorities, providing leadership and an integrated approach across the agency. Finally, it forms partnerships, within the government and with outside groups and organizations. Currently, the Office of Women's Health at the FDA is doing admirable work, but its inadequate budget prevents this Office from fully accomplishing its mission.

In 2001, the Society submitted testimony on behalf of the Office of Women's Health and in support of a centralized database at the FDA to coordinate clinical trial oversight, monitor the inclusion of women in clinical trials, oversee the parameters of informed consent, and identify training needs. Due to Society efforts and this Committee's commitment, in 2002 Congress provided the Office of Women's Health at the FDA with funds to develop an agency-wide database focused on women health activities to include demographic data on clinical trials. The FDA has been developing this database now known as the "Demographic Information and Data Repository" to review clinical studies, enhance product labeling, identify knowledge gaps, and coordinate data collection.

While progress has been made, the database is far from up and running. Currently, the FDA receives large volumes of information in applications from drug manufacturers for review and evaluation. The FDA reviewers must comb through the submitted drug trial reports and digital data in as many as twelve formats to evaluate a new drug's safety and effectiveness. With no database, reviewers must handpick gender, age, and ethnicity information from stacks of reports and craft their own data comparisons. This is time consuming, makes the review process less efficient, and delays access to important information. Scientific and medical advances are occurring rapidly and the public needs and deserves access to the most recent and accurate information regarding their health. Therefore, in order to fully capitalize on the potential of the data warehouse and the resulting wealth of information, we urge Congress to commit \$1 million for the Demographic Information and Data Repository.

Scientists have long known of the anatomical differences between men and women, but only within the past decade have they begun to uncover significant biological and physiological differences. Sex differences have been found everywhere from the composition of bone matter and the experience of pain to the metabolism of certain drugs and the rate of neurotransmitter synthesis in the brain. Sex-based biology, the study of biological and physiological differences between men and women, has revolutionized the way that the scientific community views the sexes. The evidence is overwhelming, and as researchers continue to find more and more complex biological differences, they are gaining a greater understanding of the biological and physiological composition of both sexes.

Much of what is known about sex differences is the result of observational studies, or is descriptive evidence from studies that were not designed to obtain a careful comparison between females and males. The Society has long recognized that the inclusion of women in study populations by itself was insufficient to address the inequities in our knowledge of human biology and medicine, and that only by the careful study of sex differences at all levels, from genes to behavior, would science achieve the goal of optimal health care for both men and women. This has given rise to sex-based biology.

Many sex differences are already present at birth, whereas others develop later in life. These differences play an important role in disease susceptibility, prevalence, time of onset and severity and are evident in cancer, obesity, coronary heart disease, autoimmune, mental health disorders, and other illnesses. Physiological and hormonal fluctuations may also play a role in the rate of drug metabolism and effectiveness of response in females and males. This research needs to be supported and encouraged.

Building upon sex differences research, the Society encourages the establishment of drug-labeling requirements to ensure that drug labels include language about differences experienced by women and men. Further, we advocate for research on the comparative effectiveness of drugs with specific emphasis on data analysis by sex.

Our country's drug development process has succeeded in developing new and better medicines for the health of both women and men. However, there is no requirement that the research data about a new drug's safety and effectiveness be analyzed for sex differences or that information about the ways drugs may differ in various populations (e.g., women requiring a lower dosage because of different rates of absorption or chemical breakdown) be included in prescription drug labels and other patient educational and instructional materials.

Additionally, proper drug labeling is not always the complete solution. If the drug is not a new type of product or if the sex-specific information is detected only in post-marketing studies, the drug label will not be the primary source of information for the prescribing physician, and it may be difficult to get new information incorporated into physicians' prescribing habits.

The Society is encouraged by the FDA's commitment to improve the health of women and its recognition of the need for more specific drug labeling by sex. We believe the opportunity is before us to communicate the sex differences data discovered from clinical trials to the medical community and consumers (patients) through drug labeling and packaging inserts. As part of advancing the need to analyze and report sex differences, the Society encourages the FDA to continue adequately addressing the need for accurate drug labeling to identify important sex and gender differences as well as to ensure appropriate data analysis of post market surveillance reporting for these differences.

As part of their outreach and education efforts, the Office of Women's Health at the FDA has been committed to ensuring that women in every community in the United States have the vital information they need to make healthy choices for themselves and their families. For example, the office launched a nationwide menopausal hormone therapy information campaign in collaboration with other agencies and women's health organizations. The campaign distributed materials for women to use as tools to gain a better understanding of the health risks and benefits of hormone therapy.

To ensure adequate analysis and recording of sex and gender disparities in drugs, devices and biologics and appropriate regulatory policy, and accurate drug labeling, we believe that the Office of Women's Health at the FDA should be funded at a total of \$5 million so that it can create, implement, and coordinate gender sensitive programs vital to women and men throughout the Nation.

In conclusion, Mr. Chairman, we thank you and this Committee for its strong record of support for women's health. We look forward to continuing to work with you to build a healthier future for all Americans.

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#### PREPARED STATEMENT OF THE SOCIETY OF AMERICAN FORESTERS

The Society of American Foresters (SAF) represents over 15,000 forestry professionals dedicated to the conservation of our forest resources. SAF members use their education and experience to better use and manage public and private forest resources for this generation and the next. Only with the proper resources can these professionals both within and outside the Federal agencies help to make this happen. SAF offers the following suggestions that we believe will ensure forest resource professionals can continue to conserve and improve the Nation's forest resources and ensure the many forest goods and services are provided to benefit society.

SAF is deeply concerned with the proposed cuts to several forestry programs within the U.S. Department of Agriculture budget, as noted below. We strongly urge reconsideration of these cuts in light of the impacts they will have on the Nation's forests and their conservation.

*Cooperative Forestry Research Program (McIntire-Stennis Act)*

The funding provided through the Cooperative Forestry Research Program has provided the backbone of forestry research in the United States at the various forestry universities and colleges across the country since 1962. At the same time, this program helps to train tomorrow's forestry professionals. Offering opportunities for graduate students to gain real research experience while also getting an advanced education, ensures that this country retains the capacity to manage its forests today and in the future. For these reasons, SAF strongly disagrees with the proposed 50 percent cut to the Cooperative Forestry Research Program and urges Congress to ensure this program is, at a minimum, funded at \$22 million, the level provided in fiscal year 2005.

Forestry research is critically important to conserving forests while at the same time enabling society to benefit from the diverse array of goods, services and values that forests can provide through sustainable management.

SAF believes that forestry research should be funded through both public and private investments. The Cooperative Forestry Research Program helps to make this happen. With each dollar provided through this program, forestry schools leverage an additional \$9 from other Federal, State, and private sources. In fact, this program provides only 10 percent of the funding for public forestry research, extension and education at public colleges and universities, but without this 10 percent the other 90 percent could not be leveraged. SAF recognizes that formula funds are sometimes regarded as "entitlements" and are perceived as lacking in accountability. However, we believe that this program provides important and different research opportunities relative to the larger competitive grant programs. Perceptions of improved accomplishment reporting can be readily dealt with. Cutting this program's funding in half simply halves the program's effectiveness without addressing the perceived problems. We look forward opening a dialogue with Congress and the Administration about this program and potential improvements and urge that this conversation take place before changes are made to this critical program.

*National Research Initiative*

SAF supports the proposed \$70 million increase in the National Research Initiative's Competitive Grants Program (NRICGP) but recommends allocating at least 10 percent of this funding to renewable natural resource research. Forestland constitutes over 30 percent of this country's land base and currently, less than 6 percent of funding provided through the NRICGP funds forestry research. As noted above, these forests provide high-demand goods and services such as clean water and air, wildlife habitat, hunting, fishing, and other outdoor recreation opportunities that are an increasing part of rural economies, and forest products that the Nation cannot survive without. Through the NRICGP, funding is provided for research on various issues in the biological and environmental sciences arena. While the research currently conducted through this program is important, we believe that this program should place more emphasis on forestry research to ensure our professionals have the information and new ideas to succeed at a time when more and more demands are being placed on the Nation's forests.

We strongly believe this combination of formula-based funding through the Cooperative Forestry Research Program and competitive-based research funding through NRI to be appropriate if we are to maintain the long-term stability and focus required in forestry research, and foster new and innovative thinking characteristic of competitive grants.

*Renewable Resources Extension Act*

SAF recommends funding the Renewable Resources Extension Act through the Cooperative State Research and Extension Service at the authorized level of \$30 million. We recommend a modest increase in this program because we believe this program has potential to greatly improve the Nation's forests and their management.

Current budget deficits demand that every dollar invested be leveraged as much as possible. Research funding is no exception. Outreach and extension, which assists in the translation of research findings to solve real world problems, greatly increase the value of research investments. Through the RREA program, much needed outreach and extension is provided through universities around the country. These efforts utilize research findings, making investments in research increasingly important.

This outreach and extension provided through the RREA program helps the every growing number of family forest owners who own over 40 percent of the forestlands in this country, deal with the pressing problems they face. Development pressures, wildfire and forest health problems, declining U.S. forest products markets, and increasing demands on family forests for environmental services such as clean water and wildlife habitat, are just a few of the challenges family forest owners must deal with. Family forest owners need information and assistance to be able to address these problems, the RREA program helps make this possible.

*Natural Resources Conservation Service*

SAF is extremely concerned with the proposed cuts to the Natural Resources Conservation Service (NRCS) conservation operations account and recommends funding this account at \$837 million, as provided in fiscal year 2005. The Administration's proposal would cut funding for this account by almost 10 percent of current funding levels, drastically affecting the Agency's capacity to provide much needed technical assistance to family forest owners and farmers with incidental forest land.

Through NRCS' conservation operations account, family forestland owners receive much needed assistance for a variety of conservation practices, influencing the stewardship of these valuable resources. In addition, the conservation operations account helps ensure conservation programs can be implemented as mandated. 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.

Thank you for your consideration. We are happy to provide additional details on any of the programs mentioned above upon request.

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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 areas: the Market Access Program (MAP); funding for the Specialty Crop Competitiveness Act, Cooperative State Research, Extension and Education Service (CSREES) and Agricultural Research Service (ARS) funding, nutrition education and expansion of the fruit and vegetable snack program.

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 \$200 million in MAP funds, the level authorized in the farm bill for fiscal 2006.

The apple industry receives \$3.1 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. 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.

#### *Codling Moth Research*

The U.S. apple industry needs better pest management techniques, improved understanding of secondary pests and the biology of pest predators, improved mating disruption techniques, rapid and efficient pest detection and instrumentation methods. Geographic differences in codling moth control capabilities requires a regional approach to research funding. U.S. Apple requests the following additional appropriations for this problem:

- \$400,000 Agricultural Research Service—Yakima, Washington
- \$400,000 Agricultural Research Service—Kearneysville, West Virginia

#### *Soil Replant Disease and Rootstock Breeding Research*

Soil replant disease is a poorly understood phenomenon that reduces tree vigor and stunts tree growth in new orchards, which are planted on the site of a previously existing orchard. A combination of organisms such as bacteria, fungi, nematodes and viruses are suspected to play a role in attacking the roots of new apple trees, limiting their growth potential. This problem has surfaced as a high priority problem because of the scarcity of new orchard sites, the need to replant existing orchards, the high per acre cost of planting new orchards and shortage of good options to control replant disease. Soil replant disease is a problem for all tree fruits, including apples, pears, peaches and cherries. Genetics and genomics research on resistance issues would be applicable to all of these tree fruit crops.

Research is needed to better understand site-specific drivers causing the disease and how the disease causes damage. Research is necessary to develop biorational and sustainable controls. Research is needed to explore possible avenues for genetic resistance of rootstocks. U.S. Apple requests the following additional appropriations for this problem:

- \$400,000 Agricultural Research Service—Geneva, New York
- \$400,000 Agricultural Research Service—Wenatchee, Washington

#### *Fruit Quality Research*

The future of the U.S. apple industry will depend on the ability of apple growers to consistently grow and market apples with superior quality. Improved fruit quality will not only ensure greater international competitiveness, but it will increase consumer demand for apples.

Research is needed on the physical, chemical and genetic composition of apples so apple growers can produce apples with superior consumer traits, such as texture, aroma, and nutrition, and apples with superior production traits including uniform ripening and better storage characteristics and systems to deliver better fruit quality to consumers through improved defect and quality sorting. This research would also be useful for other tree fruits such as peaches. U.S. Apple requests the following additional appropriations for this problem:

- \$750,000 Agricultural Research Service—Albany, California
- \$750,000 Agricultural Research Service—Wenatchee, Washington

#### *Automation, Sensors and Precision Agriculture Research*

Improving labor productivity is a critically important goal for the apple industry as it strives to remain competitive with low-wage international competitors. Labor accounts for approximately 50 percent of the cost of producing U.S. apples. Tree fruit industries must identify and incorporate new technologies that will minimize low skill tasks, enhance worker productivity and safety, reduce production and handling costs, decrease seasonality of labor, and maximize fruit quality delivered to



consumers. This research would also be applicable to a host of tree fruits including cherries, peaches, almonds and apples and pears.

\$4,000,000 Agricultural Research Service—Kearneysville, West Virginia

#### *Genetics and Breeding*

Research on genetics, genomics, and plant breeding are high priority area for tree fruit growers who produce a variety of crops, such as apples, cherries, peaches and almonds. Genetics and genomics have to be applied through an active plant-breeding program to be successful.

The U.S. apple industry supports the appropriations of \$350,000 in Federal research funds for cherry genetics, genomics and plant breeding, which will also benefit tree fruit crops such as apples, peaches and almonds using functional genomics approaches to extend the research benefits. The effort would be national in scope and lead by Dr. Amy Iezzoni at Michigan State University (MSU). This research, which will provide the much needed scientific knowledge needed to develop better varieties in the future that would reduce labor costs, provide new disease and insect resistant varieties, and enhance overall fruit quality. The U.S. apple industry believes strongly in aggressive research programs in this area. This research keeps U.S. growers on the cutting edge of new varieties and rootstocks. U.S. Apple requests the following additional funding to address this need:

\$350,000 Cooperative State Research Education And Extension Service—Michigan State University

#### *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 2006 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 2006 budget for the postharvest quality research position in East Lansing, Mich.

The East Lansing, Mich., USDA ARS facility is conducting research critical to the future survival of the U.S. 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 2006 rescinds this funding.

#### *Specialty Crops Competitiveness Act*

U.S. Apple urges Congress to fund the Specialty Crop Competitiveness Act at the authorized level of \$54.5 million for fiscal year 2006.

The Specialty Crop Competitiveness Act (SCCA) was introduced in the 108th Congress by Reps. Cal Dooley (D-CA) and Doug Ose (R-CA) and in the Senate by Sens. Craig (R-ID) and Stabenow (D-MI). The bill was designed to strengthen demand, reduce production costs, and enhance production and marketing efficiencies.

A scaled-back version of the SCCA passed Congress last fall and was signed into law by President Bush in December. The law authorizes a total of \$54.5 million per year but does not mandate funding. The majority of the funds authorized funds would go toward block grants, with each State department of agriculture being guaranteed a minimum of \$100,000.

#### *Fresh Fruit and Vegetable Snack Program*

U.S. Apple urges Congress to include \$42 million in the USDA budget to expand the fruit and vegetable snack program to 25 schools in each of the 42 remaining States.

The 2002 farm bill established the Fruit and Vegetable Pilot Program to promote consumption of fruits and vegetables among school children by providing free

produce to schools in 25 schools in each of four States (Iowa, Indiana, Michigan, Ohio and one Indian Tribal Organization in New Mexico). The Child Nutrition and WIC Reauthorization Act of 2004 made the pilot permanent and expanded it to 25 schools in Mississippi, three additional States (North Carolina, Pennsylvania and Washington were chosen by USDA) and two additional Indian Reservations.

Reports from the original pilot showed that students were increasing their consumption of fruits and vegetables, choosing more fruits and vegetables for lunch, and asking their parents for fruits and vegetables at home. The fruit and vegetable snack program works to educate children about the healthy eating habits that will last a lifetime. The fruit and vegetable snack program should be expanded to 25 schools in every State.

#### *Nutrition Education to Promote Health and Fight Obesity*

U.S. Apple strongly encourages Congress to fully fund the nutrition education programs authorized under the Child Nutrition and WIC Reauthorization Act of 2004.

Childhood obesity is a national epidemic. Numerous studies have shown that children in the United States are not getting anywhere near the recommended servings of fruits and vegetables per day. According to the Centers for Disease Control (CDC) obesity treatment cost over \$90 million per year. USDA estimates that we could save over \$70 billion per year with better diets.

Nutrition education will be key in changing these behavior patterns. The Child Nutrition and WIC Reauthorization Act of 2004 authorized funding up to 1 cent per school lunch served (\$58 million) for nutrition education programs, materials and staffing. The President's budget did not include this 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.

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#### PREPARED STATEMENT OF THE U.S. MARINE SHRIMP FARMING CONSORTIUM

Mr. Chairman, we greatly appreciate the opportunity to provide testimony to you and the Subcommittee, to thank you for your past support, and to discuss the achievements and opportunities of the U.S. Marine Shrimp Farming Consortium (USMSFC), 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 USMSFC, have made major advances in technology development and services to support the U.S. shrimp farming industry. The USDA in its 2004 program review 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. shrimp farming industry, consolidating its competitive advantages, and satisfying consumer's demands for safe and wholesome seafood products. Shrimp is the number one consumed seafood product in the United States, yet contributes to a \$3.6 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 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, 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 en-

hance 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, USMSFC 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. Domestic farmed shrimp production has tripled over the last 6 years, yielding an average growth rate of 20 percent per year. The year 2004 recorded over 12 million pounds of shrimp produced in addition to nearly \$5 million recorded in sales of broodstock animals for improved market characteristics.

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.

#### *Industry Vulnerability*

While exceptional progress has been made, this emerging industry is continually confronted with new challenges. The industry depends on the USMSFC 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.

Diseases present in imported commodity shrimp products threaten not only the emerging domestic shrimp farming industry, but also the Nation's native shrimp stocks. During 2004, limited disease outbreaks did occur in Texas and Hawaii that were caused by a breakdown in biosecurity protocols against imported shrimp products. A quick response of the USMSFC, working in concert with the USDA's Animal and Plant Health Inspection Services and other agencies in the State of Texas, helped identify and isolate these outbreaks, limit the spread, and minimize the loss in production nationwide.

While significant progress has been made in risk assessment and risk management with visible success, the industry and the USMSFC 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 USMSFC 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 the significant decline in market prices for domestic shrimp due to a surge of foreign imports over the last 3 years. The decline has also seriously threatened the domestic shrimp harvest industry. Average U.S. farm gate prices have fallen 40 percent since then, constraining profitability and plans for industry expansion. Anti-dumping tariffs imposed in February 2005 have not nor are forecasted to stem the tide of rising imports, or improve domestic shrimp prices as intended. Affected buyers and distributors have largely absorbed those costs or producers have switched to product forms not covered by the tariffs. Moreover, other countries not named on the order have filled any voids with increased imports into the United States.

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. Innovative 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*

In fact, despite recent price and profitability trends, investor confidence is rising as a result of the work of the Consortium. New farms are emerging utilizing new and improved technologies, while others are working in cooperation with the Consortium on more advanced approaches that are nearing fruition. In addition to supporting today's industry, our advanced, high-density 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. These important traits of an evolving domestic industry 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 \$3.941 million to \$6 million is requested. The increase will be used to: strengthen the Consortium's biotechnology and molecular capabilities and activities to support rapid and more advanced disease monitoring and genetic selection efforts; accelerate the development of new genetic lines for market advantage; advance high-density production prototypes to commercial-scale testing; determine the mechanisms of disease immunity in shrimp for protection of both farmed and wild shrimp stocks; and address niche market technologies for competitive advantage. 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.

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#### PREPARED STATEMENT OF THE UNITED STATES TELECOM ASSOCIATION

##### SUMMARY OF REQUEST

#### *Project Involved*

Telecommunications Loan and Grant Programs Administered by the Rural Utilities Service of the U.S. Department of Agriculture.

#### *Actions Proposed*

- Supporting Rural Utilities Service (RUS) loan levels and the associated funding subsidy, as required, for the 5 percent direct loan program and cost of money programs in fiscal year 2006 in amounts requested in the President's budget. Supporting a continuation of the \$125 million loan level as contained in the fiscal year 2005 Agriculture Appropriations Act for the guarantee program. Also supporting \$358,875,000 in funding for broadband telecommunications loans, as recommended in the President's budget. Supporting the Administration's proposal to transfer the \$175 million in loan authority currently allocated to the Rural Telephone Bank to the cost of money program.
- Also, except in the event of liquidation or dissolution of the Rural Telephone Bank per Sec. 411 of the Rural Electrification Act of 1936, as amended, supporting an extension of the prohibition on retiring more than 5 percent of the Class A stock of the Rural Telephone Bank, supporting the prohibition on maintaining any account or subaccount within the accounting records of the Rural Telephone Bank which has not specifically been authorized by statute, supporting 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.
- Opposing the rural recertification proposal through denial of funds for a rule change.
- Supporting \$25 million for telemedicine and distance learning grants in rural areas.

I am Walter B. McCormick, Jr., President and CEO of the United States Telecom Association (USTA), the premier trade association representing service providers and suppliers for the telecom industry. USTA's 1,200 member companies offer a wide range of services, including local exchange, long distance, wireless, Internet, VOIP, IP video and cable television service. Our membership ranges from the smallest rural co-op to some of the largest corporations in American. I submit this testimony in the interests of the members of USTA and the customers they serve.

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 telecom service. We appreciate the strong support this Committee has provided for the RUS telecom program since its inception in 1949 and look forward to a vigorous program for the future.

#### A CHANGING INDUSTRY

Nearly a decade has passed since the President signed the Telecommunications Act of 1996, a landmark piece of legislation in its time, and calls are multiplying for the Act to be updated 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 telecom 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) or even fiber optic connections to the Internet, outside plant must be modernized and switching must be migrated to new platforms. 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 telecom 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 packet 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 voice, video and 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. It is a voluntary program designed to provide incentives for local telecom 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 because of a telecom carrier default.

#### RECOMMENDATIONS

For fiscal year 2006, this Committee should set the loan levels and necessary associated subsidy amounts for the 5 percent direct loan program and cost of money loan programs consistent with the levels recommended in the President's budget. The guaranteed telecommunications loan program should be maintained at the fiscal year 2005 level. These levels would preserve our members' ability to serve the Nation's telecommunications needs, maintain universal service and bring advanced telecom services to rural America.

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. USTA urges the provision of funding for this program in the amount of \$358,875,000 as proposed in the President's budget. The capital intensive nature of the telecommunications industry, particularly with respect to implementation of broadband, requires a stable and predictable source of funds. The President should be lauded for his recognition of the importance of broadband deployment to our Nation's economy and particularly for his recognition, through support of the RUS program, of the tremendous impact broadband telecommunications can have on economic growth and development in rural America.

#### *Elimination of the 7 Percent Cap on the Interest Rate for the "Cost of Money" Program*

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. 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 7 percent cap on cost-of-money insured loans in fiscal year 2006.

#### *Recommended Loan Levels*

USTA recommends that the telephone program loan levels for fiscal year 2006 be set as follows:

(Millions of dollars)

Insured 5 percent Direct Loans (5 percent) .....	145
Insured Cost-of-Money Loans .....	425
Loan Guarantees .....	125
Broadband Telecommunications Loans .....	358,875
<b>Total</b> .....	<b>1,053,875</b>

*Loans and Grants for Telemedicine and Distance Learning*

USTA supports the continuation of \$25 million in grants 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 and economic development and promote education and medicine, such funds can help continue the historic mission of RUS to support the extension of vital new services to rural America.

*Recertification of Rural Status Would Be Disruptive and Chill Rural Telecom Investment*

The Administration's budget notes that USDA will propose rule changes to require recertification of rural status for each electric and telecommunications borrower on the first loan request received in or after 2006 and on the first loan request received after each subsequent Census.

Telecom construction and investment is a long term continuous process, not a project by project proposition. The uncertainty created by the possibility of decertifying a borrower as rural after it has established a relationship with RUS and begun borrowing funds for expansion and upgrading according to a long term plan would be disruptive and discourage borrowers from participating in the RUS program, thereby denying its benefits to subscribers. The "once rural always rural" practice of RUS has been extraordinarily successful at providing needed long term capital, at a careful and measured pace, to telecom carriers intent on expanding and upgrading service to promote rural economic development. Congress should deny funding in fiscal year 2006 for such a rule change.

*Liquidation and/or Dissolution of the Rural Telephone Bank Under the Proper Conditions Will Benefit the Government and RUS Telecom Borrowers*

The Rural Telephone Bank (RTB) was created by Congress under extraordinary circumstances in 1971 when the President seemed intent on shutting down the rural telephone lending program. USTA applauds the commitment of the current Administration to supporting telecom infrastructure development in rural America through the RUS telecom programs, and particularly the Administration's goal of universal broadband availability within the next two years. Given that support, the ongoing administratively cumbersome privatization scheme of the Rural Telephone Bank is no longer necessary as long as the Administration continues to support, and Congress adopts, an equivalent level of capital available in the RUS cost of money program.

When the RTB was formed, Congress provided a variety of options for its future. USTA supports the Administration's recommended choice of liquidation and/or dissolution of the RTB per the statutory requirements included in Section 411 of the Rural Electrification Act of 1936, as amended, with the equivalent increase in loan level in the cost of money program, as the optimal direction for the future of the RTB. Return of the paid in capital of the RTB stockholders, both government and private, at par value per Section 411 is a proper and fair deal for both the government and the stockholders.

CONCLUSION

Our members take pleasure and pride in reminding the Committee that the RUS telecommunications program continues its perfect record of no defaults by telecommunications carriers in over a half century of existence. RUS telecommunications carrier 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.

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PREPARED STATEMENT OF THE UNIVERSITY OF SOUTHERN MISSISSIPPI AND THE  
MISSISSIPPI POLYMER INSTITUTE

Mr. Chairman, distinguished Members of the Subcommittee, I 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. Research efforts over the last year have focused on agricultural-based polymeric emulsions, and the production of a commercial quality, formaldehyde-free, soybean-based adhesive for use in particleboard manufacture. The emulsion polymer research has resulted in higher levels of agricultural-derived monomer incorporation and better control over the polymerization process that provides high performance environmentally friendly coatings. We are excited about this development as we believe the agricultural-derived monomers used in the polymer formation clearly and convincingly produces superior latex polymer with numerous potential advantages and applications. Furthermore, we have successfully produced lab-scale fiberboards that exceed all medium density particleboard commercial specifications. Thus, we have designed, synthesized, and utilized a soybean-derived adhesive with no added formaldehyde. This is, to our knowledge, the first such glue prepared from agricultural products with absolutely no added formaldehyde. This continued success demands the expansion of formaldehyde-free soybean-based adhesive for use in the very large oriented strand and medium density fiberboard markets if the technology is to be adequately exploited. Such technical achievements guarantee more potential revenue for U.S. farmers. Coupled with the reduction in air pollution and the absence of formaldehyde, the new adhesive is a winning product. With these and other previously reported achievements, we have clearly shown that many products manufactured heretofore from petroleum can be replaced with agricultural products if adequate funding, facilities, and commitment are available. This is exciting work and we are most appreciative of your support. This document provides an overview of our research to date and validates the necessity for continued funding.

In the research and development of vegetable oil macromonomers (VOMMs), we have chemically modified various vegetable oils such as castor, soy, linseed, safflower, sunflower, and tung oil to design and synthesize over 100 novel monomers, derivatives, and methods for functionalization. This year's main focus has been the tailoring of monomer structures that encourage higher polymerization efficiencies. The molecular changes affected have broadened the options for polymer building blocks while increasing real performance potential. The technology success is dependent upon the use of agricultural materials as the primary building blocks for emulsion-derived polymers, and offers opportunities for using ag-derived materials as a basic feedstock in the polymer industry. In developing a variety of VOMMs, our synthetic techniques have been optimized to achieve greater than 90 percent conversion of usable oil in VOMMs, producing in some cases only glycerol as a by-product. The revised and now accepted synthetic procedure affords a useful, polymerizable VOMM without extraordinary methods or processes. During this year, our synthetic efforts have produced emulsion polymers containing greater than 40 percent of VOMM by weight (based upon polymer solids), and provide chemically and physically stable polymers suitable for a variety of end uses, particularly in coating formulations. A significant advancement this year is attributed to our new level of control and understanding between monomer design and partitioning during the emulsion polymerization process. These new VOMMs are readily copolymerizable with common commercial monomers, and exhibit higher degrees of useful crosslinking after application and cure. The fundamental scientific principles regarding the transfer of hydrophobic monomers across the aqueous phase have been confirmed, yet additional data must be collected as more of these novel monomers building blocks are being designed, synthesized, and studied.

VOMMs that function both as a monomer and as the stabilizing surfactant have been synthesized and evaluated. These unique monomers are termed surfmers. Three soybean oil-derived surfmers were successfully synthesized and polymerized to produce new polymer structures. The first was a nonionic surfmer possessing poly(ethylene oxide) moieties of three different chain lengths, and concurrently three levels of hydrophilicity. The idealized structures were named EMMSO 35, EMMSO 55, and EMMSO 75. Stable styrene emulsion copolymers containing as high as 44 weight percent of EMMSO 35 were synthesized. Moreover, a latex with 30 weight percent copolymerized EMMSO 35 was formulated into architectural coatings that exhibited good film formation and performance stability. The second one was an anionic surfmer, based upon a neutralized version of an earlier VOMM, soybean acrylate monomer (SAM). All-acrylic latexes containing 5–40 weight percent of 100 percent neutralized SAM have been successfully synthesized. Latexes containing 30 percent by weight of 100 percent neutralized SAM provided good gloss and adhesion, and was formulated as an environmentally friendly binder for nail polish.

Our sustained efforts to patent the technology developed in these collective projects have resulted in a total of 21 patents and patent applications, both United States and foreign. More applications will be submitted during the coming year.

Commercial nail polishes contain very high amounts 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 that are environmentally-friendly and possess high gloss. We are continuing to optimize our VOMM-based latexes to provide faster dry time while maintaining a zero-VOC formulation.

Paper coatings derived from VOMM-based emulsions have been formulated for paper coating applications. Testing equipment has been purchased and installed, and testing is underway to enhance our understanding of polymer performance on paper substrates. VOMM latexes formulated into paper coatings have exhibited performance properties similar to those of styrene-acrylic commercial controls. VOMM coating properties continue to be evaluated and optimized using various co-monomer compositions.

A soybean-derived product, SAM, was successfully incorporated into a permanent press textile treatment to replace the previous VOMM, castor oil acrylate monomer (CAM). The novel product increases military uniform durability over 30 percent, and increases the acceptable level of wrinkle resistance from 20 washes to 170 wash cycles, thereby reducing laundry costs, at a significant savings for service personnel and the Department of Defense. This polymer was utilized for the treatment of Marine camo uniforms during Iraqi freedom campaign. Warmkraft, the company who purchased our textile latex cited cost issues and over engineering (meaning the product was too good) and therefore chose an alternate formulation after more than 2 years of treating Marine uniforms. However, they recently contacted us and noted experiencing consistency problems with their current product, and thus may purchase the latex from us again. Textile latex research is expanding to understand the fundamental mechanisms for its adhesion, longevity, and the efficacy of antimicrobial agents to provide added combat force protection.

In yet another of our novel ag-based technologies, we have developed a formaldehyde-free adhesive for use in particleboard composites. The primary component in the developmental adhesive is soy protein isolate (SPI), and lab produced particleboards have met or exceeded industry performance requirements as defined by ANSI standards for M1, M2, M3, and M-S grade boards. Processing and board production are compatible with current equipment and methodologies. Efforts are underway to reduce the water content of the current adhesive to decrease dry time and increase line speeds. The new adhesive was scaled up to semi-commercial quantities for process and formulation robustness testing in preparation for full-scale evaluations with a commercial partner. Alternative less expensive proteins have also been evaluated in our current shelf-stable formulation, and have demonstrated similar immediate performance characteristics (long-term testing is in progress). Last year, formulations only met a single industry performance standard, and required higher curing temperatures and times. We have successfully exceeded M1, M2, M3 and M-S particleboard standards while providing higher moisture resistance and improved structural integrity even after 24 hours of water immersion when evaluated against particleboards formulated with formaldehyde-based adhesives.

In 1983, the Mississippi Legislature authorized the Polymer Institute at USM to work closely with emerging and other existing polymer-related industries to assist with research, problem solving, commercializing efforts, and workforce development. 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.

Our research remains focused on the study and development of a technology platform that facilitates further commercialization of alternative agricultural crops for use in the polymer industry. The polymer industry maintains its position as the single largest consumer of petroleum chemical intermediates in the world. The finite supply of petroleum resources has resulted in extreme price pressures as worldwide demand continues to increase. Unfortunately, this feedstock normally generates non-biodegradable raw materials that are not carbon neutral, and therefore do not represent a sustainable alternative for economic development in the polymer industry. The theme of our work is to develop high performance and environmentally friendly technology utilizing agricultural 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, these successful efforts to utilize alternative agricultural products as an industrial feedstock continue to receive more and more attention but drastically less than these high tech innovations and 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 almost unlimited design potential 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 despite its enormous potential. The School of Polymers and High Performance Materials and the Mississippi Polymer Institute at USM 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 more than 40 years ago, and have watched its evolution where almost each new product offered the opportunity for many more. Although polymer science as a discipline has experienced expansion and a degree of public acceptance, alternative agricultural materials in the polymer industry continue to be an underutilized national treasure. Today, society displays less acceptance of petroleum-derived materials than ever before, and consequently, the timing is ideal for agricultural materials to make significant inroads as environmentally-friendly, biodegradable, and renewable raw materials. Agricultural materials have always been available for our use, yet society for many reasons, continues to ignore their potential.

U.S. agriculture has made the transition from the fields to the kitchen tables, but America's industrial community continues to be frightfully slow in adopting ag-based industrial materials. The prior sentence was included in my previous testimonies but continues to ring true. We are making progress and must continue to aggressively pursue this opportunity by:

- Intensify United States efforts to commercialize alternative crops and dramatically reduce atmospheric VOC emissions and odor.
- 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 cannot be easily exported to other countries.
- Maintain our innovative and developmental competitive edge over other less environmentally-friendly countries and less competitive economies.

Mr. Chairman, your leadership and support are deeply appreciated by the entire USM 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 to pay dividends by way of increasing commercialization opportunities for agricultural materials in the 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 the cleaner and safer environment that these technologies offer, as well as new jobs, and expanded opportunities for the U.S. farmer. Of course, while working to achieve commercialization, we are committed to continue technology advancement, as will basic research on those topic areas where knowledge is required.

Since our testimony last year, we have continued to research, develop, and trial larger scales for commercializing agricultural-based products. Indeed, the technology on a lab scale has matured, and marketing and sales must move parallel with continued research and commercial development of novel products. Thus, we are in need of additional resources to advance these infant technologies to the market place, and to continue our development of other exciting technologies. We therefore respectfully request \$1.7 million in Federal funding to more fully exploit the potential of commercializing the technologies described herein. We have shown that we

can be successful, yet we need additional resources in order to ultimately utilize the potential of this technology. Our efforts will be recognized as instrumental in developing a "process" for the commercialization of new ag-based products. The development of this process, and to show it is successful, is extremely important to all entrepreneurs who believe in and support ag-based products. Thank you, Mr. Chairman and Members of the Subcommittee, for your support and consideration.

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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.

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.

*Conservation Reserve Program*

The UMRBA supports President Bush's fiscal year 2006 budget request of \$2.02 billion for the Conservation Reserve Program, a modest increase over fiscal year 2005. This increase is testament to the strong landowner interest and high environmental benefits resulting from enrollment of fragile cropland acres in CRP. Through CRP, farmers and ranchers can voluntarily establish long term conservation practices, such as filter strips and riparian buffers, on highly erodible and environmentally sensitive cropland.

In Illinois, Iowa, Minnesota, Missouri, and Wisconsin, total CRP enrollment is currently 6.9 million acres, or approximately 20 percent of the national CRP acreage. Yet the five States' CRP enrollment represents 42 percent of the total number of CRP contracts and 40 percent of the total number of farms enrolled nationwide in the CRP. In the most recent general sign-up (#29), producers with eligible lands competed nationally for acceptance into CRP, based on an environmental benefits index. In the five States of the Upper Mississippi River Basin (UMRB), 80 percent of the offers made were accepted for enrollment, adding over 200,000 acres to the CRP.

All five States also have active Conservation Reserve Enhancement Programs tailored to meet their priority conservation needs. Current CREP enrollment in the UMRB States is approximately 240,000 acres, or 38 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*

The President's fiscal year 2006 budget proposes \$321 million for the Wetlands Reserve Program, nearly a 17 percent increase over fiscal year 2005 funding. UMRBA applauds this increase and urges Congress to provide sufficient funding to meet WRP's annual enrollment goal of 250,000 acres.

Since the WRP was established 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. Through fiscal year 2003, WRP enrollment in Illinois, Iowa, Minnesota, Missouri, and Wisconsin totaled more than 271,000 acres, or 18 percent of the national total. In fiscal year 2004, landowners in the five States enrolled an additional 38,000 acres in the WRP. However, there were eligible, but unfunded, applications to enroll another 136,000 acres from the five States in fiscal

year 2004. This represents 25 percent of the total national backlog of applications for that year.

#### *Environmental Quality Incentives Program*

In contrast to conservation programs that protect land and water resources by curtailing production on sensitive lands, the Environmental Quality Incentives Program supports conservation on working lands. Promoting agricultural production and environmental quality as compatible goals is particularly important in the Mid-west agricultural heartland.

The 2002 Farm Bill provides \$1.2 billion of budget authority for the EQIP in fiscal year 2006. However, the President is proposing to fund EQIP at only \$1.0 billion in fiscal year 2006. The UMRBA urges Congress to fund EQIP at its full authorized level. Like many other conservation programs, EQIP funding has not kept pace with demand. Even at full funding, there will likely be significant numbers of unfunded EQIP applications. In fiscal year 2004, the EQIP allocation to the States of Illinois, Iowa, Minnesota, Missouri, and Wisconsin totaled \$111 million. Yet that amount still left a backlog of \$180 million in unmet requests for EQIP assistance, 12 percent of the Nation's total unfunded EQIP applications. In fiscal year 2005, the EQIP allocation to the five basin States has increased to \$121 million, still well below the need, as reflected in unfunded applications for the past 3 years.

#### *Conservation Security Program*

The President's budget request of \$274 million for the CSP reflects a 36 percent increase over fiscal year 2005 and is nearly 7 times what was spent in fiscal year 2004, when the program began. Yet it is unlikely that this will be sufficient to meet the demand for this popular voluntary program, which provides financial and technical assistance to agricultural producers who implement conservation measures on working lands.

In fiscal year 2004, CSP contracts were limited to farmers and ranchers in 18 priority watersheds across the country. Five of those watersheds were in the five States of the Upper Mississippi River Basin. In those five watersheds, NRCS approved contracts totaling \$15.5 million, which was 44 percent of the total CSP contract payments that year.

It is too early to judge what effect the fiscal year 2005 CSP funding cap of \$202 million will have. The fiscal year 2005 sign-up opened March 28, 2005 and is scheduled to close May 27, 2005. In contrast to fiscal year 2004, when only 18 watersheds were eligible, in fiscal year 2005, 220 watersheds are eligible. Thus, while CSP funding increased 5-fold in fiscal year 2005, the number of eligible watersheds has increased more than 12-fold and the number of eligible farms has increased 8-fold. Of the 220 eligible watersheds nationwide, 22 are in the five States of Illinois, Iowa, Minnesota, Missouri, and Wisconsin. Those 22 watersheds include over 19 percent of the total number of farms that will be eligible for CSP in fiscal year 2005. It remains to be seen what the ultimate level of landowner interest will be in the CSP, as the number of eligible watersheds grows. But the UMRBA is encouraged that CSP is continuing to expand and funding levels are increasing.

#### *Conservation Technical Assistance*

Through the Conservation Technical Assistance program, NRCS provides the technical capability that helps people plan and apply conservation on the land. NRCS works through and in partnership with conservation districts to assist individuals and groups in assessing conservation needs and planning, designing, and installing conservation practices. In addition, the CTA program assists in preparing landowners to participate in USDA conservation financial assistance and easement programs, provides emergency disaster technical assistance, and enables NRCS to coordinate with other programs such as U.S. EPA's nonpoint source management program and U.S. Fish and Wildlife Service's Partners for Wildlife.

Given that CTA is the foundation for much of the Nation's private lands conservation assistance, it is disappointing that the President's fiscal year 2006 budget proposes a \$61 million, or 8 percent, decrease in the CTA account. The UMRBA urges that, at a minimum, funding for CTA be maintained at the fiscal year 2005 level.

#### *Watershed Programs*

The UMRBA is deeply concerned that the President is proposing deep cuts to NRCS's watershed programs, including total elimination of the Watershed and Flood Prevention Operations program, which funds Public Law 566 and Public Law 534 projects. Funding for Watershed Operations has declined substantially over the past 20 years, from an historical high of \$199 million in fiscal year 1994 to only \$75 million in fiscal year 2005. And yet this program provides significant local, regional, and national benefits, by addressing watershed protection, flood prevention,

erosion and sediment control, water supply, water quality, water conservation, agricultural drought problems, rural development, municipal and industrial water needs, upstream flood damages, fish and wildlife habitat enhancement, and wetland creation and restoration. In fiscal year 2004 there were \$191 million in Public Law 566 and Public Law 534 projects ready for construction, and a total project backlog estimated at \$1.56 billion. Nearly \$230 million of that backlog was in the States of Illinois, Iowa, Minnesota, Missouri, and Wisconsin. Despite the fact that Public Law 566 and Public Law 534 projects in the five States were allocated over 22 percent of the total national funding in fiscal year 2004, that amount (\$17.9 million) was far less than the \$230 million backlog. Rather than eliminating this important program, UMRBA urges that it be funded at least equal to the fiscal year 2005 level of \$75 million.

In addition to continuing to invest in watershed and flood prevention projects, the rehabilitation of aging flood control dams must also be addressed. Of the 11,000 Public Law 534 and Public Law 566 dams nationwide, more than 3,000 will reach the end of their design life by 2013. Recognizing this fact, Congress authorized the Watershed Rehabilitation Program in 2000 and authorized significant new funding for the program in the 2002 Farm Bill. In particular, \$60 million is authorized for the Watershed Rehabilitation Program in fiscal year 2006. Yet the President's fiscal year 2006 budget request is only \$15 million, a 44 percent decrease over the fiscal year 2005 funding level. In fiscal year 2005, \$27.3 million was appropriated for the Watershed Rehabilitation Program, only 60 percent of the \$46 million of project requests that year. Rehabilitation of aging dams, which could become a threat to public health and safety, is extremely important and UMRBA thus urges Congress to fund the Watershed Rehabilitation Program at least equal to its fiscal year 2005 level.

Also of concern is the Watershed Surveys and Planning account which is slated to be cut in the President's fiscal year 2006 budget. The fiscal year 2006 request of \$5.1 million for Watershed Surveys and Planning compares with pending projects totaling \$18.8 million in fiscal year 2004. UMRBA thus urges Congress to provide funding at least equal to the fiscal year 2005 level for this important watershed program.

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#### PREPARED STATEMENT OF THE WESTERN COALITION OF ARID STATES (WESTCAS)

The Western Coalition of Arid States (WESTCAS) is submitting this testimony to the United States Senate Appropriations Committee, Agriculture, Rural Development and Related Agencies Subcommittee regarding the U.S. Department of Agriculture's fiscal year 2006 Federal budget. The USDA's budget is of particular concern for our members because of the tie-in to water use in irrigation that consumes a large percentage of available water resources in many of our member States.

WESTCAS is an organization created in 1992 with coalition membership of approximately 125 water and wastewater districts, cities and towns, and professional associates focused on water quality issues in many western States.

Most of the water and wastewater related funding in the USDA's budget is found in the Natural Resources Conservation Service (NRCS) budget. Some programs received slight increases for fiscal year 2006, in particular the Ground and Surface Water Conservation program, and we support these increases. However, most programs' budgets have been cut and WESTCAS advocates restoring these cuts to at least fiscal year 2005 enacted levels. These programs include:

- Environmental Quality Incentives Program (EQIP), which provides funding for "innovative approaches to leveraging Federal investment in environmental enhancement and protection in conjunction with agricultural production";
- Watershed and Flood Prevention Program which had funding eliminated entirely for three of its programs;
- Watershed Surveys and Planning's budget, which has been decreased each of the last 2 years;
- Conservation Technical Assistance program;
- Watershed Rehabilitation Program which provides funding for dam safety; and
- technical assistance budget for Resource Conservation and Development, which was reduced by 50 percent.

WESTCAS feels that other water-related program cuts also need close review since it appears that the President's USDA budget took the biggest cut of all Federal budgets this year. For example, the Agriculture Research Service funding for the Environmental Stewardship program was reduced from \$219 million to \$178 million. And the Cooperative State Research, Education and Extension Service's Water Quality research and education budget line item was completely eliminated.

WESTCAS believes that budget cuts regarding these types of programs, which affect a scarce natural resource so vital to continued growth and prosperity in the West, are not warranted, and we urge the Committee to restore these programs' funding levels.

The Colorado River Basin Salinity Control Program, as set forth in the Colorado River Basin Salinity Control Act, is another program under EQIP that is supported by WESTCAS. The Colorado River Basin Salinity Control Act provides that the seven Colorado River Basin States will cost share on Federal funds received for salinity control efforts for the river. Over the past few years, the NRCS has designated that about 2.5 percent of the EQIP funds be allocated to the Colorado River Salinity Control Program. WESTCAS supports continued designation of 2.5 percent of EQIP dollars to be dedicated to the Salinity Control Program for the Colorado River.

We thank you for the opportunity to provide this statement for the hearing record.

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#### PREPARED STATEMENT OF THE WILDLIFE SOCIETY

The Wildlife Society appreciates the opportunity to submit testimony concerning the fiscal year 2006 budgets for the Natural Resources Conservation Service (NRCS), Farm Service Agency (FSA), Animal Plant Health Inspection Service (APHIS), and Cooperative State Research, Education and Extension Services (CSREES). The Wildlife Society is the association of almost 9,000 professional wildlife biologists and managers dedicated to sound wildlife stewardship through science and education. The Wildlife Society is committed to strengthening all Federal programs that benefit wildlife and their habitats on agricultural and other private land.

##### *Natural Resources Conservation Service*

*Wildlife Habitat Incentives Program (WHIP).*—WHIP is a voluntary program that provides technical and financial support to farmers and ranchers to create high quality wildlife habitat. The Wildlife Society recommends funding WHIP at \$85 million in 2006, the full amount authorized by the 2002 Farm Bill.

*Wetland Reserve Program (WRP).*—WRP is a valuable program designed to assist farmers and ranchers protect and restore wetland habitat. The Wildlife Society appreciates the continued targeting of 200,000 acres annually for enrollment in WRP. However, we recognize that if the authorized level of 250,000 acres is not enrolled every year, then 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 the President's goal of no-net-loss of wetlands. The Wildlife Society supports an enrollment target of 250,000 acres in fiscal year 2006.

##### *Animal and Plant Health Inspection Service*

*Wildlife Services.*—Wildlife Services (WS), a unit of APHIS, is responsible for controlling wildlife damage to agriculture, aquaculture, forest, range, and other natural resources, for controlling wildlife-borne diseases, and for controlling wildlife at airports. Its activities are based on the principles of wildlife management and integrated damage management, and are carried out cooperatively with State fish and wildlife agencies.

The Wildlife Society is concerned about the proposed \$3.4 million decrease in funding for Methods Development for 2006. Many current wildlife control tools such as traps, snares, and wildlife toxicants are becoming less acceptable to the public and are being prohibited in many States as the result of public referenda. The only credible way to identify and perfect new methods is through research. However, WS funding is only adequate to cover maintenance and operating costs and no funding is being provided for the development of new innovative wildlife damage management methods. We strongly recommend that Congress restore the reductions of \$3.413 million in this program category, and add an additional \$1.5 million to provide for uncontrollable costs and to accelerate research in cormorant management and feral hog control. Further, we recommend Congress fully fund the trap standards and testing program at \$0.5 million and to direct the Agency to allocate the \$500,000 to fulfill international commitments to trap evaluation in full cooperation with State fish and wildlife agencies and the IAFWA.

*Veterinary Services.*—The Wildlife Society commends APHIS-Veterinary Services' cooperation and sincerely appreciates funding for State wildlife management agencies for CWD surveillance and management in free-ranging deer and elk. Additionally, we strongly support 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 surveillance and monitoring efforts conducted by all 50 States during 2004 and 2005 would not have been possible without this cooperative funding. Additionally, knowledge of the presence and prevalence of CWD, as well as

knowledge on the range of the disease, has been enhanced by this program. Without continued funding, States will be unable to maintain the level of CWD surveillance and monitoring necessary to track the disease. The National CWD Plan calls for additional efforts on management activities to prevent the spread of CWD in the United States. The Wildlife Society recommends increased CWD funding to a total of \$30 million in fiscal year 2006, with \$20 million designated for cooperative grants to the States for surveillance and management of CWD in free-ranging deer and elk.

*Cooperative State Research, Education, and Extension Service*

*Renewable Resources Extension Act.*—RREA provides an expanded, comprehensive extension program for forest and rangeland renewable resources. 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 private landowners. The need for RREA educational programs is greater today than ever because of continuing fragmentation of ownership, urbanization, the diversity of landowners needing assistance and increasing societal concerns about land use and the impact on natural resources including soil, water, air, wildlife and other environmental factors. The Wildlife Society recommends that the Renewable Resources Extension Act be funded at \$30 million as authorized in the 2002 Farm Bill.

*McIntire-Stennis.*—The proposed budget for fiscal year 2006 reflects a significant decrease in the McIntire-Stennis Cooperative Forestry formula funding program and reported elimination in the fiscal year 2007 budget process. These funds are essential to the future of resource management on non-industrial private forestlands as forest products are produced while conserving natural resources, including fish and wildlife. As societal pressures for forest products grows, private land forests will increasingly be needed to supplement supplies but trees suitable for harvest take decades to produce versus the single year in which crops such as corn and soybeans can be produced. In the absence of long-term and on-going research such as provided through McIntire-Stennis, the Nation could easily become ill-suited to meet future forest product needs. Replacement of McIntire-Stennis funding with competitive grants will leave long-term and stable forest research to chance. The Wildlife Society strongly believes that the reasons for continuing the McIntire-Stennis Cooperative Forestry program into the future are compelling and urges Congress to increase the fiscal year 2006 budget amount to \$25 million, an amount more consistent with historic funding levels.

*National Research Initiative.*—National Research Initiative Competitive Grants (NRI) are open to academic institutions, Federal agencies, and private organizations to fund research on improving agricultural practices, particularly production systems that are sustainable both environmentally and economically, and to develop methods for protecting natural resources and wildlife. Innovative grant programs such as NRI help broaden approaches to land management, such as integrating timber and wildlife management on private lands. The Wildlife Society supports funding of \$240 million for National Research Initiative Competitive Grants.

Thank you for considering the views of wildlife professionals. We look forward to working with you and your staff to ensure adequate funding for wildlife conservation.





## LIST OF WITNESSES, COMMUNICATIONS, AND PREPARED STATEMENTS

	Page
Ad Hoc Coalition, Prepared Statement of .....	409
American:	
Farm Bureau Federation, Prepared Statement of .....	412
Forest and Paper Association, Prepared Statement of .....	415
Honey Producers Association, Inc., Prepared Statement of .....	416
Indian Higher Education Consortium, Prepared Statement of .....	420
Nursery & Landscape Association and the Society of American Florists, Prepared Statement of .....	423
Public Power Association, Prepared Statement of .....	425
Sheep Industry Association, Prepared Statement of .....	426
Society for Microbiology, Prepared Statements of.....	431, 436
Anderson, Curtis M., Acting Administrator, Rural Utilities Service, Depart- ment of Agriculture, Prepared Statement of .....	113
Bennett, Senator Robert F., U.S. Senator from Utah:	
Opening Statements of .....	1, 81, 217
Questions Submitted by.....	41, 178, 194, 205, 210, 321, 357
Bond, Senator Christopher S., U.S. Senator from Missouri, Statement of .....	4
Bosecker, R. Ronald, Administrator, National Agricultural Statistic Service, Department of Agriculture, Prepared Statement of .....	137
Bost, Eric M., Under Secretary for Food, Nutrition, and Consumer Services, Department of Agriculture .....	217
Prepared Statement of .....	219
Statement of .....	218
Burns, Senator Conrad, U.S. Senator from Montana:	
Prepared Statement of .....	4
Questions Submitted by.....	206, 212, 323
Statement of .....	3
Byrd, Senator Robert C., U.S. Senator from West Virginia, Questions Sub- mitted by .....	58
California Industry and Government Central California Ozone Study Coali- tion, Prepared Statement of .....	438
City of Avondale, Arizona, Prepared Statement of .....	439
Clayton, Kenneth C., Acting Administrator, Agricultural Marketing Service, Department of Agriculture, Prepared Statement of .....	249
Coalition:	
On Funding Agricultural Research Missions, Prepared Statement of .....	441
To Promote U.S. Agricultural Exports, Prepared Statement of .....	442
Cochran, Senator Thad, U.S. Senator from Mississippi:	
Prepared Statement of .....	5
Question Submitted by .....	47
Collins, Keith, Chief Economist, Office of the Secretary, Department of Agri- culture.....	1, 81
Prepared Statement of .....	84
Statement of .....	82
Colorado River Basin Salinity Control Forum, Prepared Statement of .....	444
Consortium of Social Science Associations (COSSA), Prepared Statement of ....	448
Council on Food, Agricultural and Resource Economics (C-FARE), Prepared Statement of .....	448

	Page
Craig, Senator Larry, U.S. Senator from Idaho:	
Prepared Statement of .....	6
Questions Submitted by .....	206
Crawford, Lester M., DVM, Ph.D., Acting Commissioner, Food and Drug Administration, Department of Health and Human Services, Prepared Statement of .....	339
Davidson, Ross J., Jr., Administrator, Risk Management Agency, Department of Agriculture, Prepared Statement of .....	156
Davis, Russell T., Administrator, Rural Housing Service, Department of Agriculture, Prepared Statement of .....	105
Defenders of Wildlife, Prepared Statement of .....	451
DeHaven, Dr. W. Ron, Administrator, Animal and Plant Health Inspection Service, Department of Agriculture, Prepared Statement of .....	235
Dorgan, Senator Byron L., U.S. Senator from North Carolina, Questions Submitted by.....	66, 400
Durbin, Senator Richard J., U.S. Senator from Illinois, Questions Submitted by.....	72, 400
Easter Seals, Prepared Statement of .....	454
Farmer-Rancher/Oklahoma Farmers Union, Ringling, Oklahoma, Prepared Statement of .....	457
Florida State University, Prepared Statement of .....	459
Fong, Phyllis K., Inspector General, Office of the Inspector General, Department of Agriculture, Prepared Statement of .....	347
Friends of Agricultural Research—Beltsville, Inc., Prepared Statement of .....	460
Gonzalez, Gilbert G., Acting Under Secretary for Rural Development, Department of Agriculture .....	81
Questions Submitted to .....	194
Great Lakes Indian Fish and Wildlife Commission, Prepared Statement of .....	462
Harkin, Senator Tom, U.S. Senator from Iowa, Questions Submitted by.....	62, 193, 203, 209, 215, 335, 398
Hawks, William T., Under Secretary for Marketing and Regulatory Programs, Department of Agriculture .....	217
Prepared Statement of .....	229
Hefferan, Dr. Colien, Administrator, Cooperative State Research, Education, and Extension Service, Department of Agriculture, Prepared Statement of .....	124
Hentges, Eric J., Executive Director, Center for Nutrition Policy and Promotion, Food, Nutrition, and Consumer Services, Department of Agriculture, Prepared Statement of .....	227
Humane Society of the United States, Prepared Statement of .....	465
InterTribal Bison Cooperative, Prepared Statement of .....	468
Jen, Joseph J., Under Secretary for Research, Education, and Economics, Department of Agriculture .....	81
Prepared Statement of .....	115
Questions Submitted to .....	205
Johanns, Hon. Mike, Secretary, Office of the Secretary, Department of Agriculture .....	1
Prepared Statement of .....	11
Statement of .....	7
Johnson, Senator Tim, U.S. Senator from South Dakota:	
Prepared Statement of .....	6
Questions Submitted by .....	77
Kaplan, Dennis, Office of Budget and Program Analysis, Department of Agriculture .....	81
Knight, Bruce I., Chief, Natural Resources Conservation Service, Department of Agriculture, Prepared Statement of .....	97
Knipling, Dr. Edward B., Administrator, Agricultural Research Service, Department of Agriculture, Prepared Statement of .....	121
Kohl, Senator Herb, U.S. Senator from Wisconsin:	
Questions Submitted by.....	49, 191, 195, 207, 213, 325, 375
Statement of .....	2

	Page
Landrieu, Senator Mary L., U.S. Senator from Louisiana, Questions Submitted by .....	334
Little, James R., Administrator, Farm Service Agency, Department of Agriculture, Prepared Statement of .....	146
Masters, Dr. Barbara J., Acting Administrator, Food Safety and Inspection Service, Department of Agriculture, Prepared Statement of .....	262
Metropolitan Water District of Southern California, Prepared Statement of ....	470
National Association of:	
State Energy Officials (NASEO), Prepared Statement of .....	472
State Foresters, Prepared Statement of .....	473
University Fisheries and Wildlife Programs, Prepared Statement of .....	474
National:	
Coalition for Food and Agricultural Research, Prepared Statement of .....	476
Commodity Supplemental Food Program Association, Prepared Statement of .....	480
Council of Farmer Cooperatives, Prepared Statement of .....	484
Fish and Wildlife Foundation, Prepared Statement of .....	486
Organic Coalition, Prepared Statement of .....	488
Potato Council, Prepared Statement of .....	492
Research Center for Coal and Energy, Prepared Statement of .....	494
Rural:	
Housing Coalition, Prepared Statement of .....	496
Telecom Association, Prepared Statement of .....	500
Turfgrass Evaluation Program, Prepared Statement of .....	503
New Mexico Interstate Stream Commission, Prepared Statement of .....	447
Northwest Indian Fisheries Commission, Prepared Statement of .....	507
Offutt, Susan E., Administrator, Economic Research Service, Department of Agriculture, Prepared Statement of .....	128
Oregon Water Resources Congress, Prepared Statement of .....	510
Organization for the Promotion and Advancement of Small Telecommunications Companies, Prepared Statement of .....	510
Penn, J.B., Under Secretary for Farm and Foreign Agricultural Services, Department of Agriculture .....	81
Prepared Statement of .....	140
Questions Submitted to .....	210
Pickle Packers International, Inc., Prepared Statement of .....	512
Pierson, Dr. Merle D., Acting Under Secretary for Food Safety, Department of Agriculture .....	217
Prepared Statement of .....	255
Statement of .....	254
Public Citizen's Energy and Environment Program, Prepared Statement of ....	518
Red River Valley Association, Prepared Statement of .....	522
Rey, Mark, Under Secretary for Natural Resources and Environment, Department of Agriculture .....	81
Prepared Statement of .....	95
Questions Submitted to .....	178
Salazar, Roberto, Administrator, Food and Nutrition Service, Department of Agriculture, Prepared Statement of .....	224
Shipman, David R., Acting Administrator, Grain Inspection, Packers and Stockyards Administration, Department of Agriculture, Prepared Statement of .....	244
Society:	
For Women's Health Research, Prepared Statement of .....	525
Of American Foresters, Prepared Statement of .....	527
Stevens, Senator Ted, U.S. Senator from Alaska, Questions Submitted by .....	47
Terpstra, A. Ellen, Administrator, Foreign Agricultural Service, Department of Agriculture, Prepared Statement of .....	152
The Nature Conservancy, Prepared Statement of .....	506
The Wildlife Society, Prepared Statement of .....	544
Thomas, Peter, Administrator, Rural Business—Cooperative Service, Department of Agriculture, Prepared Statement of .....	110

	Page
U.S.:	
Apple Association, Prepared Statement of .....	529
Shrimp Farming Consortium, Prepared Statement of .....	532
United States Telecom Association, Prepared Statement of .....	534
University of Southern Mississippi and the Mississippi Polymer Institute, Prepared Statement of .....	537
Upper Mississippi River Basin Association, Prepared Statement of .....	541
Wachs, Lawrence, Acting Budget Officer, Office of the Secretary, Department of Agriculture .....	1
Western Coalition of Arid States (WESTCAS), Prepared Statement of .....	543

# SUBJECT INDEX

## DEPARTMENT OF AGRICULTURE

	Page
Additional Committee Questions .....	178, 321
Administrative:	
Expenses .....	104
Support .....	152
Advanced Telecommunications in Rural America .....	114
Agency Reorganization .....	97
Agricultural:	
Economy .....	161
Marketing Service .....	233
Agriculture Border Inspections .....	326
AMS:	
National Organic Program .....	325
2006 Budget Request .....	234
Animal And:	
Damage Control in Montana .....	280
Plant Health Inspection Service .....	230
APHIS' 2006 Budget Request .....	230
ARS Terminations .....	208
Basic Scientific Research .....	205
Beef Trade .....	212
Biotechnology .....	253
Bluetongue Restrictions .....	325
Budget .....	128
Decreases .....	174
Request Summary .....	254
Requests .....	149
Business Programs .....	110
CAFTA .....	162
Child Nutrition Programs.....	222, 226
Chronic Wasting Disease .....	331
Classical Plant and Animal Breeding .....	209
Clear Title .....	277
Combating the Epidemic Overweight and Obesity .....	220
Commodity Credit Corporation .....	149
Commodity:	
Programs .....	107
Supplemental Food Program.....	223, 226
Conservation:	
Assistance .....	163
Reserve Program .....	173
Switchgrass .....	216
Security Program .....	193
Consumer Data and Information System .....	128
Cooperative Programs .....	112
Country of Origin Labeling .....	253, 323
Crop Insurance .....	213
CSREES Cuts in Formula Funded Research Programs .....	208
Decreases .....	243
Dietary Guidelines for Americans Establish Federal Nutrition Policy .....	227
Direct Marketing of Farm Products.....	169, 170
Discretionary Funding .....	98
Distance Learning and Telemedicine .....	115

	Page
Duties of Agency Staff .....	191
Economic Research Service Reports .....	207
Effective Partnerships Strengthen Dissemination of Science-based Guidance and Educational Tools .....	228
EGovernment Solutions .....	248
Electric Program .....	113
Enforcement Audit of Mexico's Inspection System .....	283
Enhancing Program Integrity and Delivery .....	221
ERS Contributions to Mission Area Goals .....	129
Faith-based and Community Organizations Outreach .....	225
Farm:	
And Ranch Lands Protection Program .....	101
Bill Authorized Programs .....	100
Loan Programs .....	150
Product Exports to China .....	171
Farm Service Agency .....	141
Agency Loan Officers .....	213
Beneficial Interest .....	216
State Allocations .....	215
Federal Grain Inspection Service .....	246
Fiscal Year 2006:	
Budget Request .....	241, 252, 254, 269
Plans .....	139
Food:	
Emergency Response Network .....	274
Guidance System Serves as Premier Teaching Tool .....	227
Safety Accomplishments During 2004 .....	262
Stamp:	
Catagorical Eligibility .....	279
Error Rate .....	271
Participation .....	271
Program .....	221, 225
Foreign Agricultural Service .....	144
Foreign Office Security .....	215
Review .....	210
Formula Funds .....	205
FSIS:	
Import Inspections .....	282
Priorities for 2005—Holding Ourselves Accountable .....	264
Funding Sources .....	229
Grain Inspection, Packers and Stockyards Administration .....	231
Identity Theft .....	326
2005 Budget Request .....	232
Guaranteed Multifamily Housing .....	194
Hatch Act/McIntire-Stennis .....	206
High Pathogenic Avian Influenza .....	328
Housing Revitalization Budget Request .....	167
Human Capital Management .....	225
Humane Handling and Slaughter Activities .....	263
Increasing Third-Party Technical Assistance .....	98
Invasive Species .....	164
Johnes Disease .....	332
Livestock:	
Mandatory Price Reporting .....	252
Risk Program for Lamb .....	211
Low Pathogenic Avian Influenza .....	321, 329
Major Activities of the National Agricultural Statistics Service (NASS) .....	137
Marketing Services .....	250
Milk Prices .....	168
Milwaukee Hunger Task Force .....	275
Misconduct Policy .....	205
Mission .....	128, 249
MRP Initiatives .....	229
Multi-Family Housing Programs .....	105
National Animal Identification System .....	273, 281, 323, 333, 336
Nutrient Management Lab in Marshfield, WI .....	175
Nutrition Programs Administration .....	223, 226
Organic Cost-Share Funding .....	335

	Page
Organization .....	244
Other Appropriated Programs .....	151
Overseas Programs .....	274
Packers and Stockyards Program .....	244
Partnerships .....	251
Pathogen Reduction .....	254
Payments to States and Possessions .....	251
Performance Under Pressure .....	97
Planning Research Programs .....	174
President's Fiscal Year 2006 Budget Proposal .....	209
Privacy Protection of Certain Sellers of Farm Products .....	276
Program:	
Access .....	220
Highlights .....	108
Management .....	158
Proposed:	
Funding for Buildings and Facilities .....	124
Operating Increases .....	124
Program:	
Decreases .....	124
Increases .....	121
Protecting the Homeland .....	248
Public Law 480 .....	211
RCBS Rural Cooperative Development Grants .....	201
RD:	
Business Programs .....	197
General Reductions in Direct Loans and Grants .....	196
Tax Exempt Financing for Loan Guarantee Programs .....	196
REE Agency Fiscal Year 2006 Budgets .....	118
Renewable Energy of the 2002 Farm Bill .....	203
Rental Assistance Program .....	166
Research Coordination .....	164
Resource Conservation:	
And Development .....	193
Service .....	97
Responsibilities .....	102
RHS:	
Equal Access to Housing .....	198
Multi-Family Housing .....	199
New Construction .....	197
Rental Assistance .....	198
Single Family Rural Housing .....	199
Risk Management Agency .....	143
Rural Business Cooperative:	
Programs .....	104
Service .....	204
Rural:	
Development:	
Budget Request .....	102
Programs .....	195
Housing:	
Prepayments .....	165
Programs .....	103
Rental Assistance .....	194
Utilities Service Broadband Loans .....	203
RUS Guaranteed Undewriting .....	202
Section 32 .....	251
Sharing Distribution Lists .....	278
Single Family Housing Programs .....	107
Soybean Rust .....	335
Specialty Products .....	170
State Agricultural Experiment Station .....	206
Sudden Oak Death .....	331
Sugar .....	212
Support for Cooperating States .....	253
Technical and Financial Assistance Funds .....	188
Telecommunications Budget .....	114
Textile Exports and Jobs .....	172

	Page
The Challenge of Improper Payments .....	224
The Emergency Food Assistance Program (TEFAP) .....	223, 226
Transfer to the Department of Commerce .....	177
Transparency .....	98
Trends Show Need for Revised Nutrition Guidance and Educational Tools .....	227
Twenty-Five Percent Cap of WIC NSA Funds .....	277
2006 Budget Request .....	249
USDA:	
And Department of Homeland Security Employees .....	322
Five Star Commitment to Increase Minority Homeownership .....	108
Presence In Iraq .....	163
User Fees .....	254
Value-added Programs .....	168, 169
Vision .....	102
Water and Environmental Programs .....	115
Watershed:	
And Flood Prevention Operations .....	176
Surveys and Planning Program .....	178
Web-based:	
Applications .....	211
Supply Chain Management .....	322
System .....	253
WIC .....	222, 226
Food Costs .....	272
Participation and Funding .....	272
Wildlife Services .....	333, 334
WTO Decision on USDA Commodity and Trade Programs .....	215

## OFFICE OF THE SECRETARY

Accredited Veterinarians in Rural Areas .....	50
Additional Committee Questions .....	41
Agricultural Border Inspections .....	20
Alaska Dairy .....	48
Ames Animal Disease Facility .....	62
Animal Identification .....	79
APHIS Blackbird Control .....	71
ARS-APHIS Master Plan for Facility Consolidation and Modernization International Review Team Report .....	36
ARS Research in North Dakota .....	70
Avian Influenza .....	21
Beef Exports to Japan .....	23, 29
Biobased Products Procurement .....	63
Boll Weevil Eradication Program .....	46
Bovine Spongiform Encephalopathy (BSE) .....	12
Policies .....	72
Broadband Funding .....	68
Budget .....	66
Canadian:	
Beef Industry .....	41
Border Closure .....	16
Cattle .....	27
Carbon Sequestration .....	32
Central American Free Trade Agreement .....	28, 67
Childhood Obesity .....	76
Consequences .....	38
Conservation .....	14
Reserve Program .....	26
Security Program .....	62
Sign-up .....	39
Country-of-Origin Labeling .....	25, 68
Crop:	
Disaster Payments .....	24
Insurance .....	13
Payment Limitation .....	29
Subsidies .....	42
CSP Contracts .....	39, 40
CSREES Budget Proposals .....	17



	Page
Deficit Reduction .....	16
Department Management .....	15
Ethanol Production .....	46
Executive Bonuses .....	49
Farm:	
Income .....	19
Program .....	
Cuts .....	24
Spending .....	13
Spending .....	44
Federal Formula Funds .....	79
Food Aid Programs .....	33
Food:	
And Agriculture Defense Initiative.....	12, 51
Assistance .....	14
Safety .....	13
Personnel .....	75
User Fees .....	74
GAO Homeland Security Report .....	49
Hatch Act Funding Cut .....	71
HMSA Enforcement .....	62
Humane Activity Tracking .....	58
International Food Aid .....	77
Japan Trade .....	68
Livestock:	
And Meat Marketing Study .....	64
Study .....	41
Low Pathogenic Avian Influenza (Bird Flu) .....	44
Madcow Disease (BSE) .....	22
National Animal Disease Center .....	34
National:	
Animal:	
Disease Center, Ames, Iowa .....	35
Identification .....	45
School Lunch Program .....	75
Veterinary Medical Service Act .....	69
Need .....	38
Nonfat Dry Milk .....	19
Northern Great Plains Regional Authority .....	71, 77
Packer Concentration .....	40
Points for Consideration .....	39
Raising Farm Income .....	30
Reducing the Federal Deficit .....	34
Research .....	14
Resource Conservation and Development .....	78
Councils .....	70
Rural:	
Business Investment Program .....	77
Community Advancement Program .....	47
Development .....	14
Funding for Rural Empowerment Zones and Other Grant Programs ..	69
Safe School Food Act .....	75
Scope .....	37
Single Food Safety Agency .....	74
Soybean Rust .....	47, 56
Special Supplemental Program for Women, Infants, and Children (WIC) .....	45
Sun Grant Initiative .....	78
Timeline for Major Steps for Livestock and Meat Market Study .....	64
Trade .....	13
Deficit .....	26
Status—Japan .....	46
USDA Employee Retirements .....	46
User Fees .....	18, 56
Value-added Agriculture .....	31
Veterinarian Shortages .....	21