

S. HRG. 107-761

# *Senate Hearings*

*Before the Committee on Appropriations*

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## Agriculture, Rural Development, and Related Agencies Appropriations

*Fiscal Year* 2003

107<sup>th</sup> CONGRESS, SECOND SESSION

H.R. 5263/S. 2801

COMMODITY FUTURES TRADING COMMISSION  
DEPARTMENT OF AGRICULTURE  
DEPARTMENT OF HEALTH AND HUMAN SERVICES:  
Food and Drug Administration  
NONDEPARTMENTAL WITNESSES



Agriculture, Rural Development, and Related Agencies Appropriations, 2003  
(H.R. 5263/S. 2801)



**AGRICULTURE, RURAL DEVELOPMENT, AND RE-  
LATED AGENCIES APPROPRIATIONS FOR FIS-  
CAL YEAR 2003**

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**HEARINGS**

BEFORE A

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

SECOND SESSION

ON

**H.R. 5263/S. 2801**

AN ACT MAKING APPROPRIATIONS FOR AGRICULTURE, RURAL DEVELOPMENT, FOOD AND DRUG ADMINISTRATION, AND RELATED AGENCIES PROGRAMS FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 2003, AND FOR OTHER PURPOSES

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**Commodity Futures Trading Commission**  
**Department of Agriculture**  
**Department of Health and Human Services: Food and Drug**  
**Administration**  
**Nondepartmental witnesses**

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**AGRICULTURE, RURAL DEVELOPMENT, AND  
RELATED AGENCIES APPROPRIATIONS FOR  
FISCAL YEAR 2003**

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**WEDNESDAY, FEBRUARY 27, 2002**

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

The subcommittee met at 10:20 a.m., in room SD-138, Dirksen Senate Office Building, Hon. Herb Kohl (chairman) presiding.

Present: Senators Kohl, Harkin, Durbin, Johnson, Byrd, Cochran, Specter, and Craig.

DEPARTMENT OF AGRICULTURE

OFFICE OF THE SECRETARY

STATEMENT OF HON. ANN VENEMAN, SECRETARY OF AGRICULTURE

ACCOMPANIED BY:

**JAMES MOSELEY, DEPUTY SECRETARY**  
**KEITH COLLINS, CHIEF ECONOMIST**  
**STEVE DEWHURST, BUDGET OFFICER**

OPENING STATEMENT OF SENATOR HERB KOHL

Senator KOHL. Be called to order at this time, the Appropriations Subcommittee on Agriculture, Rural Development, and Related Agencies, for our first hearing on the President's budget submission for fiscal year 2003. We want to welcome Secretary Veneman, along with Deputy Secretary Moseley, Mr. Collins, and Mr. Dewhurst.

The primary purpose of this hearing is to review USDA's plans and priorities as laid out in the fiscal year 2003 budget submission, and to discuss the main challenges facing those agencies under the jurisdiction of this subcommittee. I would like to note that we had originally planned to also hear from the Health and Human Services Secretary, Tommy Thompson, in regard to the Food and Drug Administration, but he was not available to be with us here today.

Madam Secretary, since you last appeared before this subcommittee, events have occurred which have changed the lives of us all, altered general perceptions about the role of government, and forced a reevaluation of the priorities that we hold, both in our own personal lives and as a Nation. September 11 was a horrible tragedy, but it was also an awakening to new challenges and new responsibilities for all Americans.

The Department of Agriculture clearly has an important part to play in this call to service. USDA is on the front line of our home-

land defense with its work in securing our Nation's food supplies, food safety, biological research, and containment of exotic pests and diseases. The specter of this Nation crippled by a food shortage or terrorized by an intentionally-introduced food-borne disease is enough to convince most Americans of the truth behind President Bush's assertion just last month. Issues of agricultural policy have become issues of national security.

And beyond the increased emphasis USDA must place on these security issues, the Department must also continue to run, and run well, the traditional programs that support farmers, rural communities, the environment, the hungry, children, and many others. That task is made more difficult this year by the impending passage of a new farm bill, a bill which will institute a host of new or improved programs to assist farmers, support rural communities, protect the environment, and ease hunger.

I would like to make one comment in regard to the farm bill, although I know I must defer to my colleagues, many of whom serve on this subcommittee, who are conferees. This Administration and others have made a strong case that free and open markets are in the best interests of American farmers. In the area of dairy, as you know, I have fought for that principle, and against interstate price-fixing dairy compacts. They benefit dairy farmers in some regions at the expense of those in other regions, and they place an unjustified tax on milk-drinking constituents in all regions.

I trust, Madam Secretary, that as you work with the farm bill conferees, you and the President will strongly oppose any efforts to reinstate dairy compacts in any form.

I look forward to working with you, Madam Secretary, as we put together a budget for fiscal year 2003, and I know that together we can direct our limited resources in a way that meets the great challenge of keeping our food supply safe while treating farmers, consumers, and our rural communities fairly and well.

Before we hear from you, I want to turn to my ranking member and my good friend, Senator Cochran, for any comments that he may wish to make. I will then ask other members of the subcommittee if there are opening statements that they may wish to make.

Senator Cochran?

#### STATEMENT OF SENATOR THAD COCHRAN

Senator COCHRAN. Mr. Chairman, thank you. I am pleased to join you in welcoming the distinguished Secretary of Agriculture, Ann Veneman, to present the Department of Agriculture's budget request for next year. I am glad to see the request includes increases to protect the safety of our Nation's food supply and a generous amount, \$73.5 billion, in direct spending to fund the new farm bill. I am looking forward, as a member of that conference, to helping to draft a version of that legislation which I hope will meet the needs of our farmers and ranchers over the next 5 or 10 years.

I know, Madam Secretary, you have spent a lot of time in an effort to determine how the department should allocate emergency appropriations to meet homeland security needs. I also know this has been a hectic 6 months for all the members of the President's

Cabinet. This has been a time that has tested the leaders of our Nation and put an enormous strain on our Nation's resources, both human and economic. I want you to feel assured that this committee is aware of the importance of our working together in a bipartisan way to deal with these very important challenges that face our country.

Senator KOHL. Thank you, Senator Cochran. Senator Byrd?

Senator BYRD. I have no opening statement. I have some questions.

Senator COCHRAN. I thank you. Senator Craig?

STATEMENT OF SENATOR LARRY CRAIG

Senator CRAIG. Mr. Chairman, thank you very much. Madam Secretary, welcome before the committee. I, like the chairman and ranking member, are pleased with the amount that you are recognizing in the budget that the President released on February 4th of \$74.4 billion.

I must tell you, as we struggle to put together new farm policy, and it will be a struggle in conference with the disparities between the House bill and the Senate bill, and I would hope this committee and the principals on it will work sooner rather than later to send a clear message to American agriculture, production agriculture in this country, what we are going to be doing for the coming year. We are now in the field, or soon to be in the field. Credit lines are being negotiated, and I think, Mr. Chairman, the message needs to be clear as to our plans and this country's support for production agriculture.

My guess is that that message needs to come long before a conference report comes to the floor of the Senate on the new farm bill, because my guess is that will be a ways out.

Thank you.

Senator KOHL. Thank you, Senator Craig. Senator Durbin?

STATEMENT OF SENATOR RICHARD DURBIN

Senator DURBIN. Thank you very much, Mr. Chairman. And, Madam Secretary, thank you for joining us. Deputy Secretary Moseley, thank you for being here. And the long suffering Keith Collins and Steve Dewhurst, who have come before these Congressional committees for many, many years, we are happy to see all of you here.

We will be focusing on production agriculture, as we should, and I will have a number of questions, but I think we should not overlook the substantial responsibility of your department in the area of food safety. Thank you for calling me yesterday to discuss the GAO report on Mad Cow disease and what we can do to make certain that it never threatens the United States.

I hope that under this President, who made the point during his campaign, that we will finally modernize food safety in America. To think that we are still dealing with some 12 different Federal agencies responsible for food safety, 35 different laws, and 28 different committees and subcommittees on Capitol Hill with jurisdiction on that single issue of food safety. And as we discuss the Department of Agriculture, we should not overlook the responsibility and opportunity that we have to modernize the system once and for all.

## PREPARED STATEMENT

I think your crowning achievement as Secretary is not only to put the agriculture sector of our economy back on track, but, as your term ends, whenever it ends, to say that we finally took on this issue, which, for half a century, has really eluded every Secretary of Agriculture. And I want to work with you to make that happen.

Thank you, Mr. Chairman.

[The statement follows:]

## PREPARED STATEMENT OF SENATOR RICHARD J. DURBIN

Chairman Kohl, thank you for holding this important hearing today. I look forward to working with you, Senator Cochran, and my Subcommittee colleagues on the fiscal year 2003 (Agriculture budget. Mr. Chairman, I'd like to welcome USDA Secretary Ann Veneman to this morning's hearing. Madam Secretary, I look forward to working with you and the rest of the USDA team. I'm certainly familiar with two gentlemen you've brought with you today, Chief Economist Keith Collins Budget Officer Steve Dewhurst both testified last April before this Subcommittee, along with the Secretary. I always enjoy their budget insights. I'm also happy to welcome Deputy Secretary James Moseley.

I'd like to take a few minutes this morning to talk about some very important issues that affect the Department, and my home State of Illinois. When I go back to Illinois, one of the things I hear from farmers is: How can we get the rural economy back on track? There are a couple of ways. One is having a new Farm Bill, which the Senate just passed and is now in conference, and another is through providing farmers with incentives for things such as biodiesel and ethanol.

Having said that, it's important for all of us to realize the 1996 Freedom to Farm Bill was not written in stone. The legislation simply has not worked. While the objective of the 1996 bill was to make our farmers less dependent on government subsidies by phasing out many of the previously existing subsidy programs to make way for a more market driven approach, the 1996 bill did anything but that. A new Farm Bill will change things by restoring the farm safety net, targeting payments to farmers in need, and ensuring that livestock producers are not left behind should be the first steps. I believe this legislation will help family farmers, ranchers, and other rural Americans compete in the marketplace. The Farm Bill is a good start to putting America's farm economy back on solid ground.

We must also work to become less dependent on foreign oil by opening and broadening markets for American agricultural products and find appropriate alternative uses. We need to create incentives for our farmers to produce and develop more efficient ways to make biodiesel and ethanol. More specifically, I hope that my colleagues in Congress, and in the Bush Administration, will make every effort to expand the role of biodiesel and ethanol in the reformulated gasoline program. Knowing what we know about MTBE, this should be a top priority. I believe expanding biodiesel and ethanol's role is a win for our farmers, a win for the environment, and a win for the rural economy.

In wake of 9.11.01, I'd now like to turn to another issue of importance: food safety and security.

I recently announced I will soon introduce the BSE Prevention and Protection Act to strengthen our national defenses against mad cow disease. This bill will apply science and good common sense to make our borders more secure, improve our surveillance activities, and remove from the food supply for humans and animals some animal-derived materials that could potentially spread mad cow. We'll also get these same materials out of non-food items, like cosmetics and medicines.

I plan to reintroduce the Genetically Engineered Foods Act. While I strongly support biotechnology, I've seen farmers in Illinois and throughout the country get hurt by some grave mistakes made by others. We must be able to better assure farmers of an available market for biotech crops, and assure consumers of the safety and effective oversight of this new technology. My bill will accomplish both these goals. I have been working very closely with Senator Harkin on legislation that will explicitly empower the USDA to close down facilities that repeatedly fail to meet minimum food quality standards. I am also planning to hold a hearing to examine the adequacy of government oversight of the Federal school lunch program, and how managerial and organizational deficiencies may be affecting the health of school children.

All food safety threats—whether salmonella or mad cow—are made more difficult to manage by our highly fractured food safety system. Currently, Federal oversight for food safety is fragmented with at least 12 different Federal agencies, 35 different laws governing food safety, and 28 House and Senate subcommittees with food safety oversight. With overlapping jurisdictions and scattered responsibilities, Federal agencies often lack accountability on food safety-related issues. For that reason, I have introduced the Safe Food Act. This legislation would unite food safety and inspection activities in a single agency with a clear mission to protect the public health. While the details of a new structure need to be developed in an open, participatory process, one of the best things we can do to protect the public health and save lives is unite Federal food safety activities in one agency.

I want to work with you and others in the Administration to design and implement a more streamlined system to strengthen food safety and better protect public health. I hope the Department will continue to explore this idea and work with me on ensuring that our food supply is the safest in the world.

Madam Secretary, I was glad to see you at the event that honored former Senators McGovern and Senator Dole, who have championed the Global Food for Education Initiative to seek the support of many nations to provide a modest meal everyday for every needy child throughout the world.

But I am completely at a loss to understand why this Administration has zeroed out the funding for the Global Food for Education Initiative pilot project. There are over 300 million children worldwide not getting enough to eat. Malnourished children find it difficult to concentrate and make poor students. But these school feeding programs have many other benefits, including increased attendance rates and more years of school attendance; improved girls' enrollment rates; improved academic performance; lower malnutrition rates; greater attention spans; later ages for marriage and childbirth. I understand that you want to assess the pilot project, but it would certainly be possible to keep the 55 projects running in more than 30 participating countries while you and we in the Congress look at ways to increase the effectiveness of the program.

In closing, I believe we have a great deal to do and a very short year in which to accomplish these initiatives for rural America and our farm families. It's time for Congress to roll up its sleeves and get to work in concert with USDA to revitalize the rural economy, make sure our food supply is safe and secure while at the same time looking to needs abroad.

Members of the subcommittee, Secretary Veneman, and others, I look forward to working with you as we continue to discuss the fiscal year 2003 USDA budget. Thank you.

Senator KOHL. Thank you, Senator Durbin. Senator Johnson?

STATEMENT OF SENATOR TIM JOHNSON

Senator JOHNSON. Well, thank you, Mr. Chairman. I would submit my full statement. I welcome the Secretary, of course, to our committee, and the rest of the distinguished panel. I would only observe, just very briefly, that, while I am appreciative of the USDA support for food safety initiatives, and we need to work with them on that, I am disappointed with the significant reductions in funding for all of our rural development initiatives as well as reductions in research, education, and extension programs. And it is my hope that we can work together throughout the course of this budget process to address some of those shortcomings.

Thank you, Mr. Chairman.  
[The statement follows:]

PREPARED STATEMENT OF SENATOR TIM JOHNSON

Thank you Chairman Kohl and Senator Cochran, it's a pleasure to join you today in welcoming our Secretary of Agriculture to the subcommittee's hearing concerning the proposed United States Department of Agriculture (USDA) budget for fiscal year 2003. I extend greetings to Secretary Veneman and thank her for offering testimony on USDA's budget. I am also particularly eager to learn USDA's plan to work with Congress to complete action on a new farm bill this year.

Those of us who care about the future of family farmers and ranchers recognize the urgency of adopting a new farm bill, with sound farm policy, very soon, in order to restore economic security to American agriculture.

However, overall, the President's budget for agriculture fails to provide the kind of financial bridge necessary to help America's farmers, ranchers, and rural communities cross the divide between recession and prosperity. In January, the Administration announced that without a new farm bill or emergency payments, net farm income could drop by 20 percent this year, and that a new farm bill must be signed by the President no later than mid-March in order for it to be implemented for the 2002 crop year. Given the failings of the current farm bill, and the fact that Congress adopted 4 multi-billion emergency bills since the enactment of the 1996 bill, it is imperative that we enact new farm legislation quickly.

However, the President's budget provides conflicting guidance on where the Administration stands on farm policy. On one hand, the President has expressed support in the USDA budget for an additional \$73.5 billion in farm bill funding for farmers, ranchers, and rural America. However, USDA budget numbers fall short. In the first 5 years, the President's USDA budget provides \$11.5 billion less for farm policy than in the Senate farm bill (\$33.4 B versus \$44.9 B).

It appears the President's budget shifts money from the first few years of the new farm bill in order to pay for a promised new safety-net beyond the life of the 5 year farm bill. Washington, DC is famous for budget rhetoric and gimmickry, and I understand that the Administration opposes the Senate farm bill because, according to OMB and USDA, the Senate farm bill "front-loads" the funding in the first 5 years of the farm bill. However, those of us fighting to fortify the income-safety net for farmers, who need help now, aren't going to apologize for the Senate farm bill, it's loan rates, or the fact that it provides meaningful funding, early-on in the life of the farm bill. The Administration can call it "front-loading," but I call it making sure farmers and ranchers have assurance that the new farm bill won't pull the rug out from under them in 2002, 2003, and 2004. So, I am disappointed the USDA budget does not adequately address these needs.

I am also concerned the Administration's USDA budget assumes that commodity loan rates will be reduced from the current levels—which have been maintained on an annual basis by USDA for several years now—to the formula levels contained in the 1996 farm bill, which will dramatically decrease producers' income protection. A large portion of the \$73.5 billion will be needed to restore loan rates to existing levels, not to mention funds needed to increase to the levels in the Senate Farm Bill.

The House farm bill drops loan rates to formula levels while the Senate farm bill increases loan rates and sets them at specified levels in the bill. It is disappointing to me that USDA might support the House farm bill provisions with respect to commodity loan rates, where rates are set at formula levels consistent with the 1996 farm bill, and you, as Secretary of Agriculture, are empowered to lower loan rates even further. Some estimate the House loan rate provisions would allow USDA to lower loan rates to \$1.56 per bushel for corn and \$4.00 for soybeans. I don't think most farmers in South Dakota would support this direction with loan rates, it's just the opposite of what they've wanted for years with respect to the farm bill.

Additionally, despite the September 2001 report, "Food and Agricultural Policy-Taking Stock for the New Century", published by USDA, suggests too few farmers reap too many of current farm program subsidies, USDA won't support, or even take a position on the Dorgan-Grassley-Johnson payment limitations amendment in the Senate farm bill. Family farmers, ranchers, and rural Americans know that rhetoric is not reality, they want USDA to take a stand on these important farm bill issues and to help keep them in the final farm bill.

Beyond the farm bill, I want to recognize that we're operating under a totally different budgetary environment today. We started last year with a \$300 billion annual surplus, and we are now looking at deficits each year into the future. It tells us how difficult funding at last year's level is going to be when it comes time for Congress and the Administration to construct this year's budget. USDA's budget reflects that different environment, and I appreciate it is a tough position. We should all do our best to hang onto as much of the USDA budget as we can, but obviously, huge increases in funding for defense and homeland security, compounded by the fact that we'll have less money coming in, means that we'll have to pinch pennies.

I wish to applaud President Bush for including \$131 million in USDA's budget for new investment to protect the Nation's food supply from animal and plant pests and diseases. We must work together to provide greater homeland security for our food and fiber system. I believe the new money recommended for food security will help us increase point-of-entry inspections of food and other imports, expand diagnostic and response services, and support greater research aimed at protecting our

crops and livestock from attack by animal and plant diseases. I also support your recommended increases for food safety initiatives, and funding to cover State and Federal food inspections.

Nonetheless, I do not support the recommended decreases for vital rural development programs. The total rural development budget has been cut by \$3.5 billion, with significant reductions for water and waste water projects, housing assistance, and cooperative development in rural sectors of the country. Rural development is a key ingredient in re-igniting prosperity in many of our States, and I will work to restore funding for rural development programs where I can.

Finally, I am deeply concerned with the proposed cuts to USDA's budget for research, extension, and education. The total Cooperative State Research, Education and Extension Service (CSREES) budget experienced a \$10 million cut. Land grant institutions such as South Dakota State University (SDSU) depend upon a sound financial footing contained within base, formula funds, to maintain existing programs that keep our farmers and ranchers the most competitive in the world. SDSU and other land-grant universities are making a real difference with the funding they receive to maintain research, education, and extension activities.

Particularly, SDSU is developing creative, new programs to benefit the younger generation of South Dakotans with sportsmanship and personal character programs, parents and other adults with respect to role-modeling, and of course, the farmers and ranchers of my State with new initiatives that promote value-added agriculture and energy independence. I believe the Administration should have provided greater resources for our land-grant institutions, and I will do what I can in this subcommittee to fix USDA's budget concerning the work of land-grant universities.

Moreover, the extraordinary cuts to research contained in the Agricultural Research Service (ARS) budget may harm important research facilities all across the country. For instance, Brookings, South Dakota is home to the Northern Grains Insect Research Laboratory. This facility, affectionately known as the "bug lab" to South Dakota farmers, is one of the premier labs with respect to insect research. The lab provides farmers in the Northern Plains with crop production and pest management information that enables producers to improve their bottom line. Cuts to agricultural research, whether they harm the efforts of land-grants such as SDSU, or efforts at our Nation's ARS labs, are counterproductive and I will work in this subcommittee to restore some of this funding where I can.

Madam Secretary, our work this year will not be easy. But I am confident that if we work together, this subcommittee can produce a responsible and effective budget for the important functions of the USDA. Thank you for appearing before us today and I thank the Chairman and the committee for their time.

Senator KOHL. Thank you, Senator Johnson. Secretary Veneman, we would be pleased to hear your statement.

#### STATEMENT OF ANN M. VENEMAN

Secretary VENEMAN. Thank you, Mr. Chairman. I very much appreciate the opportunity to be here today with you and other members of the committee to discuss the fiscal year 2003 budget for the Department of Agriculture. I very much appreciate the working relationship that I have had with this committee and the ability that we have had to work together. I have been to many of your States and appreciate the fact that we can call and talk about issues anytime.

As was indicated, with me today are Deputy Secretary Jim Moseley, our Budget Officer, Steve Dewhurst, who you all know very well, and Keith Collins, our Chief Economist, two of our very stellar career employees in the USDA and people that we could not operate the Department without.

I have been very busy traveling this year to many of your States, as I indicated, and have had a lot of opportunities to talk directly with farmers and ranchers and to hear what they think about some new initiatives being introduced, one of which has been kind of fun this year, a Leaders of Tomorrow initiative. Through this initiative we have been working with young people around the country, hav-

ing 4-H'ers and FFA leadership with us at each of our stops and visits throughout the country, trying to give young people the opportunity for mentoring. We have been promoting some of the youth initiatives in this country that will give us the leaders of tomorrow for our great Nation.

I want to thank the committee again this year for its support of USDA programs and for the long history of effective cooperation between the committee and our Department.

The budget that we are presenting this year is consistent with our policy book that we issued in September called "Food and Agricultural Policy: Taking Stock for the New Century." Hopefully the committee has had the opportunity to take a look at this book.

Our budget also addresses the Nation's new priorities, as you mentioned, Mr. Chairman, in light of the September 11 events, in a fiscally-responsible manner. Regaining fiscal stability requires that we recognize our priorities and that we make difficult funding decisions. I can assure you that USDA has done just that in preparing our 2003 budget proposals, and I want to tell you quickly what our budget does.

It funds key priorities for USDA. As Senator Cochran indicated, it protects farm-program spending, at \$73.5 billion over the baseline for the next 10 years, supporting the budget resolutions of both the House and the Senate last year. It strengthens homeland security and infrastructure protections, such as pest and disease, food safety, research, all of the issues that we have called the "infrastructure" that protects our agriculture. It provides tools to expand trade and help our producers export. It provides a record level of a nutrition safety net for families who are in need of assistance. It promotes good conservation and environmental stewardship. It helps rural communities, and it expands initiatives to make sure that we make government work better.

The fiscal year 2003 budget calls for \$74.4 billion in spending, which is an increase of \$11 billion over the fiscal year 2002 budget submitted by the President last year, and is only slightly below the 2002 enacted level. The 2002 enacted level was higher because of emergencies, whether it was fighting forest fires because of droughts in the West, the supplemental bill that we got to assist us with homeland security, and so forth.

I want to go through the basic priorities that are detailed in our budget. First, this budget provides an additional \$73.5 billion over 10 years, as I mentioned, to meet our commitment to fund a farm bill based on sound policy. The President has personally reiterated that commitment, and we are going to continue to work with the Congress and the conferees to produce a sound farm bill that the President can sign.

We enjoy a good working relationship with Chairman Harkin and Senator Cochran and other members of the conference committee, and we are looking forward to working closely with them as we go through this conference.

We are also committed to implementing a farm bill as quickly as possible. It is not an easy task, but I have met with employees recently, both in Georgia and in Missouri, to talk about implementation issues and how we can prepare ahead of time for the implementation of this farm bill.



Second, the budget protects agriculture and our food supply from potential threats, intentional or unintentional, and requests increases for key infrastructure programs that protect our food and agriculture—pest and disease prevention, food safety, and research. These are core programs that are critical to agriculture, and oftentimes they are forgotten. We just need to look back over the past year, where we were dealing with the threat of Foot and Mouth disease, strengthening our systems and reallocating resources to ensure that we did not get that economically devastating disease in our livestock herds. It could have been so devastating. Then we had the events of September 11, where we are now concerned, not only about unintentional threats to our food supply, but intentional threats, as well. So we are requesting an additional \$146 million in new spending for food safety, pest and animal disease prevention, and research.

There is a record level of spending for the Food Safety and Inspection Service to support over 7,600 meat, poultry, and egg-product inspectors. In addition, more research is proposed, aimed at protecting our food and agriculture system from animal and plant diseases, insects, and other pests. Increases for research in these areas will emphasize the development of improved detection, identification, diagnostic and vaccination methods, and identify and control threats to animal and plant agriculture.

Internal surveillance and analysis will be strengthened to ensure that we can respond to problems if they were to occur. An increase of \$48 million is requested for animal health monitoring to enhance our ability to quickly identify any outbreaks that might occur. An increase of \$19 million is requested in the Agricultural Quarantine Inspection Program to continue to provide border inspection and to protect agriculture and the food supply against pests and diseases.

Staffing for the Agricultural Quarantine Inspection Program would be increased to nearly 4,000 staff years in fiscal year 2003 with this budget. This would be a 55 percent increase from staff levels at the beginning of fiscal year 2001.

Our Research, Economics, and Education agencies in fiscal year 2003 would be funded at approximately \$2.3 billion. This includes doubling the budget for the Department's competitive National Research Initiative from \$120 million in fiscal year 2002 to \$240 million. This would include \$9 million for new uses of agriculture products, and \$6.5 million for global climate change research initiatives.

Last month, the President approved an additional \$328 million in one-time spending as part of the Defense Supplemental Appropriations Act. This includes \$105 million for pest and disease exclusion, detection, and monitoring, \$80 million for upgrading USDA facilities and operational security, \$87 million for laboratory upgrades, \$40 million for research activities, and \$15 million for food safety protection. We are working now with our appropriate agencies and the President's Office of Homeland Security to plan and implement that spending.

I might add that all of these measures and actions that we have taken directly support our protection systems to guard against BSE. As Senator Durbin mentioned, we did discuss yesterday the GAO report that just came out on the BSE issue, but I also want

to point out that in November, we released, with Harvard University, a 3-year study on BSE, which looked in depth at how we are dealing with this issue. They found that we have strong systems, that our risk of getting this disease is relatively low, and that if we were to have a case of the disease, that the likelihood of it spreading was very low. Nonetheless, we continue to move forward and remain vigilant, be on our guard against threats, and take additional precautions. We have detailed statements and fact sheets available to you and your staff outlining the specific actions that we are taking to strengthen all of our programs.

Third, this budget maintains an aggressive program level of over \$6.4 billion in support of food and agriculture international trade. It increases funding by \$50 million for trade programs and services that provide valuable tools for U.S. producers to gain access in the markets. A substantial budget increase for Public Law 480 Title II donations is proposed. The Administration believes that the Public Law 480 program should be the primary vehicle for food aid overseas, rather than relying on the use of Section 416(b).

We continue to hope that the Congress will quickly approve trade promotion authority for the President. I might add that we will continue to be very aggressive to tear down the unfair trade barriers that are hurting our farmers in the international marketplace.

We just had, last week, a decision by Japan to remove an unjustified barrier against our poultry exports. Also last week we announced a limited, but at least a beginning, of the opening for our table grapes into Australia. We announced actions just within the last couple of weeks claiming that the actions of the Canadian Wheat Board are unfair against our producers and that we are going to continue to pursue trade remedies. The President has personally intervened, and we continue to be very aggressive, on the issue of China's regulations for biotechnology that could hurt our exports.

Fourth, this budget provides a record \$41 billion to provide a strong nutrition safety net for families who need assistance from the government whether it is through our Women, Infants, and Children (WIC), Food Stamp, or Child Nutrition Programs. The WIC Program is an essential part of the nutrition safety net, and this is a program that the President cares deeply about. It is designed to protect a very vulnerable segment of the population—that is, low-income, nutritionally-at-risk women, infants, and children. This program has shown measurable results, particularly in terms of reductions in infant mortality. It is important to remember that 47 percent of the children born in this country are born to WIC families. For fiscal year 2003, the Administration has included sufficient resources in the budget to support an average WIC participation of 7.8 million people, up from 7.5 million recipients in 2002.

Specifically for the Food Stamp Program, outlays are increased in the President's budget by over \$1.4 billion to support an average participation of 20.6 million participants, up from 19.8 million in fiscal year 2002. The budget also requests a \$2 billion contingency reserve, should enrollment exceed our estimates. The budget includes a number of legislative proposals to improve the Food Stamp Program. Legislation is proposed for the Food Stamp Program to

restore Food Stamp eligibility for legal immigrants who have been in the United States for at least 5 years, allow ownership of one vehicle per work-able household member and other provisions to simplify program rules and improve program accountability. I might note that just yesterday the President talked about the importance of these programs and initiatives when he was outlining his Welfare Reform proposals.

Fifth, this budget promotes good conservation and environmental stewardship programs to help our environment and farmers and ranchers. The President often says that farmers and ranchers are the best stewards of the land, and we want to give our farmers and ranchers additional tools to manage working lands. The budget provides \$6.1 billion in spending for the Natural Resources and Environment agencies. It includes a \$50 million increase for conservation operations and technical assistance. The budget for the Natural Resources Conservation Service, like that for the farm programs, is highly dependent upon the outcome of the farm bill.

The Administration supports a strong conservation component in the farm bill to enhance conservation for the working farmlands, through programs such as the Conservation Reserve Enhancement Program and the Environmental Quality Incentives Program. The budget includes resources necessary to continue the services USDA provides to farmers and landowners, and the budget continues to emphasize key areas, such as nutrient-management plans for animal feeding operations and the need to meet the strong demand for environmental assistance.

Sixth, this budget contains \$11.6 billion for Rural Development programs, roughly the same level as that which we spent in fiscal year 2001. The budget takes a close look at programs and targets resources to high-priority areas. We have worked hard in this budget to provide funding for the most urgent needs of rural America, including home ownership, waste and water systems, and support for business development and jobs in rural areas. We have recommended some reviews and reforms in some areas of rural development, including the rural rental housing and the rural telephone bank, to ensure that they are producing the intended results.

Finally, this budget looks closely at the programs and services this Department manages. It contains several critical management initiatives that will better integrate USDA programs and services to bring them into line and better prepare our employees for the 21st century workplace. More importantly, our initiatives will help us serve our customers more expeditiously and efficiently.

In the USDA's budget, you will find resources and commitments in various places dedicated to the achievement of this management agenda. For instance, we want to improve customer service in our field delivery system by taking another look at our office structure, our organization of administrative support functions and how we manage a number of important areas, such as our credit portfolio.

Overall, there is a great level of attention to this budget to investments in technology. We cannot expect our employees to improve customer service or achieve other management objectives unless they are provided with modern technology. We want to make e-Government a reality for our customers.

That completes my overview of some of the key points in this budget. We believe it is a responsible budget, it funds key priorities and programs at USDA. I very much appreciate the opportunity to discuss these important priorities with you today.

PREPARED STATEMENTS

Thank you again, and we look forward to working with you during the budget process and to advance the priorities that we have outlined. I would be glad to respond to any of your questions, Mr. Chairman, and those of the committee. Thank you.

[The statements follow:]

PREPARED STATEMENT OF ANN M. VENEMAN

Mr. Chairman, Members of the Committee, it is an honor for me to appear before you to discuss the fiscal year 2003 budget for the Department of Agriculture (USDA). I have with me today Deputy Secretary Jim Moseley, our Chief Economist, Keith Collins, and our Budget Officer, Steve Dewhurst.

I want to thank the Committee again this year for its support of USDA programs and for the long history of effective cooperation between this Committee and the Department in support of American agriculture. I look forward to working with you, Mr. Chairman, and all the Members of the Committee during the 2003 budget process.

As you know, the President's Budget was released on February 4th. Total USDA outlays for 2003 are estimated to be \$74.4 billion. This is an increase of \$11.1 billion above the level requested in 2002, and it is only slightly below the 2002 enacted level.

The Department is addressing the Nation's new priorities in light of the September 11 events in a fiscally responsible manner. This requires recognizing our priorities and making difficult funding decisions. I can assure you that USDA has done just that in preparing its 2003 budget proposals.

We have also taken actions to assure that the \$328 million of emergency supplemental funds made available to USDA for security needs in 2002 will be invested in ways to meet high priorities, particularly to improve USDA's biosecurity operations for the long term. We are working closely with the Office of Homeland Security and we have established a USDA Homeland Security Council to coordinate our security efforts and track progress in using those funds to ensure that priority needs are met. The Council will play a significant role in establishing the final plans for use of those funds.

For 2003, this budget supports the Administration's principles for the 21st Century as stated in our report: Food and Agricultural Policy: Taking Stock for the New Century, issued last fall. Specifically, the budget does the following:

- Ensures that the new Farm Bill will be generously funded by providing an additional \$73.5 billion in mandatory funding over the 2002–2011 period to develop sound policies for farm commodity and income support, conservation, trade, food assistance, research, and other programs.
- Supports the Administration's goal of opening new markets overseas and expanding U.S. agricultural exports by providing over \$6 billion in export program support.
- Provides the largest increase ever for the Special Supplemental Nutrition Program for Women, Infants and Children (WIC) thereby supporting 7.8 million program participants.
- Provides support for over 20 million food stamp participants including legislation to allow more legal immigrants to participate and other changes to simplify complex rules, support working families and improve program delivery.
- Protects agriculture and our food supply from potential threats—intentional or unintentional—and requests more than \$146 million in new spending for food safety, pest and animal disease prevention, and research.
- Improves the Department's management of its delivery of programs.
- Improves the stewardship of our soil, water and forests by making more resources available for conservation uses with less money spent for overhead expenses.
- Maintains funding to support loans, grants, and technical assistance to address a diversity of rural development needs including financing electric and tele-

communications systems, water and waste disposal systems, rural housing, and business and industry.

With this as an overview, I would now like to discuss the details of our budget proposals for each of the Department's mission areas.

#### FARM AND FOREIGN AGRICULTURAL SERVICES

The farm sector in recent years has experienced lower market returns for several major commodities and losses from various disease, pest and other natural disaster-related causes. Supplemental assistance has been enacted to prevent farm income declines. While the situation is improving for some commodities, market returns in other areas of the farm economy are still low. The President's budget for 2003 provides for an additional \$73.5 billion in direct spending over the 2002–2011 period to fund new legislation to replace the expiring 1996 Farm Bill. This level is consistent with amounts contained in the Congressional Budget Resolution. We will work with Congress to develop a bill which contains sound policy consistent with the principles we have laid out for 21st Century agriculture.

The new Farm Bill should be generous but affordable. It should provide a reasonable safety net without encouraging overproduction and depressing prices, establish farm savings accounts to help manage risk, support our commitment to open trade, offer incentives for good conservation practices on working lands, and enhance nutrition programs.

#### *International Trade*

In conjunction with the new Farm Bill, it is essential that we also lower trade barriers and open new markets overseas since trade is critical to the long-term health and prosperity of the American agricultural sector. Enhancing the competitiveness of U.S. agriculture in the world marketplace must also be one of the primary objectives of our farm policy.

One of the most important strategies for enhancing trade is continuing the liberalization of global agricultural trade. America's farmers and ranchers stand to gain a great deal from further trade reform through increased access to markets overseas and a reduction in unfair competition in those markets.

The new round of multilateral trade negotiations is at the center of our trade liberalization efforts. Our agenda for agricultural reform negotiations includes substantial reductions in tariffs and increased market access, elimination of export subsidies, reform of State trading enterprises, and tighter rules on trade-distorting domestic support.

We also are pursuing trade liberalization through both regional and bilateral negotiations, and we are closely monitoring existing trade agreements to ensure that our trading partners comply fully with the terms of those agreements and do not institute technical barriers to trade that run counter to their spirit.

Another strategy laid out in our review of 21st Century agriculture is ensuring we have the proper tools needed to expand exports in an increasingly competitive environment. This starts with the granting of Trade Promotion Authority (TPA) to the President so that we can demonstrate to our trading partners that the United States is serious in our pursuit of free trade objectives and in our negotiating proposals. We urge the Congress to enact this important legislation early this year. We also very much want to work with the Congress to craft provisions of the trade title of the new Farm Bill so that they are consistent with the principles we have established for 21st Century agriculture.

Our work in the international area begins with the Foreign Agricultural Service (FAS), the Department's lead agency in implementing many of our international activities, and which plays an absolutely critical role in our trade expansion efforts. For 2003, the budget provides \$140 million for FAS, an increase of \$10 million above the 2002 level. Included in the FAS request is much-needed funding to support an e-Government initiative that will upgrade the agency's information technology (IT) resources and capabilities, and modernize its business practices and operations. Over the last year, FAS has faced a series of computer-related crises that have threatened to cripple agency operations and communications. This is a particularly serious problem for an agency that has offices throughout the world and must work closely on a daily basis with many different agencies, such as the State Department and Office of the U.S. Trade Representative.

The FAS proposals also include increased funding for the Cochran Fellowship Program. This is a highly successful program that has provided training and helped to establish positive linkages with many agriculture officials throughout the world. The additional funding will expand programming in a number of important areas, including biotechnology, food safety, and World Trade Organization accession requirements.

Another key to having the proper trade expansion tools is to ensure adequate funding for the Department's export promotion and market development programs, which our budget proposals are designed to do. For the CCC export credit guarantee programs, the largest of our export programs, the budget includes a program level of \$4.2 billion. This is an increase of \$300 million above the projected 2002 level, reflecting continued very strong growth in the supplier credit guarantee program. For the Foreign Market Development (Cooperator) Program, Market Access Program, and Quality Samples Program, the budget includes a total program level of \$120 million, unchanged from this year's level, and \$63 million for the Dairy Export Incentive Program, a slight increase over the current estimate for 2002.

As the Committee is aware, the Administration has undertaken a review of U.S. foreign food assistance activities in order to reform and rationalize their implementation and to strengthen their effectiveness. Among the results of that review is the decision to provide a more secure and predictable foundation for our overseas food aid activities by reducing their reliance on the year-to-year availability of surplus commodities. At the same time, these activities will largely be funded through discretionary sources, subject to Congressional review and approval, and with reduced reliance on mandatory CCC funding. Accordingly, the budget provides increased funding for food aid donations under the Public Law 480 Title II program, while donations of commodities under section 416(b) authority that rely on the purchase of surplus commodities by CCC will not be continued in 2003. The budget includes a total program level of \$1.35 billion for Public Law 480 in 2003. Based on current price estimates, total commodity shipments under Public Law 480 programs in 2003 should reach 3.7 million metric tons.

#### *Farm Program Delivery*

Farm Service Agency (FSA) salaries and expenses are funded at \$1.3 billion in 2003. This would support continuation of staffing levels at the current 2002 levels of about 5,800 Federal staff years and 11,250 county non-Federal staff years, including about 2,000 temporary staff years. We expect the workload for FSA to remain relatively heavy in 2002 and 2003.

In order to help FSA meet this workload challenge, improve service to farmers and enhance operating efficiency, the budget provides increased funding of \$56 million for FSA's information technology efforts related to the Service Center Modernization Initiative. This includes an acceleration of geographic information systems and other common computing environment initiatives to help move the delivery system into the e-Government era. The budget presents these funds as well as funds for the other Service Center agencies under the Common Computing Environment appropriation to ensure that these activities are well coordinated.

Management initiatives to modernize farm credit program servicing activities and to review the Service Center office processes and structure of FSA, Natural Resources Conservation Service (NRCS) and Rural Development (RD) will also be undertaken in an effort to improve our ability to provide services at less cost.

#### *Credit*

We have also included in the budget a program level of about \$4 billion in farm credit programs to assure that farmers have access, when necessary, to Federally-supported operating, ownership, and emergency credit. No additional funding is being requested for the emergency loan program. Based on current estimates, the budget assumes that carry-over funding in the emergency loan program will be sufficient to meet demand in 2003.

#### *Crop Insurance*

The budget for this mission area also includes full funding for the crop insurance program. The budget includes such sums as necessary to meet producers demand for the program given that participation in the program is voluntary on the part of producers. The program is delivered by private insurance companies, and the Federal Government reimburses the companies for their delivery, costs. The companies also receive underwriting gains on policies for which they retain the risk of loss. In 2000, Congress substantially reformed the crop insurance program, in part, by providing for substantial increases in the premium subsidy available to producers, especially at higher levels of coverage. As a result, participation in the program increased substantially. With the increase in business, private insurance companies have received a windfall as underwriting gains have increased about 400 percent from the levels of the early 1990s. This budget includes proposed legislation which would cap underwriting gains at 12.5 percent of the retained premium.

## MARKETING AND REGULATORY PROGRAMS

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

*Pests and Diseases*

Helping protect the health of animal and plant resources from inadvertent, as well as intentional pest and disease threats from terrorists, is the primary responsibility of the Animal and Plant Health Inspection Service (APHIS). The importance of this responsibility was recognized by the inclusion of \$119 million specifically for APHIS in the Homeland Security Supplemental funding for 2002. These funds will be used to: improve effective border protection, in part through the purchase of equipment and the hiring of anti-smuggling personnel; work with the States to expand survey efforts for plant and animal pest and disease detection; and meet enhanced building security and other needs. Of the total, \$14 million will be used to relocate certain biohazard laboratory facilities to a facility on the National Veterinary Services Laboratories campus in Ames, Iowa.

For 2003, we are requesting a net increase of about \$120 million over the regular 2002 appropriation for APHIS salaries and expenses which consists of over \$262 million in increases partially offset by \$142 million in decreases. While we have successfully kept foot-and-mouth disease and bovine spongiform encephalopathy (BSE) out of the United States, our inspectors remain highly vigilant, in part, because of bioterrorist threats. The \$1.1 billion 2003 budget request for APHIS reflects continued and enhanced efforts to protect U.S. agriculture at the borders, and also to promptly detect and respond to a pest or disease outbreak, among other activities. An increase in total program level of about \$19 million is devoted to enhance Agricultural Quarantine Inspection, and an increase of another \$48 million is devoted to enhanced monitoring and surveillance for pest and disease outbreaks.

Once detected, prompt eradication of an outbreak is essential to limit damages and reduce overall control costs. The 2003 budget requests \$162 million in appropriations to continue funding several eradication programs that had been started with funds transferred from CCC. Such continuing activities can no longer be considered "emergencies." These funds will be used to combat species such as the Asian Long-horned Beetle, citrus canker, Mediterranean fruit fly, chronic wasting disease, plum pox, rabies, scrapie, and tuberculosis. For any new emergency pest and disease outbreak, our legal authority to use CCC funding would be relied upon. However, the Administration is concerned about rising Federal costs of emergency pest and disease control and expects to seek public comment on flexible criteria to share the financial burden with cooperators who receive benefits from program activities.

*Marketing*

Another important proposal in this area involves the Grain Inspection, Packers and Stockyards Administration (GIPSA). The budget includes a total program funding level of \$43 million to help ensure efficient market functioning. Included within this total is about \$2 million being requested for improved enforcement of anti-competitive laws and monitoring the use of new technologies to evaluate livestock carcasses. Another \$450,000 is requested to expand the newly established biotechnology program to keep pace with the rapid introduction of new products and the need for commodity certifications. A further \$3.4 million is requested to enhance the ability of GIPSA to electronically provide and receive data and information. The GIPSA budget also proposes user fees to recover costs of the U.S. grain standards program, as well as license fees to recover costs of the Packers and Stockyards program.

For the Agricultural Marketing Service (AMS) the budget includes an increase of \$1 million to expand international market news reporting in Central America, South America, and Asia and increase the availability of accurate, timely, and unbiased international market information. This type of real time market information is required for American producers to be competitive in a global economy. The budget also requests an increase of \$1.6 million to implement improvements to the Pesticide Data Program and the Federal Seed Act Program. Improvements to the program infrastructure for these programs are necessary to ensure effective delivery of program services to American agriculture.

## FOOD SAFETY

A safe food supply is one of the foundations of a successful food and agricultural system. As we have witnessed, highly publicized outbreaks of foodborne illness have demonstrated how important safeguarding public health is to both consumers and

producers. And, with the threat of terrorism, we must be even more vigilant in safeguarding the Nation's food supply. USDA plays a critical role in safeguarding the food supply and its policies have contributed to the recent decline in pathogenic contamination of meat and poultry products. This Administration believes that continued investment in the food safety infrastructure is necessary to ensure that the appropriate personnel, tools, and information are available to address the emerging food safety hazards that threaten public health and the viability of our agricultural system. Therefore, the budget includes record funding for the Food Safety and Inspection Service (FSIS).

For 2003, the budget proposes \$804 million, an increase of about \$28 million over the 2002 current estimate. Funds are requested to cover the costs of Federal inspection and for maintaining Federal support of State inspection programs. This includes resources necessary to maintain approximately 7,600 meat and poultry inspectors which will ensure the uninterrupted provision of inspection services.

In addition, the budget requests an increase of \$14.5 million to improve FSIS' information technology infrastructure. FSIS' existing, disparate information systems will be replaced by a new system with enhanced data sharing capabilities. Upgrading these important information systems will lead to improved science-based decision-making for risk assessment and risk management functions, as well as improved resource management.

The budget also requests an increase of \$2.7 million to conduct slaughter epidemiological surveys and risk prevention activities for small and very small establishments. These surveys will improve the quantity and quality of data available to FSIS for use in evaluating the effectiveness of inspection strategies to detect animal disease outbreaks and the food safety guidelines to limit the impact of those outbreaks.

The 2003 budget includes a commitment to review the current overtime fee structure for meat, poultry, and egg products inspection, including an analysis of the manner in which fees are assessed and the underlying statutory basis for those fees. There is no budget impact in 2003 as a result of this action, however, the analysis of the current fee structure will begin immediately. The budget also proposed a new annual licensing fee that will make funds available, beginning in fiscal year 2004 and in subsequent years, to invest in food safety inspection technology and other Federal programs that directly benefit the industry.

#### FOOD, NUTRITION, AND CONSUMER SERVICES

The budget includes \$41.9 billion for USDA's domestic nutrition assistance programs, the highest request ever, targeted to help Americans in need. This request reflects our commitment to the nutritional safety net, and to helping participants find and retain jobs, and move toward economic self-sufficiency.

A major component of the nutrition safety net is the Special Supplemental Nutrition Program for Women, Infants and Children (WIC). The budget requests a record level of \$4.8 billion for WIC, almost 10 percent above the 2002 appropriation. The request funds average annual participation of about 7.8 million participants, and it provides an additional \$150 million contingency reserve should additional demand for WIC appear. This request reflects the growing demand for WIC and it also reflects a firm commitment by this Administration to ensure that resources are directed to programs that make a real difference in peoples lives. WIC is just such a program. Ensuring funding for WIC is one of our major priorities and is critical to the Administration's goal of guaranteeing stable funding for this important program.

The Food Stamp Program is funded at \$26.2 billion, an increase of almost \$3.2 billion above the 2002 level. The increase would cover a projected 2 percent increase in food costs with average participation of about 20.6 million people. This is an increase of about 2 million participants over the most current month reported, November 2001. The request also includes a \$2 billion contingency reserve, in case it is needed to support a higher than expected level of participation.

Also of great importance is reauthorization of the Food Stamp Program. The budget contains several legislative proposals for food stamps that are consistent with the principles we have laid out for 21st Century agriculture. These proposals would:

Allow legal immigrants who have resided in the U.S. for 5 years or more to apply for food stamps. This is consistent with welfare reform as it would bring the Food Stamp Program into conformity with other public assistance programs such as Medicaid and the Temporary Assistance for Needy Families programs that work in concert together at the local level. This change provides a nutritional safety net for these legal immigrants while maintaining requirements that they look first to their earnings, resources and the support of their sponsors to meet their needs.



Index the standard deduction to a percentage of poverty, so it adjusts both to reflect household size and changes in living costs. This, along with standardized medical and dependent care deductions (and several other program simplifications) will allow States to focus more on helping households get back on their feet, and less on complex and error-prone details.

Exempt one vehicle per work-able household member from being counted as an asset to facilitate participant efforts to seek and retain employment.

Eliminate the requirement that 80 percent of the Employment and Training funds going to childless unemployed adults so that States can more flexibly direct these resources to help those most likely to use them.

Reform the Quality Control System to focus on recurrent error problems. Although error rates are at their lowest level ever, States issued nearly \$1.3 billion in overpayments and underpaid eligible households by nearly \$460 million. This is just too high. The proposed changes would allow States to receive meaningful incentive awards for good performance and only sanction States with 2 consecutive years of error rates exceeding the 75th percentile for all States. Enactment of these changes will help all stakeholders to strive for even better performance.

The Child Nutrition Programs are budgeted under current law at \$10.6 billion. The request anticipates an increase of about 2 percent in food costs, growth in the programs due to the increased number of school aged and younger children, and some expansion in the breakfast and child care food programs. Program integrity will continue to be a focus for these programs, not only to ensure the proper allocation of Child Nutrition funds, but also because far larger sums of Federal and State education money are targeted to low-income schools based on free and reduced price lunch data.

#### NATURAL RESOURCES AND ENVIRONMENT

The importance of conservation programs has grown well beyond their historical purpose of protecting productive topsoil for the purpose of food production. We are now realizing the significance of agriculture's impact on other areas of the environment such as water quality. In addition, public awareness and concern for the Nation's natural resources have continued to grow as we gain a better scientific understanding of soil and related resource problems and how best to address them. The 2003 budget request in the conservation area recognizes these developments, as well as the need to protect the conservation partnership that has evolved over the years between the Department and conservation districts and farmers.

The budget request for the Natural Resources Conservation Service (NRCS) for 2003 proposes \$1.2 billion in appropriated funding, and assumes \$1.0 billion in mandatory funding for the Environmental Quality Incentive Program (EQIP) within the Commodity Credit Corporation (CCC) baseline, including estimated spending in the new Farm Bill. The appropriated request includes \$787 million for conservation technical assistance (CTA) which represents the foundation of the Department's conservation partnership, as well as the primary means by which the Department implements many of the critical natural resource programs such as the Conservation Reserve Program (CRP) and the conservation initiatives that will be called for in the new Farm Bill.

Addressing the problems associated with polluted runoff from animal feeding operations (AFOs) remains one of the most critical challenges and continues to be a high priority within the Department. To help AFO operators develop and implement nutrient management plans, NRCS will increase the level of technical assistance funding in 2003. Financial assistance that AFO operators might need to implement the plans will come from the EQIP.

The Department's 2003 budget request maintains funding for the 348 Resource Conservation and Development (RC&D) areas now authorized and will also be sufficient to support any new areas authorized in 2002. The ongoing program will continue to improve State and local leadership capabilities in planning, developing and carrying out resource conservation programs.

While maintaining and strengthening those conservation programs and activities that are vital to a healthy natural environment, the 2003 budget ceases funding those programs that have not performed well, that have a limited scope, or that have goals that can be better addressed through other programs. The Forestry Incentives Program falls in this general category and is not to be continued. In addition, all non-emergency watershed planning and operations funding will be redirected to other higher priority work within NRCS. Although support for regular watershed operations and planning is being terminated, the 2003 budget does propose to fund the Emergency Watershed Protection (EWP) program at an appropriated level of \$111 million, which is an amount equal to the 10-year average for EWP

spending. This would provide an important level of security to rural areas in the event of sudden and unforeseen natural disasters, and would enable the Department to respond to these disasters in a much more timely manner.

Under the Common Computing Environment budget an increase of \$13 million is included for NRCS activities for telecommunications costs, GIS implementation, cyber-security initiatives and enhanced access for customers.

#### RURAL DEVELOPMENT

The Administration's principles for rural development are to recognize the diversity of rural America and the importance of the nonfarm economy to rural communities; to create an environment that will be attractive to private investors to rural areas, encourage greater education and technical skills for rural residents, and capitalize on rural America's natural resource base; to protect lives and property against certain hazards, such as forest fires; to expand rural infrastructure, and to serve as a coordinator among the various levels of Government and private sector stakeholders in rural development activities.

USDA's rural development mission area has the primary responsibility for administering programs to meet these principles. The 2003 budget includes over \$1.9 billion in budget authority for rural development programs that would provide almost \$11 billion in loans, grants and technical assistance for a variety of purposes, including the financing of electric generation and distribution systems, telecommunications, water and waste disposal and other essential community facilities, rural housing, and business and industry. The 2003 budget also includes a request for about \$685 million for the administrative expenses for these programs.

The total amount of budget authority for Rural Development is \$2.6 billion, which is approximately at the 2002 enacted level. However, the budgetary resources have been realigned so that the 2003 budget allows USDA to efficiently and effectively meet the needs of rural America. Most programs are funded at approximately the 2002 enacted levels. About 60 percent of the program decreases are due to reductions in demand. The 2003 budget also reflects the annual changes in subsidy rates due to different technical and economic assumptions. Funding for Round II Rural Empowerment Zones and Enterprise Communities Grants and Multifamily Housing loans for new construction has not been requested.

The telecommunication programs are funded at program levels of \$495 million in direct loans for the regular programs, \$50 million in direct loans and about \$25 million in grants for the distance learning and medical link program, and \$80 million in direct loans and \$2 million in grants for the broadband and internet services program. These are the same levels as appropriated for 2002 except for distance learning and medical link direct loans, and broadband and internet services grants. For the past few years, USDA has requested and received program level funding for \$300 million in direct loans for the distance learning and medical link program. Unfortunately, there have been very few applicants because potential applicants are more interested in the grant program. The reduced level of funding for 2003 is expected to fulfill actual demand.

As for broadband and internet services, the program was established on a pilot basis in 2001. The \$2 million in program level funding available for grants in that year was targeted to a few small communities that could not qualify for loans due to a lack of repayment ability. While there is no lack of demand for grants for this purpose, the Department believes that communities should bear a substantial portion of the cost of such services, which means the program should focus on loans rather than grants, as reflected in the budget request for 2003. Further, the Department is again proposing that no funding be provided for Rural Telephone Bank (RTB) loans. The RTB is fully capable of obtaining funds to make loans through commercial channels which would encourage privatization.

The water and waste disposal program would be funded at a level of \$814 million in direct loans, \$75 million in guaranteed loans and \$587 million in grants—the same as appropriated for 2002. This program provides safe drinking water and waste disposal for rural residents and encourages business and industry to locate in rural areas which means more jobs and a more diversified rural economy.

The business and industry guaranteed loan program is funded at a program level of \$733 million. This is the same amount that will be available from the 2002 appropriations.

The single family program levels for 2003 would support \$957 million in direct loans and nearly \$2.8 billion in guaranteed loans—enough to provide about 50,000 homeownership opportunities.

The rural rental housing program would be limited to a program level of \$60 million in direct loans for repair and rehabilitation and related purposes and \$100 mil-

lion in guaranteed loans for either new construction or repair and rehabilitation. The Department is concerned about the substantial cost to the Government for rental assistance payments to support its existing portfolio of about 17,800 existing projects. These projects have an outstanding balance owed of close to \$12 billion. Many of these projects are over 20 years old and in need of repair or rehabilitation. The Department has already initiated a review of alternatives for servicing the portfolio. This review will also consider options for making loans for new projects at less cost to the Government.

#### RESEARCH, EDUCATION, AND ECONOMICS

To maintain the unparalleled success of U.S. agriculture, it will be necessary to make investments in research, education, and economics as new challenges confront the agricultural sector. Continuing to provide a secure food supply and maintaining and strengthening U.S. farmers' competitive advantage in world markets within a restrained budget will require a close assessment of priorities.

The 2003 budget for this mission area totals \$2.3 billion. For ongoing programs, there is an overall net increase of \$15 million. There are increases for critical intramural and grant programs, decreases for less critical projects—many of which were specific congressional earmarks for projects that could be funded through competitive programs—and a reduction of \$102 million in the Agricultural Research Service (ARS) buildings and facilities account following the large appropriations in 2002.

The 2003 budget for ongoing research and information activities in ARS is \$1,014 million, a net increase of 3 percent above the 2002 enacted level. The budget includes an increase of \$13 million for emerging, reemerging, and exotic plant and animal diseases; such as BSE and Food and Mouth Disease (FMD), to protect the U.S. food supply and increase the product longevity and market quality of agricultural commodities; an increase of \$9 million for biobased products and bioenergy from agricultural commodities, two initiatives that are supported by the President's national energy policy; an increase of \$6.5 million for global climate change to improve our understanding of carbon sequestration and support other aspects of the Administration's climate change research initiative; an increase of \$5.0 million to develop advanced pathogen detection capabilities needed for homeland security; and several other critical initiatives.

We are pleased that Congress has responded positively to the urgent need for a modern animal health facility in Ames, Iowa with combined appropriations of \$113 million in the regular and supplemental appropriations acts in 2001 and 2002. In this regard, we are in the process of preparing a report at the request of the Appropriations Committees on our estimates of costs for the entire project, the planned construction schedule, and our plans for managing this major, multiagency undertaking.

The 2003 budget proposal for the Cooperative State Research, Education, and Extension Service is just over \$1 billion. The National Research Initiative (NRI) is funded at \$240 million, representing an increase of \$120 million from 2002. The Federal Government plays a unique role in its support of the basic research needed to maintain the technology-based competitive advantages we currently enjoy in so many segments of the economy. In recent years, there have been especially large increases in Federal commitments for research in support of medicine and national defense. Unfortunately, commitments for agricultural research have not kept pace and opportunities to take advantage of some of the Nation's best university-based scientific talent are being lost. The budget proposal for the NRI will enhance agriculture as a scientific discipline; it will provide opportunities to partner with other Federal agencies and bring an agricultural perspective to topics of mutual interest; and it will make a contribution towards encouraging and training the next generation of agricultural scientists. Formula-based programs for research and extension are continued at the 2002 level, and the budget provides an increase of \$2.4 million for higher education programs.

The 2003 budget for the Economic Research Service (ERS) is \$82 million which supports the ongoing program of work and provides increases for two initiatives. An increase of \$2.7 million will support the ERS share of the joint effort with the National Agricultural Statistics Service (NASS) to improve the Agricultural Resources Management Survey, known as ARMS, generating more dependable and statistically defensible results and making results available through web-based dissemination. This national survey of farms provides data and analysis to characterize the economic conditions and rapidly changing structure of the agricultural sector. ARMS is the primary source of information about the financial condition, production practices, use of resources, and economic well being of America's farmers. As the principal source of data, ARMS makes it possible for ERS to answer key questions from

USDA policy officials, Congress, Executive Branch officials, and other decision makers about the differential impacts of alternative policies and programs across the farm sector and among farm families.

An increase of \$2 million will support the second initiative on the effects of invasive pests and diseases on the competitiveness of U.S. agriculture. The results of this initiative will provide information that can be used to help guide resource allocation for efforts to exclude and control invasive species. A major portion of this work will be to assess cost effective means of the public sector in reducing economic risks to U.S. agriculture from invasive species while preserving economic gains from trade and travel.

The budget for NASS is \$149 million which includes an increase for four initiatives. An increase of \$15.5 million is requested for the cyclical change in statistical activities associated with conducting the 2002 Census of Agriculture, with 2003 being the peak in the 5-year cycle. NASS's portion of the initiative to improve ARMS is \$4.6 million. In addition to improvements discussed previously, this funding will support research efficiencies to integrate the ARMS program with other data collection efforts. The NASS request also includes about \$5 million in increases for additional computer security, for development costs to move to electronic collection of data, and for development of an annual locality based county/small area estimation program to provide statistical data below the State level.

#### DEPARTMENTAL MANAGEMENT

The Departmental staff offices provide leadership, coordination and support for all administrative and policy functions of the Department. These offices are vital to USDA's success in providing effective customer service and efficient program delivery. Salaries and benefits often comprise 90 percent or more of these offices' budgets, leaving them little flexibility to reduce other expenditures needed to continue their operations. The 2003 budget proposes funding needed to ensure that these offices maintain the staffing levels needed to provide management, leadership, oversight and coordination.

These offices also have key responsibilities related to the President's Management Agenda and other departmentwide and agency-specific management reforms, which are crucial to making the Department an efficient, effective and discrimination-free organization that delivers the best return on taxpayers' investments. The 2003 budget requests funding to achieve the following management priorities:

As a direct result of the events of September 11, the budget request includes specific changes to increase the level of security and emergency planning for the Department.

We will continue to streamline the Service Center agencies (FSA, NRCS and RD) to improve efficiency and customer service. We will also continue our efforts to provide electronic services to USDA customers. A key element in these plans is the completion of a common computing environment for the Service Center agencies and acceleration of our efforts to acquire and use geographic information systems.

We will continue efforts to process employment and program civil rights complaints in the Department in a fair and timely manner and promote a working environment in which discrimination against employees or customers is not tolerated.

We will continue to develop departmentwide administrative information systems so that decisionmakers can receive timely and reliable information on the Department's finances, people and purchases. These systems will also make the Department's administrative operations more efficient by eliminating redundant, stovepiped and aging information systems. They are critical to the Department's ability to achieve and maintain a clean opinion on its financial statements and adequate computer security.

We will continue to strengthen our information security program to better protect USDA's valuable information assets from intrusion and theft. We will also develop an Enterprise Architecture, which is a key planning and risk management tool for information technology investments.

We will put more of the Department's work up for competition and increase the use of performance-based contracting to generate savings and efficiencies.

We will continue renovations of the South Building to ensure that employees and customers have a safe and modern working environment.

We are proposing to fund rental payments to the General Services Administration (GSA) in the budgets of agencies occupying GSA space instead of a central account in order to hold USDA managers accountable for the full cost of their programs.

The budget also provides increased funding for the Office of the Inspector General to help it address an expanding workload and provide active assistance to USDA

agencies. It also provides for reengineering audit and investigative activities, streamlining operations, and increasing office efficiencies.

That concludes my statement. I look forward to working with the Committee on the 2003 budget so that we can better serve those who rely on USDA programs and services.

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#### BIOGRAPHICAL SKETCH OF JIM MOSELEY

Jim Moseley was sworn in as the deputy secretary by Agriculture Secretary Ann M. Veneman on July 17, 2001.

As the deputy secretary, Moseley will oversee the day-to-day activities of the U.S. Department of Agriculture, one of the largest and most diverse departments in the Federal Government. USDA's mission includes the management of traditional farm programs, private lands conservation, domestic food assistance, agriculture research and education, agricultural marketing, international trade, meat and poultry inspection, forestry, and rural development programs.

Prior to this appointment, Moseley, an Indiana farmer with 32 years of hands-on farm experience, was the owner of Ag Ridge Farms, which specializes in grains, and managing partner of Infinity Pork, LLC, which raises hogs. Both are located in Clarks Hill, Ind.

Moseley has played a key role in developing public policy for agriculture, the environment, and natural resources conservation at the state and national levels. From 1989–1990, he served as agricultural advisor to the administrator of the U.S. Environmental Protection Agency. Moseley previously served at USDA as the assistant secretary of agriculture for natural resources and environment from 1990–1992. In this capacity, he provided leadership to the Forest Service and the Natural Resources Conservation Service on a variety of issues including endangered species, old growth forests, livestock grazing on public lands, wetlands, and policy issues related to the conservation title of the 1990 Farm Bill.

In 1997, he served as chairman of the industry negotiating team for the National Pork Dialogue. Following the 1995 Farm Bill, Moseley served as a consultant to the National Association of State Departments of Agriculture, where he worked with producers and NRCS to develop model resource management plans for farmers and ranchers.

From 1993 to 1995, Moseley served as the director of agricultural services and regulations for the State of Indiana at Purdue University. He also served as a political analyst and member of the editorial board of the Farm Journal Publications. Moseley has held membership in numerous professional and academic organizations and has received many awards and honors. In recognition of his service and commitment to agriculture, he was voted the National Outstanding Young Farmer of America for 1982.

Moseley was born in Peru, Ind. He holds a Bachelor of Science degree in horticulture from Purdue University in West Lafayette, Ind.

#### PREPARED STATEMENT OF IRA L. HOBBS, ACTING CHIEF INFORMATION OFFICER, OFFICE OF THE CHIEF INFORMATION OFFICER

##### INTRODUCTION

Mr. Chairman and members of the Subcommittee, the Department of Agriculture—USDA—appreciates this opportunity to share with you our recent progress and future plans to expand electronic government and cost-effectively use information technology—IT—to improve customer service and make employees more productive.

In line with the Clinger-Cohen Act, the Office of the Chief Information Officer—OCIO—provides USDA agencies with cyber security, IT investment, enterprise architecture, and telecommunications policy guidance and oversight. The OCIO is responsible for managing the IT component of the Service Center Modernization Initiative and leading the Department's electronic government—e-Government—program. In addition, we provide USDA agencies with department-wide data center and telecommunications services, and desktop support for the Office of the Secretary and the USDA National Appeals Division.

##### PREPARING FOR A CHANGING ENVIRONMENT

The Department faces a changing environment—one filled with new challenges and opportunities such as consumer-driven agriculture, increasing globalization, and advances in information and communications technology. These trends, among oth-

ers, are bringing fundamental changes to the world in which the USDA operates and fulfills its mission. Technology is reshaping our economy and in turn our society. Agricultural production and rural communities are not immune from these forces. What consumers, nonprofits, and businesses are becoming accustomed to in terms of electronically enabled convenience and improved service in the private sector, they are increasingly demanding as citizens and partners from the public sector. These trends are here to stay and the pace of innovation will only continue to accelerate.

In order to remain relevant in this new economy, meet these challenges, fulfill our social mission, and operate a results-oriented, market-driven enterprise in line with Secretary Veneman's vision that is outlined in our Food and Agricultural Policy, the USDA must embrace this change.

As the stewards of the IT resources Congress provides USDA, my office is working to help provide the increasingly complex information technology tools that our customers and staff require, in a manner that ensures our funds are invested wisely and protects the integrity and confidentiality of the information we gather and store.

#### USDA'S FISCAL YEAR 2003 INFORMATION TECHNOLOGY BUDGET SUMMARY

The Department's overall budget request for information technology in fiscal year 2003 totals almost \$1.7 billion in budget authority; a \$200 million increase over the \$1.5 billion that USDA agencies are planning to spend in fiscal year 2002. This request will fund IT staff, hardware/software purchases, contractor services, telecommunications, and other infrastructure expenditures. These IT resources support every aspect of USDA's programs, from financial systems to program delivery systems to the infrastructure for our field organizations. This request represents about 3 percent of the total \$52 billion proposed for IT investments for the Federal Government.

A snapshot of USDA's overall request for IT shows almost 25 percent of the proposed total, approximately \$410 million, funds entitlements that are distributed to the States in support of the Food Stamp and the Women, Infants and Children programs—this includes Advanced Planning Documents and Electronic Benefits Transfer Grants to States. The IT budgets for the Service Center agencies, which include the Farm Service Agency—FSA, the Natural Resources Conservation Service—NRCS, and the Rural Development Mission Area—RD—agencies, total approximately \$390 million. In addition to the separate agency budgets, the proposed budget includes a request for about \$130 million to support the Common Computing Environment—CCE—infrastructure modernization of these agencies. This combined total of about \$520 million represents about 30 percent of the USDA total IT budget. Finally, the USDA Forest Service's IT budget of about \$347 million comprises another 20 percent of the Department's total. USDA IT Capital Planning and Investment Control The Department manages its IT funds through the IT Capital Planning and Investment Control—CPIC—process. The Executive Information Technology Investment Review Board—EITIRB—which is chaired by the Deputy Secretary, is the central CPIC body that reviews, monitors and approves the Department's IT investments. The EITIRB's review is required by Congress and ensures that the Department's major IT investments are aligned with its business processes and strategic direction, and that the corporate impact of these investments is fully considered.

In support of the EITIRB, the OCIO continues to strengthen management of the USDA's IT investments portfolio by tracking project costs, schedules, risks and benefits, from all agencies, by providing guidance throughout a project's life-cycle, and by developing and providing CPIC and project management training for USDA IT managers.

As a result of these efforts to enable more informed and intelligent investment decisions on IT capital acquisitions, the President's first Management Scorecard rated USDA a "yellow" for Enabling e-Government largely based on our strong IT CPIC performance. This was one of only two "yellows" awarded government-wide to large agencies.

#### STRENGTHENING INFORMATION SECURITY

Last month, the Acting USDA Inspector General testified that "one of the more significant dangers USDA faces is a cyber attack on its IT infrastructure, whether by terrorists seeking to destroy unique databases or criminals seeking economic gain. The Department has numerous information assets, which include market-sensitive data on the agricultural economy and its commodities, signup and participation data for programs, personal information on customers and employees, agricul-

tural research, and Federal inspection information ensuring the safety of the food supply, as well as accounting data. The information and related systems face unprecedented levels of risk from intentional or accidental disruption, disclosure, damage, or manipulation.”

Today, USDA is only minimally prepared for a natural disaster or cyber attack targeted to disrupt our critical IT infrastructure. In a review of the Department’s cyber security program required by Congress in the Government Information Security Reform Act—GISRA, the USDA Office of the Inspector General along with the OCIO found a number of material IT security weaknesses at USDA. The fundamental cyber security challenges to USDA include:

- Lack of senior management attention to addressing cyber security vulnerabilities,
- Inadequate disaster recovery and business resumption capacity,
- Poor integration of information security into the Department’s IT capital planning process,
- Incomplete risk management and information systems security planning,
- Inadequate information systems security awareness and training for employees,
- Inadequate intrusion detection monitoring and incident reporting, and
- Inadequate supervision over information technology contractor provided services.

Despite these continuing challenges, with the resources provided by Congress, we have made significant progress over the past year. For example:

- A Cyber Security Advisory Council, consisting of senior executive program officials and IT personnel from across the Department, has been established to provide broad input into all aspects of cyber security program and policy development.
- A comprehensive Cyber Security Architecture is being designed to provide a much-improved level of network security for current and future delivery of services over the Internet.
- Risk Assessments are becoming an integral part of IT management within the Department. OCIO, together with USDA agency staff, continue to develop standard tools and procedures for performing these assessments.
- Departmental IT security-related policies and guidance have been issued or drafted in areas such as mainframe security, incident reporting, information systems security plan guidance, user ID and password requirements, and privacy policy on the use of customer information.
- More rigorous security requirements have been included in USDA’s IT CPIC process to ensure that plans for all new systems identify specific security controls, costs, and schedules.
- Structured training courses are being provided for USDA information security technicians and managers in a wide range of security disciplines.
- New information security incident reporting procedures that require an analysis of the incident as well as reports on corrective measures where appropriate have been established.
- An Enterprise Agreement to provide all agencies with standard information security tools has enabled the Department to better collect and analyze information for risk prediction, risk quantification and risk management.

In addition to these activities, the OCIO has evaluated and rated the information systems security plans for each USDA agency. We are currently providing our analysis of these plans to each agency head, and requesting a remediation plan be developed to correct identified information security weaknesses. We are also requiring each agency undertake an independent risk assessment of their information security program this fiscal year.

Similar to our review of agency security plans, the Office of Management and Budget has reviewed USDA’s information security program, identified weaknesses, and requested the Department improve its overall cyber security program. We have already begun revising our project plan for the Department’s cyber security program, and are working with the agencies and OMB to ensure the plan balances OMB expectations with the Department’s priorities and capacities.

Your support of the Department’s central cyber security program is crucial to ensuring USDA is prepared to recover quickly should a critical information system be rendered inoperable or unreliable due to an unexpected catastrophe. For fiscal year 2003, the President’s Budget Request includes increases of:

- \$5.5 million to implement an information survivability program to minimize disruptions caused by attempted intrusions, natural disasters, and terrorist attacks. While we continue to improve our intrusion detection system, we recognize that no prevention measures are perfect. Cyber security disaster recovery and business resumptions tools, procedures, and policies must be developed and

tested for facilities and operating environments that house USDA's mission critical information systems.

—\$500,000 to establish the USDA Sensitive System Certification Process to provide a standard and repeatable process for evaluating the technical and non-technical security features of an information system. The methodology is measurable and results in documentation and certification activities that hold system owners accountable for the security of their information assets.

USDA is also cooperating with the White House Office of Homeland Security as it develops and coordinates the implementation of a comprehensive national strategy to secure the United States against terrorist threats or attacks, including cyber attacks.

#### ENTERPRISE ARCHITECTURE

Mr. Chairman, to take our information and information technology management to the next level, we need your support for our enterprise architecture—EA—initiative. This initiative will enable us to better organize and analyze our business processes, information needs, and supporting technologies to create a more citizen-centered, results-oriented, and market-based USDA.

We are focusing our efforts this year on the EA for a number of reasons. An EA is a requirement of the Clinger-Cohen Act, and is the key to better integrating our cyber security, e-Government, and telecommunications programs. It will also enable us to coordinate managing our IT resources in a way that serves our electronically enabled citizens, while ensuring that our organization and processes are documented and managed to accommodate the business needs of citizens who are not able to access USDA electronically.

Further, OMB has identified the lack of a comprehensive EA as a major risk to successful delivery of all IT programs within USDA. Managers of IT projects currently under development typically have little understanding of what the future IT environment will be like when their system is finally deployed. Because an EA develops a shared view of the future IT environment, agency project managers developing IT programs and projects will have a clearer idea of the direction in which they must move to align with the direction of the Department. In recent reviews, the General Accounting Office has identified similar concerns with other Federal agencies operating without an EA.

For fiscal year 2003, an increase of \$15 million is requested to establish the USDA-wide Enterprise Architecture. An EA that is integrated with key IT management activities and processes at the Department level will enable USDA to ensure that scarce resources are spent wisely, and are aligned with a common vision for USDA's IT future.

Building on our previous enterprise architecture efforts, we have developed a plan that identifies the major goals, activities, tools, and participants to implement an USDA EA. Our plan includes:

- Developing the architectural components at both the Department and agency levels (e.g. information about business processes, information collected, systems used to collect and use information and the technology that supports the systems);
- Collecting this information in a central repository to model and analyze the EA;
- Conducting training and awareness sessions to ensure that all EA components contribute towards an integrated USDA architecture. These sessions will target multiple audiences across the Department including: program executives, IT executives, architecture program managers and their teams, and agency staff;
- Adding staff years to work with the agencies to ensure cross-Departmental architectural consistency; and
- Integrating EA processes with other internal management processes (e.g., IT investment decisions and information collection reviews). The staff will work on architecture policy and directives, planning and oversight of agency activities.

The Department's recent efforts to leverage our economies-of-scale by negotiating enterprise licensing agreements provide a one tangible example of the benefits to establishing an EA. Rather than having agencies make individual purchases, during fiscal year 2001, USDA entered into or renewed seven enterprise or multi-agency agreements for hardware, software and services. These include agreements for cyber security tools, Section 508 remediation software, office automation products, and GIS software and services for the entire Department. We estimate the cost saved by entering into these agreements at approximately \$240 million for the life-cycle of these products. In fiscal year 2002, enterprise agreements already completed include statistical analysis and enterprise resources planning software tools, and software to support emergency response messaging. Additional efforts are underway to



complete or consolidate agreements for database software tools, anti-virus software, and network routing and switching hardware, software and support services. These agreements benefit the entire Department by reducing staff required to support acquisitions, streamlining training and support requirements, and reducing costs.

While we have made significant progress in establishing enterprise agreements without the benefit of an EA, we can do much more once we establish our architecture and are able to look across the Department for additional opportunities. We expect these opportunities to come not only from enterprise agreements for hardware, software and services, but also from the ability to identify duplicate processes and to work with agencies to develop shared processes and shared systems. Some of this is already underway under the auspices of the e-Government program, and will be enhanced by our EA.

A shared vision of our future business and IT environment, modeled in the Enterprise Architecture, will ensure that we are selecting the best mix of information and information technology investments to deliver USDA's future programs and services.

#### SERVICE CENTER MODERNIZATION INITIATIVE—INFORMATION TECHNOLOGY

Mr. Chairman, the Service Center Modernization Initiative—SCMI—remains among the USDA's highest IT priorities. This initiative, which includes the Common Computing Environment—CCE, is a major cornerstone of our modernization and technology improvement efforts. It is rapidly breaking down the technology barriers of the old legacy systems in the Service Center agencies to provide a common technology infrastructure that enables use of modern processes, maximizes shareability of information, supports electronic access by customers, provides better and more efficient services, and supports our goal of one-stop service. The CCE is the most visible and far reaching IT modernization at USDA. The technology infrastructure will support about 50,000 USDA employees, volunteers and partners over three mission areas delivering over \$55 billion annually in services.

The CCE incorporates common data definitions, structures and warehouses; open market office software; use of Geographic Information Systems—GIS; use of the Internet and the adopting of modern programming languages and scalable systems to ensure long-term interoperability and support for current and future program delivery.

The Office of the Chief Information Officer continues to provide direct management and oversight of information technology resources provided by Congress under the CCE fund for this initiative. We rely heavily on the IT leaders and personnel of the three partner agencies working with OCIO executive and project management staff to plan and implement the CCE. Employee unions and associations are also fully involved and add valuable field insight to the process. Although this process has served us well in the design, acquisition, and deployment of the CCE technologies, long-term success will depend upon the establishment of an integrated IT support staff to operate and maintain the shared technology infrastructure.

Through the end of fiscal year 2001, about 70 percent of the planned CCE technology investments were made and several reengineered business processes were either deployed, or in the final stages of testing. The standardization of the IT infrastructure is well under way and will be completed within the next 18 months. The new infrastructure is flexible and built around maximizing the ability to share appropriate information both within USDA and with other Federal, State and local agencies, USDA customers and the private sector. Our progress to date includes a number of significant accomplishments:

- An integrated technology architecture has been developed, tested and piloted.
- An interagency IT management structure operating under OCIO has been put into place to oversee the implementation of the CCE along with an OCIO project management office.
- A Blueprint Plan for CCE has been developed.
- An Integrated Project Plan has been developed.
- Shared, integrated phone systems and local and wide area networks have been installed.
- Wiring to support future technologies has been installed in local offices.
- Internet access for most employees has been provided.
- A shared Interoperability Lab and test facility has been established.
- About 45,000 modern/interchangeable and security capable workstations have been acquired.
- Common office automation—word processing, spreadsheet, etc.—software has been provided that is compatible with customer and partner software.
- Over 9,000 modern and shareable printers have been acquired.
- A shared help desk support system has been established.

- Three Web Farms built around common technologies have been implemented to support Web-based applications and e-Government implementation.
- A common GIS Enterprise Software License has been acquired.
- Common security tools, data management approaches and configuration management processes have been implemented.
- A migration platform—AS 400—for FSA has been acquired and installed to support rewriting of COBOL applications to the new CCE languages.
- Shared Network Servers to support common e-mail, remote systems management, local data storage and security enhancements have been acquired.
- Limited numbers of digital cameras and global positioning units were purchased and contracts put in place for future acquisitions.

As we have moved forward with the CCE, we have taken advantage of market trends, enterprise license approaches and volume buying to significantly reduce the cost of implementation. CCE contracts typically result in substantial discounts off of prices paid by other Federal agencies. Total capital investment costs for the CCE are currently projected to be almost 40 percent less than the low-end estimate developed in the original business case. In dollar terms, that is about \$290 million in reduced costs. Additionally, as CCE initiates contracts, other USDA agencies often participate, which increases volume, reduces unit costs and moves all of USDA towards common technology tool sets. A good example of this was the establishment of a USDA-wide Enterprise License for GIS software which resulted in extremely deep discounted pricing for the CCE, the Forest Service and other USDA agencies.

During the current fiscal year a number of key activities are planned which will take the CCE to 90 percent completion by the end of the year. These activities include:

- Network Servers and remaining workstations purchased in fiscal year 2001 will be fully deployed thereby providing enhanced security, a shared and robust e-mail system, ability to manage and monitor IT systems from a central location and enhanced local data capabilities.
- A GIS strategy will be updated and integrated with the government-wide geospatial initiative underway through the Administration's Quicksilver initiative, and all remaining CCE architecture issues will be finalized.
- The Service Center telecommunications capabilities will be significantly enhanced to support growing numbers of Web-based applications and to meet e-Gov and e-File requirements.
- Shared application servers will be acquired and deployed to support GIS and other new program applications.
- Investments will be made in data warehouse, data centers, disaster recovery, security components and the Web farms to support internal and external data sharing and electronic services.
- Employees will be trained in the new technologies.

Even as the new CCE technologies are being rolled out, the Service Center agencies are working to retool their program applications and create new shared applications that will run on the new infrastructure. The Secretary recently announced the deployment of one of these—The Service Center Information Management System—SCIMS—which is a shared database of common customer information. All Service Center agencies will use this common database, and customers will no longer have to give name changes, address changes, etc., multiple times to participate in different programs. Other reengineered applications such as the customer service toolkit, a common land unit GIS application, natural resources data gateway, an office information locator, a shared human resource application and others have already been developed, tested, and deployed on the CCE system. Many others are in development and testing and will be deployed over the next several months. The CCE provides the common infrastructure that enables these new and more efficient applications.

Your continued support of this initiative is essential for completion of the CCE and the timely, high-quality services that it will help bring to USDA customers. For fiscal year 2003, the President's Budget requests \$133 million for the CCE account, which is an increase of \$73.8 million over the \$59.4 million appropriated in fiscal year 2002. This budget proposal includes in the central CCE account not only the funding needed to complete and maintain the core CCE technologies, but also a number of increases for the Service Center agencies' specific needs to ensure that those activities are fully coordinated. The fiscal year 2003 funding will be used as follows:

The \$59.4 million base level funds will be used to complete the acquisition and deployment of the core CCE infrastructure and begin a regular "refresh" cycle of replacing CCE components as they reach the end of their lifecycle. This will allow us to purchase all remaining peripheral devices such as plotters, printers, GPS units,

digital cameras, etc., that are needed by field staff to fully optimize the use of the CCE technologies. We will also replace the first 16,500 CCE workstations purchased in late 1998 and, by continuing regular replacement of aging equipment, avoid high maintenance costs and obsolescence in the future.

The \$73.8 million increase for specific agency needs will be used for a variety of modernization costs including the acceleration of GIS implementation, systems migration/modernization, shared applications, increased telecommunications and other operating costs, security and eGovernment related work. Specifically:

- \$32.8 million will be used to acquire GIS imagery, digitize land unit and natural resources information, build GIS data warehouses, support GIS application development and train employees in the application of GIS technologies to program delivery. While the CCE provides the infrastructure to implement GIS, the data applications and training are necessary to fully utilize this capacity and provide the increased efficiencies and better products that this technology will support.
- \$10.8 million will be used to continue FSA's modernization of its Financial Management Information System—FMIS—and the Farm Loan Program—FLP—system. These new centralized systems will include electronic access by employees and customers.
- \$10.2 million will be used for increased telecommunications costs resulting from the move to more Web-based applications, central databases, and e-Government activity. While the central Web-based applications and databases are more efficient and allow greater use, re-use and sharing of applications and data, they do result in additional telecommunications needs and costs.
- \$4.8 million will be used to continue implementation of the shared Service Center Information Management System or SCIMS. Additional features will be added to the application fielded early this year and subsidiary systems will be linked to this shared database. When fully implemented, this system will provide immediate access to eligibility and payment limitation information which will eliminate delays and allow for more timely service.
- \$4.0 million will be used for across-the-board SCA projects to implement e-Government. This would be directed towards shared applications and tools needed by all three agencies to implement these activities.
- The remaining \$11.2 million would be used for security, Web Farm support, legacy systems operations and maintenance, and for shared Service Center Modernization costs previously funded under FSA with non-recurring funds.

The fiscal year 2003 budget request represents a significant milestone for our modernization efforts. With it, we complete the implementation of the long-term objective of having an integrated technology infrastructure for our Service Center agencies. We will also begin a regular refreshment of that infrastructure such that, never again, do we allow the technology support of these agencies to reach the outdated state of the stove pipe technologies that existed when we began this effort. Additionally, we will expand the successful model that we have used to manage the CCE to include similar oversight and coordination of new agency specific IT activities that need to be better integrated and leveraged for the benefit of our program delivery and our customers.

#### ELECTRONIC GOVERNMENT

Electronic Government—e-Government—is about more than technology; it is about fundamentally transforming how USDA delivers its information and services. At USDA, this transformation is being driven by the President's emphasis on expanding e-Government to improve customer service, make employees more productive, and save taxpayer dollars, and the Congress' mandate to action through legislation such as the Government Paperwork Elimination Act and the Freedom to E-File Act.

E-Government solutions are necessary for the Department to meet many of the challenges we now face, which include:

- Transformations in industries that the USDA supports and regulates;
- The need to "do more with less;"
- A new focus on market-driven policies and programs;
- An emphasis on results-oriented solutions that require unified approaches to easily collaborate, share information and manage the organization's knowledge; and
- Increasing expectations from customers, private and public sector organizations and employees.

USDA's customer groups are currently online in impressive numbers. According to the National Agricultural Statistics Service, 41 percent of farmers are online;

close to the 44 percent of the total U.S. population that used the Internet in 2001—based on information from Jupiter Research. And while Internet use by both low-income Americans and rural residents lags behind other groups, Internet use by both groups has grown quickly. Rural Internet use grew by over 70 percent from 1998–2000, and low-income use has grown by 80 percent over the past year—the fastest growth rate of any income group. Furthermore, 89 percent of all children have Internet access at home or school. The statistics are cited from the Current Population Survey/August 2000, U.S. Department of Labor/U.S. Census Bureau.

Similarly, USDA's major partner organizations have pervasive Internet access. Ninety-eight percent of research and academic partners are online and 90 percent or more of banks, insurance companies, governments, and major agribusinesses are online as well.

To meet growing customer demand, several USDA agencies are already implementing innovative e-Government initiatives. USDA is considered a government pioneer in providing some information and services—such as benefits, food safety information for consumers, and loans—electronically through customer cards/electronic benefits transfer (EBT), call centers, and the Web. The USDA Meat and Poultry Hotline, the Agriculture in the Classroom educational partnership initiative, the Unified Export Strategy and Laboratory Electronic Application for Results Notification Web-based applications are just a few examples of USDA e-Government successes.

Building on this foundation, USDA has launched a Department-wide e-Government Program that is managed by an interagency e-Government Executive Council, under the leadership of the Deputy Secretary and the OCIO. Chaired by USDA's recently named Associate Chief Information Officer for e-Government, the Executive Council is finalizing an e-Government strategic framework that incorporates the vision, goals, marketing, and tactical activities to support our transition away from solely traditional paper-based processes and single-agency service delivery approaches. USDA's e-Government Strategic Plan establishes a comprehensive vision and direction for the Department and its agencies for the next 5 years (fiscal year 2002–2006). The Strategic Plan was developed to:

- Incorporate and align e-Government with annual performance and business operating planning and budgeting processes;
- Build on USDA's current capabilities and efforts;
- Share USDA best practices;
- Break down organizational silos by taking a citizen-centered view of the delivery of our programs and services;
- Avoid redundant approaches and save money by looking for opportunities to unify systems and collaborate across USDA agencies, enterprise-wide and with other Federal departments, including the "Quicksilver" initiatives under the auspices of Office of Management and Budget;
- Prioritize opportunities, devoting resources to opportunities with the largest impact; and
- Create a sense of ownership and shared vision for the Department as a means to fostering cultural change.

Through the cooperative efforts of USDA's e-Government leaders in all mission areas, we are implementing the USDA e-Government Strategy. We are identifying key interdepartmental, enterprise-wide, cross-mission area and cross-agency opportunities for achieving USDA's e-Government goals and objectives, including USDA "smart choices"—projects which will begin our journey to achieving USDA's e-Government goals and those of broader government-wide efforts.

Integrated into the plan is USDA's compliance with the Government Paperwork Elimination Act. Further, progress made by the Service Center agencies in addressing the requirements of the Freedom to E-File Act during the first quarter of fiscal year 2002 includes deployment of a large portion of the technology required for agricultural producers to access and submit information to the Department via the Internet. The Risk Management Agency approved the E-File implementation plans for 17 of the 18 crop insurance providers.

Realizing the Department's vision and achieving USDA's e-Government goals will require executive leadership and support, the resources to make significant infrastructure and technical improvements, participation from USDA's partners, and most of all, the commitment and hard work of all USDA employees.

#### IT WORKFORCE PLANNING

Implementing e-Government solutions and managing our IT resources effectively will require recruiting and retaining highly skilled IT employees. Towards this end, the USDA IT human resources communities continue to collaborate to improve the

professional development of USDA's IT workforce. Two specific initiatives underway include the analysis of a survey to assess the core competencies required by USDA executive and senior IT managers, and the implementation of the new Office of Personnel Management IT job classification standard to better recruit employees with the skills USDA requires to deliver programs today and into the future.

#### OCIO WORKING CAPITAL FUND ACTIVITIES

The OCIO manages the USDA National Information Technology Center—NITC—headquartered in Kansas City, Missouri, with a software development facility in Ft. Collins, Colorado, and a support office in Washington, D.C. The NITC, with a \$56 million budget funded by USDA's Working Capital Fund, provides innovative, cost-effective and secure information technology solutions to support the specific missions of USDA's agencies. NITC also provides computer services to the Federal Aviation Administration, the General Services Administration, and other government clients on a reimbursable basis.

The OCIO also operates the Department's long distance telecommunications network, which like the NITC, is funded by the USDA Working Capital Fund. Working in collaboration with the agencies, we are redesigning this network to ensure it provides cost-effective, secure, and reliable services to USDA programs 25 hours a day, 7 days a week.

#### CONCLUSION

Mr. Chairman, members of the Committee, the Department of Agriculture faces critical challenges as it transitions into this new e-Government era of providing services to our customers online. To meet these challenges, we are strengthening our Cyber Security program to better protect our growing information assets, and we are coordinating a Department-wide e-Government effort to ensure customers and staff can easily access and use these new Internet-based services.

We are also focusing on the Service Center Modernization Initiative, which will bring USDA's county offices into the 21st century while reducing the burden on our customers. The Common Computing Environment is key to effectively modernizing the services we deliver to farmers, ranchers, and other customers of our Service Center agencies. This effort continues to be among the Department's highest information technology priorities.

Finally, by strengthening the overall management of USDA's IT resources through the development of an Enterprise Architecture, we will be well on our way to realizing the benefits envisioned in the Clinger-Cohen Act. We ask for your support for these initiatives, and look forward to working with you in the Congress to achieve these important objectives.

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#### PREPARED STATEMENT OF JAMES MICHAEL KELLY, ACTING GENERAL COUNSEL, OFFICE OF THE GENERAL COUNSEL

#### INTRODUCTION

Mr. Chairman and members of the Subcommittee, I am pleased to have this opportunity to provide you with an overview of our agency and to address some of the current activities and issues facing the Department.

#### MISSION

The Office of the General Counsel (OGC) is the law office for the Department. As an independent, central agency within the Department, OGC provides legal advice and services to the Secretary of Agriculture and other officials of the Department of Agriculture with respect to all USDA programs and activities.

#### ORGANIZATION

OGC's services are provided through 12 Divisions in Washington and 18 field locations. The headquarters for OGC is located in Washington, D.C. The Office is directed by a General Counsel, a Deputy General Counsel, a Director for Administration and Resource Management, and six Associate General Counsels. The attorneys located in headquarters are generally grouped in relation to the agency or agencies served. Our field structure consists of five regional offices, each headed by a Regional Attorney, and 13 branch offices. The field offices typically provide legal services to USDA officials in regional, State, or local offices.

## CURRENT ACTIVITIES AND ISSUES

## INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS

During fiscal year 2001, OGC provided and, in 2002 continues to provide, a significant amount of assistance with respect to commodity loan, producer income and production adjustment programs authorized by various statutes, including the Agricultural Adjustment Act of 1938, the Commodity Credit Corporation (CCC) Charter Act, the Food Security Act of 1985, and the Federal Agriculture Improvement and Reform Act of 1996. The assistance provided during the past fiscal year also extended to a number of ad hoc programs provided in several acts, primarily the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, 2001, and Public Law 107-25. This required extensive review of, and assistance in, drafting numerous regulations and program documents for these new programs which included assistance for producers of cottonseed, tobacco, dairy, oilseeds, peanuts, honey, wool and mohair, and livestock.

In addition, recent legislative efforts also produced extensive OGC involvement in rule-making and other program efforts related to: (1) a disaster program for producers of commodities affected by adverse weather conditions; (2) new provisions to implement the revision of the United States Warehouse Act; (3) the development of new programs to help encourage the production of wheat gluten and related products; (4) a Payment-in-Kind (PIK) diversion program to encourage farmers to divert acreage from sugar production in return for a payment from CCC from its supplies of excess sugar; (5) assistance to producers for losses of water in the Klamath Basin region; and (6) a potato diversion program. In addition, OGC attorneys continued to be involved in the handling of the Starlink corn crisis by assisting in the establishment of a program to purchase tainted seed corn in order to reduce the amount of Starlink corn in production in 2001. OGC also provided substantial assistance to the Foreign Agricultural Service (FAS) and the Farm Service Agency (FSA) with respect to legislative proposals to streamline and simplify commodity acquisitions for use in various foreign and domestic commodity programs.

With respect to FAS, OGC has been involved in the implementation of a number of major international trade and foreign assistance initiatives. During fiscal year 2001, OGC was involved in: (1) the current round of World Trade Organization (WTO) Agriculture Agreement negotiations; (2) negotiations to create a Free Trade Area of the Americas; and (3) providing assistance relating to the Codex Alimentarius Commission. OGC attorneys participated in various WTO activities including consultations, panel considerations, appeals, and arbitrations involving various trade disputes. These involved: (1) Korea's dual retail system for beef imports; (2) Chile's price band system and safeguard measures relating to certain agricultural products; (3) ensuring the European Union's compliance with the WTO decision striking the ban on imports of meat produced with growth-promoting hormones; (4) Japanese phytosanitary issues; and (5) Canadian dairy export subsidies and access for U.S. products. OGC continues to be actively involved in other FAS program areas such as providing legal advice for the export credit, supplier credit, and facilities guarantee programs. OGC was extensively involved in negotiations on export credits and credit guarantees in agriculture that took place under the auspices of the Organization for Economic Cooperation and Development. In addition, OGC has been heavily involved in the interagency process relating to the liberalization of U.S. sanctions on trade in agricultural commodities and products. During the past year, OGC has also been involved in the implementation of a large number of foreign assistance agreements under which agricultural commodities are donated, including surplus agricultural commodities acquired by CCC. The implementation of these agreements involves extensive review of draft agreements, commodity procurement, ocean transportation issues, and cargo loss and damage claims. In the area of international food assistance, OGC reviewed and helped draft numerous agreements with private voluntary relief organizations, the World Food Program of the United Nations, and various foreign governments. This assistance included a combination of donations and concessional credit sales of grains, oilseeds, and other U.S. agricultural commodities. OGC also assisted the Department of Justice in pursuing admiralty claims for cargo loss and damage arising in connection with food aid shipments and defended the Department in a number of lawsuits brought by shipping companies that were challenging contracts for the ocean transport of the food aid. Fiscal year 2001 and 2002 activities also include implementation of the President's Global Food for Education Initiative under section 416(b) of the Agricultural Act of 1949 and consulting with Congressional committees on legislative changes to this activity and food aid authorities generally.

## FOOD AND NUTRITION DIVISION

With respect to USDA's domestic food assistance programs, OGC has been heavily involved in efforts related to the review of proposed legislation and the implementation and enforcement of new legislation aimed at welfare reform and other program improvements, as well as the ongoing program integrity and compliance initiatives. We expect the demand for legal services in connection with these activities to remain constant in fiscal year 2002 and 2003.

More specifically, during this past year, OGC attorneys worked closely with the Food and Nutrition Service (FNS) to provide legal review of major Food Stamp Program regulatory amendments to implement provisions of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) (as amended by the Omnibus Consolidated Rescissions and Appropriations Act of 1997), the Balanced Budget Act of 1997, the Agricultural Research, Extension, and Education Reform Act of 1998 and the Agriculture Risk Protection Act of 2000. Extensive legal assistance was also provided with respect to implementation of a provision of the William F. Goodling Child Nutrition Reauthorization Act of 1998 which provides Child and Adult Care Food Program (CACFP) benefits to a new group of eligible participants (i.e., at risk youth in after school programs). OGC also played a significant role in drafting legislation to clarify the Secretary's authority to make grants and provide statutory waivers for demonstration projects designed to improve the delivery of nutrition benefits in the Food Stamp Program.

In fiscal year 2001, OGC provided legal assistance in the development and review of proposed Farm Bill legislation which would: provide for transitional food stamp benefits for families moving off the welfare programs for up to 6 months following the cessation of a household's cash assistance payments under the Department of Health and Human Services' Temporary Assistance to Needy Families program; continue the supply of commodities to the Emergency Food Assistance Program and expand the use of accompanying administrative funds to cover storage of commodities prior to distribution by State and local authorities; establish the Hunger Fellowship Program designed to develop and encourage talented individuals to initiate and administer solutions to the hunger problem nationally and internationally; exclude from the household income calculation in the Food Stamp Program the housing allowances provided to troops and their families living in private housing provided by the military on or near military bases; extend the Senior Farmers' Market Nutrition Program; and provide free fresh fruits and vegetables for consumption outside regular school meal service periods by students at elementary schools through a pilot program in a number of localities. OGC also reviewed proposed legislation to amend the PRWORA to provide Food Stamp benefits for qualified alien children. The proposed legislation would also amend PRWORA to provide that working immigrant families qualify for Food Stamp benefits after working sixteen qualifying quarters as opposed to forty qualifying quarters of coverage (as defined under title II of the Social Security Act), as currently required by PRWORA.

During fiscal year 2001, OGC assisted in the defense of several legal challenges to the domestic food assistance programs. Among other issues, Litigation was brought regarding State implementation of certain welfare reform provisions initiated by PRWORA. The challenge concerned the Secretary's interpretation of provisions in PRWORA affecting the Food Stamp Program eligibility of Micronesians living in the United States. Other challenges were brought concerning: the manner in which an FNS administrative review was conducted in a matter involving a determination of serious deficiency of a sponsor in the CACFP based on an audit done by Office of Inspector General (OIG); USDA's discretion in permitting flexibility in the implementation by State food stamp agencies of the provisions of a final rule; settlement negotiations of a class action lawsuit involving State Agency referral of Food Stamp Program recipient claims for collection through the Treasury Offset Program of the U.S. Department of the Treasury; and, again with respect to the CACFP, OGC has been working with counsel for several States in pursuing Federal and State administrative claims arising from audits performed by OIG. Finally, OGC provided significant legal assistance in seeking judicial recognition of the credibility and weight of evidence derived solely from data generated through the Food Stamp Program electronic benefit transfer system in cases involving the withdrawal of the authorization of retail food stores to accept and redeem food stamps.

With respect to program regulations, OGC reviewed a substantial final rule implementing the Non-Citizen Eligibility and Certification Provisions of PRWORA, which involved numerous significant modifications in the Administration of the Food Stamp Program. OGC also provided significant legal advice regarding two rules changing the National School Lunch and School Breakfast Programs to address foods of minimal nutritional value and to require participating schools to identify

blended beef, pork, poultry and seafood products. Substantial legal guidance was also provided in connection with the rule providing for the treatment of food delivery systems under the WIC program.

OGC frequently assisted in furthering the program integrity objectives of the nutrition assistance programs. The Office worked closely with Department officials engaged in evaluating and sanctioning States for their performance in administering the Food Stamp Program under that Program's quality control system.

OGC also provided formal and informal advice on a number of issues affecting the efficient Administration of the food assistance programs. The Office provided counsel regarding the legal issues affecting the consideration of demonstration project proposals to privatize certification functions in the Food Stamp Program. OGC also provided legal advice on the limitations applicable to the waiver of single State agency requirements as authorized under the Intergovernmental Cooperation Act of 1970. Finally, OGC worked diligently in providing legal advice to assist in the efforts resulting in emergency food assistance for victims of the September 11 terrorist attacks in New York.

#### REGULATORY AND MARKETING PROGRAMS

The Department's food safety programs and responsibilities are exceptionally important to American agriculture and to American consumers. OGC attorneys are committed to providing the most effective and comprehensive legal assistance possible to these critical programs. We will continue to work closely with the Food Safety and Inspection Service as it addresses an array of important issues over the next few years.

We will provide the strongest possible support to the agency, in light of the court ruling in the Supreme Beef litigation, to ensure that meat, poultry, and egg product safety are not adversely affected by that decision. OGC participates fully in the agency's continuing work to enhance the implementation of the Hazard Analysis and Critical Control Points (HACCP)/Pathogen reduction regulations and on the HACCP-based inspection models project (HIMP) which is testing new inspection models that the agency believes will lead to more effective inspection, improved food safety, and better use of agency resources. We have worked closely with the Department of Justice over the last year to defend the HACCP regulations and FSIS' statutory authority to use the HIMP project's inspection models in a lawsuit brought by the American Federation of Government Employees, the Community Nutrition Institute, and several FSIS meat inspectors. The validity of the revised HIMP project was approved by the Federal district court and the case was appealed for a second time by the plaintiffs. The matter case was argued in January 2002, and we are awaiting the court of appeals decision.

OGC also provides comprehensive legal support to FSIS' rulemaking activities. Our attorneys work with FSIS staff from the earliest stages of these agency policy development activities, serving on an array of agency working groups and regulation development teams, involved with such projects as the BSE Risk Assessment Working Group, the inspection of imported exotic species, an egg products inspection task force, and a performance standards working group. We have also assisted in the development and preparation of the agency's many rulemakings that have included, over the last year, proposed requirements for Listeria control, procedures for notification of new technologies, the revision of chilling time and temperature requirements for ready-to-cook poultry, and establishment of mandatory inspection of ratites and squab.

We also devote considerable resources to the agency's field operations activities and to FSIS' compliance and enforcement programs. We have worked with the agency in its continuing efforts to improve its recall assessment procedures, to enable the sharing of recall information with State and other Federal agencies, and to improve the use of epidemiological evidence in recall situations. OGC attorneys also partner very effectively with agency officials, with the Office of the Inspector General, and with the Department of Justice to ensure the prompt and successful prosecution of criminal, civil, and administrative cases involving violations of the meat, poultry, and egg products inspection laws and to prevent the distribution of adulterated, misbranded, or uninspected products.

Safeguarding the animal and plant health of the United States is a matter of paramount importance to the Department. OGC has partnered effectively with the Animal and Plant Health Inspection Service (APHIS) for many years in carrying out these program responsibilities and will continue to do so in the future. APHIS' responsibilities have become vastly more complex, requiring not just effective safeguarding measures to prevent the introduction and dissemination of animal diseases and plant pests, but programs to ensure the safe and smooth entry of people and



goods into the United States, and the facilitation of agricultural trade in compliance with our international obligations. Similarly, OGC's responsibilities and the demands for timely and effective legal support of APHIS inspection and regulatory activities have increased as well. A new Plant Protection Act was passed in June 2000. We have worked closely with APHIS on the implementation of the new law. In addition, we have been extensively involved in APHIS' response to the safeguarding review of its Plant Protection and Quarantine activities conducted by the National Plant Board, and will be required to dedicate significant resources to APHIS as it considers and implements improvements based on a similar review of its animal health and disease prevention programs.

We have an exceptional relationship with APHIS program officials and with their regulation development staff, and we have worked very closely with them in connection with an array of voluntary cooperative programs and rulemaking activities that included rules for the regulation of sheep and goats for scrapie, rules dealing with bovine tuberculosis, pseudorabies in swine, and with respect to plant health issues, regulations for plum pox, oak mortality syndrome, citrus canker, Karnal bunt, noxious weeds, and the glassy winged sharpshooter. In connection with the facilitation of international trade, our attorneys provided effective support for APHIS activities related to the development of rules that will allow agricultural commodities to enter U.S. markets while ensuring that America's agricultural resources are not impaired and that plant and animal health in the U.S. are not comprised. These regulations have covered requirements for an array of commodities ranging from fruits and vegetables to animals and animal products. They include the regulation of animals and animal products designed to enhance the barriers to bovine spongiform encephalopathy (BSE) or Mad Cow Disease, and to prevent the introduction of foot-and-mouth disease.

We also dedicated substantial resources to defending APHIS program activities and regulations in the Federal courts, including a challenge to the Department's authority to order disposal of sheep in Vermont which were diagnosed with a transmissible spongiform encephalopathy (TSE), and challenges by domestic producer groups to APHIS regulations allowing the importation of citrus from Argentina and avocados from Mexico. We also handle a broad caseload of administrative cases on behalf of APHIS to enforce its regulations. These cases have included prosecutions for violations of the standards for accredited veterinarians, the illegal importation of plant and animal products, violations of the regulations governing the interstate movement of various plants, animals and plant and animal products, and the falsification of phytosanitary certificates.

During fiscal year 2002, OGC anticipates expending substantial resources in connection with the Horse Protection Act program. OGC attorneys serve as agency counsel in administrative enforcement actions brought under this statute. In fiscal year 2001, OGC initiated 30 enforcement cases, and we expect to initiate approximately the same number of cases in 2002. OGC will also continue to provide assistance and counsel to APHIS in connection with the training of Veterinary Medical Officers and in connection with issues relating to APHIS' multi-year Operating Plan for the horse show industry.

OGC provided significant legal services to APHIS in connection with enforcement of the Animal Welfare Act (AWA). In fiscal year 2001, OGC initiated 57 administrative enforcement cases and we expect fiscal year 2002 referrals to remain at or exceed that level. We also provided assistance to APHIS in a number of rulemaking dockets concerning marine mammals held in captivity, confiscation of suffering animals, licensing requirements for applicants, and guidelines for handling dangerous animals. OGC attorneys also provided training to APHIS personnel in connection with the AWA program.

In the past year, OGC has provided extensive legal services to the Agricultural Marketing Service (AMS) in various matters and will continue to work closely with AMS in the year ahead. OGC continues to provide assistance in rulemaking and related litigation involving Class III and IV milk pricing. A recommended decision was issued in November 2001 and it is anticipated that a final rule will be issued in early 2002. OGC also assisted AMS in several regional hearings to review pooling standards in milk orders and these will continue in fiscal year 2002.

OGC has been heavily involved with research and promotion program issues. As a result of the Supreme Court's decision in *United States v. United Foods, Inc.*, which held that the imposition of mandatory assessments upon handlers of fresh mushrooms to fund generic mushroom advertising violated the First Amendment because it required handlers to subsidize commercial speech with which they disagreed, a proliferation of litigation has occurred involving challenges to other programs. Administrative challenges to milk, watermelon and honey research and promotion programs are currently pending. In addition, two cases challenging the beef

promotion program, and one challenging the pork promotion program, are pending in the U.S. District Courts, and three others, filed by beef importers, are pending in the U.S. Court of International Trade. There is also an administrative challenge to the advertising program conducted under the California tree fruit marketing order. In addition to the litigation involving the constitutionality of these programs, OGC worked closely with the Agricultural Marketing Service in connection with development and publication of proposals for new programs for avocados and lamb.

OGC continues to assist AMS in connection with the implementation of the Organic Standards program. The final rule became effective February 20, 2000, and the program will be fully implemented October 21, 2002. During this implementation period, OGC has provided and will continue to provide legal advice and assistance on numerous issues such as peer review panel procedures, treatment of non-covered agricultural products, the provision of reasonable security, and equivalency issues. In addition, AMS will need to conduct rulemakings in connection with a number of issues which were not covered in the previous rulemaking, and OGC will provide assistance in connection with them.

In the Trade Practices area, we provide legal services under the Packers and Stockyards Act (P&S Act), the Perishable Agricultural Commodities Act (PACA), and the Capper-Volstead Act and provide the liaison for the Department under the Memorandum of Understanding between the Department, the Federal Trade Commission and the Department of Justice on competition issues. Under the P&SA, the attorneys of the Trade Practices Division file administrative complaints to enforce the provisions of the statute, requiring prompt payment for livestock and poultry and ensuring that livestock auction markets and dealers are solvent, provide accurate weights and measures, and account accurately to sellers and producers of livestock. Of special note this year under the P&S Act, we litigated two enforcement cases against large packers alleging violations of the Act. Section 202 of the Packers and Stockyards Act makes it unlawful for any packer to engage in any unfair, unjustly discriminatory or deceptive practice. Our complaint against Excel Corporation alleges that the packer engaged in an unfair or deceptive practice when it changed the formula by which it calculated lean percent in slaughter hogs, a calculation that directly affected the price the packer paid to producers, without telling producers of the change. As a result of the change, the packer paid lower prices to producers for 80 percent of the hogs it purchased. A decision in the case was handed down on February 7, 2002 in which the Administrative Law Judge found that Excel had violated the P&S Act and the regulations and issued a cease and desist order but did not assess a civil penalty. The Department plans to appeal this decision to the Judicial Officer. In the second case against a large packer, the complaint alleged that Farmland National Beef Packing Company, L.P. (Farmland) subjected a feedlot to an unreasonable prejudice or disadvantage by retaliating, changing its buying practices (and failing to buy at all), after the feedlot manager criticized the packer in a letter to a farm journal. The Farmland case settled for a payment by Farmland of \$90,000.

As a result of a fiscal year 2000 GAO report recommending changes in P&SP's investigation procedures in competition cases, OGC has agreed to work closely with P&SP on the process by which its investigations are planned and implemented and to assign attorneys to work with agency investigators in the initial stages of case development and investigation. Congress provided additional resources to OGC for the staffing necessary to provide these additional legal services. OGC hired three additional attorneys and has begun to participate in the early stages of P&SP's competition case investigations, assisting P&S with the review of its competition investigation work plans, traveling to the field offices to meet with investigation teams and providing whatever legal services are necessary as the investigation proceeds.

OGC has provided significant legal resources to the PACA program this year, with an especial emphasis on cases arising out of Operation Forbidden Fruit, the investigation and indictment of a number of Federal inspectors and produce wholesalers for altering inspection documents as a result of bribes. The attorneys of the Trade Practices Division file administrative complaints against dealers, brokers or commission merchants who must be licensed to buy and sell fruits and vegetables in interstate or foreign commerce. The administrative complaints enforce the provisions of the Perishable Agricultural Commodities Act (PACA) which requires prompt payment, accurate accounting and compliance with contractual obligations. The PACA includes not only a disciplinary program involving suspension or revocation of license or civil penalties for violation of the Act, but also a reparation program. The basis of the reparation program rests upon section 5(a) which makes a violator of any part of section 2 liable to the injured party for the full amount of damages caused by the violation. This liability may be enforced by suit in any court of competent jurisdiction, or by complaint to the Secretary. A complaint to the Secretary

initiates a reparation proceeding in which both parties have opportunity to make an evidentiary record, and have their dispute determined by officials of this Department.

In connection with the Hunts Point "Operation Forbidden Fruit" convictions, approximately 800 reparation complaints were filed in which the complainants allege that they have been defrauded as a result of bribes paid by Hunts Point firms to Federal inspectors to issue inspection certificates falsely showing poor quality produce. The Hunts Point firms typically used these certificates to negotiate downward price adjustments with their suppliers. Usually, the suppliers would then innocently negotiate similar adjustments with their suppliers all the way back to the producers. Approximately 100 complaints are still pending, and many of the complaints are against innocent intermediate firms. The reparation hearings are presided over by attorneys of the Trade Practices Division and all decisions, whether based on documentary proceedings or after hearing, are reviewed and approved by Trade Practices Division attorneys. Also in connection with "Operation Forbidden Fruit" this year the Division filed disciplinary cases against the first of several produce firms whose employees made payments to Federal inspectors. The complaint alleges that the firm (which is responsible for the acts of its employee) made payments and false statements about the condition of the produce it received in the altered inspection certificates and those statements constitute false or misleading statements for a fraudulent purpose in violation of the PACA. The complaint seeks to revoke the PACA licenses of the company.

Attorneys in the Trade Practices Division continue to act as liaison to the DOJ and the Federal Trade Commission on competition issues, pursuant to the Memorandum of Understanding between the three agencies. OGC expedites the provision of data or expertise to the DOJ on agricultural issues as DOJ or the FTC investigates firms or reviews mergers or acquisitions of agricultural businesses. OGC is also working closely with the FTC and DOJ in their participation in the training of investigators and economists of the Packers and Stockyards Programs in investigative techniques and case preparation as recommended by the September GAO report on P&SP's investigation of competition cases.

#### RURAL DEVELOPMENT

OGC also provides legal services to USDA agencies which manage some of America's largest loan portfolios. OGC continues to be heavily involved in debt collection, housing and farm foreclosures with many farm debts going back to the emergency loan program of the 1980's, and civil rights matters affecting the Farm Service Agency's (FSA) farm loan programs. OGC is assisting the Department of Justice in defending several putative multi-million dollar class actions for damages brought by former Mexican agricultural and railroad workers seeking refunds of their savings fund for work from 1942 through 1964. We continue to provide assistance to FSA and the Rural Development mission area in implementing the Debt Collection Improvement Act of 1996, specifically involving credit reporting, electronic transfer of funds, offset, and cross-servicing. OGC continues to defend several lawsuits involving hundreds of Rural Housing Service (RHS) multifamily housing projects whose owners want to prepay their loans and thereby remove a significant number of low income housing units from rural America.

OGC continues to work with the Rural Business-Cooperative Service (RBS) in reviewing their cooperative agreements and in improving their cooperative agreement process. During the past, year we assisted RBS in establishing their new Value Added Development Grant program and will continue to assist them in further implementing this program. We are working to resolve an increasing number of major defaults on Business and Industry loans. We also continue to work with the RHS in implementing the grant program for agriculture and seafood processor workers authorized under Public Law No. 106-387.

Also in the Rural Development area, OGC successfully assisted concluded assistance to RHS, in conjunction with the Department of Housing and Urban Development and the Department of Veterans Affairs, to streamline the housing loan application process for Native American borrowers on Indian reservations. OGC expects to continue to work closely with RHS to overcome obstacles to single family housing loans on Indian reservations.

Implementation of the Agriculture Risk Protection Act of 2000 has increased the responsibilities of the Risk Management Agency (RMA). Compliance efforts have been enhanced requiring extensive legal service to develop administrative cases against producers, agents, loss adjusters, and reinsured companies. Millions of dollars are now available for contracting and reimbursement for research and development and risk management education, all of which will require a significant time

for legal review. RMA continues to implement new risk management programs developed by the private industry to expand the number of producers covered under that safety net, which will also require a significant time for legal review as such products go through the Board of Director approval process.

We continue to work with Department officials to reduce regulatory burdens, eliminate obsolete and unnecessary regulatory requirements, and streamline regulations, particularly in the areas of rural, farm and utility lending. For example, OGC has worked extensively with FSA over the past year to rewrite all of their farm loan programs loan-making and servicing regulations to reduce regulatory burdens where possible and to clearly state agency policy. We are assisting RHS in streamlining and rewriting loan-making and servicing regulations for their single and multiple family housing loan programs, their Community Facilities loan program and their environmental regulations affecting these programs. Our efforts on these long-range projects will continue into fiscal year 2003.

The need for legal services in connection with programs of the Rural Utilities Service (RUS) grew significantly during fiscal year 2001 as a result of an increase in the funding in all major program areas, the implementation of a number of fundamentally new RUS financial assistance programs, and the impact of the continuing changes in the electric and telecommunications industries on program structure and policies.

The RUS electric program approved and OGC documented loans and guarantees totaling \$2.6 billion to 226 borrowers. The electric loans included 15 loan guarantees totaling \$1.7 billion for generation and transmission (G&T) facilities, a \$700 million increase over the preceding year and the highest G&T loan level in more than 15 years. At the end of fiscal year 2001, there remained a backlog of some 20 G&T applications seeking \$4.0 billion in funding. The need for legal services is expected to grow over the next few years as the demand for power supply financing continues to increase. Because of the pressing need for new generation, a number of borrowers have sought to arrange for bridge financing pending action by RUS. Consequently, OGC assistance helped develop new security arrangements for bridge lenders. The power supply projects typically involve very complex corporate, financial and security structures negotiated on a case-by-case basis. For example, RUS is now funding special purpose entities under project financing arrangements. The transactions are very different from the historical model used in the RUS program and, consequently, legal documentation must be custom-crafted to fit each project. The projects are further complicated as RUS and borrowers addressed problems associated with deregulation, unbundling, customer choice, and the growing uncertainty and risk in the power supply market. OGC has provided considerable legal services to RUS in several projects involving financially troubled borrowers, including the restructuring of debt and security arrangements for a power supply borrower in a manner designed to enhance recovery of RUS loans, improve operations of the borrower in the increasingly competitive industry, and facilitate the construction of new power supply facilities.

OGC assisted the RUS electric program in the promulgation on a number of regulations. For example, OGC assisted in drafting substantial revisions to RUS regulations 7 CFR part 1755 which prescribes the forms of contracts to be used in RUS-financed construction. The revisions are designed to update and streamline RUS contract requirements and procedures. OGC also drafted a notice of funding availability (NOFA) and loan documents to implement RUS's new "T Rate" program and assisted in implementing a new loan and grant program to high energy rural communities.

The RUS telecommunications program and the Rural Telephone Bank (Bank) processed loans totaling \$675million for telecommunications infrastructure. In addition, OGC assisted in development of a number of new RUS telecommunication programs. These included a \$100 million broadband pilot loan program which required the drafting of a NOFA and the negotiation and drafting of loan documents on a case-by-case basis. OGC also drafted a NOFA and grant documents required to implement a new Weather Radio Grant program and provided legal services in connection with 87 grants and loans provided under the Distance Learning and Telemedicine Loan and Grant program. OGC assisted RUS and representatives of the Rural Telephone Bank on several legislative proposals to privatize the Bank and on issues associated with the privatization, the capital structure of the Bank and the rights of Bank stockholders.

#### NATURAL RESOURCES

In the natural resources area, the Natural Resources Division and OGC Field Offices have been involved in many significant undertakings concerning national forest

management and natural resources conservation programs. We also assisted three of our client agencies, the Forest Service, Natural Resources Conservation Service, and Agricultural Research Service daily in support of their program missions.

We have provided assistance to the Natural Resources Conservation Service (NRCS) in administering a number of conservation programs on private or other non-Federal farm, pasture and non-industrial forest lands, including the Wetland Conservation (Swampbuster) Program, Environmental Quality Incentives Program, Wetland Reserve Program, Farmland Protection Program, and the Emergency Watershed Protection Program.

OGC also continued to provide legal counsel to NRCS in the enforcement of the highly erodible land and wetland conservation compliance provisions of the Food Security Act of 1985. OGC assists NRCS in determinations for enforcement and for granting statutorily-authorized variances. OGC defended the agency in administrative appeals and lawsuits challenging the implementation of the conservation provision of the Food Security Act. Additionally, OGC continues to provide legal services in support of the Wetlands Reserve Program (WRP).

OGC assisted NRCS and the Forest Service in working with the Environmental Protection Agency (EPA) regulations promulgated under the Clean Water Act for total maximum daily loads of pollutants. The increasing concern and focus on water quality matters, particularly regarding non-point sources of pollution, have led to a continuing increase in the level of legal services to the Forest Service and the NRCS.

In the forest management program area, OGC provided litigation support to the Department of Justice in collecting millions of dollars in damages owed the government by defaulting timber sale purchasers. OGC provided assistance to the Department of Justice in on-going settlement negotiations of more than twenty consolidated cases concerning the collection of tens of millions of dollars in damages plus interest owed the government pursuant to Orders issued in two of the representative consolidated cases. OGC also assisted in limiting contractual damages payable by the client agency for environmentally protective actions. OGC provided legal assistance on the defense of approximately 35 lawsuits challenging timber sale suspensions, modifications and cancellations and alleging the right to takings compensation pursuant to the Fifth Amendment to the U.S. Constitution. OGC also led a negotiation team to resolve litigation and other issues involving the Shelton Sustained Yield Unit with a goal of limiting liability while also resolving long-term issues related to the existence of the Unit. Additionally, OGC provided legal assistance in drafting contract provisions to limit liability for contractual damages, and developed and presented a 3-day course on Advance Contract Law to train Forest Service personnel on various aspects of contract law as it relates to their daily program activities.

The timber sale program in Alaska continues to require significant legal services. Attorneys in both the Washington office and the Juneau field office are assisting with litigation claims of \$1.5 billion arising from denial of contract claims on the Alaska Pulp Corporation (APC) 50-year timber sale contract on the Tongass National Forest. APC's aggressive litigation stance required the commitment of significant OGC time and resources to defend against its claim and the related massive discovery effort.

OGC provided legal advice and assistance to the Forest Service regarding implementation of stewardship contract pilot projects aimed at harvesting timber while simultaneously advancing forest resource management objectives and presented information and materials to attorneys in the public sector during a training course sponsored by the American Law Institute of the American Bar Association. Under these stewardship contracts, timber is harvested and contractors provide services designed to achieve land management goals, including road and trail maintenance, watershed restoration and restoration of wildlife habitat. OGC also provided legal advice and assistance on the interpretation and implementation of a statute authorizing the collection and retention of fees associated with the harvest of special forest products.

OGC advised on planning issues related to forest plans currently undergoing revision and overdue plan revisions. Compliance with and review of Sierra Nevada framework, including the Herger-Feinstein Quincy Library Groups Forest Resources Act, also requires continuing OGC advice. OGC also provided, and will continue to provide, substantial assistance to the Department and the Forest Service related to revision and implementation of the land and resource management planning and roadless area conservation, and administrative appeal regulations and various transportation and roads initiatives. In addition, providing preventive law advice regarding the Endangered Species Act (ESA), the National Environmental Policy Act (NEPA), and the National Forest Management Act (NFMA), as well as other laws,

requires continued OGC attention. Of particular significance is assisting the Forest Service in dealing with new information and coordinating management decisions for wide-ranging fish and wildlife species, many of which are threatened or endangered. OGC continues to advise on interagency efforts, such as streamlining ESA and NEPA processes and the administrative appeal process, wildland fire management, and the application of the Migratory Bird Treaty Act. Approximately 120 cases are pending challenging Forest Service decisions on NEPA, NFMA and ESA grounds. The level of litigation is expected to continue or increase, especially with respect to fire prevention and restoration projects. OGC assistance is also provided for forest plan and project administrative appeals, hundreds of which are filed each year.

In real property matters, OGC provides extensive legal assistance to the Forest Service, the Natural Resources Conservation Service and the Agricultural Research Service. In fiscal year 2001, over \$150 million was appropriated to USDA agencies for the acquisition of lands and interests in lands. These land transactions involve considerable legal involvement in contracting, title work and closing. Additionally, legal counsel is provided for the entire spectrum of real estate matters related to the National Forest System (NFS) and other USDA administered lands including title claims, trespass, appraisal, survey, special use authorizations and similar issues.

OGC provides legal services regarding land title claims involving private parties, Indian tribes and pueblos, and State and local governments. These claims arise under treaties, Spanish land grants, and statutory grants by Congress. Several Indian land claims are in active settlement negotiations.

Additionally, OGC has provided an increasing amount of advice to the Forest Service in its activities related to hydro power projects, in part due to the approximately 200 relicensing proceedings before the Federal Energy Regulatory Commission (FERC) occurring in the next 10 years for projects located on NFS lands.

In the minerals area, OGC provided significant legal advice concerning constitutionally required procedures which the Forest Service must adopt to suspend or terminate instruments regulating the mining of metals on the tens of millions of acres of land administered by that agency which are subject to the United States mining laws. OGC also provided extensive assistance to the Department of Justice in successfully defending the first challenge to controversial Forest Service regulations classifying mineral materials according to their use. OGC also significantly assisted the Department of Justice in defending several lawsuits alleging that statutes or administrative actions of the Forest Service constituted takings of rights held by holders of mining claims and mineral leases.

In congressional matters, OGC provided extensive assistance in addressing numerous legal issues encountered during implementation of the Secure Rural Schools and Community Self-Determination Act of 2000, an act stabilizing payments to 40 States (and through them to 712 counties) by decoupling them from forest receipts. OGC also provided substantial legal assistance in responding to Congressional document requests, including a request from Chairman Lieberman relating to the Department's controversial roadless area conservation rule. OGC assisted the Forest Service Legislative Affairs staff in preparing for, and following up to, numerous Congressional hearings.

In the recreation area, OGC provided significant legal advice regarding the Forest Service's off-highway vehicle program, including the extent that the Forest Service may restrict the use of such vehicles based on environmental concerns by persons with disabilities consistent with civil rights law. OGC also continued to provide extensive assistance to the Department of Justice in successfully defending the Forest Service's noncommercial group use rule. Additionally, OGC analyzed the constitutionality of communications site land use fee waivers for Corporation for Public Broadcasting affiliates, but not for religious broadcasters; issues pertaining to Indian religious and cultural use of NFS lands; and methodologies for determining the fair market value of using NFS lands for outfitting and guiding. OGC also provided assistance to the Forest Service with ensuring that States and other non-Federal Governmental entities that hold lands and recreation special use permits insure and indemnify the United States under those permits.

In the international forestry area, OGC provided assistance in reviewing two non-binding wildfire arrangements, one between the U.S. Departments of Agriculture and the Interior, and the participating agencies of Australia, and the other between the U.S. Departments of Agriculture and the Interior and the National Rural Fire Authority of New Zealand. The arrangements outline the fire fighting assistance that each party to the arrangement may provide to another party to the arrangement.

OGC provided substantial assistance to the Department on issues relating to compliance with applicable pollution control laws. In particular, OGC assisted the

USDA Hazardous Materials Policy Council and the USDA Hazardous Materials Management Group in carrying out the hazardous materials management program. In addition, OGC provided assistance and advice to the Department and the Forest Service on the cleanup of hazardous materials sites on NFS lands and at other Agency facilities. OGC represented the Forest Service, along with the Department of Justice, in negotiations with non-Federal parties responsible for the cleanup of contamination on NFS lands. OGC also played a substantial role in advising the Department on compliance with applicable pollution control standards, including negotiating compliance agreements with the EPA and State environmental enforcement agencies. OGC also provided the Department with advice to protect the Department's interests regarding hazardous materials issues which arose in the context of land transfers and acquisitions. Finally, OGC provided significant legal services in connection with pollution control legislative proposals, including the Brownfields bill.

#### GENERAL LAW DIVISION

The General Law Division (GLD) provides legal services concerning those areas of law that apply generally to all agencies of the Federal Government. These services include, but are not limited to, the determination of claims filed under the Federal Tort Claims Act, personnel and labor matters, procurement, grants, fiscal law issues, and reviewing each year hundreds of Freedom of Information Act and Privacy Act appeals, each involving up to hundreds of pages of documents, in order to insure that the various agencies of the Department do not release or withhold documents inconsistent with applicable law. In addition, GLD attorneys assist the Department of Justice with any litigation that arises in these and other areas, and represent the Department before the USDA Board of Contract Appeals and the Merit Systems Protection Board.

Since the events of September 11, GLD has provided significant legal resources in connection with the development of new biosecurity policies and procedures for USDA biosafety level 3 (BSL 3) laboratories. In connection with the new biosecurity policies and procedures, GLD is providing advice regarding implementation of the policies and procedures by USDA agencies, as well as application of the policies and procedures to non-USDA staff. As the procedures are implemented, we anticipate that GLD attorneys will advise agencies regarding personnel suitability determinations made pursuant to the biosecurity policy. In addition, GLD anticipates that it will provide legal services relating to the development of new biosecurity policies and procedures for non-BSL 3 laboratories. As the Administration's efforts to assure homeland security accelerate, we anticipate that GLD will assist the Department in the implementation of the full range of USDA homeland security activities.

Over the past year, client agencies with continuing frequency have requested legal advice on the subjects of computer security, the Freedom to E-File Act, and the Government Paperwork Elimination Act. Replacing the traditional paper infrastructure and doing business principally with electronic processes generates legal issues. GLD has been called upon to assist in each stage of the constantly evolving technology as clients fashion methods of gathering, proving, and storing data electronically and in reducing the legal risks in "going paperless." In the post September 11, environment, more emphasis than ever is being placed on computer security, and we expect that increased legal resources will be devoted to that effort.

GLD attorneys anticipate working with the Office of Procurement and Property Management on implementation of the Integrated Acquisition System, a Department-wide web-based e-Procurement solution. For non-procurement programs, GLD continues to advise the Office of the Chief Financial Officer and the Cooperative State Research, Education, and Extension Service on e-Government issues as they arise. Such issues generally involve the binding nature of the use of electronic means in the solicitation, application, award, and Administration of Department financial assistance. GLD additionally advises on the authority and funding issues for Department-wide initiatives.

Related to these security issues, GLD advises contracting personnel of USDA agencies on construction contracts. For example, GLD is working with contracting personnel on the contract to design the renovation of agricultural research facilities at Ames, Iowa. Other recent examples are GLD's representation of the Agricultural Research Service in a bid protest before the General Accounting Office, and serving as agency counsel in a bid protest before the Court of Federal Claims regarding award of a contract to replace the power plant at the Plum Island facility in New York. GLD anticipates a substantial increase in the need for legal advice and representation on construction contract matters as the Department upgrades its facilities. GLD attorneys also have noticed increases in the need for legal services relat-

ing to the use of performance-based statements of work for services contracts, and respecting administrative bid protests of awards of permits by the Forest Service. Other significant procurement related issues looming on the horizon that will require GLD legal support include additional contracting out of activities currently being performed in-house and the replacement of the agencies' legacy information technology systems.

GLD continues to provide essential legal support for the Research, Education, and Economics agencies. The pending Farm Bill has and will require substantial legal support from GLD. GLD attorneys are working closely with the research agencies and various staff offices on this matter. GLD expects a surge in requests for legal opinions and assistance from research agencies and staff offices upon enactment of the new Farm Bill. GLD anticipates devoting significant resources to assist these agencies and offices in interpreting both new authorities and changes to existing authorities, and the many regulatory changes or new regulations necessary to implement them. GLD will also assist the research agencies with intellectual property issues attendant to bringing the benefits of scientific research to the public.

GLD continues to provide legal services to the National Appeals Division (NAD) regarding procedural issues and general administrative matters. For example, GLD recently advised NAD on the use of videoconferencing for its hearings.

#### LEGISLATION DIVISION

OGC continues to provide legislative drafting and related assistance to the Department and Congress on major legislative activities that involve the Department and its programs. Extensive assistance was provided to Departmental policy officials and Congressional staffs in drafting and analyzing various legislative proposals recently enacted by Congress, including legislation to provide emergency funding to farmers (Public Law 107-25) and appropriations provisions contained in the Agriculture, Rural Development, Food and Drug Administration and Related Agencies Appropriations Act, 2002 (Public Law 107-76). In addition, we continue to provide drafting assistance to agencies of the Department and Congressional staffs regarding the Farm Bill currently before Congress, including regarding H.R. 2646, the Farm Security Act of 2001, and S. 1731, the Agriculture, Conservation, and Rural Enhancement Act of 2002. In addition, we are planning to participate in the preparation of legislation in support of the President's fiscal year 2003 budget request for the Department.

#### LITIGATION DIVISION

Litigation Division attorneys, in cooperation with attorneys from the DOJ and other divisions in OGC, presented USDA's position in appellate courts. These efforts led to a U.S. Supreme Court decision rejecting the argument that governmental authorities licensing expressive activity on public property, including the Forest Service, should have the burden of seeking judicial review and carry the burden of proof whenever denying a permit to engage in such activity. In another case, the Supreme Court declined to review a decision by the Court of Appeals for the District of Columbia Circuit, which upheld the Secretary's revocation of a license issued under the Perishable Agricultural Commodities Act after the licensee engaged in commercial bribery. The Supreme Court also decided that the Plant Variety Protection Act did not prevent a plant breeder from receiving a utility patent under the Patent Act for plants which reproduce by seed. The Fifth Circuit concluded that USDA veterinarians could not rely solely on palpation to support a finding that a horse is sore under the Horse Protection Act. The Ninth Circuit prevented the government from pursuing an enforcement action to collect over \$1 million of assessments under the almond marketing order, on the grounds that an almond handler distributed its assets to its shareholders following the sale of the business. The Fifth Circuit affirmed a decision by the Secretary that the failure to install fencing around a facility holding tigers violated the Animal Welfare Act. Finally, the Supreme Court has agreed to hear a case that raises a question whether a breach of contract or a takings claim arise when a statute is enacted that alters a contractual right to prepay a government mortgage loan.

#### CIVIL RIGHTS

The Secretary wants to ensure that all of our customers and employees are treated with dignity and respect, and are afforded equal employment opportunity (EEO) and equal access to all USDA programs. Critical to the achievement of these goals was the creation, in 1998, of the Civil Rights Division (CRD) within OGC. Staffed with attorneys with specialized expertise in civil rights and EEO law, CRD is



charged with providing legal services to the Secretary and all agencies of the Department on civil rights and EEO issues.

CRD has maintained a stellar litigation record while also providing prompt and sound legal advice to our client agencies. However, as recognition of CRD's successful efforts spreads, the demands on the office increase. CRD's litigation duties currently include 6 program class actions and 16 employment class actions, each at different stages in the litigation process. The requested damages in these class actions could cost USDA upwards of \$20.0 billion.

CRD continues to play a critical role in the settlement of the Pigford/Brewington litigation. The settlement helped the Department to reinvigorate its efforts to become a Federal civil rights leader in the 21st century. CRD has taken the leading role in ensuring that USDA meets its commitments under the Pigford/Brewington consent decree, particularly with respect to the production of relevant documents and necessary legal analyses related to each claim filed pursuant to the consent decree, as well as ensuring the Department's compliance with adjudicator and arbitrator decisions. CRD is working with FSA and the Department of Justice (DOJ) to develop timely and appropriate Government responses to claims filed by eligible farmers.

Key to settlement of the Pigford/Brewington case was the 1998 enactment of the waiver of various statutes of limitations, allowing farmers with long-standing discrimination complaints to have their claims finally heard. CRD and OGC field offices represent the Department in the nearly 100 cases in which a hearing has been requested. The number of requests for hearing is anticipated to increase to between 150 and 200. With respect to farmer discrimination claims not covered by the Pigford/Brewington settlement, CRD works with the USDA Office of Civil Rights (CR) to ensure that all claims receive expeditious and fair consideration, within the bounds set by applicable law.

With respect to the ongoing implementation of the Pigford consent decree, the claimants may opt to seek relief under one of two available avenues: The Track A procedure provides for submission of a written claim to the adjudicator with predetermined damages of \$50,000 per prevailing claimant, whereas the Track B procedure allows for an evidentiary hearing before an arbitrator and the opportunity to receive actual damages. The total number of claims submitted exceed 72,000, and of those, over 21,000 claims have been found eligible for Track A consideration. We anticipate that a few hundred additional late-filed Track A claims will be accepted. CRD attorneys must review the agency response on each of these eligible Track A claims prior to submission to the adjudicator. In addition, nearly 180 claims have been found eligible for Track B arbitrations. CRD attorneys must assist DOJ attorneys in their representation of the agency, including assistance with document discovery, identification of similarly situated white farmers, and responses to interrogatories. Furthermore, CRD plays an important role in the Monitor review process. All claimants can petition the Monitor to reevaluate their claims, and CRD reviews Department responses to these petitions for legal sufficiency and consistency. We anticipate that most of the roughly 8,400 claimants whose claims were denied by the adjudicator may seek Monitor review. Many claimants who were granted relief by the adjudicator seek Monitor review of the scope of the relief granted. In addition, for cases in which the Government seeks Monitor review of an adjudicator decision, CRD will prepare the Government's petition for Monitor review. The Department has already filed over 600 petitions and will continue to do so when warranted.

CRD also assists DOJ in representing USDA in the defense of five more recent class action program complaints currently pending in Federal district court. Four of these class actions are brought by farmers and raise allegations similar to those found in Pigford/Brewington. Only one of these cases has been certified as a class action to date: in *Keepseagle*, the Federal district court has certified a class of Native American farmers and ranchers who allege discrimination in the Administration of farm programs and failure of the Department to adequately address complaints of discrimination. In the Fifth Amended Complaint filed in *Keepseagle*, 838 named plaintiffs joined in the suit. The class agents have represented to the Court that as many as 19,000 Native Americans may be members of the class.

The remaining three class action cases filed by groups of farmers are: *Love*, filed on behalf of female farmers; *Garcia*, filed on behalf of Hispanic farmers; and *Wise*, filed on behalf of African-American and female family farmers. In *Love*, the court has dismissed all claims other than those brought under the Equal Credit Opportunity Act. Motions regarding the propriety of class certification are pending in both *Love* and *Garcia*. The *Wise* case, which overlaps with both Pigford/Brewington and *Love*, has been stayed temporarily by the court. As these cases move forward, CRD's

role in assisting DOJ with discovery and potential management of class issues will expand.

The sixth program class action is the Chiang case, in which female residents of the Virgin Islands are alleging denial of access to rural housing credits and benefits on the basis of race, gender and national origin. USDA's motion to dismiss the case has been denied, and the parties have been directed to submit briefs on the issue of class certification. This case is anticipated to require a significant commitment of resources by CRD in the development of factual and legal issues relating to rural housing programs in the Virgin Islands over a nearly 20 year period.

CRD also represents USDA in the defense of fourteen class action employment complaints pending before the Equal Employment Opportunity Commission (EEOC). Three of these complaints have been certified by EEOC to proceed as class actions. One of the certified classes encompasses employees throughout the Department. In addition, CRD is representing USDA in the defense of two class action employment complaints currently on appeal before EEOC's Office of Federal Operations. In one of the complaints on appeal, certification of the class was denied; in the second, the EEOC entered a finding of no class-wide discrimination following a hearing on the merits. In recent years, CRD has settled two employment class action complaints under which individual complainants are currently pursuing their claims. Another class action is near settlement and thus is anticipated to require future monitoring and implementation efforts by CRD.

Recent years have seen a drastic increase in the demand for CRD's litigation services in formal individual complaints filed by USDA employees with the EEOC. For example, 796 formal complaints were filed with USDA during fiscal year 2001, with 578 complaints currently pending for hearing before the EEOC Administrative Judge. Approximately 1900 active EEO cases are pending throughout USDA. CRD continues to carry a full workload of complex and politically sensitive individual EEO cases involving either issues of first impression or disputes over positions at the highest levels within USDA. CRD litigates these cases on behalf of the Department before the EEOC and occasionally, the Merit Systems Protection Board (MSPB). These individual cases require constant attention, travel across the country, and interaction with senior management officials.

In addition to its primary litigation responsibilities, CRD continues to assist DOJ in the litigation of numerous individual civil rights cases in both the employment and program areas pending in Federal district court. The Assistant U.S. Attorneys (AUSAs) and/or DOJ attorneys who serve as lead counsel request an ever-increasing amount of litigation support from CRD, including draft answers, full litigation reports, dispositive motions, discovery responses, witness preparation, and deposition and trial participation.

To address other employment issues, CRD will intensify its efforts to provide training and technical assistance to OGC field attorneys and to Department officials, civil rights directors, and employee relations specialists. The goal is to identify and address EEO obstacles before they elevate into litigation. Where issues are identified, CRD will bring the concerns to the attention of appropriate Department officials, with legal analysis and recommendations for resolution.

#### FISCAL YEAR 2003 BUDGET REQUEST

For fiscal year 2003, the budget proposes a total of \$39,841,000 for OGC salaries and expenses, an increase of \$7,214,00 from the amount enacted in fiscal year 2002, excluding supplementals. Within this fiscal year 2003 request, there is a total of \$1,693,000 to cover the rental costs previously paid from a central account within USDA in accordance with the Administration's proposal to budget for the full costs of the programs and \$2,308,000 for Retirement/Health Pension Benefits. The Explanatory Notes provided to the Committee provide information on the comparable levels for these items in fiscal year 2001 and 2002.

OGC is also requesting \$3,213,000 over the adjusted base for fiscal year 2002, consisting of \$1,002,000 for pay costs, \$722,000 to maintain current staffing levels, \$811,000 for additional legal staff, \$426,000 for office automation, \$246,000 for Employee Pension and Annuitant Health Benefits, and \$6,000 for the Federal Employment Compensation Act program.

#### CLOSING

That concludes my statement. We very much appreciate the support this Subcommittee has given us in the past. Thank You.

PREPARED STATEMENT OF LOU GALLEGOS, ASSISTANT SECRETARY FOR  
ADMINISTRATION, DEPARTMENTAL ADMINISTRATION

Mr. Chairman and members of the Subcommittee, I want to thank you for the opportunity to submit this statement supporting the President's budget proposal for fiscal year 2003 for USDA Departmental Administration.

As you are aware, Departmental Administration (DA) takes in a wide range of activities and responsibilities. Our mission is to provide leadership in administrative areas and to provide those services that make the programs of the Department work better. Today, I want to report to you on some of our activities over the last year and highlight the budget request for next year.

The budget request reflects the tragic events of last September. We are requesting additional resources to ensure the safety and security of USDA facilities and programs. The Budget also shows our strong commitment to improving the civil rights record of our programs and employment.

CIVIL RIGHTS

The Office of Civil Rights (CR), in accordance with the Secretary of Agriculture's civil rights policy statement, provides overall leadership and direction to USDA agencies to ensure enforcement and compliance with civil rights laws, rules and regulations in employment and program delivery. In October 2000, CR completed a comprehensive analysis of CR systems, processes, procedures, staffing needs, level of knowledge, skills and abilities, automation needs, and administrative support, called the Long Term Improvement Plan (LTIP). We are currently working toward the full implementation of the LTIP, which will enable CR to process complaints within the required statutory timeframe.

CR has made major strides in implementing process and accountability improvements. All significant proposed regulations are reviewed for civil rights impact and compliance with applicable statutes and regulations. Last year, 100,000 USDA employees received civil rights training, and senior managers and supervisors were required to attend a 1-day diversity training seminar to enhance their ability to understand diversity, to better manage diversity, and to identify the importance of diversity in making USDA a high performance agency.

The average processing time for program civil rights complaints was reduced by 14 percent in fiscal year 2001. Although processing time for employment complaints increased by 7 percent during the same period, this was due to the fact that many older cases were completed during the year. Reports of investigations issued in fiscal year 2001 more than doubled over the fiscal year 2000 level. Improved case tracking systems are being put in place and management controls have been tightened throughout the process.

The fiscal year 2003 Budget requests an additional \$2 million which will allow CR to increase its employment by 17 staff years. The additional staff will enable CR to take significant steps toward its goal of processing civil rights complaints within the required statutory timeframe. It will also permit the Department to address some of the conditions which cause complaints and to address the deficiencies noted in the audit reports of the USDA Inspector General.

OUTREACH

Last year, 47 proposals competed for The Outreach for Socially Disadvantaged Farmers grants ("2501" Program) that provide training and technical assistance to underserved groups of farmers and ranchers. There were 28 successful grantees that collectively received almost \$6 million in funding, of which \$3 million was provided by the Fund for Rural America. For fiscal year 2003, The President's Budget continues the fiscal year 2002 appropriated level of \$3.2 million for the grant program.

During fiscal year 2002, the Office of Outreach's priority is to identify a collective method for USDA Agencies to measure and report minority participation in USDA programs. This year our office has developed a database for capturing information electronically that is submitted with the grantee's quarterly report. In 1 year, we have gone from paper reporting to collecting information by disk or by e-mail. At the end of fiscal year 2002, our office will be able to collect and analyze data for reporting and for program evaluation. Outreach plans and census data will also be used to identify and remove barriers so that underserved groups will be equally represented in USDA programs.

SMALL AND DISADVANTAGED BUSINESS UTILIZATION

During fiscal year 2001, the Office of Small and Disadvantaged Business Utilization (OSDBU), in concert with Southwest Texas State University, completed a com-

prehensive survey of Hispanic small businesses on a nationwide basis. The survey resulted in the identification of numerous barriers that hinder Hispanic small businesses from successfully participating in USDA's contracting activities. USDA's OSDBU will use this data to help direct more effective USDA-sponsored technical assistance to this under-represented group.

Also during fiscal year 2001, OSDBU developed and implemented a Web-based registration process for its Vendor Outreach Program. The Program provides the small business community with the opportunity to meet with USDA agency small business coordinators and contracting officials to discuss their capabilities and learn of potential procurement opportunities. The automation of the registration process has increased OSDBU's effectiveness in communicating with small business and USDA participants. It has also reduced the overall cost of managing the program through more reliable and accurate data and increased program efficiency. During fiscal year 2002, OSDBU began the development of a Web-based electronic procurement forecast system which is designed to reduce the labor necessary to collect and assemble USDA's annual procurement forecast. Once implemented, the system will result in a decrease in errors, making data more reliable and useful, and will provide USDA customers with quick and easy electronic access to the data.

During fiscal year 2002, OSDBU will conduct two Outreach/Technical Assistance Conferences. The first such conference will provide policies and procedures for Federally recognized American Indian tribes to participate in OSDBU's Bringing Rural America Venture Opportunities (BRAVO) program. BRAVO is a business development program designed to assist Tribal entities (Indian Nations) in establishing small start-up companies. The initiative will result in increased use of American Indian and Alaskan Native-owned business by USDA and increased employment on Indian lands.

The second conference targets women-owned small businesses located in rural America. The conference will provide technical assistance on how to successfully do business with USDA and other Federal agencies.

#### CRISIS PLANNING AND MANAGEMENT

In December 2000, the Office of Crisis Planning and Management (OCPM) was created to coordinate USDA planning and response to disasters and emergencies. OCPM supports USDA's Homeland Security Council by coordinating emergency activities among USDA agencies and other Federal entities in response to potential crises and emergencies, such as a domestic outbreak of a foreign animal disease, natural disaster, or terrorist attack, through such mechanisms as the Federal Response Plan.

OCPM successfully faced several recent challenges, including working to ensure USDA and other Federal agencies were well coordinated in responding to a threatened outbreak of Foot and Mouth Disease and in supporting the Department's response to the events of September 11, 2001. DA continues to have lead responsibility for the development and maintenance of the USDA Continuity of Operations (COOP) Plan. On September 11, 2001, USDA effectively implemented its Headquarters COOP plan for the Office of Secretary and was operational at its alternate site within hours of the attack. In fiscal year 2002, the Headquarters COOP plan is being further refined, and lessons learned on September 11, 2001 are being addressed.

In fiscal year 2003, increased funding requested for OCPM is needed to expand COOP planning to other critical USDA facilities such as critical laboratories and large centers of employment. An effective COOP plan is also an essential element of USDA's support to homeland security and DA is committed to ensuring that the USDA COOP plan allows us to continue delivering critical services to the Department's customers during times of emergencies.

OCPM also oversees the Department's personnel security program. Under this program employees are determined suitable for public trust positions and worthy of national security clearances. Last year there was a backlog of about 560 cases. We stepped up clearance activities this year and the backlog was successfully eliminated using a taskforce approach. The war on terrorism and USDA's participation in Homeland Security activities, however, has reclassified a large number of positions that now require background investigations. Additional funds requested for fiscal year 2003 will be utilized to complete staffing the personnel security program and to begin modernizing the program and integrating e-government processes.

#### PHYSICAL SECURITY

The need for increased physical security for Federal Government facilities nationwide and for the protection of employees and critical assets has been a concern since

the Oklahoma City bombing, and more recently with the New York city and Pentagon acts of terrorism. USDA conducts its programs in approximately 25,000 buildings at more than 7,000 sites around the world. DA, through the Office of Procurement and Property Management (OPPM), provides overall leadership and direction to USDA agencies in the management and coordination of security for these facilities. Major activities include policy development, education and training, and security assessments of facilities.

Since September 2001, OPPM has conducted physical security assessments of some 40 key USDA facilities. These security assessments cover many facets of the security spectrum, including chemical, biological and radiological; information technology; food safety, animal, and plant research; and aviation assets. These security assessments utilize a risk management approach to analyze threats, vulnerabilities, and the criticality of assets to better support key decisions linking resources with prioritized efforts for results. The results will be used to help guide future programs and responses to combat terrorism and other threats, and to develop appropriate standards and methodology for conducting facility/cyber/personnel security assessments, identifying deficiencies, recommending countermeasures, and following up on actions taken to mitigate physical security concerns.

OPPM was also focused on the safety and protection of facilities, assets and employees during the 2002 Winter Olympics. USDA has approximately 56 facilities located in and around the venues of Salt Lake City where the Olympics were being held, 17 of which were identified as mission-critical facilities involving research activities and storage of weapons and explosives. OPPM was the lead in operating an emergency command center throughout the duration of the games to oversee and ensure the safety and protection of these facilities, assets, and employees.

#### USE OF BIOFUELS

The Department's support and promotion of biofuels in fiscal year 2001 resulted in an estimated 112,000 gallons of biodiesel fuel used in USDA vehicles and equipment. The Agricultural Research Service's Henry A. Wallace Center in Beltsville, Maryland has taken the lead in demonstrating the benefits of biodiesel use, including using a biodiesel heating oil blend to heat over a dozen buildings at the Center.

On August 8, 2001, Secretary Veneman issued Secretary's Memorandum 5400-8, establishing a statement of preference for use of ethanol and biodiesel fuels in USDA's motor vehicles and ordering actions to carry out these policy preferences. USDA was recognized with a White House "Closing the Circle" award in June 2001 for significant contributions to the environment through the use and promotion of biodiesel fuel.

#### FEDERAL EXCESS PERSONAL PROPERTY PROGRAM

Section 923 of the Federal Agriculture Improvement and Reform Act (FAIR) of 1996, authorized the Secretary of Agriculture to acquire and transfer excess Federal personal property to any of the 1994 Tribal Institutions, Hispanic-Serving Institutions, and the 1890 colleges and universities, including Tuskegee University. In fiscal year 2001, USDA transferred \$3.1 million worth of personal property under the program, bringing the total to greater than \$10.6 million since the program began in fiscal year 1999. This program provides much needed property and equipment to institutions that otherwise would not be able to acquire property due to limited funds and will improve the institutions' capability in the areas of research, educational, and technical and scientific activities.

#### PROCUREMENT POLICY

During fiscal year 2001, USDA completed work to make FedBizOpps available for use throughout the Department. FedBizOpps is a system for electronically advertising our contracting opportunities and furnishing copies of solicitations via the Internet. It is part of the President's e-Government Management Agenda.

With regard to the increased use of Performance Based Service Contracting (PBSC), another Presidential Management Agenda item, USDA surpassed the Administration's fiscal year 2001 goal of 10 percent of eligible contracts applying performance-based methods. In fiscal year 2002, we are stepping up our monitoring and leadership to assist USDA agencies in meeting the 20 percent goal. This includes placing actual PBSC contracts on the Internet as examples to assist USDA agencies in achieving this challenge. In fiscal year 2003, the planned goal is 30 percent and we will continue our performance monitoring, scrutinize advance procurement plans, and expand our website information, including training aids and example PBSC contracts.

## HUMAN RESOURCES MANAGEMENT

The Office of Human Resources Management (OHRM) is providing leadership to the Department on the human capital piece of the President's Management Agenda. OHRM prepared a 5-year restructuring plan focused on improving accountability within the Forest Service and on improving efficiency within the Service Center agencies. OHRM is also supporting the President's Management Initiative dealing with e-Government, specifically the interagency projects on HR Enterprise, e-recruiting and e-training.

OHRM completed a workforce analysis and is working on an analysis of critical skill gaps. The Office is participating with the Office of Personnel Management and other Federal Departments in a job fair for information technology specialists. OHRM is preparing to launch three new developmental programs: a USDA-wide mentoring program, a new leadership development program for executives and managers, and a new Career Intern Program for scientific, administrative and professional occupations.

OHRM is making significant changes to the USDA's policies and practices for managing the Senior Executive Service (SES). In fiscal year 2002, executive performance plans will be better integrated with the Department's Annual Performance Plan. Performance standards will be more measurable and reflect a balanced scorecard: mission results, business results, customer service satisfaction, employee satisfaction and civil rights. OHRM is developing common performance standards to hold all executives accountable for the President's Management Initiatives and civil rights. A standing Executive Resources Board was formed to provide peer oversight of the SES.

OHRM continues to support the recruitment and retention of a diverse workforce. Employee advisory councils were established to provide the Secretary with sound advice about eliminating under-representation of minorities and women. USDA has significantly increased its hiring rates for Hispanics and is hiring larger numbers of persons with disabilities. In 2000, USDA made a commitment to hire 9,000 persons with disabilities by 2005.

OHRM has led a corporate approach to planning and investing in IT systems in the human resources management area. USDA now has a standard for software that classifies positions and has piloted three possible software solutions to speed up the hiring process. USDA also has made a good start at e-training with over 17,000 licenses with commercial providers. This year, OHRM will lead the mission areas in developing a business case for IT solutions for transaction processing and employee self-service.

## CONFLICT PREVENTION AND RESOLUTION OHRM'S

Conflict Prevention and Resolution Center leads and coordinates the Department's conflict prevention and resolution activities, focusing on the use of Alternative Dispute Resolution (ADR) to resolve conflicts in the workplace and between USDA and its customers. In fiscal year 2001, two Departmental directives on ADR were issued, and "Dealing with Workplace Conflicts and Concerns: A Guide for Employees" was published for all USDA employees. USDA continued to resolve over 80 percent of workplace disputes when ADR was used in the earliest stages of conflict, before the filing of a grievance or EEO complaint. Over 5,000 USDA employees received training in conflict resolution. Finally, the Certified Agricultural Mediation Program provided service in over 4,000 disputes involving producers and other USDA customers. Efforts in fiscal year 2002 will be focused on increased use of ADR to resolve EEO complaints, and on educating agencies on the potential for ADR usage and other collaborative processes in a wide range of programmatic disputes.

## GOVERNMENT ETHICS PROGRAM

The Office of Ethics (OE) was formed in 1998 to provide Government ethics leadership and services within the Department. At the request of other agencies, OE has opened a Web site which provides access to training and financial disclosure forms to USDA employees and to employees from several other Departments and Government organizations. This open Internet access to training and other materials is a major step forward toward e-Government.

## AGRICULTURE BUILDINGS AND FACILITIES

The fiscal year 2002 Budget requests \$71 million for Agriculture Buildings and Facilities for the operations, maintenance and repair of current facilities including \$34 million for the continuation of the project to renovate the 70-year old Agricultural South Building. The building is 10 years older than the Pentagon and is in

dire need of repair and renovation to make it safe, efficient, and functional. We are now constructing Phase 2 of the 8-phase renovation project approved by Congress in 1995. Phase 3 of the renovation will begin this fall. The required renovation work includes fire protection systems, abatement of hazardous materials, and replacement of over-aged and inefficient utility systems.

The request also contains \$851,000 for major repairs scheduled for the other buildings of the USDA Headquarters Complex including the Sidney R. Yates Building, the Jamie L. Whitten Building and the Cotton Annex.

Formerly, this appropriation included the central rent account which provided the rental amounts to be transferred to the General Services Administration for space occupied nationwide by USDA agencies except the Forest Service. The fiscal year 2003 Budget proposes to fund those rental payments and related costs in the budget of the agencies occupying the space. This will allow managers direct control over rental space allocations and better reflect true program cost.

#### HAZARDOUS MATERIALS MANAGEMENT

The Hazardous Materials Management Program is needed to meet USDA compliance responsibilities under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), the Resource Conservation and Recovery Act (RCRA), and related State and local laws and regulations, and to meet the USDA goal of completing all environmental cleanup actions by the year 2045. Activities supported by this program contribute directly to USDA's strategic goal of maintaining and enhancing the Nation's natural resources and environment.

We must clean up and restore lands and facilities currently and formerly under USDA jurisdiction, custody, and control and ensure responsible management in the use, storage, and disposal of hazardous materials and waste. Non-compliance may result in the Department being subject to environmental enforcement actions by Federal and State regulators, lawsuits by private parties, and citizen suits at any of these sites. Under applicable Federal and State pollution control laws, fines and penalties could exceed \$25,000 per day and lawsuits could cost, in some cases, more than the funding needed to perform a timely cleanup action.

USDA cleaned up 47 sites in fiscal year 2001 and plans to cleanup 17 this year and another 48 sites in fiscal year 2003. Since 1987, over 2,250 sites have been cleaned up. Many of the smaller, simpler, and less costly priority sites have already been cleaned up. However, the cleanup of environmentally contaminated sites may now be more challenging because many of the over 2,000 sites remaining to be completed are more costly and more complicated. Cleanup costs at some sites may exceed \$100 million, and USDA's current cost estimate to complete all work exceeds \$4 billion.

#### DIRECT APPROPRIATION

For Departmental Administration, the Budget requests \$48.5 million. This amount would provide program increases of \$2 million for civil rights enforcement, \$2.2 million for security and homeland defense and \$200 thousand in support of the President's management objectives for Government procurement.

#### CONCLUSION

Mr. Chairman and members of the Subcommittee, this concludes my statement on the Departmental Administration budget for fiscal year 2003. I want to reiterate our appreciation for the strong support which this Subcommittee has given us.

#### PREPARED STATEMENT OF KEVIN HERGLOTZ, DEPUTY CHIEF OF STAFF AND DIRECTOR OF COMMUNICATIONS, OFFICE OF COMMUNICATIONS

Mr. Chairman and members of the Subcommittee, I am pleased to discuss the fiscal year fiscal year 2003 budget request for the Department of Agriculture's Office of Communications.

When Congress wrote the law establishing the U.S. Department of Agriculture in 1862, it said the department's ". . . general designs and duties shall be to acquire and to diffuse among the people of the United States useful information on subjects connected with agriculture in the most general and comprehensive sense of the word. The Office of Communications coordinates the implementation of that original mandate.

The Office of Communications coordinates communications with the public about USDA's programs, functions, and initiatives, providing information to the customers and constituency groups who depend on the Department's services for their well-

being. It also coordinates the communications activities of USDA's seven major mission areas and provides leadership for communications within the Department to USDA's employees.

The Office of Communications is adopting new technologies to meet the increased demands for information. Using the Internet's world wide web, radio, television and teleconference facilities, we are able to ensure that the millions of Americans whose lives are affected by USDA's programs receive the latest and most complete information. The Office of Communications' 5-year strategic goal is to support the Department in creating a full awareness among the American public about USDA's major initiatives and services. This is essential to providing effective customer services and efficient program delivery and should result in more citizens. Especially those in underserved communities and geographic areas. By availing themselves to helpful USDA services and information.

The Office of Communications will continue to take an active part in policy and program management discussions by coordinating the public communication of USDA initiatives. We will continue to provide centralized operations for the production, review, and distribution of USDA messages to its customers and the general public. We will also monitor and evaluate the results of these communications. Staff will be instructed in using the most effective and efficient communications technology, methods, and standards in carrying out communications plans.

Also, we are focusing on improved communications with USDA employees, especially those away from headquarters. This will enhance their understanding of USDA's general goals and policy priorities, programs and services, and cross-cutting initiatives.

Our office will work hard to meet our performance goals and objectives. We will work to communicate updated USDA regulations and guidelines, conduct regular training sessions for USDA communications staff about using communication technologies and processes to enhance public service, foster accountability for communications management performance throughout USDA, and continue to work to create a more efficient, effective and centralized Office of Communications. Increasing availability of USDA information and products to underserved communities and geographic areas through USDA's outreach efforts is integral to our performance efforts. The Office of Communications will also provide equal opportunity for employment and promote an atmosphere that values individual differences.

#### FISCAL YEAR 2003 BUDGET REQUEST

The Office of Communications is requesting a budget of \$10,153,000. This is a net increase of \$727,000 (\$9,426,000 available in 2002). If you exclude the Federal Employee Pension and Health Benefits, our request is \$9,637,000, a net increase of \$743,000. The net increase includes \$61,000 for annualization of the fiscal year 2002 pay raise, \$185,000 for the anticipated fiscal year 2003 pay raise, and \$497,000 for Web Page Redesign and Outreach benefits. The Explanatory Notes provided to the Committee presents information on the comparable levels for these items in fiscal year 2001 and 2002.

Our central task is to ensure the development of communications strategies which are vital to the overall formation, awareness and acceptance of USDA programs and policies. As more than 90 percent of the Office of Communications' obligations are for salaries and benefits, this increase is vital to support and maintain staffing levels for current and projected demands for our products and services. Since our current budget leaves little flexibility for absorbing increased costs, the Office of Communications cannot absorb these additional salary costs without placing severe constraints on daily operations. This could result in backlogs and delays in communications items such as printing, graphic design and photography used in support of education or promotion of American agriculture.

This concludes my statement, Mr. Chairman. I will be pleased to respond to any questions.

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#### PREPARED STATEMENT OF EDWARD MCPHERSON, CHIEF FINANCIAL OFFICER, OFFICE OF THE CHIEF FINANCIAL OFFICER

Mr. Chairman and members of the Subcommittee, I am pleased to present the fiscal year 2003 budget request for the Office of the Chief Financial Officer (OCFO) and the Department's Working Capital Fund (WCF) of the United States Department of Agriculture (USDA).

My remarks today address:

- The results on which we are currently focused;
- Results we have achieved recently;



- Our fiscal year 2003 Budget Request;
- The Department of Agriculture's Working Capital Fund.

The Chief Financial Officer of the United States Department of Agriculture (USDA) is responsible for the financial leadership of an enterprise which, were it in the private sector, would be the sixth largest company in the United States with \$76 billion in annual spending, 131,385 employees and \$127 billion in assets.

These responsibilities are fulfilled by a headquarters staff in Washington, D.C. with accounting operations support provided by USDA's National Finance Center in New Orleans, Louisiana.

The National Finance Center also operates an item processing and record-keeping business that executes payroll for about one-third of all Federal employees and provides administrative data for more than 120 government entities, including the Thrift Savings Plan (TSP) with 2.5 million participants who own \$92 billion in investment assets.

#### RESULTS ON WHICH WE ARE CURRENTLY FOCUSED

We are currently focused on accomplishing the following five results in fiscal year 2002 as context for you in considering our fiscal year 2003 budget request:

- Enhancing USDA's system of internal control with a goal of a clean audit opinion for the United States Department of Agriculture's fiscal year 2002 financial statements after 7 years of disclaimed opinions;
- Completing the successful implementation of a standard accounting system at USDA and improving related corporate administrative systems;
- Focusing the effectiveness of the National Finance Center (NFC) in satisfying USDA and non-USDA customers as well as the employees and other stakeholders of NFC;
- Effectively conducting competitive sourcing responsibilities for USDA under the Federal Activities Inventory Reform (FAIR) Act;
- Advancing the integration of performance measurement with the annual budget process in concert with USDA's Office of Budget and Program Analysis.

#### RESULTS ACHIEVED RECENTLY

Since taking these responsibilities on October 5, 2001, am pleased to report the following important results that have recently been achieved:

Rural Development (RD) received an unqualified ("clean") audit report on their fiscal year 2001 financial statements as a result of our resolving long-standing deficiencies in present value accounting (Credit Reform) used to establish program costs on Rural Development's \$70 billion loan portfolio. In addition, the Commodity Credit Corporation, with \$14 billion in loans, received an unqualified opinion on its Balance Sheet, Statement of Net Position and Statement of Net Cost for the first time in several years. (Commodity Credit Corporation received a disclaimer on the Statement of Budgetary Services and the Statement of Financing due to issues in recording various versions of its budgets.)

Therefore, four of the five USDA agencies that had stand-alone audits for fiscal year 2001 will have largely clean opinions—a significant breakthrough. The last remaining agency, the Forest Service, is a primary focus for corrective actions already underway. A sixth agency, Food and Nutrition Services, had a waiver from a stand-alone audit in fiscal year 2001 because they consistently have had a clean opinion.

USDA's controllership competency has been enhanced by accessing additional talent, reengineering accounting processes, integrating information technology initiatives, and clarifying individual and collective accountability for performance. For example:

- A new Associate Chief Financial Officer, four experienced controllers and several new agency chief financial officers are now in place at USDA;
- Accounting operational processes have been improved in the Forest Service, other agencies, and the National Finance Center;
- Since October 2001, 15 USDA agencies or mission areas comprising approximately 98 percent of USDA employees are served by our standard accounting system;
- Specific financial accountability performance standards are now included in the annual performance plan of each agency's chief financial officer.

USDA's decision-making and Administration has been improved in its Working Capital Fund through specific business cases justifying the spending of this money and improved cash management.

Our approach to competitive sourcing is now focused on creating sound choices to advance the performance of USDA as an enterprise, as well as that of individual mission areas and agencies.

USDA is re-examining our lending function to assure effective credit approval, loan portfolio management, information technology use, and debt collection.

Recent achievements at the National Finance Center include:

- Implementing two new Thrift Savings Plan investment funds, the Small Capitalization Stock Index Investment (S) Fund and the International Stock Index Investment (I) Fund;
- Establishing the Salary Offset Agency Process to notify payroll offices of past due debts by individuals they currently payroll. NFC was the first payroll office within the Federal Government to provide the Department of Treasury with this automated interface;
- Opening the Thrift Savings Plan to military service people.

#### FISCAL YEAR 2003 BUDGET REQUEST

With this context, let's turn to our 2003 Budget Request. Our fiscal year 2003 operating budget request is for \$8,399,000, an increase of \$2,747,000 or 48 percent over the adjusted fiscal year 2002 level of \$5,652,000. Within this budget request there is a total of \$254,000 to cover the cost of items previously paid from central accounts within USDA or on a government-wide basis, including Federal Employees Compensation Act and Civil Service retirement and retiree health benefits. The Explanatory Notes provided to the Committee contain information on the comparable levels for these items in fiscal year 2001 and fiscal year 2002. Approximately 90 percent of the Office of the Chief Financial Officer's current obligations are for the salaries and benefits of the OCFO staff. The requested pay cost increase of \$147,000 (2.6 percent or \$110,000 for the fiscal year 2003 increase plus \$37,000 for annualization of the fiscal year 2002 increase) and \$46,000 or 1 percent for salary adjustments are fundamental to maintaining the current staff level for leadership and oversight of financial management at USDA.

The remaining increase of \$2.3 million and 17 staff years is essential to executing our primary accountability of providing sound financial management and accounting operational processes at USDA. Specifically, I am seeking increases for the following purposes:

- An increase of \$885,000 and 7 staff years for Financial Statements, Accountability Report and Consolidated Audit Oversight. OCFO is not properly staffed to lead the preparation of financial statements and support to the Inspector General's financial auditing processes. The requested resources are vital for the USDA to comply with basic financial reporting and the increased reporting requirements under the Reports Consolidation Act of 2000, which mandates that agencies must produce a single, consolidated accountability report. This accountability report includes the annual financial statements, agencies' assurances on management controls and the annual performance report required by the Government Performance and Results Act (GPRA). Further, Office of Management and Budget Bulletin No. 97-01, Form and Content of Agency Financial Statements, has mandated that agencies submit interim unaudited financial statements on a quarterly basis in fiscal year 2003. In addition, beginning with the quarter ending March 31, 2004, USDA is required to submit to OMB its quarterly unaudited financial statements 21 days after the end of each quarter.
- An increase of \$410,000 and 3 staff years for GPRA and Performance Management. Current staffing is insufficient to handle the GPRA planning and review activities for the 26 USDA agencies and to meet the increasing demand for performance reporting. To address increased workload and provide oversight, a staffing increase of three full-time equivalent staff and contract support costs of \$100,000 are required for the development and production of the three Department-wide GPRA plans and reports.
- An increase of \$542,000 and 3 staff years for Cost Accounting and competitive sourcing responsibilities associated with the FAIR Act. Fiscal year 1998 through fiscal year 2000 USDA Consolidated Financial Statement Audit Reports have included findings on USDA noncompliance with laws and regulations regarding cost accounting and user fee reviews for goods and services. Without essential staff, it is not possible to provide the necessary policy and guidance to individual agencies and to perform the necessary follow-up work to ensure compliance with policy. Audit findings have criticized previous USDA CFO's insufficient efforts to provide guidance and monitoring activities related to user fee reviews and cost accounting methodologies. This request would provide two full-time equivalent staff to coordinate and oversee the agency's cost accounting and user fee activities review. We also request \$250,000 for contract support to develop appropriate cost accounting methodologies, document processes, review

- user fees, and construct performance linkages to strategic planning goals and objectives.
- This initiative also requests one additional full-time equivalent staff to support the Department-wide implementation of the Federal Activities Inventory Reform (FAIR) Act of 1998 and related A-76 public/private sector cost comparisons and competition. The Department is required annually to review the workforce and inventory all commercial and inherently governmental jobs and provide reports to the Office of Management and Budget. Increasing public-private competition will require additional oversight, guidance and policy development at the Departmental level.
  - An increase of \$463,000 and 4 staff years for Departmental Administration and Staff Office Accounting and Budget Execution Support. This staffing is essential to improve the timeliness and accuracy of financial reporting for these USDA functions. The implementation of the Department's new financial management system has brought significant changes in the financial management practices for Departmental Administration and Staff Offices. These resources will provide important customer services, including the preparation of required external financial reports, definition and development of internal financial management reporting tools, preparation of applicable financial accounting adjustments, and assistance in budget preparation and execution. The staff also acts as an intermediary between the administrative end-users of the financial management system here at headquarters and the accounting processing functions located at the National Finance Center.

#### WORKING CAPITAL FUND

Let's focus on USDA's Working Capital Fund (WCF). As context, the Working Capital Fund provides controllership services to USDA agencies and offices, data processing for USDA and a wide range of item processing and record keeping for non-USDA customers.

We estimate total operating costs for the WCF in fiscal year 2003 will be \$323.0 million, an increase of \$11 million or 3.6 percent over the fiscal year 2002 estimate. The cost of basic services for financial management, information technology data centers, telecommunications and administrative services will increase by about \$7 million or 2.5 percent from \$274 million in fiscal year 2002 to \$281 million in fiscal year 2003.

The remaining \$42 million for the operating cost of the USDA corporate systems is an increase of \$4 million or 11 percent. These systems include the Foundation Financial Information System (accounting), the Integrated Procurement System and the Universal Telecom System (Network Infrastructure).

The most important financing message I have for you today in this regard is my request for \$21 million in new appropriations to the Working Capital Fund to invest in USDA's corporate systems development. These systems are needed to process over \$2.1 billion in procurement, \$3.0 billion in property management, and \$15 billion in payroll, travel and other administrative systems. This funding will address severe IT infrastructure and system architecture deficiencies in order to meet the financial management and accounting needs of our agencies.

USDA's Executive Information Technology Investment Review Board will determine funding priorities among the following systems:

- Integrated Acquisition System (IAS)*.—This system will be the corporate procurement system for USDA. After the accounting system, it is a critical system for our accurately reporting financial results, improving procurement services, our ability to do electronic government, and streamline and manage both procurement and financial management processes. It will also assure adequate internal controls and avoid the rework we must now do to reconcile the old procurement feeder system and the accounting system.
- Travel*.—We will use this money to look at alternative ways of accounting for travel at USDA. Initial funding will be used for a market survey of potential service providers and for the implementation of the new USDA travel solution.
- Property/Asset Management*.—A large item on our balance sheet financial statement is property, an area over which we need more control and assurance. Simply put, we need a new property/asset management system to provide internal stewardship and financial management controls of property with a workable interface among the three key systems for our financial results: property systems, procurement systems and the accounting system.
- Data Warehouse Enhancements*.—The Data Warehouse is the basis for an integrated financial management system at USDA. When it is complete, it will provide USDA with corporate data needed to manage USDA and monitor perform-

ance. The enhancements planned will be needed to address the data being provided by the new feeders so users will have adequate reports and to provide the data and system needed for performance and financial reporting.

—*Universal Telecommunications Network*.—This effort will provide USDA a shared telecommunications network that has the capacity needed to allow customers to transact business with USDA electronically and safeguard their data from intrusion. Funding will be provided to continue this effort.

I thank you, Mr. Chairman, for the opportunity to share with you:

—The results on which we are currently focused;

—Results we have achieved recently;

—Our Fiscal year 2003 Budget Request; and

—USDA Working Capital Fund.

I welcome any questions the Committee might have.

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PREPARED STATEMENT OF NANCY L. SMITH, ACTING DIRECTOR, NATIONAL APPEALS DIVISION

Mr. Chairman and members of the Subcommittee, I am pleased to appear before you to discuss the fiscal year 2003 budget request for the National Appeals Division.

INTRODUCTION

The National Appeals Division (NAD) was established by the Secretary of Agriculture pursuant to the Reorganization Act of 1994. The Act consolidated the appellate functions and staffs of several USDA agencies under a single administrative appeals organization. NAD appeals involve program decisions of the Commodity Credit Corporation, the Farm Service Agency, the Risk Management Agency, the Natural Resources Conservation Service, and Rural Development agencies. Moreover, in States under the authority of the United States Court of Appeals for the Eighth Circuit, NAD Hearing Officers adjudicate and the Director makes final determinations on applications for fees under the Equal Access to Justice Act (EAJA). NAD is headquartered in Alexandria, Virginia, and has regional offices located in Indianapolis, Indiana; Memphis, Tennessee; and Lakewood, Colorado. NAD's staff of 133 includes 70 hearing officers.

MISSION

NAD's mission is to conduct evidentiary administrative appeals hearings and reviews arising out of program decisions of certain USDA agencies. Our strategic goal is to conduct independent evidentiary hearings and issue timely and well-reasoned determinations that correctly apply USDA laws and regulations. NAD's mission is statutorily specific, but its operation is dynamic and challenging, given the complexities of changing laws, regulations and policies affecting USDA program decisions.

For 2003, the budget proposes a total of \$15,262,000 for NAD's salaries and expenses, an increase of \$2,393,000 from the amount enacted in fiscal year 2002, excluding supplementals. Within this fiscal year 2003 request, \$1,503,000 covers the costs of items previously paid from central accounts within USDA or on a government wide basis, including GSA rental payments, Federal Employees Compensation Act and Civil Service retirement and retiree health benefits. The Explanatory Notes provided to the Committee provide information on the comparable levels for these items in fiscal year 2001 and fiscal year 2002.

That concludes my statement, and I look forward to working with the Committee on the 2003 National Appeals Division budget.

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PREPARED STATEMENT OF JOYCE N. FLEISCHMAN, ACTING INSPECTOR GENERAL, OFFICE OF INSPECTOR GENERAL

INTRODUCTION AND OVERVIEW

Good morning, Mr. Chairman and members of the Committee. I appreciate the opportunity to testify before you today to discuss the activities of the Office of Inspector General (OIG) and to provide you information on our audits and investigations of the major programs and operations of the U.S. Department of Agriculture (USDA).

While this is my first formal appearance before the Committee as Acting Inspector General, I have been the Deputy Inspector General at USDA for more than 6 years and have been involved in the oversight and direction of OIG throughout this time. I want to thank you for your support to the agency during the past and hope we

have been able to address some of your concerns. I look forward to working closely with you both as Acting Inspector General and Deputy Inspector General.

Before I begin, I would like to introduce the members of my staff who are here with me today: Gregory Seybold, Assistant Inspector General for Investigations; Richard Long, Assistant Inspector General for Audit; and Delmas Thornsbury, Director of our Resources Management Division.

The safety and wholesomeness of agricultural products provided to the public is our primary concern. Our audits and investigations have continually addressed issues related to the integrity and security of American agriculture, the protection of the consumer, and the safety of USDA-operated and -funded facilities and their personnel. As such, much of our work has been focused on what are now termed "Homeland Security issues" even before the tragic events of September 11.

Our work in protecting the Nation's food supply, cybersecurity, disaster programs, production agriculture, and financial integrity are all part of our broad spectrum of ensuring the safety of the agricultural economy and the Department's infrastructure. With the events of September 11, these efforts have been greatly intensified and reinforced.

In my testimony today, I will address these crucial issues facing the Department and the work OIG is doing to support and assist in these areas.

#### HOMELAND SECURITY

##### *Homeland Security—Response to Terrorism*

The events of September 11 and the subsequent anthrax attacks have given new urgency to issues of security over USDA's infrastructure and the agricultural economy. Those events tested OIG's law enforcement response and audit support to departmental operations as never before in our history. Following the terrorist attacks, OIG special agents immediately provided emergency assistance and participated in the Federal Bureau of Investigation (FBI) task force operations in New York City. In addition, over 30 special agents were deployed to more than 50 critical USDA-operated or -funded facilities, including laboratories and research facilities across the country, to determine vulnerability to attack or compromise by terrorists. They met with facility and laboratory directors, safety officers, and research leaders to discuss and evaluate the security measures for the facilities, personnel, foreign scientists and researchers, and the handling of hazardous materials. We assigned 32 special agents to counterterrorism task forces and to nationwide criminal investigations related to the events of September 11.

We are working with USDA agencies to protect the food supply and ensure that the Department continues to serve the needs of the agriculture sector and the consumer. OIG has helped USDA agencies establish teams of dedicated personnel to respond to each emerging crisis. In addition, the agency has been responding to numerous anthrax contamination threats at Federally inspected meat plants and other sensitive USDA facilities. I am happy to say that, to date, all of these threats have been hoaxes.

##### *Security of USDA Laboratories and Critical Facilities*

In the spring of 2001, we began a review of the Department's security and controls over biohazardous materials at its laboratories. We looked at controls to prevent the inadvertent or intentional release of the biohazardous materials. We interviewed departmental and agency officials and visited 6 of the Department's biosafety level (BL) 3 laboratories. The Department was then unaware of the nature, number, and biosafety risk of biohazardous materials at any of its facilities, both USDA-operated and USDA-funded. The Department did not require detailed tracking records of any access to biohazardous materials or comprehensive security checks on personnel with access to these materials. Moreover, the Department did not have adequate physical security at a number of its facilities commensurate with the level of risk. Our past investigations of vandalism at USDA facilities by animal rights and environmental activist groups had already identified the heightened need for physical security at many of these facilities, especially those of the Forest Service (FS) and the Animal and Plant Health Inspection Service (APHIS).

The September 11 events suddenly imbued these vulnerabilities with a new sense of urgency, particularly given the possibility of a terrorist presence in our country and the devastating impact of an intentional release of such biohazardous materials on the agricultural economy. On September 24, we issued an interim report to the Department advising that it needed to take immediate steps to identify and compile an inventory of biohazardous materials in its possession. Further, it needed to strengthen management controls. Moreover, it needed to ensure that all materials are adequately accounted for and strengthen or upgrade the physical security at its

facilities commensurate to the biosafety risk of the materials. Shortly thereafter, the Department responded by establishing a task force to draft departmentwide policies and procedures on biosecurity requirements for its BL 3 laboratories. They were to address inventory control, physical security, personnel security, and incident reporting. OIG participated in the task force discussions and provided feedback on the draft policies and procedures. During the period of these reviews, the Department contracted with the Sandia National Laboratories to conduct a risk assessment and security analysis at all of its BL 3 laboratories.

Concurrently, because of the heightened awareness of the consequence of these biological agents if released, we accelerated and broadened our review. We immediately met with APHIS officials to discuss our concerns with the import and domestic shipment of such biohazardous materials. We were encouraged that the agency had already begun to address these concerns by temporarily suspending new permits while it reviewed the process. We interviewed Department officials who administered the visitor exchange, or J-1 visa program, at the departmental laboratories. Based on these interviews and meetings, we proposed additional procedures to preclude a potential terrorist, posing as a visiting scientist, from obtaining such biohazardous materials. Further, we proposed procedures to strengthen the visa programs and monitoring of visitors to USDA facilities. We devoted increased resources to our review of controls over genetically engineered organisms, or GEOs, whose premature and uncontrolled release into the environment in an untested state might damage agricultural production.

Because we were concerned whether any new inventory and security procedures had been implemented at the field level, we dispatched approximately 50 auditors to over 100 laboratories nationwide in October and November 2001. In December, we issued another interim report to the Department. We reported there had been no concerted efforts by the agencies to contact the laboratories under their control, obtain an inventory of biohazardous agents, or ensure that security measures are adequate. We recommended that the Department hasten implementation of the policies and procedures prepared by its biosecurity task force and take immediate action to correct the deficiencies at one BL 3 laboratory. Since then, a number of the agencies have compiled inventories and have started to evaluate the vulnerability or risk associated with such inventories with the goal of implementing additional biosecurity measures.

In our second phase of this ongoing review, we intend to evaluate the controls and security at university and private laboratories funded by the Department. This will include biological agents and chemical and radioactive materials stored or used at these laboratories and their shipment by these facilities.

#### *Enhanced Controls Needed on Imported Meat and Agricultural Products*

One of OIG's ongoing activities, even before September 11, was involvement in departmental efforts to ensure that animal and plant diseases from abroad do not infect agricultural production in this country. During 2001, the world witnessed outbreaks of Foot and Mouth Disease (FMD) in Europe and South America. At the outbreak of FMD in Great Britain and elsewhere, we began establishing emergency response teams to investigate similar threats to American livestock and agriculture. A team traveled to the United Kingdom to gain firsthand knowledge of its law enforcement agencies' experience in dealing with quarantines, as well as any unlawful activity associated with that outbreak.

Because of the devastating effect FMD could have on the U.S. livestock industry if an outbreak occurred in this country, last summer OIG undertook an expedited review of APHIS' and the Food Safety and Inspection Service's (FSIS) functions regarding imported meat. We found that the fundamental problem was poor or failed communications between the two agencies. For the processes of inspection, reinspection, and clearance or rejection of imported meat to work efficiently, the two agencies must communicate in an organized and punctual manner. This did not always occur. For example, a mixed shipment of over 32,000 pounds of meat product from an FMD-restricted country arrived at the Port of Houston and was approved by APHIS for transport to an FSIS inspection house. However, when APHIS approved the transfer, it inadvertently released the hold on the shipment, allowing the meat product to be shipped prematurely. Neither agency was aware the product had been shipped to a commercial warehouse in San Antonio, Texas, until the broker discovered the error 9 days after the release of the product. As a result, the product was returned to Houston, where over one-sixth of it had to be destroyed because it had been produced after the FMD restricted date.

We found that APHIS needed to improve its accountability over imported products from their arrival at U.S. ports-of-entry through disposition. More importantly, neither APHIS nor FSIS had an adequate system of controls or records that could

produce such information. We recommended that these agencies implement new procedures to strengthen their communication and coordination at the field level and that they issue instructions specifically identifying the responsibilities of each agency regarding the handling of products from restricted countries. We further recommended that APHIS discontinue its policy of allowing mixed shipments of unrestricted and restricted products to enter the country for sorting. Additionally, we recommended that the agencies jointly conduct an inventory to identify and account for all products that had entered the United States from FMD-restricted countries and ensure the disposition of any that still remained. We recommended that APHIS improve its systems to track and account for products that are retained on hold at the ports-of-entry and flag instances where such products have remained for an unreasonable amount of time. Both APHIS and FSIS agreed with the findings and recommendations and are acting on them.

We are just completing a review of the adequacy and effectiveness of APHIS' operations to prevent or minimize the introduction of harmful, exotic pests and diseases into the United States. We disclosed in an interim report that APHIS' process for performing criminal history record checks on newly hired employees assigned to work in secure areas of commercial airports did not meet Federal Aviation Administration (FAA) requirements. For instance, we documented one case in which an APHIS inspection officer worked for over 280 days without a check having been initiated even though FAA regulations required one within 45 days of hiring. During that time, the employee had unescorted access to secure areas of a major commercial airport. We recommended that APHIS immediately identify all employees for whom background checks had not been made; take interim measures to ensure they were not assigned to secure areas; amend its hiring policies to include preemployment checks that, at a minimum, meet FAA requirements; and implement a tracking system to ensure that employees properly complete and return security forms within specified timeframes. APHIS agreed to do so.

#### TRACING FINANCIAL TRANSACTIONS

Since September 11, U.S. Attorneys around the country have established task forces of Federal and State law enforcement agencies to identify and seize sources of funding for terrorist groups. We are participating in many of these task forces because we know that money from several of our current food stamp trafficking cases is being transferred overseas. We have routinely focused our investigations regarding the trafficking of food stamp benefits, either via paper coupons or the Electronic Benefits Transfer (EBT) system, on the money trail. One recent investigation of food stamp trafficking identified approximately \$228,000 that was transferred to foreign bank accounts in a country known to harbor terrorists by the owners of a convenience store authorized to accept food stamps and Special Supplemental Nutrition Program for Women, Infants, and Children benefits.

We have moved to halt this type of fraud through aggressive use of money laundering and forfeiture statutes and through combining our efforts with other law enforcement agencies. Our goal is to prevent USDA program funds from supporting any terrorist operatives, either in the United States or overseas.

#### SECURITY OVER HAZARDOUS MATERIAL

We have an audit underway to evaluate APHIS' safety practices, accountability, and internal controls over the handling, security, and disposal of hazardous materials, used in its Wildlife Services programs, including explosives and pesticides. We found that APHIS lacks adequate accountability and control over hazardous pesticides and drugs maintained by some of its State offices for use in wildlife damage control. At the 2 State offices we visited, which have over 32 percent nationwide of the pesticides and 24 percent of the drugs used in the National program, APHIS did not maintain adequate records to support its inventories of hazardous materials representing 8 different pesticides or drugs including M-44 cyanide and fumitoxin fumigant. We recommended that the two State APHIS offices determine whether unaccounted for hazardous materials were missing or stolen and report to OIG. In addition, we recommended the State offices immediately establish and implement controls to ensure that perpetual inventory records of pesticides and drugs are maintained. Further, we recommended that the State offices document transfers to applicators and perform periodic inventory counts. APHIS has acted on our recommendations; however, in requiring its State offices to perform and reconcile inventories, discrepancies have come to light which we will be pursuing with APHIS to resolve.

### *Outreach Activities*

Our experiences over the years working with State and local law enforcement agencies, especially during Operation Talon, have reinforced the benefits that joint Federal, State, and local cooperative efforts can have in protecting USDA programs and resources. While first responses will always involve State and local agencies, the catastrophic events of September 11 highlighted the urgent and increased need for Federal, State, and local coordination of efforts to protect the Nation's food supply. Recently, we met with top officials to emphasize these points and to offer OIG's insight and assistance as the Department and each of the agencies undertake an assessment of their vulnerabilities and development of solutions. We expanded these efforts to the vast field structure maintained by the Department. OIG regional managers are meeting with departmental field staff and State and local officials, particularly law enforcement and health officials, to alert them and join in a concerted effort to protect the agricultural economy and the Department's assets.

For more effective outreach, OIG has expanded its efforts to include networking with industry and farm organizations, and other similar groups. Recent efforts have included meetings with regional shipping and trucking associations and the South-eastern

Intergovernmental Audit Forum, which consists of Federal, State, and local auditors.

### OLYMPICS

The 2002 Winter Olympics has been declared a Homeland Security "Event" for Federal law enforcement agencies. For the past year and a half, OIG has joined in a partnership with the FBI and the U.S. Secret Service (USSS) to ensure the integrity and security of the food supply for the Olympics, and to ensure the security of USDA's facilities in and around Olympic venues that are potential targets for attacks. In addition, OIG serves as the liaison between the FBI and USSS with USDA agencies while at the event. In

January, we sent additional special agents to provide law enforcement coverage as the Olympics unfold. Further, OIG will provide emergency response with other law enforcement agencies to any threat to disrupt the events.

### COMPUTER SECURITY

Audits of computer security have been a high priority, and our emphasis in this area will continue to increase. As the Department continues to expand its use of information technology (IT) for program and service delivery, this component of the USDA infrastructure has become a key element for operational integrity and control. One of the more significant dangers USDA faces is a cyberattack on its IT infrastructure, whether by terrorists seeking to destroy unique databases or criminals seeking economic gain. The Department has numerous information assets, which include market-sensitive data on the agricultural economy and its commodities, signup and participation data for programs, personal information on customers and employees, agricultural research, and Federal inspection information ensuring the safety of the food supply, as well as accounting data. The information and related systems face unprecedented levels of risk from intentional or accidental disruption, disclosure, damage, or manipulation.

Public confidence in the security and confidentiality of the Department's information and technology is essential. The Department has taken positive action, through the Office of the Chief Information Officer, by developing and initiating a plan to strengthen USDA information security; however, we continue to identify deficiencies at component agencies. Our independent evaluations, completed to meet the Government Information Security Reform Act requirements, disclosed material IT security weaknesses. Our assessments identified over 3,300 high- and medium-risk vulnerabilities and numerous low-risk vulnerabilities. Inadequately restricted access to sensitive data was the most widely reported problem. Most agencies we reviewed had not ensured security plans contained all elements required by the Office of Management and Budget. In addition, agencies had not planned or tested for contingencies and disaster recovery, nor had they properly certified and attested to the adequacy of security controls and performed assessments to identify, eliminate, or mitigate risks.

### FOOD SAFETY AND FARM PROGRAMS

#### *Consumer Protection*

During the past year, our investigations of meat and poultry food processing operations resulted in 12 convictions and overall monetary results totaling over \$4.7 mil-



lion, primarily in fines. We are investigating a corporation for distributing unwholesome poultry products contaminated with rodent hair and feces to 47 California school districts. In two other cases, a major food-processing corporation and a major food store chain pled guilty to distributing millions of pounds of meat products contaminated with *Listeria monocytogenes*, which can cause severe illness or death to anyone who consumes the contaminated product. These firms were fined a total of \$1.4 million. In the most serious case, the food store chain knowingly distributed contaminated food product that resulted in a recall of over 4.5 million pounds of product.

#### *Protecting Farm Interests*

We are concerned with protecting this Nation's agricultural interests from farm to table. Approximately 1 year ago, OIG special agents were on the front lines ensuring that APHIS' staff was not hindered from enforcing the seizure and transportation of over 350 East Friesian sheep from Vermont to the National Veterinary Services laboratory in Ames, Iowa, where they were destroyed. Four sheep from those flocks had tested positive earlier for a transmissible spongiform encephalopathy (TSE)—a class of diseases including bovine spongiform encephalopathy, or "mad cow" disease. In response to the test results, the Secretary issued a declaration of extraordinary emergency because of atypical TSE of foreign origin, which enabled USDA to seize the sheep. The seizure was challenged in Federal court. While this delayed action for approximately 6 months, ultimately a judge upheld the Secretary's order, and the sheep were seized, transported, and euthanized without incident.

OIG agents and other members of the Ohio Organized Crime Investigations Commission Task Force infiltrated a criminal organization which was preying on farmers in the tri-State area. The investigation found that the criminal organization was responsible for over \$5 million in farm-related thefts. In August 2001, 12 members of the organized group were arrested in the Dayton area for their participation in a conspiracy to steal farm equipment and other items from local farmers. Six of the subjects were recently sentenced to jail terms from 2 to 12 years, and the task force recovered over \$1 million worth of the stolen property. OIG positively identified 30 farms participating in FSA programs that this criminal organization victimized in 12 counties in Ohio, 5 counties in Indiana, and 1 county in Kentucky. Much of the stolen property was collateral for farm-owned property or operating loans and business and industry loans.

#### *Implementation of Agricultural Risk Protection Act and Disaster Assistance Programs*

We have continued to review RMA and the Farm Service Agency (FSA) as they implement the provisions of the Agricultural Risk Protection Act of 2000. Our efforts have focused on monitoring their joint implementation plan involving program compliance and integrity. We participated with the agencies in drafting the implementation plan and attended agency briefings provided to congressional and departmental staff, as well as industry officials. We also participated in various working groups directed to draft specific policies and procedures for the implementation plan. Our goal was to assist both RMA and FSA up front in improving their quality control system and compliance procedures to assess program integrity. This up front and proactive approach is more effective and efficient in ensuring that eligible farmers are treated fairly and receive proper assistance rather than identifying improper payments and recommending their recovery after the fact.

We reviewed FSA's implementation of the disaster assistance programs mandated by Congress. Last year, we again reported that the agencies had not implemented interagency procedures to share corrected program information, such as corrected acreage resulting from a compliance review, that could impact payment determinations by the other agency. For example, FSA issued over \$19 million in disaster assistance to watermelon and corn producers based on indemnity payment information provided by RMA. However, most of those payments resulted from excessive yields established by RMA or from a nonviable crop for the area coverage. In both cases, RMA had to rescind these flawed crop insurance programs.

We surveyed FSA's implementation of the fiscal year 2000 disaster assistance programs authorized under the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act of 2001. We analyzed the amount of funding allocated to the various programs. As a result, we initiated a more intensive review of FSA's implementation of the new Quality Loss Assistance Programs. Further, we examined the implementation of the Limited California Cooperative Insolvency Payment Program, particularly FSA's determination of producers' payments.

## FOOD STAMP PROGRAM

We have continued to proactively review EBT systems that provide Food Stamp Program (FSP) benefits as they are implemented in the States. Currently, 44 States and the District of Columbia have implemented EBT systems with 40 of them implemented statewide or districtwide. Approximately 84 percent of food stamp benefits, estimated at \$17.1 billion for fiscal year 2002, are issued through these systems. During fiscal year 2001, we completed reviews in the District of Columbia, Hawaii, and Washington and found all of their EBT systems have been implemented successfully.

*Operation Talon*

For the last 5 years, OIG has coordinated a nationwide law enforcement initiative dubbed "Operation Talon," which, to date, has resulted in the arrest of nearly 8,000 fugitive felons. This initiative, which has been carried out in conjunction with other law enforcement agencies and State social service agencies across the country, was designed to identify, locate, and apprehend dangerous and violent fugitive felons who may also be illegally receiving benefits through FSP. Operation Talon has grown into a nationwide dragnet, currently encompassing fugitives wanted in 31 States, as well as Federal fugitives sought by the U.S. Marshals Service. The more serious offenses for which Operation Talon fugitive arrests have been made include 35 arrests for homicide; 51 for sex offenses, including rape and child molestation; 17 for kidnapping/abduction; 435 for assault; 229 for robbery; and 1,728 for drug/narcotic offenses. A number of States have removed arrested fugitives from their food stamp rolls, resulting in savings to FSP. We have managed to leverage our success through the use of targeted asset forfeiture funds to pay for overtime costs and special equipment needs of the State and local law enforcement agencies participating with us in Operation Talon. Furthermore, this equipment remains with the State and local agencies to support their law enforcement and emergency response efforts.

## PUBLIC CORRUPTION

In fiscal year 2001, OIG fought public corruption by investigating USDA employees who abused their positions for private gain. We worked jointly with the Drug Enforcement Agency, the FBI, the U.S. Customs Service, and the Internal Revenue Service to bring to justice an APHIS inspector who, over a 3-year period, accepted over \$90,000 in cash and drugs as bribes to permit approximately 230 kilograms of cocaine to be smuggled through the Miami International Airport. The cocaine was hidden inside vegetable containers he cleared at the airport. After the subject was indicted by a Federal grand jury, he pled guilty to conspiracy to possess narcotics with intent to distribute and is currently awaiting sentencing.

In another significant case, a former Agricultural Marketing Service produce inspector in St. Louis pled guilty to accepting bribes to intentionally downgrade produce. He had been taking bribes for almost 15 years. His actions harmed local farmers, who were underpaid for their product, and allowed corrupt produce company officials to pocket illegal profits. Ten other people associated with produce companies have also been found guilty in this case. Our public corruption cases led to 21 convictions and 61 personnel actions last year.

## FINANCIAL INTEGRITY

While some of the Department's agencies have achieved success with their financial systems and received clean financial opinions, other major agencies have not. For fiscal year 2000, financial statements for three agencies received unqualified opinions. The Food and Nutrition Service, the Risk Management Agency (RMA), and the Rural Telephone Bank (RTB) received unqualified opinions on their fiscal year 2000 financial statements, which means their statements fairly presented their financial position. But FS and the Commodity Credit Corporation (CCC) were unable to timely provide their financial statements for us to complete our audit of them by the legislatively mandated date of March 1, 2001. Statements provided by FS and CCC subsequent to March 1 contained significant errors. The Rural Development (RD) mission area received a qualified opinion because it was not able to properly determine the cost of its loan programs.

The individual conditions of the agencies, when taken together, resulted in issuance of a disclaimer of opinion on the Department's consolidated financial statements for the past 7 fiscal years—1994 through 2000. These opinions mean that, overall, the Department did not know whether it correctly reported all monies collected and the cost of its operations, or that it properly accounted for all of its over

\$100 billion of assets. Most importantly, some USDA managers do not have reliable financial information on which to make decisions.

Our current audits of the fiscal year 2001 financial statements have shown improvements in the timeliness of CCC financial information and in RD's efforts in determining the cost of loan programs. Our audit work on the Department's consolidated statement for fiscal year 2001 is ongoing.

#### BUSINESS PROCESS REENGINEERING

Before I close, I would like to take a few minutes and tell you about an initiative we have begun within OIG for which our budget request would provide critical support. Last summer, the senior management team at OIG decided that the agency needed to undertake a full review of how we do our business. We believe that the agency can achieve greater efficiency in carrying out our mission to audit and investigate if we streamline our processes and adopt more modern business practices. We also believe that we can use state-of-the-art information technology to free our people to do more of the work that they are uniquely qualified to do. In other words, we want to utilize machines to do that which machines can do, thus allowing human minds to do those things only they can do.

To that end, we launched a formal study of our agency. We are well into a detailed, systematic plan that will result in a phased strategic plan to equip and train our people so that OIG can maintain its historic high level of quality, reliability, production, and service in its operations.

One example of desperately needed modernization involves automated audit workpaper files and an electronic case management system for Investigations. The Government Paperwork Elimination Act requires that, when practicable, Federal agencies must use electronic forms, electronic filing, and electronic signatures to conduct official business with the public by 2003. OIG currently lacks any systematic method of electronically recording and storing audit workpapers. Workpapers and other supporting documentation are often prepared using multiple approaches, formats, and storage mediums. The few electronic workpapers and support documentation the agency does produce, while meeting current audit standards for hardcopy documents, fail to meet the evolving standards for electronic documents, especially standards for electronic record validity. The agency must accept the challenge to enhance audit integrity and efficiency using automation. We expect automating the agency's audit workpapers to reap significant savings in stafftime and review and coordination of our audit work processes. This will allow us to work smarter, as well as expand the depth and analysis, cross-referencing, quality control, and report writing of our audit work. The same analysis holds true for automated case management for our law enforcement investigative operations. Our auditors and special agents are highly skilled people whose time can be spent more effectively doing audits and investigations rather than filing papers.

We are beginning our modernization effort with this budget with a request for money for information technology and training for OIG staff to support these agencywide streamlining and cost-cutting efforts, allowing us to work smarter and do more with our resources.

#### CONCLUSION

I am very proud of the accomplishments of OIG and pleased to report that, in fiscal year 2001, we continued to more than pay our own way. In the Investigations arena, our special agents completed 490 investigations, obtained 358 indictments and 352 convictions, and made 1,335 arrests. These actions resulted in \$66 million in fines, restitutions, other recoveries, and penalties during the year.

In the audit arena, we issued 111 audit reports and obtained management's agreement on 99 recommendations. Our audits resulted in questioned costs of over \$45 million. Of this, management agreed to recover \$38.5 million. In addition, management agreed to put another \$122 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.

The events of September 11 have altered all of our lives and the course of the work we do. As I discussed earlier, our work has always been focused on the protection and enhancement of American agriculture, a safe and plentiful food supply for our own citizens, and, indeed, for people around the world. Since September 11, we have redoubled our efforts and worked with the Department to support its and the Government's Homeland Security efforts to ensure the Nation's food supply and to safeguard America's agricultural infrastructure. Overall, since the September 11 attacks and subsequent threats, at least one-third of our resources—more than 100

agents and 75 auditors—have taken on additional duties to respond to the immediate Homeland Security issues.

I recognize there is a fierce competition for the Government's limited resources; however, I believe adequate funding for our office make good sense. OIG is very cost effective in view of the money it saves the taxpayers and in providing sufficient assurance and well being to the American people. As such, I request that our proposed funding level be approved without reduction.

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 may have at this time.

#### ANNUAL CROP FORECASTS

Senator KOHL. We thank you very much for your statement. Secretary Veneman, a Bloomberg news item of February 22 stated, and I quote, "Agriculture Department officials said they have given advance copies of the agency's annual crop forecasts to certain commodity traders, researchers, and investors before they are disclosed to the public," unquote.

On the face of this announcement, and even if we were not in the current Enron environment, such news items are highly disturbing. The security that normally surrounds the USDA crop announcements is well known for its intense secrecy and the high market sensitivity of such information. To hear that such information is being provided to certain commodity traders and others in advance of the public release places in question the integrity of the USDA and the very markets for which you are supposed to provide stability and transparency.

Would you now please set the record straight on the incident raised in this news item and provide for the record the current practice at USDA for the release of this type of information?

Secretary VENEMAN. Yes, Mr. Chairman, I agree that these kinds of news items are of concern. However, this is an issue that is not practiced. It has gone on for some period of time in the Department, since the mid 1990s, as I understand it, and does not include the kind of information that is in the lock-up reports. Dr. Collins put out a statement yesterday on this issue, and I would like him to just reiterate what was in that statement and how we will proceed from here on out.

Senator KOHL. Mr. Collins?

Dr. COLLINS. Thank you, Mr. Chairman. Mr. Chairman, I would say, first, that we work very hard at USDA. We work vigorously to ensure the integrity of our data, our forecasts, our estimates, our projections programs, and I think I can stand here today and say that our integrity is intact. As a Federal agency, we are probably unsurpassed with the record that we have had over the years in ensuring the sanctity of the way we handle our data and forecasts.

Let me say I found that article disturbing, too, and I think it mischaracterizes what we do. At our Outlook Forum, which we have in February, we offer early-season projections of the upcoming year, an outlook for the upcoming year. It is based on publicly-available information, and it is not connected with the lock-up, with surveys, or with internal information in any way.

At that forum, we do peer-review. We have asked external reviewers to come in and critique the forecasts before we release the outlook for the upcoming year. Those people who we have asked to do that are not investors or traders, as the article said. They are

researchers, and they are analysts. We also ask them to protect the confidentiality of the information. We have no record that that confidentiality has ever been breached or that there has ever been any problem with regard to this.

Finally, I guess I would say that we consider this information, because it comes so early in the season and because it is not based on any internal surveys or estimates, we consider it minimally market-sensitive information.

So, in any event, the final part of your question was: What are we doing about it today? What is our practice? As a result of the stories that have surfaced over the last couple of days, and to avoid any possible confusion or misperception in anyone's mind, we are simply just going to discontinue that practice and not have third-party or external reviews of those early season outlooks that we present.

Senator KOHL. Thank you. As you know, and I am sure agree, it is extremely important that the markets have complete confidence in USDA activities and information. We expect you to ensure that USDA's market information is secure and properly released to the public. I am sure you agree.

Dr. COLLINS. We are committed to that.

#### INSPECTION OF IMPORTED MEAT AND POULTRY PRODUCTS

Senator KOHL. Madam Secretary, as I am sure you are aware, the front page of the Washington Post on Monday featured an article in regard to USDA inspections of foreign meat-packing plants. This article highlighted several cases involving both Mexican and French plants found to have numerous sanitation and safety problems, some failing USDA inspections altogether. After initial inspections, the article reports that many of these plants regained their license to export meat to America without ever having been reinspected by the USDA.

The article also mentions a 2000 report by the USDA Inspector General which found, among other things, that 19 out of 36 U.S. trading partners had exported meat to the United States even though their meat and sanitation programs did not meet U.S. standards in areas such as testing for chemical residues.

In addition, last Monday HHS Deputy Secretary Claude Allen told the Center for Strategic and International Studies that our food supply is vulnerable and that it is best to inspect food supplies coming into the United States at their source, rather than when the product is at our border.

Given the heightened state of awareness that all Americans have practiced since September 11, it would seem that a lack of proper inspections or maintenance of standards in the area of meat and poultry imports seems counter to the general expectations of enhanced oversight. Funds which have been provided for homeland security, and for which additional funds are requested, have been directed to hire additional APHIS inspectors to interdict harmful products entering the country. However, it appears that additional homeland security funds are not being requested to enhance oversight of foreign slaughter and processing facilities in spite of an imperfect record in recent years. And so, in view of the current threats posed to Americans by those wishing to do us harm, should

additional steps be taken by USDA in the area of foreign meat and poultry inspections to ensure American safety and confidence in these products?

Also, would you comment on what actions USDA has taken in response to the June 2000 Inspector General report on this subject?

Secretary VENEMAN. Mr. Chairman, my understanding is the article that appeared in the Post earlier this week was based on an OIG report, and that it did not take into account, despite several interviews with our Undersecretary for Food Safety, the steps that have been taken with regard to Mexico since the OIG report was released. Information was not contained in that news report, including the fact that we have done additional inspections of Mexican plants, that we prohibited the plant in question from exporting products to the U.S., during the time they were in non-compliance, and that we continue to do reviews with regard to those Mexican plants.

I agree with you that we absolutely need to maintain the integrity of these inspection systems. What we do when we go into another country where we allow imports, is to certify their inspection system, and then we do regular checks on the plants within that system to determine whether or not they are meeting the criteria. If not, steps are taken to ensure that the criteria are met or the plant is prohibited from exporting products to the United States. They have been taken with Mexico since the 2000 OIG report and we continue to review those systems to make sure that there is no issue with regard to those meat plants.

We have increased money within the budget with regard to conducting foreign program reviews in Mexico and other countries and we are continuing to review those issues. Mexican imports, as I understand it, are re-inspected at the border by USDA inspectors at a rate of a 100 percent.

Senator KOHL. Are you suggesting that the basic premise and impression of the direct statements, in quotes, that were made in that article on Monday are inaccurate, and that the public that read that article should, for the most part, disregard its import and its inference?

Secretary VENEMAN. Mr. Chairman, I think that rather than saying it is inaccurate, I would say that the article did not tell the whole picture of what has happened over the last year or so with regard to the OIG report. We have gone in and inspected the plants, we have taken steps since the report to correct any violations, and we don't believe that the article accurately reflected the actions that have been taken in the recent months.

Senator KOHL. Well, how often are foreign meat-packing plants inspected by USDA?

Secretary VENEMAN. Mr. Chairman, I will have to get back to you with the answer to that. I do not have that particular information.

[The information follows:]

In light of recent animal health diseases in Europe and bioterrorist threats both in the United States and abroad, FSIS' certification process for foreign inspection programs has become a subject of heightened interest. Annually, we review all foreign inspection systems in countries eligible to export meat and poultry to the United States. In fiscal year 2001, FSIS reviewed the documentation of and performed on-site audits in 27 of the 32 countries eligible to export meat and poultry

products to the United States, as well as two countries requesting eligibility, and was satisfied that all 29 countries had implemented Sanitation Standard Operating Procedures (SSOPs), HACCP systems, and pathogen testing programs. These audits included visits to 217 slaughter and processing establishments and 82 laboratories. FSIS did not audit four countries (Austria, Ireland, Northern Ireland, and England) in 2001 because the September 11 events disrupted planned travel. The fifth (Uruguay) was delayed because of foot and mouth disease concerns that might have resulted in its delistment. Those issues were resolved, and Uruguay was audited from January 14 through February 1, 2002. There were no major deficiencies. FSIS has rescheduled the four remaining audits for 2002.

Dr. COLLINS. I can say with regard to Mexico, we audited three plants in November, and we have planned an audit again in April of this year. So that is two sets of audits within several months. I cannot tell you what the schedule is for all the countries of the world.

Senator KOHL. Well, the obvious question that comes up is if a product is being shipped from foreign plants into this country to be consumed by the American public, shouldn't the level of inspection be comparable to inspections here in this country?

Secretary VENEMAN. We do certify that the countries from which meat is imported have systems that are equivalent to those here in the United States, including having inspectors in the plants from those countries that are trained to enforce U.S. inspection standards.

Senator KOHL. However, isn't it a fair question to ask, if that is true, how something like what occurred in that story, as reported, could have happened?

Secretary VENEMAN. As Dr. Collins indicated, we have audited three plants, as I understand it. I can certainly have our Undersecretary for Food Safety further elaborate on this for you, Senator, and get more information to you.

[The information follows:]

Our international efforts include ensuring that imported product is safe for consumption and held to the highest standards of food safety. I take the recent reports of poor sanitary conditions in meat plants in Mexico and the questions concerning USDA's auditing and plant certification in Mexico very seriously. For this reason, I requested Under Secretary Murano travel to Mexico to get an assessment of the situation. During this visit, she, along with the FSIS Acting Administrator and other USDA officials, met with Dr. Javier Trujillo, Director of Food Safety for Mexico, and other Mexican government officials to measure their level of commitment to maintaining a meat inspection system that is equivalent to the United States. They took the opportunity to visit several plants in question to see the sanitary conditions first hand. We will continue to ensure that every effort is being made in Mexico and all other eligible exporting countries to maintain the highest level of sanitary conditions and will keep you apprized of the progress.

To ensure that foreign countries exporting meat and poultry products to the U.S. have equivalent inspection systems, the Agency performs on-site audits of those systems, monitoring, verifying, and evaluating the effectiveness of the controls that are in place to meet Federal requirements. In fiscal year 2001, the Agency completed routine audits of establishments, laboratories performing residue and microbiological analyses, and government inspection systems in 29 countries.

The equivalence of the foreign inspection systems audited is assessed by focusing on five risk areas: sanitation, animal disease, residue controls, slaughter/processed product controls, and enforcement controls. In addition, as part of the audit of each country, the Agency evaluates HACCP programs, SSOPs, and generic E. coli and Salmonella testing procedures.

During fiscal year 2001, FSIS completed development of a reprogrammed Automated Import Information System (AIIS) and a planned revision of the sampling of imported products. Both initiatives were described in a public meeting on June 8, 2001. The new AIIS is expected to become operational nationwide in the first half of 2002. At that time, FSIS will begin a port-of-entry sampling approach that fo-

cuses on the performance of a country's inspection system, rather than on individual plants within the system. The new approach is similar to that used to monitor Canadian imports for over 10 years. The new system will also use the same HACCP product category codes used by the domestic program, so that new information on risks associated with products can be incorporated into port-of entry sampling.

In fiscal year 2001, FSIS conducted the annual Meat and Poultry Inspection Seminar for Foreign Government Officials, which was attended by 62 government officials from 37 countries, at the FSIS training Center in College Station, Texas. Two sessions were held in fiscal year 2001 to accommodate the growing popularity of the program. The objective of the Seminar is to increase the understanding of foreign government inspection officials of the U.S. inspection and livestock production systems in order to assist them in developing inspection systems and in accepting U.S. exports.

Senator KOHL. Well, do you believe that additional inspectors should be hired? How many inspectors, and how much money would it take to ensure that foreign meat-packing plants were inspected often enough to adequately ensure that meat imported into the United States is safe for American consumers? It seems to me that you would agree that is our responsibility to be able to ensure the safety of the American consumer's food supply.

Secretary VENEMAN. Oh, absolutely. We need to ensure that we have—

Senator KOHL. And to rely entirely on foreign assurances that this is being done, it seems to me, is not adequate, and this case demonstrated that it is not an adequate kind of a procedure for us to go forward with. The basic question is, what are your thoughts and what are your plans with respect to providing assurances that product brought into this country are as safe as products that are produced in this country?

Secretary VENEMAN. Well, as I indicated, Senator, our Food Safety and Inspection Service does review the systems of other countries. FSIS does not just review and certify the inspection systems, but they conduct regular reviews to ensure that a plant's certification meets our inspection standards. We will continue to review foreign inspection systems.

We are absolutely committed to making sure that the safety of the food supply in this country is in terms of the product that is coming in from other countries—as safe as it can possibly be. I think that we want to do everything we can to assure consumers that this is the case.

Senator KOHL. Well, let me just end my questioning on this matter by asking you whether or not one of your primary hopes and goals during your tenure is to improve the quality of inspection that takes place on foreign product imported into this country? There is a job that needs to be done; there are problems that need to be addressed; and ours is not, by any means, a system which has been perfected sufficiently, and it needs a lot of attention. Do you agree with that?

Secretary VENEMAN. Mr. Chairman, I am absolutely committed to doing everything that we can to assuring that we continually improve food safety in this country. To the extent that we need to improve the systems of reviewing meat coming in from other countries we want to continue to make sure we enhance those systems to the maximum extent possible.

Senator KOHL. Okay. I will leave it with this comment. I get the impression you are saying, look, it is one of many, many things we



do, and we will continue to work at it. And again, my impression is that you believe that what we read on Monday is basically not accurate and does not raise clearly that there is an urgent problem that needs to be addressed. It is my impression that you do not look at this that way, and you can respond to that. I will move on to my next question.

Secretary VENEMAN. Mr. Chairman, my feeling is, from what I have been told by our folks, is that what we read on Monday did not accurately reflect all that the Department is doing to ensure that the systems are as complete as possible. It did not include the fact that checks have been done on these systems, that we have reviewed these plants since that time, and that the article simply did not reflect the complete story, in terms of what has been done since the OIG report was issued.

#### TRADE WITH CHINA

Senator KOHL. Okay. Secretary Veneman, a recurring theme in foreign policy discussions is the need to promote trade and open markets. Recently, President Bush was in China and had hoped to persuade that government to relax its rules in regard to imports of genetically-modified crops. Reports indicate that President Bush was less than 100 percent successful, and at stake are pending shipments of soybeans and other commodities and our long-term access to substantial markets abroad.

Can you give us an update on the negotiations with the Chinese and the issue of biotechnology barriers to that market?

Secretary VENEMAN. Well, as you know, Mr. Chairman, and as you indicated, the Chinese have pending biotechnology regulations. It has created some difficulty with soybean shipments from the United States into that market in recent months. In the last year, we have had a tremendous market for exporting soybeans to China, and that's a market we want to maintain. It is a market that is being hampered by the proposed regulations, and we are concerned that once the regulations are implemented, they could cause difficulties for our exports to resume, so we have been working very, very hard on this issue. We have had many contacts with the Chinese government. Our embassy in China has been very active on this. As you indicated, the President raised this when he was in China this week.

We intend to aggressively pursue this issue to maintain the ability of our producers to export into this market. Now that China is a member of the WTO, if we have to we do have dispute settlement mechanisms available to us, something that we did not have before the time that China came into the WTO. We will continue to pursue every lead we possibly can to ensure that we can keep markets open as they should be.

#### BIOTECHNOLOGY

Senator KOHL. Do you think that better segregation of genetically-modified products might be necessary to avoid similar trade problems in the future? If so, what can USDA do to help facilitate and expedite such a process?

Secretary VENEMAN. I believe 60 to 70 percent of our soybeans are now products of biotechnology, because they are producing a

superior product, but it is difficult to segregate. The system can segregate if, in fact, there is a need to do that, but there is an extra cost, because it basically takes the product out of the commodities system.

The important issue here, I believe, is that we have regulatory reviews of our products of biotechnology. There is no issue with regard to the safety of those products, there is no distinguishable difference from those products, and we believe they ought to have access to the global marketplace.

Senator KOHL. I thank you, and I would like now to turn to my friend and the distinguished ranking member of this subcommittee, Senator Cochran.

#### HOMELAND SECURITY SUPPLEMENTAL

Senator COCHRAN. Mr. Chairman, thank you. Madam Secretary, the budget request appears to me to be well-balanced among the many responsibilities and programs administered by the Department of Agriculture. I notice research programs, for example, will receive extra funding in the homeland security area. Food safety and the integrity of our food production resources are also given higher priority. Specifically, an additional \$15 million is allocated to the Food Safety and Inspection Service in the Homeland Security Supplemental Funding for this fiscal year.

I am curious to know if you can tell us how the money is being spent. How is it being allocated in that FSIS account?

Secretary VENEMAN. We did obtain about \$328 million in the Defense Supplemental Appropriations, and within the appropriation, some of the funding was designated to certain agencies. We are now in the process of working with each of our agencies to determine how exactly they are going to spend the money to ensure that it is appropriately utilized for the purposes for which it was intended. We have an ongoing process to make sure that we are not just looking at this from a single-agency-by-agency process, but one that integrates all of the agencies together to see how we can best integrate our programs.

I cannot tell you exactly what the \$15 million in the FSIS budget will fund, but we are conducting a comprehensive review to look at the entire \$328 million and determine how that should be spent within the USDA budget.

Senator COCHRAN. Well, I know some substantial amount is being spent to complete research facilities, if I am not mistaken, that will be used to try to help protect the integrity of our food production aspects. And APHIS has needs, I understand, that were also provided additional funding in the emergency supplemental. That is a lot of money to have at this point in the year without some more specific idea of how the funds are to be used, it seems to me.

Secretary VENEMAN. Well, I do not want to indicate that we do not have any specific ideas on how to designate the funding, because we do, I just wanted to let you know that we have not made the final decisions, because the process is ongoing.

We do have specific needs, as you indicated, in the laboratory areas. We have been working on our laboratories for some time, in terms of repair and enhancement needs. Since September 11 and

with some of the issues that we have faced in recent years, there is a need to make sure that our laboratory system is strong and ready to respond and react to any issue that they may be confronted with.

In addition, we are continuing to do research on a number of issues. In the money that is allocated to FSIS, there is a total of about \$28 million, as I understand it, that is being requested in the 2003 budget.

What FSIS has proposed in the 2003 budget is to improve information technology infrastructure, support the implementation of improvements to management, and an increase of \$2.7 million to include slaughter, epidemiological surveys, and risk prevention.

I may have Mr. Dewhurst comment briefly on the process that we are going through with regard to the Defense Supplemental.

Mr. DEWHURST. The Secretary wanted to be sure that we used that \$328 million in the most effective way possible so we asked all of the Department's agencies that are involved with that money, specifically FSIS, the Animal and Plant Health Inspection Service, the Agricultural Research Service, and a number of our staff organizations, to present detailed plans to the Department for the use of that money. Those plans have now come in.

The Homeland Security Council in the Department, that the Secretary has established, reviewed those plans earlier this week. FSIS has made some proposals to strengthen some aspects of its inspection system, to improve security at some of its laboratory and diagnostic facilities, and to make some investments in technology. As you might expect when you go through an activity like this, you find that when you call on USDA agencies for information, you inevitably find some issues with respect to coordination, with respect to making sure everybody is on the same page, in terms of the priorities.

And so the agencies and the Undersecretaries involved have been given a very short period of time, to go back and take another look at their proposals in light of those concerns. Our intention is to provide the Congress with a complete report on how we are going to use that money in very short order.

Senator COCHRAN. When do you think we can expect to receive that report?

Mr. DEWHURST. Well, I am talking about making these decisions in a week or two, and we should have a report shortly thereafter.

Senator COCHRAN. Okay. I think we are entitled to know what the plans are in some specificity, because we have, in this budget request, some additional funding that is being requested for the same activities, and it would be good to have a complete picture before we are called upon to actually make the decisions of how we provide for those needs in our bill.

#### FARM BILL FUNDING

Let me ask you this, too, about the farm bill; I mentioned that we are beginning to work—the House and Senate staff on the legislative committee has been meeting to identify areas of agreement where we can resolve differences early. It looks as though this may take a little longer than some people are hoping. There is a lot of

pressure on the Congress to act now, to complete action on this farm bill.

But in that connection, there is a big difference between the two pieces of legislation. The House bill is a 10 year bill, as compared to a Senate 5 year bill, in effect, because most of the funding in the Senate bill occurs up front. That is, the majority of the funding is spent in the earliest years of the life of the Senate bill, whereas it seems to be spaced out more evenly over time in the House bill.

So I wonder if you have any observations to make about what the considerations of the Administration will be on that subject. I am glad to see the Administration becoming involved in the process and giving us the benefit of your thoughts. And while it may be outside the purview of this hearing, it does have funding implications, and it does have implications for our appropriations bill. Do you have any comments about that, Madam Secretary?

Secretary VENEMAN. I do, Senator, and I appreciate the question, because I think it is a very important issue that, not only I have been talking about on behalf of the Administration, but the President has commented on this as well. As was indicated, the \$73.5 billion was included in the budget. We have made it clear that the provision contained in the farm bill ought to reflect the House bill, and that this funding should be spent relatively evenly over the 10 year period. We are concerned about the fact that the Senate bill would front-load the spending, thereby undermining the baseline for agriculture in the out years. We believe that the conference should come out with a bill that is similar to the House bill, in the respect that it more evenly spends the amount of money allocated. I believe the bill that you offered, Senator, did the same thing, in terms of spending relatively evenly over the time period allotted.

We do not believe it is wise to front-load the spending, as I said, and we believe that it should be spent evenly or relatively evenly over the 10 year period.

#### FARM BILL IMPLEMENTATION

Senator COCHRAN. One other consequence of the new farm bill would be its potential impact on the costs of Farm Service Agency staffing and operations, and information technology requirements. Will additional funding be needed from this committee to implement farm bill programs in a timely manner? Is the department reviewing these needs to help us understand what the funding implications might be of the new farm bill in that connection?

Secretary VENEMAN. Senator, we are reviewing all of these issues. Our staffing needs are going to be dependent upon what is ultimately agreed to by the Congress and signed by the President, in terms of a new farm bill, and whether it involves a lot of new programs.

As I indicated in my opening remarks, one of the things that this budget does is it includes a fair amount of money for new technology. We believe that new technology is extremely important to the future of our Administration of the farm programs. The ability of farmers, for example, to access information online, to apply online, to use e-Government-type solutions for better delivery of services, is not just a matter of increased people, but it is how we are able to develop the systems to administer our programs.

Recently, when I was in Georgia, I was able to visit with a seminar of people that were coming together from the FSA and looking at different ways to get all our maps online. Now, pen and ink maps of all the farms are still maintained in most county offices. There is an ongoing process to get all of the maps online so that they can be integrated with NRCS maps, so that we can have better coordination of our services, create a more farmer-friendly ability to deliver our programs, give farmers the ability to access information from their home computers and the ability to deal with their farm decisions.

So I believe that we are going to have to look at staffing and technology together for the future, and it is going to depend on what we end up getting in the overall farm bill.

We do maintain in this budget consistent staffing for the Farm Service Agency, anticipating that the implementation of a farm bill is going to take a considerable amount of time and effort on the part of our employees. We are going to be looking at, as you suggest, what the needs are going to be in the long term, given the fact that we will have a new farm policy to administer.

Senator COCHRAN. Thank you. Thank you, Mr. Chairman.

Senator KOHL. Thank you, Senator Cochran. Senator Byrd?

#### HUMANE SLAUGHTER

Senator BYRD. Thank you, Mr. Chairman. Madam Secretary, the fiscal year 2001 Supplemental Appropriations Bill included \$3 million for activities related to the treatment of animals, of which no less than \$1 million was to be used to enhance humane slaughter practices as established under the jurisdiction of the Food Safety Inspection Service. Can you explain how those funds have been allocated and the status of the actions initiated by the supplemental funding?

Secretary VENEMAN. Senator, since that involves such a specific line item, I am going to have Mr. Dewhurst answer that question for me.

Senator BYRD. Very well. Mr. Dewhurst?

Mr. DEWHURST. Senator, of those funds, \$1,250,000 has been allocated to the Food Safety and Inspection Service. The FSIS has used those funds to hire an additional 17 veterinary medical specialists. These are folks who move from plant to plant and who have humane slaughter as their primary responsibility. They had been brought into the system to make sure that every effort is stepped up and that the agency's responsibilities in that area are carried out.

An additional \$1,250,000 has been allocated to the Animal and Plant Health Inspection Service to strengthen their work in support of the Animal Welfare Act. They have hired some additional staff, they are doing some additional inspections, and they are doing a large amount of additional training for animal handlers in this country to assure that humane methods are used.

Consistent with what the Congress asked us to do, the remainder of the money has been allocated to the Agricultural Research Service and to the Cooperative State Research, Education, and Extension Service for research in technologies that would encourage the humane slaughter and handling of animals.

So the money has been distributed and is being used consistent with congressional intent. We owe the Congress a report on that subject. We will have that report in short order and will give you a much more detailed review.

Senator BYRD. Well, I was going to ask the question about the Senate report that was recommended by the Supplemental Appropriations Bill, the committee report—that bill fiscal year 2001. And at this point, no report has yet reached this committee.

When you said “in short order,” what do you mean by that? How soon may this committee expect that report?

Mr. DEWHURST. It is very hard to say exactly when, since we have not received it from the agencies yet. Can I say within the next 3 to 4 weeks, and that we will do everything we can to get it earlier than that.

Senator BYRD. Very well. And would you please write me a letter to tell me that report is submitted so that I know it is being submitted and so that I will be able to read it?

Mr. DEWHURST. Yes, sir.

[The information follows:]

LETTER FROM ANN M. VENEMAN

OFFICE OF THE SECRETARY,  
Washington, DC, April 4, 2002.

Hon. ROBERT C. BYRD,  
*Chairman, Committee on Appropriations, United States Senate, S-128, U.S. Capitol, Washington, DC.*

DEAR MR. CHAIRMAN: The Senate Report (S. Rpt. 107-33) accompanying the fiscal year 2001 Supplemental Appropriations Act (Public Law 107-20), directed the Secretary of Agriculture to “provide a report to the Committee on Appropriations of the House and the Senate as soon as possible on activities of the Animal and Plant Health Inspection Service, the Food Safety and Inspection Service, and agencies under the jurisdiction of the Under Secretary for Research, Education and Economics regarding reported cases of inhumane animal treatment, the response of USDA regulatory agencies, and the research, development, and promotion of technologies to help reduce the incidence of such treatment.” This report is enclosed.

We have provided copies of this Report to Senator Stevens and all Members of the Committee, in addition to Members of the House Committee on Appropriations. If you have any questions or comments, or would like us to brief you on this subject, please feel free to call the USDA Office of Congressional Relations at (202) 720-7095.

Sincerely,

ANN M. VENEMAN,  
*Secretary.*

Senator BYRD. You will do that? How many slaughter plants are there in this country?

Mr. DEWHURST. Speaking from memory, I think it is about 8,000.

Senator BYRD. Eight thousand?

Mr. DEWHURST. Approximately.

Senator BYRD. There are those who suggest that the only way to assure that animals are not being treated cruelly in slaughter plants is to assign a Federal inspector to each plant to provide continuous observation of stunning and killing operations. If you are correct in that there are 8,000 plants, this probably is not a very viable suggestion.

If full-time inspectors cannot be continuously placed in plants, what assurances can you give, Madam Secretary, that all animals will be treated humanely and that cases of animals being butch-

ered while still alive or facing other unspeakable torments will not again occur?

Secretary VENEMAN. We have inspectors in each of our meat plants. We just looked at some information. It is not 8,000, but 6,000 plants of which 950 are slaughter plants and the remaining are processing establishments, and we have 7,600 full-time inspectors. Meat plants do have inspectors present when they are running, part of our meat inspectors' obligation is to look at the slaughter methods and review the slaughter methods to ensure that the animals are being properly handled.

Senator BYRD. So what do you propose to do to tighten up this operation and make as sure as possible that animals are being slaughtered humanely?

Secretary VENEMAN. We are continuing to train inspectors to ensure that they have the latest information on humane slaughter, to ensure that they are continually aware of the issues regarding humane slaughter. I recall a series of articles last year where industry is also doing additional training of their own employees to ensure humane slaughter practices are being maintained in meat plants.

Senator BYRD. Do you have inspection personnel that can visit slaughter establishments on a regular basis?

Secretary VENEMAN. As Mr. Dewhurst indicated, we do have an additional 17 veterinary medical specialists who were assigned from the additional supplemental funding that do oversee the in-plant enforcement of humane slaughter. So that is a new addition.

Senator BYRD. Understand that between January 1998 and January of 2002, 16 agency actions were taken to withhold or suspend plant operations for violations of the Humane Methods of Slaughter Act. What comment do you have on that? That is 4 years. Over a period of 4 years, over 16 agency actions were taken to withhold or suspend plant operations for violations of the Humane Methods of Slaughter Act.

Secretary VENEMAN. Again, sir, I believe that, certainly, there is always room for improvement, but the fact of the matter remains that there are these additional inspectors that we have put in place to oversee the humane slaughter issues. We are continuing to improve education of our in-plant inspectors on the issues relating to humane slaughter, and we are going to continue to pursue humane slaughter issues to assure that we are doing everything possible to maintain humane slaughter practices in the plants.

Senator BYRD. What was the total number of violations or possible violations of the Humane Methods of Slaughter Act that were reported for corrective action or further action during that period of 4 years?

Secretary VENEMAN. Senator, I do not know the answer to that question. We would have to get that information to you in writing. [The information follows:]

The report shows that in the last 4 years, 16 facilities were suspended from receiving Federal meat and poultry inspection services due to systemic non-compliance with humane handling or slaughter requirements. FSIS also issued 117 warnings of non-compliance since October 2001, which have been corrected to prevent recurrence.

Senator BYRD. Very well. Does anyone at the table have more to say on this question? Can anyone offer me any further information?

Madam Secretary, I noted you gave the committee a statement numbering 24 pages. Not one word did I see in that statement about the humane methods of Slaughter Act. I may be mistaken. Perhaps there is something in it, but I have glanced, at least cursorily, through the statement, and there has not been a word said about this subject matter. Is it not important enough to include in your statement—that animals were not being slaughtered humanely?

Secretary VENEMAN. As I indicated earlier, I had read some of the articles earlier last year. As I indicated in my statement, we are committed, through our Food Safety and Inspection Service, to the highest levels of funding ever in that agency, which is the agency that oversees the humane slaughter of animals. We have included additional inspectors, as I have indicated in my earlier remarks. We take this issue very seriously, as we do food safety issues and all of the issues that we deal with in our Department. We will continue to do everything we can to improve these systems and to enhance the education and training of our employees in this area.

Senator BYRD. Well, now, the \$3 million, I believe, was included in my request in the supplemental. How much is the President asking for in this budget, the 2003 budget, for this purpose?

Secretary VENEMAN. Go ahead.

Mr. DEWHURST. The President's budget includes enough money to carry forward the things we are doing with the \$3 million. In other words, there is money in the FSIS budget to continue to employ the additional veterinary inspectors that we have hired with the money. I do not want to mislead you; there is not an increase, but there is money in the President's budget to carry on the commitments we made with the \$3 million.

Senator BYRD. Do you need additional inspectors to enhance the proper treatment of animals in the slaughtering plants? Do you need additional inspectors? I think this is a matter of considerable importance, and I am sure that the people of this country support my conclusion in that respect.

Madam Secretary, where in your statement is there information about this matter? The report that the Committee requested in the 2001 supplemental has not been received by this Committee. Now, do you need additional inspectors to do the proper job? These animals cannot speak for themselves. They suffer pain, just as do human beings. Step on a cat's tail. Step on the dog's foot. And the answer is: pain. I am waiting for your answer. Could you use additional inspectors?

Secretary VENEMAN. Sir, we have included in this budget the total number of inspectors that the agency has said that they need to properly do the job that they have been asked to do. What we have said is that the budget fully funds the inspectors that the agency indicates that they will need to do food safety inspections. So my best advice from the agency is that what we have requested in this budget is the total number of inspectors that we will need.

Senator BYRD. And that number is what?

Secretary VENEMAN. Seventy-six hundred.



Senator BYRD. Not 7,600 looking after the humane slaughter practices?

Secretary VENEMAN. Seventy-six hundred.

Senator BYRD. I do not think you are saying that, are you?

Secretary VENEMAN. Seventy-six hundred total inspectors, and the inspectors have a responsibility for overseeing humane slaughter, as well as meat inspection within the plants. In addition, as I indicated, there have been 17 veterinary medical specialists who have been hired to oversee humane slaughter and the practices that are going on in the plants, in other words, an extra layer just to review this particular issue.

Senator BYRD. And will the 17 employed by the \$3 million that I included in the—

Secretary VENEMAN. Yes, sir, that is my understanding.

Senator BYRD. Well, let us find out if we need more.

Secretary VENEMAN. We will be happy to do that. We will be happy to go back to our Food Safety and Inspection Service and determine whether or not additional employees are needed.

Senator BYRD. For what? What am I asking for?

Secretary VENEMAN. For the humane slaughter review.

Senator BYRD. Right. And to enforce all of the laws that are already in the book. Alright, then we will get the report then within 3 weeks that was requested in the 2001 supplemental—

Secretary VENEMAN. Yes, we will get that report to you as quickly as possible, and hopefully within the time period you have indicated. We will do everything we can to get that report done as quickly as possible.

Senator BYRD. You indicate—there are some facts and figures in that report in response to some of the questions that I have asked.

Secretary VENEMAN. Yes, sir.

Senator BYRD. For example, will these inspectors need to be veterinarians to properly serve this function? Well new inspectors will be required to meet the requirement of having a Federal inspector in each plant to provide continuous observation of stunning and killing operations. According to news stories that you yourselves have read, some of these animals are being—they are not being killed.

Be prepared to answer some questions on this subject. These animals have nobody to speak for them, and the agencies need to take seriously this subcommittee's interest in this matter.

The scriptures say that, "The righteous man regardeth the life of his beasts." Think about it.

Mr. Chairman, I have further questions, but I have taken enough time. I am not very satisfied with the responses. I will have to say that. It does not seem to be a concern down at the agency that many of us have in this matter and of the fact that the American people expect the agency to do its work in this regard. We should not stand by casually and allow animals to be brutalized in the slaughter plants. They should be slaughtered humanely and in accordance with the law.

This subcommittee is going to expect you, Madam Secretary, to see that the agency shapes up in this regard and does these things. We are concerned. I hope you will be, too.

Secretary VENEMAN. Sir, I am concerned, and we will do everything possible to make sure the slaughter plants are in compliance with the law. That is our obligation.

Senator BYRD. I thank you, and we will expect the report on time. Thank you.

Senator KOHL. Thank you, Senator Byrd. Senator Craig?

#### RURAL DEVELOPMENT

Senator CRAIG. Chairman, thank you. Madam Secretary, one of the things that has happened in public land and rural States like mine, as access to public-land resources have declined dramatically over the last decade, is substantial dislocation of people and negative economic impact in many of these communities that are not only ag-related, but they are forest-related, mining-related, and it is largely our people have been locked off the land and away from those resources by public policy, substantial economic dislocation has occurred.

Rural economic development is critical, whether it be in that blended kind of economy that I have just spoken of, or a purely ag-economy. As agriculture has consolidated, there are fewer people living in these communities. There is a struggle to keep infrastructure whole and, in doing so, to be able to go out then and attract other kinds of industries to come into those communities.

In the 2003 budget, we see a fairly flat funding. And while I understand that to some degree, I would like an explanation as to why in the relatively flat funding we see a reduction from \$4.1 billion in 2002 to \$2.6 billion in 2003 in the direct loans and guaranteed loans for rural electric systems, and the explanation is reflective of anticipated demand. So if you could explain that to me.

Also, then, if we are at flat funding and we have dislocated or readjusted about \$1.5 billion, where did that money go, and does it stay within rural development?

Secretary VENEMAN. I am going to have Mr. Dewhurst answer the specifics on the budget.

Senator CRAIG. Okay.

Mr. DEWHURST. Well, you are correct, Senator. For electric loans in this budget, we had \$2.6 billion in 2001. We have \$4.1 billion in 2002. The 2003 budget is back at essentially the \$2.6 billion level. We had a number of programs in the 2002 bill that were increased significantly in anticipation of demand for those programs. At the time we were putting this budget together last fall, demand for electric loans had not appeared. We did not have the resources to budget for that demand in 2003 without cutting other programs. So the budget put those programs back at the 2001 level.

One of the things that is happening to us in rural development in our credit programs is that the subsidy costs of these programs are increasing, because as we are doing a more thorough job of auditing our books, and we are finding out that the risks in some of these loans are higher than we had anticipated. So the budget authority that you provide in the Appropriations Act to support these programs is becoming more precious. Where we did not have absolute proof of demand, although we had rising costs, we had to be fairly conservative in the funding levels for the programs.

## RURAL WATER AND WASTE LOAN PROGRAM

Senator CRAIG. One of the areas of high concern, I think, to all of us in these rural areas, especially with many of them just financially strapped—I mean, I have a couple of small communities in Idaho who are being looked at to meet water standards, and I am suggesting that EPA—we have one where the EPA wants to level a fine of \$10,000 a day to a very small community that has less than \$10,000 in its treasury. Now, I think it is pretty damned counterproductive for that to happen. What they are in need of is a grant to help them put in a water system, not to sit there and sock them around as a Federal agency is doing at this moment. In the area of water and waste water programs, are we at level or below-level funding?

Mr. DEWHURST. I will just say that we are a little below the 2002 level and about the same as the 2001 level. We need loans and grants for rural water and waste-disposal systems. Of course, what we do with the community is help them figure out what they can afford by way of a loan.

Senator CRAIG. Exactly.

Mr. DEWHURST. We then make the difference in a grant. The grants, of course, count against the budget, dollar for dollar. This may be interesting, in fiscal year 2002, we have \$894 million for the water and waste loan program. It costs us loan level of \$62 million in budget authority. That is the anticipated subsidy. In the 2003 budget, you only have \$814 million for the loan level. But it costs us \$92 million in budget authority. In other words, we had to find \$30 million in increased funds within our budget targets even to finance the \$814 million loan level. That is because the subsidy costs of the program have increased.

So I do not have a fancy answer for you, other than to say we used every dollar we had within the budget targets to try to do the best we could for the water and sewer systems budget of the Department.

Secretary VENEMAN. Senator, can I just add one more thing to that? I do understand the issues with regard to some of these small rural communities looking at enforcement actions. We have had some success in this regard, and we would be happy to work with you and with some of your communities where we can put our EPA and USDA folks together to help people try to comply with the EPA requirements. We have been working together, Administrator Whitman and I, on these kinds of issues.

## RURAL DEVELOPMENT COORDINATION

Senator CRAIG. Well, it is good news to think that we have agencies that are actually talking to each other. That is a rarity in this town, especially when sometimes they run parallel to each other and do not do so. So actually, with EPA doing what I am not suggesting it not do, other than it deal in a softer-glove approach in causing and directing folks to get things done, to have USDA talking with them and seeing where they can coordinate can and should be a very real plus.

In the new farm bill, when it emerges, I trust that there will a substantially stronger rural development title in there. I have been

a part of putting some authorizing language in there, as have others—National Rural Development Partnership Act, I and others have crafted and we put it in there. One of the things that is true there, and I think will be helpful to us, is to create a more seamless relationship between local, State, and Federal cooperation and agencies. Now, my folks say that the greater bounce for the buck comes when they receive block grants that are specific in character and they can direct those resources. The State Department of Agriculture in Idaho expresses that. Do you see that as an important or a positive approach in moving progressively in these areas of rural development?

Secretary VENEMAN. Absolutely, Senator. We talked a lot about the need to look differently at rural communities in the policy book that we put out, and I could not agree with you more that we need to continually review our programs and our policies with regard to rural communities and how we can best help them. Part of that is developing the infrastructure so that they are not left behind, but a lot of it is also utilizing collaborative approach with rural communities by having local input into decision making. I think we saw that in the implementation of the Secure Rural Schools Self-Determination Act of 2000. Last December, you came to the Department to join me in announcing the release of \$384 million in payments to States for schools, road projects, and forest stewardship projects, where we have and will continue to collaborate with local communities. I could not agree more that that is extremely important.

We did have, in the emergency supplemental bill that was passed by the Congress and signed by the President in August, specific block grants to State Departments of Agriculture, and as you indicated, that has been very popular with the State Departments of Agriculture. They were in town this week, and they again expressed this to me. Whether or not that will ultimately end up as something that emerges from the bill, I am not sure, but we certainly do have a number of programs that assist States in specific areas, particularly the State Departments of Agriculture and the pest and disease prevention and eradication efforts. I know that there is increasing interest in these kinds of programs, as well.

But the collaboration, in my view, has become ever more important since the events of September 11. If we are to have homeland security work correctly, we need to have local, State, and Federal officials all working together, not only to prevent any unfortunate circumstances, but to react in the event that something might happen. So I absolutely agree that collaboration has to be stronger than ever.

Senator CRAIG. Well, thank you very much, Madam Secretary. Several of my colleagues have covered other questions that I think are of concern to us as it relates to the overall budget for the coming year. As I have mentioned earlier, and as I mentioned in my opening statement, I think timeliness this year and sending the right messages are going to be critically important as our agricultural producers struggle to get back on their feet and need to get their loan packages put together, an element of certainty is critical, and that may not be that clear as we struggle to conference a new farm policy. So I think that we, through the budget, can offer that

kind of stability or anticipation, maybe better than the policy itself will.

Thank you.

Senator KOHL. Thank you, Senator Craig. Senator Durbin?

FARM BILL PROPOSAL—EXTENDING FOOD STAMP BENEFITS TO LEGAL IMMIGRANTS

Senator DURBIN. Thank you, Mr. Chairman. Madam Secretary, thank you for joining us. In your opening statement, you reiterated the Administration's position of extending food stamps to legal immigrants who have been here for 5 years. In the farm bill, which Senator Harkin brought to the floor, we cosponsored an amendment with Senator Lugar that established that—the vote was 96 to 1 in the Senate. We were very proud of that.

I am asking the Administration, particularly if you would be willing to write a letter to the conferees, since it is not included in the House version, to make it clear that that is the Administration position and that you would like to see this in the final farm bill as enacted.

Secretary VENEMAN. Well, I think our position on that is very clear. It is in the 2003 budget. If we need to write an additional letter, we can certainly reiterate what we have already stated.

[The information follows:]

LETTER FROM ANN M. VENEMAN

SECRETARY OF AGRICULTURE, OFFICE OF THE SECRETARY,  
*Washington DC, March 13, 2002.*

Hon. LARRY COMBEST,  
*Chairman, Committee on Agriculture, U.S. House of Representatives, 1026 Longworth House Office Building, Washington, DC.*

DEAR CHAIRMAN COMBEST: At this critical point for the farm bill, I would like to reiterate the Administration's main requirements for forward-looking, bipartisan consensus legislation.

Farm bill funding is our top concern, since it affects all policy. The Administration believes that the new farm bill must honor the limits of the Congressional Budget Resolution. Consistent with this Resolution, Congress should not pass a farm bill that exceeds \$73.5 billion. We will strongly oppose any effort by the Conferees to ignore the Congress' own spending limits.

The Senate-passed bill frontloads the 10-year funding into the first 5 years, placing the future of farm programs in jeopardy for the second 5 years. The Senate bill also sharply reduces or terminates funding for roughly fifteen rural, conservation and commodity programs after 2006 in order to compensate for this ill-advised frontloading. We will strongly oppose any frontloaded farm bill that allocates more than \$36.8 billion in the first 5 years.

The farm bill must support farmers without encouraging overproduction and further depressing prices. The Administration continues to support marketing loan rates—an existing countercyclical program—that are equivalent to those contained in the House bill.

The Administration supports a strong, reliable safety net. The House bill's increased funding for fixed decoupled payments ensures farmers a consistent, predictable income safety net while maintaining market-oriented planting flexibility.

The Administration supports additional risk management tools to help non-program crop producers, and has proposed the use of farm savings accounts to complement traditional farm support programs. The Administration urges expansion of the Senate's farm savings account pilot program in order to provide a broader base of assistance without causing planting and marketing distortions.

The Administration has stressed the absolutely critical importance of increased trade to America's farmers, and we have strongly urged that the new farm bill must support trade and be consistent with our international obligations. The House bill's fixed decoupled payments are "green box" and meet our trade obligations, while

Senate provisions increase the likelihood of U.S. non-compliance. Both the House and the Senate have worked hard to include "circuit breaker" provisions to help ensure compliance with our WTO obligations. The USDA has suggested some modifications to the Senate's language, which we ask the Conferees to consider.

The Administration strongly objects to any changes in existing law regulating the sale of food and medicines to Cuba. We oppose repeal of prohibition on private financing by U.S. persons of sales of agricultural commodities to Cuba.

The Administration continues to oppose country of origin labeling. Provisions in both bills potentially violate international trade agreements, raise costs for consumers, particularly low-income Americans, and does nothing for food safety.

The Administration supports a Farm Bill with a strong conservation title that bolsters working land stewardship, supplements farmers' and ranchers' income, improves water quality, provides wildlife habitat, conserves water and protects open space. We have made a particular commitment to conservation programs for working lands, such as EQIP and a new Grasslands Reserve Program. We also support growth in established conservation programs such as CRP, WRP, FPP and WHIP. However, we are concerned that the Senate's new Conservation Security Program commits to open-ended spending risking future funding for these established programs, without assuring cost effective environmental benefits. We suggest a pilot approach to develop tools for measuring benefits and establish justifiable payment rates.

We also commend the Senate for including a provision making legal aliens living in the U.S. for at least 5 years eligible for food stamps. This is a key component of the President's budget, and we encourage the Conferees to include it in the final bill. The Administration has also proposed an improved Quality Control system that we believe, represents an effective and balanced approach to ensuring payment accuracy in the Food Stamp Program.

Achieving a solid farm bill to assist farmers and ranchers in challenging times is of top priority for the Administration. The Administration looks forward to working with you toward an expeditious conclusion to the conference and a bipartisan farm bill that will best help America's producers in the coming years.

Sincerely,

ANN M. VENEMAN.

Senator DURBIN. I hope you can do it. Thank you. Madam Secretary, when my wife and I were first married, I gave—her first Christmas gift was a puppy. I bought her a little black puppy. It was a Newfoundland. And I should have looked ahead, because in a matter of about 8 months, it turned into 120-pound dog. And it used to push its way out the back door in Springfield, Illinois, and get in a world of trouble—stealing balls off the playground from kids, and dragging laundry off lines—and we would always get phone calls, and I always knew when the phone conversation started out, "Do you own a big, black dog," that we were in trouble.

You own a big dog, Madam Secretary. It is food safety. And every time that phone rings, you are in trouble, because you are dealing with an issue that is spread over 12 different Federal agencies, 35 different laws, 28 different committees, as I said in my opening statement.

You just stated that if we are going to be serious about homeland security, we have to coordinate things. Well, I have heard from the President, the Vice President, Secretary Thompson, and from you, as well, that food safety and security is one of those things that needs to be coordinated. And I sincerely hope that—my plea—is to try to move this Administration toward consolidating the food safety and security under one agency, which is consistent with President Bush's campaign pledge, will really be part of next year's proposal. It clearly is not part of this year's proposal. And it leaves a lot of questions unresolved.

## FOOD SAFETY IN THE NATIONAL SCHOOL LUNCH PROGRAM

Let me give you one specific example, the school lunch program. Each day today, 28 million kids will eat school lunches. And it is shocking to learn that the number of food-borne illnesses linked to school lunches increased by 56 percent between 1990 and 1997. Now, this was before you came on the scene and had this responsibility, but it has been clear to me that the Federal agencies lack the necessary authority to deal with something as serious as food-borne illnesses in the school-lunch program, such as recall authority, which seems so basic, that if someone is supplying a food product to the school lunch program, it is found to be contaminated and to make children ill, you do not have the authority to recall that product that has been distributed to other schools. It does not make any sense. And there is little or no coordination between the State and the local governments in enforcing any of these laws relative to the school lunch program.

As you sit there, can you point to anything that is currently being done in your department in this area of food safety in school lunch programs that can lead me to believe that you are sensitive to this and moving toward dealing with the problem?

Secretary VENEMAN. We have been looking very carefully at the school lunch program and food safety. In fact, I have directed our Agricultural Marketing Service, which does the actual procurement of the commodities served in the school lunch program, to work directly with our Food and Nutrition Service and the Food Safety and Inspection Service personnel so that we have a consolidated and coordinated effort in looking at the school lunch food safety issues. These agencies have worked in their stove pipes in the past, and we want to make sure that we have a coordinated food safety effort for school lunch programs, and for school lunch purchases and for school lunch contracts. These agencies will work together to ensure the safety of the food served in this program, and ensure that any decisions made, are made jointly with input from all of these agencies.

Now, I had not heard the statistic you talked about, in terms of food-borne illness, but we know, from CDC studies, that over 80 percent of food-borne illness is from improper handling of product. If these statistics are correct, then I think we need to make sure that people in the school lunch programs that are serving our children school lunches are properly trained in how to handle food.

Senator DURBIN. That is right.

Secretary VENEMAN. It is food handling that is the biggest problem.

Senator DURBIN. It is.

Secretary VENEMAN. People are not trained today in how to handle food, and we need to make sure that people in our schools are properly handling the food.

## FOOD SAFETY RECALL AUTHORITY

Senator DURBIN. When your predecessor came before my Subcommittee in Government Affairs and spoke of food safety, he made that point as well, but he also said, "I really wish I had the authority—when I found out that there was contaminated food being dis-

tributed to schools across America—that I had the authority to recall that food. I do not have that authority, under law.” Americans, families, mothers and fathers are shocked to know that. Would that not be an important tool and weapon for you to have in those cases where you deal with contaminated food that could endanger school children?

Secretary VENEMAN. Well, it is an authority that I think is certainly worth talking about. On the other hand, I will say that, without the authority, we have been able to get, through the voluntary recall process, most product that needs to be recalled off the shelves. I recall when this was a Health Department issue, not a USDA issue. I was in California in the State Department of Food and Agriculture at the time of the processed strawberry issue which I believe was in 1997. Through working with the Health Departments and working with trace-back of the product, USDA was able to get most of the product voluntarily recalled—I believe all of it.

Senator DURBIN. Secretary, I do not think you could sell that position to any group of parents in America. To tell them that you do not need the authority to recall contaminated food that has been distributed to schools, will be hard to explain. I just—I do not think you are going to be able to sell that, and I really hope you will take another look at it, because it is one of the proposals which I am going to bring in the area of food safety.

I am giving you a tool which you may never need or never use, but when you need it, you need it right now. And a lot of parents are counting on you because of your responsibility in the school lunch.

#### FOOD AID

Let me, if I can do two other quick questions, and I thank the committee for their forbearance. The Administration has made a significant policy decision in this budget when it comes to food aid programs not to use surplus commodities. Now, they have moved around some money to provide for food aid overseas from other sources. The net result of it—and I was at a hearing yesterday with the USAID administrator, Mr. Natsios—the net result of this, Senator Harkin, is that we will provide less food assistance as a Nation to the world next year than we do this year. I do not think the world is going on a diet. I think the world is still hungry. And, in fact, more children are going to be born into it. We will put less food aid in that world, and I think that is a bad decision.

But let me ask you, just from an economic viewpoint, going back to some economics courses I took many years ago, if we have low farm prices and a surplus that is not being utilized and used, does that surplus not act as a damper on prices and keep them down? Is it not in the best interest of our production agriculture for us to use our surplus, exhaust our surplus, not have carryover, so that prices can rise, as opposed to be diminished by the Administration’s new policy of not using surplus commodities?

Secretary VENEMAN. Let me just clarify the Administration’s position. The Administration’s position is founded on the fact that it is better to use Congressionally-allocated funds through Title II of Public Law 480, rather than using section 416(b) authority through



mandatory CCC funding for the bulk of our food aid donations. This budget allocates additional amounts into the Public Law 480 Title II account as opposed to depending upon section 416(b) for substantial amounts of our donations.

Now, at the same time, USDA retains the section 416(b) authority within the budget. It talks about using section 416(b) specifically, I believe, for the donation of nonfat dried milk, which we do have in surplus. While the budget anticipates the use primarily of Public Law 480 for the food aid purchases that are needed, our food aid authorities, contained in section 416(b) are still an available tool. It is just that we do not anticipate using it to the degree that it has been used in the past, but rather shifting that to the Public Law 480 Title II program.

Senator DURBIN. Basic question: Would a larger surplus of a commodity reduce the price on the market or raise the price on the market?

Secretary VENEMAN. Well, basic economics would say it reduces the price on the market.

Senator DURBIN. And so reducing the size of the surplus helps bring up market prices for farmers across America, correct?

Secretary VENEMAN. Yes.

Senator DURBIN. And if the Administration's policy is not going to reduce the size of the surplus, then it is going to keep farm prices down and increase the cost of the farm program, correct?

Secretary VENEMAN. Well, Senator, we are not undermining our commitment to food aid in this country. I do not want, in any way, to leave that impression. The question is through what authority should food aid be funded? Is it going to be funded through Public Law 480 Title II, which is discretionary funding, or should it primarily be funded through section 416(b), which is mandatory CCC funding. I think that is where the debate is, not our commitment to helping people around the world and helping our farmers by getting—

Senator DURBIN. I want to pursue this with you, because I think if Mr. Natsios' comments yesterday, that we will provide less food to a hungry world next year—this seems like a very flawed approach.

I have several other questions, but I have taken too much time. Thank you, Mr. Chairman.

Senator KOHL. Thank you, Senator Durbin. Senator Specter?

#### STATEMENT OF SENATOR ARLEN SPECTER

Senator SPECTER. Thank you, Mr. Chairman. I join my colleagues in welcoming you here, Madam Secretary, you and your associates. How are you enjoying the job?

Secretary VENEMAN. It depends on the day.

Senator SPECTER. Well, aside from today, how are you—

Secretary VENEMAN. It is going very well.

Senator SPECTER. This is the annual ritual, Madam Secretary. You will get used to it. As they said to Mrs. Lincoln, "Aside from that, how did you like the play?"

But day in and day out, do you find it rewarding?

Secretary VENEMAN. It is very rewarding. We have a very diverse Department covering everything from farm programs to food and

nutrition programs to food safety, as was talked about, so we really have a very diverse group of issues which we are dealing with, and it is very rewarding to be able to serve in this time in our country.

#### FARM BILL FUNDING

Senator SPECTER. I see Senator Harkin here—he and I work very closely on the Subcommittee on Labor, Health, Human Services, and Education—and I infer he has not questioned yet, so what do you think of the Harkin Farm Bill?

How much too expensive is it?

Secretary VENEMAN. Well, as I indicated—

Senator SPECTER. It is called a loaded question, Madam Secretary.

Senator Harkin taught me how to ask those.

Secretary VENEMAN. As I indicated in my earlier comments with Senator Cochran, we are concerned about spending the money that has been allocated by the Budget Committee relatively evenly over the 10 years. I think that the principles that the Administration has outlined for the farm bill have been clearly stated, and are keeping within the budget agreement and allocating that money evenly over the 5 years, making sure that we have a safety net that does not overly increase production, thereby depressing prices, making sure that the farm bill is consistent with our trade obligations, and making sure that we have good conservation practices. The Administration is hopeful that all of these principles, as well as the possibility of creating another tool for farmers and ranchers through the establishment of farm savings accounts, can become part of the final farm bill that is being discussed by conference committee.

Senator SPECTER. Well, I know the Administration will weigh in at the conference, and we urge you to do that. It was a tough vote. I supported the bill. I think we need to go to conference. I was concerned about the cost. Many of the programs there were very important for the Nation. There was a step forward on limiting the payments and trying to avoid having the giant farmers get so much of the money. Nationally, it is a critical bill.

I spent my early days in the State of Kansas, worked on a farm as a teenager, and I know how hard the work is. And the farmers do need support. So for Pennsylvania, the fruit growers needed a little help.

#### DAIRY COMPACT

They got a little, not a whole lot. The dairy farmers needed help. We have been fighting for a compact, but do not seem to be able to get one. We have—when I said that I worked closely with Senator Harkin, I did not mean to exclude working closely with Senator Cochran and Senator Kohl. Senator Cochran and I, for the last 22 years, have sat next to each other on the Appropriations Committee. And Senator Kohl and I, elected in 1988 and worked very closely on Ruby Ridge where he was the author of great changes and modifications in the use of deadly force, but he has been a very tough deadly-forcer on the compact issue.

But what can we do, short of the compact, which we are not likely to get, to avoid these enormous shifts, swings in price? Our dairy

farmers in Pennsylvania go from \$16 a hundred weight to less than \$10 a hundred weight, and they are being driven out of business. And there just needs to be some stability there. What can we do?

Secretary VENEMAN. Well, I am going to ask our Chief Economist, Dr. Collins, to assist me in the answer of that question, because it really is one of economics.

Senator SPECTER. No, I have asked him the question before, and I have never found out.

Okay, Dr. Collins.

Dr. COLLINS. Well, I will do my best to continue my record.

That is a difficult question. I mean, one thing obviously we can do is to extend the price support program for dairy, which is scheduled to terminate in May of this year. That would be one thing we could do. Some of the variability we have seen in the dairy market over the last couple of years has been driven by weather, for example. Of course, we export very little, we import very little and 98 percent of what we consume is produced here. So what happens with our production often determines these swings in price. Last year we had some poor weather, and we had the lowest increase in milk production in 15 years. In fact, that gave us very high prices. We had the second-highest milk price in history in 2001. Now, this year, we expect a lower price. So some of this variability simply comes from the normal market forces that are related to weather.

I think one thing we could do is develop some type of price or risk-management program for dairy producers, beyond what we were talking about with the price-support level that the government provides.

Senator SPECTER. Dr. Collins, I know this is a complex subject. What I would like you to do, without taking any more of the time, because there are more questions here, is to give me a memorandum on it as to where you think we might head on stabilizing prices, an option paper. Because I know that is something everybody wants to accomplish.

Dr. COLLINS. I would be happy to do that.

Senator SPECTER. We do not have any more problems coming from Australia and New Zealand, do we?

Dr. COLLINS. I have not looked at the data recently, but I don't believe so.

Senator SPECTER. Senator Cochran and I and Senator Symms made a trip there in 1982, and we thought we solved that problem. I just wanted to be sure.

Dr. COLLINS. I will check on that for you.

#### LOAN DEFICIENCY PAYMENTS

Senator SPECTER. Okay. Finally, an issue which is parochial, but very important to the farmers in Erie. In the fall of 2000, the USDA ruled that farmers were ineligible for Federal loan-deficiency payments because they had filled out the forms wrong on the advice of Federal Farm Service Agency employees. I would not be surprised if you were unaware of that, Madam Secretary, but people were asked to pay back lots of money with interest, not getting anymore payments. And what I would like you to do is take a look at it. I saw your efficient staff just handed you a memo. That

is what you call good staff work, handing you a memo to answer a question which you could not possibly know all the details on. But what I would like you to do is to take a look at it and provide a written response as to what we might do.

These farmers, hundreds of them, were misled. And it is not their fault. And if they got payments that they were not entitled to, then, okay, maybe there will be an offset, but we should not talk about interest, we should not talk about penalizing for something that was not their fault, that the employees did, if, in fact, that is true. And I believe it is true. So if you would provide me with a written response, I would appreciate it. Thank you very much.

Secretary VENEMAN. We will be happy to do that, sir.

[The information follows:]

#### ERRONEOUS LOAN DEFICIENCY PAYMENTS

A review of the Erie County FSA Office revealed that the office had issued incorrect 1998- and 1999-crop loan deficiency payments (LDP's) to producers by using the previous day's LDP rate to calculate the payments. As a result, some participants were underpaid and others were overpaid.

For those who were underpaid, FSA issued additional payments based on the correct LDP rate. For those who were overpaid, the Erie County FSA Office issued letters requiring refund of the overpayments (the difference between the incorrect payment and the recalculated amount based on the correct LDP rate). Interest was waived from the date of the erroneous disbursement to the date of notification to the producer of the overpayment amount. There were approximately 730 incorrect overpayments totaling \$115,198.34.

Participants who had been overpaid had the opportunity to appeal FSA's decision to require refunds. In most of the cases that were appealed, the National Appeals Division (NAD) upheld the FSA decision because the producers had been told that the LDP rate being used in calculating the payment was that of the previous day. In the few cases where the producer had not been told, NAD reversed the FSA decision.

At the end of fiscal year 2001, there were 53 producers with outstanding overpayment amounts totaling \$48,464.29. In October 2001, the Pennsylvania State Office was instructed to proceed with collection action.

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

Senator KOHL. Thank you, Senator Specter. Senator Harkin, you have been patient, and we will call on you.

#### FARM BILL FUNDING

Senator HARKIN. Thank you very much, Mr. Chairman. And, Madam Secretary, welcome again to the committee. And I just again want to publicly thank you and all of your staff for the close work that we have had as we have labored through this farm bill on the Senate side, and we finally got it through. And I can say publicly that at no time have I or my staff ever sought to get information or any kind of data or colloquies, correspondence with your department, that we have not gotten it and gotten it in good time, so I just really appreciate that very good working relationship.

I also want to add at this time, I did not speak with Senator Specter before we came in here.

We came in together, but we did not huddle out there, so I did not give him that question. I want that on the record.

However, since he asked, I do want to spend some time—I had not planned on this, but I do want to spend a little bit of time talking about the Senate bill and the buzz I am hearing now. First, I

would look at just Page 4 of your written testimony. And it says here “the new farm bill should be generous, but affordable. It should provide a reasonable safety net without encouraging over-production and depressing prices.” I believe we have a safety net in the Senate farm bill, counter-cyclical. “It should establish farm savings accounts.” That is in our bill, not the House bill. “It should support our commitment to open trade.” We have got money in there for the Foreign Market Development Program, the Market Assistance Program, more than the House has got. “We should offer incentives for good conservation practices on working lands.” We have the CSP program, not the House bill. “And we should enhance nutrition programs.” The House has \$3.6 billion for nutrition. We have \$8.9 billion for nutrition.

Are you sure you do not support the Senate farm bill?

I mean, I read that, and I say, well, wait a minute, that looks just like what we did when you compare it to the House bill.

But the buzz I am hearing now—I talked to my Governor from Iowa last evening, and he said that they had been at the White House. And I said, “Well, did the President talked about agriculture?” He said, “Well, they did ask him about the farm bill, and his response was that there was too much front loading. There was too much money spent in the early years.” And that is really all he said. And that is what the President said when he was in Colorado. It just seems to be something that is fixed in his head, that he just keeps saying this.

So what I would like to explore with you for awhile is that, because I think there is a lot of misinformation out there about the budget aspects of the Senate farm bill, and I kind of want to get to the bottom of it. And let us bring some factual accuracy. My staff gave me this little chart here. It is from the Congressional Budget Office. As I understand, the Administration said that the farm bill must abide by the Congressional Budget Resolution that was adopted last May.

Again, for the record, I want to point out that was a budget resolution passed by a Republican House, a Republican Senate, and supported by a Republican president. I want to make that clear. This is—we are not talking about any new budget that came out of the Senate or anything like that.

That budget resolution provides for \$73.5 billion in new spending over 2002 to 2011. The budget resolution contains no restrictions on how that money is divided up among the years except that no more than \$7.35 billion is to be spent in the year 2002. Do you agree with that description, Madam Secretary?

Secretary VENEMAN. I believe that is correct, but I have not seen the language specifically.

Senator HARKIN. Just stating the facts. Now, if you look at the final CBO scoring of the Senate farm bill—the final CBO scoring of the Senate farm bill—you will see that the CBO analysis shows new budget authority of \$73.5 billion over 2002–2011 period, with \$7.1 billion in fiscal year 2002. From the standpoint of outlays, okay—outlays, let us make sure we are talking about the same thing, outlays, in terms of spending—CBO shows new spending of \$72.9 billion—that is from our farm bill—over the 2002–2011 period—\$5.9 billion of that in fiscal 2002.

So, again, I ask you, Madam Secretary, would you agree that those CBO figures show that the Senate bill complies with the congressional budget resolution? Does the Senate bill comply with the congressional budget resolution?

Secretary VENEMAN. Senator, I just now saw the CBO chart for the first time.

Secretary HARKIN. You have had the CBO numbers, surely, before now. This is just a chart. You do not have—you can forget about the chart, just listen to the numbers—just get your people to—

Secretary VENEMAN. No, as far as I understand it, the 10 year total for the farm bill is \$73.5 billion.

Senator HARKIN. That is right.

Secretary VENEMAN. So any bill must stay within that number.

Senator HARKIN. Do you agree that the Senate—

Secretary VENEMAN. The concern—

Senator HARKIN. Does the Senate bill stay within that number?

Secretary VENEMAN. According to the CBO numbers, that is correct. The concern, as I have expressed it to you before and today at this hearing, is that the Administration's position is that the spending should be used relatively evenly over a 10 year period. I think what you were referring to with regard to what the President said is that there is a concern about spending too much money in the first 5 years, and not reserving enough for the second 5 years.

Senator HARKIN. I am—

Secretary VENEMAN. I understand we have a difference of opinion on that.

Senator HARKIN. No, I do not want opinions. I just want facts. Right now. We will get into the opinions some other time. I just want facts now, because we are talking about front-loading, and I want to—I am now going to get to—I just wanted to establish the fact that the Senate farm bill does comply with the budget resolution passed last year and supported by this President. And that fact is yes. And does anyone dispute that? If they do, please say so.

Now I want to get into the front-loading issue. It is coming up. Now, what we have done in the Senate farm bill is, I believe—is to try to help farmers who are struggling right now. Now, this is just in the opinion part of it, perhaps. We try to help farmers that are struggling right now. Low commodity prices. Very low commodity prices. We then continue a strong income protection into the later years and build that into the baseline for the next farm bill. There is no reduction in the safety net for the program crops in later years.

But CBO says the safety net will cost less in later years, because CBO predicts that commodity prices will increase over the next 10 years. That is what CBO said. Prices will increase over the next 10 years. The safety net will cost less.

And so, again, as I understand it, the Administration position is—is the new farm bill should put less emphasis on helping farm families now so that there might be more funds on paper in the budget baseline for 2009 or 2010 or 2011 in the next farm bill. It seems to me that that is backwards. Now, that is opinion. I am getting into opinion here.

Now I will go back to facts. The budget resolution—there is no constraint on how we divide up the \$73.5 billion. Now, the Administration has come in and said, “We want it evenly spent.” Okay. At the time the budget resolution was adopted, we had this chart issued. It lays out the assumptions in how that is going to be spent over the years. The budget resolution that was passed shows that the larger share of the \$73.5 billion would be spent in the first 5 years, as compared to the second 5 years. That is this budget resolution that was passed last year by the House and the Senate and supported by the President.

Specifically. Specifically. Factually, assumption by the CBO was that \$40.25 billion of the \$73.5 billion would be spent in 2002 to 2006, the first 5 years.

Again, Madam Secretary, I ask are those assumptions that were in that budget resolution—is that what the Administration is opposed to?

I will repeat the question. I know you are talking with your staff. What I have pointed out was in the budget resolution passed last year, CBO assumed that \$40.25 billion would be spent in the first 5 years. Are you opposed—is the Administration opposed to that? Is that the front loading that the Administration is opposed to?

Secretary VENEMAN. Well, we have not taken a position on what CBO did in terms of scoring the budget resolution. What we have done is said that the amount of money over the 10 year period that has been allocated should be spent relatively evenly. The primary reason for that is to make sure that the producers have certainty in the out years as to what monies will be available, in terms of the baseline.

Senator HARKIN. I will get to that. I will get to that. Again, I do not know what “relatively” means. I am just saying that the budget resolution passed here last year, supported by this Administration, supported \$40.25 billion in the first 5 years. Are you now telling me you do not support that, the Administration does not support that, that they have changed their mind? If so, I would like to know.

Secretary VENEMAN. Sir, we supported the amount of money that was in the budget resolution, and we have said that the farm bill spending ought to maintain that amount of spending over the 10 year period, but it should be spent relatively evenly. We have never taken a position on how CBO scored that 10 year outlay.

Senator HARKIN. Okay. I will ask you again. CBO, last year, the budget—and that budget was supported by the Administration. That budget was supported by the Administration—\$40.25 billion is outlayed, is spent in the first 5 years. Again, I will ask again, does the Administration believe that \$40.25 billion in the first 5 years is too much?

Secretary VENEMAN. Again, Senator, what we support is the \$73.5 billion over 10 years. We have not taken a position—

Senator HARKIN. We are there. We have already agreed. We are there.

Secretary VENEMAN. Right.

Senator HARKIN. Now we—

Secretary VENEMAN. We have not taken a position on—

Senator HARKIN. How do I get this first 5 years?

Secretary VENEMAN. We have not taken a position on the way that CBO has scored the farm bill in the budget resolution. We have said that the money should be spent relatively evenly over the 10 year period.

Senator HARKIN. Help me out here. I do not know what “relatively” means. Now, 73.5 divided by ten, is that what you mean? Every year, it should be spent—exactly that number every year? Is that what you are saying?

Secretary VENEMAN. We are saying that the spending does not have to be exact, but I believe that, and I will ask Dr. Collins to correct me if I am wrong, the version of the House farm bill has spending relatively even—not exactly even, but relatively even in terms of the way the spending is allocated over the 10 year period. I believe that the bill that was proposed by Senators Cochran and Roberts had spending allocated relatively even over a 10 year period of time.

Senator HARKIN. Well, let us get to that. Well, evidently you do not want to comment on the budget resolution. Now, sometimes we can use it, and sometimes we cannot. It just depends on how it fits the facts. But the facts are—and this cannot be disputed—the budget resolution of last year supported \$40.25 billion for 5 years. Now, CBO has scored the Senate bill that we passed for 5 years. That scored \$40.38 billion for the same 5 years—one third of 1 percent more. Now I am to understand the Administration does not like that.

So that is—these are some of the facts that we have got to get out there on this so-called front-loading that we are doing. Now, I am not—as I understand it, you are not arguing that we should overturn the budget resolution of last year. Are you arguing that? I mean, because it did not do it relatively evenly over 10 years. It did \$40.25 billion in the first 5 years.

Now, if you are saying you want to overturn that, we ought to know about it, because I am getting a little upset with this talk about this front-loading all the time when I pointed out that our front-loading is \$130 million more in 5 years than the budget resolution, which is one-third of 1 percent.

Secretary VENEMAN. Senator, may I have Dr. Collins just comment briefly on this?

Senator HARKIN. Sure, glad to.

Dr. COLLINS. First of all, I guess I would say, going back to the original budget resolution, which did have year-by-year numbers in it that the Administration never took a position on those year-by-year numbers. It is our understanding that what the budget committee does in putting a year-by-year number in there is largely irrelevant, that it is up to the authorizing committee, your committee, to determine that spending pattern. So the position the Administration has taken all along has been on the \$73.5 billion and not on any year-to-year concept.

Regarding the question of front-loading, I think you can look at it in two lights. You can look at it in terms of outlays, which is the numbers you have been quoting. You can also look at it in terms of budget authority. I am not sure what the budget resolution applies to, whether it is BA or outlays. But certainly, in terms of budget authority, the Senate bill becomes even more front-loaded.



Now, you say we have seen the CBO numbers, but I actually had not. I saw the CBO numbers on the farm bill for the first time this morning. I think they were either released last night or this morning, so we really have not had a chance to study these numbers, and I have not seen the BA numbers from the CBO. I have only seen the outlay numbers, which were provided to me this morning. But the earlier BA as scored by CBO for the Senate bill was \$46 billion during the first 5 years—was \$45.8 billion during the first 5 years.

Senator HARKIN. Was that authority?

Dr. COLLINS. That was budget authority, yes, sir.

Senator HARKIN. Let us talk about spending. What is the—

Dr. COLLINS. Spending is the number you have quoted.

Senator HARKIN. Right, \$40.38 [billion].

Dr. COLLINS. Right. So I am saying the question of front-loading applies to both of the concepts of budget authority and spending so you have to keep both of those in mind.

Senator HARKIN. I will be glad to talk authority with you Keith, or I will talk outlays, but let us not keep—let us not move back and forth across the turf.

Dr. COLLINS. Fair enough.

Senator HARKIN. I will be glad to talk with you. If you want to talk authority, we will talk it. If you want to talk outlays, we will talk to that, too.

Dr. COLLINS. No, I am just trying to clarify why we have not taken a position on the year-by-year numbers from the original budget resolution.

Senator HARKIN. So you are saying that every year has got to be relatively even. I would like to figure out what “relatively” means and what the parameter means.

Dr. COLLINS. That is a good question.

Senator HARKIN [continuing]. Guidance and direction from the Administration on it.

Dr. COLLINS. I think that is a fair question.

Senator HARKIN. And I am just saying that we looked at the budget resolution, and we kept pretty close track of the budget resolution. That is the facts. Now, if the Administration said they do not like that budget resolution, well, that is another point, and maybe we can get onto it for that. But this idea of front-loading—again, getting into the opinion sector of it, it is like this. Let us say you have got a bad body wound, and you are bleeding profusely. You have cut an artery. Do you need a Band-aid or do you need a tourniquet? You need a tourniquet. Now, once you suture it up and you stop the bleeding and it heals a little bit and you have got a little scar, do you need a tourniquet or a Band-aid? You need a Band-aid then. But you do not need the same thing at every point along the line, in my opinion.

If you want to get into the opinion side of it, Madam Secretary, we have got extremely low prices right now, and we are going to have them for the next couple of years. We know that. Farmers are hurting—badly. They need the tourniquet now. I do not know what they are going to need in 2008 and 2009 and 2010. We are not going to have a 10 year farm bill. We are going to have a 5 year

farm bill. I think the House agrees with that, and I think the Senate agrees with that. We are going to have a 5 year farm bill.

Now, you said something about the baseline. Let me factually state for the record, the bill—the Senate bill—will not reduce the baseline for farm income protection. Under the Senate bill, when we get to 2006, there will be money in the CBO baseline for the income protection level in our bill. The baseline will adjust to commodity prices at that time. For example, we have an income protection price of \$5.75 a bushel for soybeans. The cost of that income protection would be built into the baseline at the end of this farm bill. Now, the costs may go up, or it may go down. But the CBO baseline will automatically adjust so that there is, in the baseline, enough money to fund that income protection level of \$5.75 a bushel for soybeans. Obviously, if prices go up, the income protection goes down. If prices go down, the income protection goes up. And that is the way the way we designed the bill.

The alternative to that? The alternative to that is to continue what we are doing, that is, Freedom to Farm direct payments every year, regardless of prices. That is the alternative. And that is what the House bill has got. If you want to just continue direct payments year after year, regardless of what the price is, well, then you just—that is the debate I guess we are going to have in conference. And I do not know what the Administration's position is going to be on that.

But I want to—there are two things we are doing. We are dealing with facts, in terms of how much we are spending on our bill in 5 years, compared to the budget resolution. Now, I did not compare it to what the Administration was, because I did not know what the Administration was. I hope maybe by the time we go to conference, I said to my colleagues here—at least Senator Cochran who is going to be on the conference—I hope maybe the Administration would define “relatively” for us.

What parameter does the Administration want? Does it want exactly evenly every year? Is it 2 percent deviation? Five percent? Ten percent? How much does the Administration mean by that? Then we can start arguing on the basis of opinion and sort of philosophy on whether or not we need some more money in the first 5 years. I have stated quite frankly for the record, I do believe we need more money in the first 5 years. I am not arguing that we should not—I believe we do. So if you call that front-loading, you call that front-loading. But to hear people talk about it, it is like we are taking all the money and putting it in 5 years, when we are not taking all the money and putting it in 5 years.

So all I can say is that, you know, the current CBO baseline—if the current CBO baseline, Freedom to Farm, will continue, we would have the same front-loading, have exactly the same front-loading if we continued Freedom to Farm, even payments, have the same front-loading, more so than what we have got.

So again, I just want to get those facts out there. And, you know, I think, Madam Secretary, you have said time and time again we need to rework the Freedom to Farm Bill. We need to rework that, and we have done it, and we have put money into conservation programs and rural development and farm savings accounts and everything like that—foreign market development programs, and we

have a reasonable safety net. We might argue about overproduction and depressing prices. That probably gets into the opinion level, I suppose. But I will continue to point out the facts of what it is, in terms of the budget we have and the budget resolution, and I will continue to ask the Administration for their definition of "relatively." Thank you, Madam Secretary.

Senator KOHL. Senator Cochran?

#### RURAL HOUSING SERVICE

Senator COCHRAN. Mr. Chairman, Senator Bond, who is helping manage the election reform bill, asked if I could raise an issue that impacts the Rural Housing Centralized Servicing Center in St. Louis and citizens applying for low-income rural housing loans. Madam Secretary, he asked if you could delay implementation of a new phone-conversation recording system until a series of his questions that have been provided to the department are answered.

Secretary VENEMAN. Certainly, we will be happy to look at that. I will review his questions and see if we can accommodate his concerns.

#### AGRICULTURAL RESEARCH

Senator COCHRAN. Thank you. Mr. Chairman, one comment, I suppose, rather than a question as we get to the end of this hearing. I noticed in the Secretary's testimony, there is a statement to this effect, "Commitments for agricultural research have not kept pace, and opportunities to take advantage of some of the Nation's best university-based scientific talent are being lost." I agree wholeheartedly with the Secretary's comment on that subject and that this is a problem that we need to address.

But despite the proposal to double the funding for the National Research Initiative, the overall level of funding in the budget that the secretary submits today for the Agricultural Research Service and the Cooperative State Research, Education, and Extension Service (excluding ARS building and facilities, emergency supplemental appropriations and proposed funding transfers for rental costs and employee pension and health annuitant benefits) is \$14 million below the fiscal year 2002 enacted levels. If we are going to meet the current and future challenges, such as genomics, land and animal management, pests and diseases, and genetically-modified organisms, we will have to invest more rather than less in our research efforts.

Mr. Chairman, thank you for your conduct of the hearing today. You have been eminently fair and patient. It is a pleasure to work with you, sir.

#### ADDITIONAL COMMITTEE QUESTIONS

Senator KOHL. Thank you, Senator Cochran. The subcommittee will be submitting questions for the record.

[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 HERB KOHL

## NRCS CONSERVATION RESERVE PROGRAM TECHNICAL ASSISTANCE

*Question.* Please provide information on the levels of technical assistance that were used to carry out the Conservation Reserve Program in fiscal year 2002.

*Answer.* In fiscal year 2002, a general signup of CRP acres is not being held, so technical assistance costs will be a result solely of acres signed up through the continuous and farmable wetlands programs. Technical assistance will be funded through provisions in the fiscal year 2002 Agriculture Appropriations Act permitting use of \$13 million in funds from the Environmental Quality Incentives Program and through a pilot program of direct contracts between the Commodity Credit Corporation and private entities.

*Question.* Please provide information in regard to SNOTEL operations in fiscal year 2002.

*Answer.* The increased funding level for SNOTEL in fiscal year 2002 allowed for all water supply forecasting and drought assessments to be fully supported this season. Also, operations of this automated snowpack monitoring system have been restored to full response with this increased funding and progress is being made on maintenance that had been deferred in recent years. At the current funding level, scheduled replacement of obsolete components at the two critical base meteor-burst radio stations is underway and needed replacements at the 660 remote SNOTEL stations will be carried out over the next several years.

*Question.* Please provide a status report on project items included under the heading of "Conservation Operations" on pages 68–69 of House Report 107–275 and any other projects that are included on pages 86–91 under the same heading in Senate Report 107–41.

*Answer.* NRCS will provide the Committee with a listing of the funds allocated to States for Conservation Operation project items. NRCS has requested that each State Conservationist submit a second quarter status for each project in their State. This status summary will also be provided.

[The information follows:]

NATURAL RESOURCES CONSERVATION SERVICE  
CONSERVATION OPERATIONS

STATE	FUND	PROJECT	CONGRESSIONAL LANGUAGE	FUNDING TO STATE
Alabama	CO-01	Sand Mountain Water Quality Conservation Project	(H)The Committee has included funding for the following new project: \$500,000 to the State of Alabama Soil & Water Conservation Committee for the Sand Mountain Water Quality Project. Conference, Funding is included for following item: \$300,000 for Sand Mtn WQ Project (AL)	\$300,000
Alabama	CO-01	Central AL/Birmingham WQ & Conservation initiative	(S)The Committee provides \$300,000 for the Central Alabama/Birmingham Water Quality and Conservation Initiative. Conference, Funding is included for following item: \$150,000 for Central AL/ Birmingham WQ Initiative.	\$150,000
Alabama	CO-01	Gulf Coast WQ & Conservation Initiative	(S)The Committee provides \$400,000 for the AL Gulf Coast Water Quality and Conservation Initiative. Conference, Funding is included for following item: \$200,000 for AL Gulf Coast WQ Conservation Initiative.	\$200,000
Alaska	CO-01	Harding Lake Association	(S)From within the available funds for the Alaska State Office, the Committee directs the Service to work with Harding Lake Association to study the Harding Lake Watershed.	\$50,000
Alaska	CO-01	Kenai Streambank Restoration Water Project	(S)The Committee continues funding at the FY2001 level for the Kenai Streambank restoration water project in fiscal year 2002.	\$450,000
Alaska	CO-01	Offices & Staff	(S)The Committee continues the fiscal year 2001 level of funding for two additional offices in Bethel and Nome in order for NRCS to have a presence in western Alaska and includes \$350,000 for new offices in Juneau and Glennallen in FY2002. Also, the committee provides an additional \$850,000 for funding necessary to support at least one staff position for each soil & water conservation district, a public information program, and assistance in rural Alaska. Conference: Funding is included for following items: Juneau and Glennallen Offices (AK) \$250,000; \$600,000 to staff each soil & water conservation District.	\$2,250,000
Alaska	CO-46	Cold Region Plants	(S)The Committee provides the FY 2001 level of funding to obtain and evaluate materials and seeds of plants indigenous to regions north of 52 degrees North Latitude and equivalent vegetated regions in the Southern hemisphere (south of 52 degrees South Latitude).The Committee directs the agency to continue working in conjunction with AK Division of Ag.in this effort.	\$300,000
Alaska	CO-46	Native Plant Materials evaluating and developing	(S)The Committee provides the fiscal year 2001 level of funding and increasing native plant materials in Alaska.	\$350,000
Alaska	CO-01	Seward/Resurrection River Watershed Project	(S)The Committee provides the FY2001 funding level for TA for the Seward/Resurrection River Watershed project, Alaska. The conference agreement does not include \$1,250,000 for the Seward/Resurrection River North Forest Area (AK) as proposed by the Senate.	\$0
Arizona	CO-01	Southwest Strategy(AZ & NM)	(S)The committee expects the NRCS to continue to support the Southwest Strategy and its coordinated effort to help address the natural resource, cultural resource, and economic issues facing the people of New Mexico and Arizona.	\$150,000
Arkansas	CO-01	National Water Management Center in Lonoke, AR	(H)The Committee encourages the NRCS to provide adequate funding to the National Water Management Center in Lonoke, AR.(S)The Committee provides the FY2001 level of funding for the National Water Mgt Center in Arkansas.	\$2,750,000
Arkansas	CO-01	Phase 2 of the Kuhn Bayou Project	(S)The committee directs the agency to proceed with Phase 2 of the Kuhn Bayou Project (Point Remove), Arkansas.	\$0
Arkansas	CO-01	Little Red River Irrigation Project	(S)The Committee provides \$750,000 for planning, design, and technical assistance associated with the Little Red River Irrigation Project in Arkansas. Conference, Funding is included for the following item: \$375,000 for Little Red River Irrigation Project.	\$375,000
Arkansas	CO-01	Upper Petit Jean Watershed Project	(S)The committee provides \$300,000 for the Upper Petit Jean Watershed Project, Arkansas. Conference, Funding is included for the following item: \$150,000 for the Upper Petit Jean Watershed Project.	\$150,000
Arkansas	CO-01	Walnut Bayou Irrigation Project	(S)The Committee provides \$250,000 for the planning and design associated with the Walnut Bayou Irrigation Project, ARK. Conference, Funding is included for the following item: \$125,000 for the Walnut Bayou Irrigation Project.	\$125,000
California	CO-01	Monterey Bay Sanctuary	(H)The Committee has included additional funding for the following projects: \$600,000 to establish an innovative, collaborative approach to protecting the resources of the Monterey Bay Sanctuary an increase of \$100,000.	\$600,000
California	CO-02	Lake Tahoe Basin	(H)The Committee has included additional funding for the following projects: \$300,000 of TA to the Lake Tahoe Basin Soil Conservation Project, an increase of \$50,000. (S)The Committee provides \$400,000 for the Backyard Conservation Program as part of the National Cooperative Soil Program. This funding is to be used to provide TA on grazing lands and backyard containment of water runoff in order to improve nutrient management and protect water resources in the Lake Tahoe Basin. Conference, Funding is included for the following item: \$350,000 for the Lake Tahoe Basin Project.	\$350,000
California	CO-01	Agricultural enhancement/ open space	(H)The Committee has included funding for the following new project: \$125,000 for an agriculture enhancement/open space plan in CA. Conference, Funding is included for the following item: \$375,000 for the Agriculture enhancement/open space project.	\$375,000
Delaware	CO-46	Expand cooperative efforts with DE State Univ. for plant materials	(H)The Committee has provided funding for project continuation of \$250,000 for cooperative efforts with Delaware State University.(S)The Committee provides the FY 2001 level of funding to expand the cooperative efforts with the Claude E Phillips Herbarium, Delaware.	\$250,000
Florida	CO-01	Coop agreement with Manatee Ag Water Reuse System Project	(H)The Committee has included funding for the following new project: \$1,000,000 for a cooperative agreement with the Manatee (FL) Agriculture Water Reuse System Project. Conference, Funding is included for the following item: \$500,000 for the Manatee Agriculture Reuse system project.	\$500,000

NATURAL RESOURCES CONSERVATION SERVICE  
CONSERVATION OPERATIONS

STATE	FUND	PROJECT	CONGRESSIONAL LANGUAGE	FUNDING TO STATE
Florida	CO-01	Creation and Implementation of pilot projects for innovative technology systems to treat waste and wastewater generated by confined animal feeding operations.	(H)The Committee has provided funding for the following as project continuations \$5,000,000 for the continued implementation and acceleration of pilot projects for innovative technology systems resulting in a 75 percent reduction in nutrients of wastewater discharged by animal feeding operations and associated animal processing facilities implemented by the not-for-profit Agriculture Facilities Administration & Management Corporation (AFAM) and entities such as the North Carolina Agricultural Finance Authority contracted by AFAM to assist in selecting, funding, implementing, and evaluating innovative systems through pilot projects. The conference agreement provides \$5,000,000, the same as fy 2001, for the continued implementation and acceleration of pilot projects for innovative technology systems resulting in a 75 % reduction in nutrients of wastewater discharged by AFO to be managed by Farm Pilot Project Coordination, Inc. The Secretary is directed to release these funds after submitting a report to the Committee on Appropriations that a satisfactory cooperative agreement between NRCS and Farm Pilot Coordination, Inc. has been consummated.	\$5,000,000
Georgia	CO-01	Cooperative Agreement with the Georgia Soil & Water Commission	(H)The Committee has included additional funding for the following projects: An additional \$575,000 for a cooperative agreement with the Georgia Soil & Water Conservation Commission for a total of \$1,000,000.	\$1,100,000
Georgia	CO-01	Georgia Agricultural Water Conservation Initiative	(S)The Committee provides \$1,000,000 in FY 2002 funding for the Georgia Agricultural Water Conservation Initiative. Conference, Funding is included for the following item: \$500,000 for the Georgia Agricultural Water Conservation Initiative project.	\$500,000
Hawaii	CO-46	Alien Weed Pests	(S)The Committee continues its concern for the serious threat to pastures and watersheds resulting from the introduction of alien weed pests into HI. The Committee directs the agency to work with the HI Dept of Ag and APHIS to develop an integrated approach, including environmentally safe biological controls, for eradicating these pests.	\$20,000
Hawaii	CO-46	Mokohai Agriculture Community Committee	(S) The Committee provides the fiscal year 2001 level of funding to continue support of agricultural development and resource conservation on the island of Mokohai and transition from small-scale conservation projects to those that benefit the community through sustainable economic impact.	\$250,000
Hawaii	CO-46	PMC for Native Plants to clean up the Island of Kahoolawe	(S) The Committee provides \$200,000, the same level available in fiscal year 2001 and \$100,000 above the budget request to improve the Hawaii Plant Materials Center's capability to propagate native plants to support the Federal cleanup of the Island of Kahoolawe and to facilitate the start-up of native plant nurseries.	\$300,000
Idaho	CO-01	Idaho One-Plan	(S)The Committee provides \$200,000 for FY2002 for the Idaho One-Plan, a test of the prototype Conservation Planning Module in the field with farmers and ranchers in Canyon county, Idaho.	\$200,000
Idaho	CO-01	Little Wood Irrigation District	(S)The committee provides \$750,000 for a feasibility study on the Little Wood River Irrigation District Gravity Pressure Delivery System in Idaho. Conference, Funding is included for the following item: \$500,000 for the Little Wood River Irrigation Project	\$500,000
Idaho	CO-01	Irrigation vicinity of Minidoka	(S)The committee provides \$750,000 to assist in the conversion to sprinkler irrigation in the vicinity of Minidoka, Idaho, in order to reduce water quality impairments resulting from the return of water runoff to the sealer by way of agricultural drain wells. Conference, Funding is included for the following item: \$500,000 for the conversion to sprinkler irrigation project	\$500,000
Illinois	CO-01	Trees Forever Program	(H) The Committee has included additional funding for the following projects: \$100,000 for the Trees Forever Program in Illinois.	\$100,000
Illinois	EQIP	Conservation measures in the Illinois River Basin (EQIP)	(H) The Committee directs the NRCS to use up to \$600,000 in EQIP funds for conservation measures in the Illinois River Basin.	\$600,000
Illinois	CO-01	Provide TA for Embarras River Watershed and Shad Lake	(H) The Committee encourages the NRCS to provide technical assistance for the Embarras River Watershed and Shad Lake in Illinois.	\$100,000
Iowa	CO-01	Hungry Canyon Erosion Control/Loess Hills Erosion/Western Iowa	(S) The Committee provides an increase of \$150,000 from the fiscal year 2001 level to address the erosion in the Loess Hills area in western Iowa. The Committee is aware that the Eastern Red Cedar and other invasive species of woody plants are having a very negative effect on prairies in the Loess Hills, a unique soil important to many rare animals and plants. The Committee urges that the Department support efforts to reduce this problem. Conference, Funding is included for the following item: \$800,000 for the Hungry Canyon/Loess Hills Erosion Control project	\$800,000
Iowa	CO-01	Trees Forever Program	(H) The Committee has provided for the continuation of following projects: \$100,000 for the Trees Forever Program in Iowa.	\$100,000
Iowa	CO-01	Implement CEMSA with Iowa Soybean Association	(S)The Committee provides \$300,000 to implement the Certified Environmental Management Systems for Agriculture (CEMSA) in cooperation with Iowa Soybean Association. CEMSA will be designed to assist producers to voluntarily adopt certified conservation plans and is expected to be implemented over a 3 year period at a total cost of \$1,000,000, with additional funds to be provided from non federal sources. Conference, Funding is included for the following item: \$200,000 to implement CEMSA with the Iowa Soybean Association	\$200,000
Iowa	CO-01	Cooperative Agreement with TIAER	(H)The Committee has provided funding for a cooperative agreement with the Texas Institute of Applied Environmental Research (TIAER) for watershed management and demonstration projects coordinated jointly by the National Pork Producers Council, Iowa Soybean Association and TIAER. The projects will utilize water quality research, demonstrating a voluntary and incentive driven certification program that will help row crop and livestock agricultural producers comply with national environmental water quality regulations. The Committee encourages NRCS to work with these groups to identify federal resources available for the demonstration program and provide necessary technical assistance. (S) The committee encourages the agency to support watershed management and demonstration projects in cooperation with the National Pork Producers Council.	\$100,000

NATURAL RESOURCES CONSERVATION SERVICE  
CONSERVATION OPERATIONS

STATE	FUND	PROJECT	CONGRESSIONAL LANGUAGE	FUNDING TO STATE
Kentucky	CO-01	KY soil erosion cost share program	(S)The Committee provides \$2,000,000 to provide TA for the KY Soil Erosion Control Cost-sharing Program. The Committee also encourages NRCS to enter into cooperative agreements with Kentucky Soil Conservation Districts to further the partnerships among these organizations. <i>Conference, Funding is included for the following item: \$1,700,000 for the Soil erosion control/soil survey program</i>	\$1,700,000
Kentucky	CO-02	Accelerate KY soil survey program	(S)The committee provides \$700,000 to accelerate the KY Soil Survey Program.	\$700,000
Louisiana	CO-01	Barataria-Terrebonne National Estuary Program	(S)The committee provides no less than \$250,000 above the FY2001 level of TA related to the Barataria-Terrebonne National Estuary Program. This program will assist in the reduction of non-point source pollution affecting water quality in the Gulf of Mexico and the lessening of the causes of hypoxia. Landowners in this area are encouraged to make application under EQIP to obtain financial assistance necessary to carry out this program. <i>Conference, Funding is included for the following item: \$125,000 for the Barataria-Terrebonne National Estuary Program</i>	\$125,000
Louisiana	CO-46	Golden Meadows PMC	(S)The Committee provides an increase from the FY2001 level for The Golden Meadows PMC for necessary facility improvements and to support ongoing work in the areas of coastal wetland plant species and coastal prairie plant restoration. <i>Conference, Funding is included for the following item: \$344,000 for the Golden Meadows PMC</i>	\$344,000
MA, NY, & CT	CO-01	Nature Conservancy's Weed It Now (WIN)	(H)The Committee directs the NRCS to fund the Nature Conservancy's Weed It Now (WIN) initiative in the Southern Taconic Mountains of Massachusetts, New York, and Connecticut. <i>Conference, Funding is included for the following item: \$100,000 for the Nature Conservancy's Weed It Now program</i>	\$100,000
MA & WI	CO-01	Conservation Programs related to Cranberry Production	(S)The Committee provides a total of \$600,000 for conservation programs related to cranberry production in the states of MA & WI	\$600,000
MD, VA, PA, DE, WV	CO-01	Chesapeake Bay Program (MD 28.8%, PA 22.3%, VA 23.4%, DE 8%, WV 9.1%, NY 8.4%)	(S) The Committee provides an increase of \$750,000 from FY 2001 level of funding for the Chesapeake Bay Program.	\$6,000,000
Mississippi	WF-08	Town Creek/Coonewah Creek	(H)The Committee encourages NRCS to provide TA & FA to the following project: To address flooding problems in Town Creek (S)The Committee provides \$250,000 for FY2002 to finish installing the remaining channel work on Coonewah Creek in Lee County. <i>Conference, Funding is provided to finish the installation of the remaining channel work on Coonewah Creek in Lee County, MS</i>	\$313,000
Mississippi	PL-08	Design flood water retarding structures in Town Creek WS, Carthage, MS	(S)The Committee provides \$500,000 for FY 2002 for study, planning, and design to implement floodwater retarding structures in the Town Creek Watershed, Carthage, MS.	\$580,000
Mississippi	WF-08	Pearl River Basin/Dry Creek Watershed	(S)The Committee provides \$350,000 for fiscal year 2002 for flood control in the Pearl River Basin, Dry Creek Watershed in Marion County, Mississippi. <i>Conference, Funding is provided for flood control in the Pearl River Basin, Dry Creek Watershed in Marion County, MS</i>	\$430,000
Mississippi	WF-03	Install grade stabilization structures in the Skuna River	(S)The Committee provides \$400,000 for FY2002 to install grade stabilization structures in the Skuna River, Mississippi. <i>Conference, Funding is provided for the installation of grade stabilization structures in the Skuna River in Mississippi</i>	\$625,000
Mississippi	CO-01	Franklin County	(S) The Committee provides the fiscal year 2001 level for technical assistance for Franklin County Lake, MS.	\$1,600,000
Mississippi	EQIP	EQIP National Priority Area in Delta Region	(S)The Committee directs the agency to maintain a national priority area pilot program under the guidelines of the EQIP in the Delta of the State of Mississippi.	\$1,560,000
Mississippi	CO-01	Miss. Delta Water Resources Study	(S) The Committee continues funding for the Delta Study at FY2001 level. Local sponsors are to work cooperatively with the NRCS so that water conservation, water supply evaluations, and environmental planning can proceed.	\$750,000
Mississippi	CO-01	Proper classification and taxonomic characteristics of sharkey soils.	(S) The Committee directs the agency to work with soil scientist at regional land grant universities to continue the pilot project in Washington, Sharkey, and Yazoo Counties, Mississippi to determine the proper classification and taxonomic characteristics of Sharkey Soils. NRCS is accomplishing as part of ongoing soil survey program in state.	Ongoing
Mississippi	CO-01	Delta Conservation Demonstration Center in Washington County	(S) The Committee provides an increase of \$500,000 from the fiscal year 2001 funding level for the Delta Conservation Demonstration Center, Washington County, Mississippi.	\$1,300,000
Mississippi	CO-01	Mill Creek Watershed	(S)The Committee provides \$1,000,000 in FY 2002 for a channel modification to the Mill Creek Watershed in the City of Magee, MS, to prevent further flooding. <i>Conference, Funding is included for the following item: \$900,000 for the Mill Creek Watershed</i>	\$900,000
Mississippi	CO-01	Squirrel Branch Drainage Project	(S) The Committee provides \$250,000 for fiscal year 2002 for the Squirrel Branch Drainage Project, Mississippi.	\$250,000
Mississippi	CO-01	Survey Chickasaw River	(S)The Committee provides \$100,000 for FY2002 to survey the Chickasaw River in Quitman, Mississippi, to provide planning and design for de-snagging and debris removal. <i>Conference, Funding is included for the following item: \$75,000 for the Chickasaw River-Quitman Planning and Design project</i>	\$75,000
Mississippi	CO-01	Cattle & nutrient management	(S)The Committee provides \$500,000 for FY2002 for cattle and nutrient management in stream crossings in cooperation with Mississippi Conservation Districts. <i>Conference, Funding is included for the following item: \$475,000 for the cattle and nutrient management project</i>	\$475,000
Mississippi	WF-03	Strayhorn Creek Watershed	(S)The Committee provides \$300,000 for FY2002 to provide bank stabilization structures in the Strayhorn Creek Watershed, Mississippi. <i>Conference, Funding is provided for bank stabilization structures in the Strayhorn Creek</i>	\$375,000
Mississippi	CO-01	Improve Drainage along Lyons Creek	(S)The Committee provides \$500,000 for FY2002 to improve drainage along Lyon Creek in Taylorsville, Mississippi. <i>Conference, Funding is included for the following item: \$400,000 for the Lyon Canyon Creek Drainage Improvement project in Taylorsville, MS</i>	\$400,000
Mississippi	CO-01	Cooperative agreement with Alcorn State University	(S)The Committee provides \$175,000 for FY2002 for a cooperative agreement between NRCS and Alcorn State University to analyze soil erosion and water quality by using demonstration sites.	\$175,000

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STATE	FUND	PROJECT	CONGRESSIONAL LANGUAGE	FUNDING TO STATE
Mississippi	CO-49	Jamie Whitten PMC	(S)The Committee provides \$300,000 for FY2002 to make improvements to the existing building and facilities at the Jamie Whitten PMC. Conference, Funding is included for the following item: \$275,000 for the Jamie Whitten PMC	\$275,000
Mississippi	CO-01	Mallard Pointe	(S) The Committee recommends the following provisions: Section 737. Notwithstanding any other provisions of law the NRCS shall provide FA & TA in the amount of \$150,000 to the Mallard Pointe Project in Madison county, MS. Conference, Sec. 744. Notwithstanding any other provisions of law, the NRCS shall provide FA & TA in the amount of \$150,000 to the Mallard Pointe project in Madison County, MS.	\$150,000
Mississippi	CO-01	Choctaw County Impoundment Study	(S)The Committee provides \$100,000 for FY2002 to provide a feasibility study for a surface impoundment in Choctaw County, MS. Conference, Funding is included for the following item: \$75,000 for the Choctaw County Feasibility Study for surface impoundment	\$75,000
Mississippi	CO-01	Wildlife Management Institute	(S) The committee provides an increase of \$1,000,000 from the FY2001 levels for developing and transferring fish & wildlife technology to states and field offices. Conference, Funding is included for the following item: \$5,609,000 for the Wildlife Management Institute	\$5,609,000
Missouri	CO-01	Water quality office serving the Upper White River Basin	(H)The Committee directs the NRCS to study the establishment of a water quality office serving the Upper White River Basin in MO. The Committee directs the Service to report on the 5 year cost, and the level of financial and human resources that would be required to establish such an office. The committee directs the Service to provide a report to the Committee on Appropriations by March 1, 2002 on this issue.	\$20,000
Nebraska	CO-01	National Agroforestry Center	(S) The Committee provides the fiscal year 2001 level of funding for agroforestry efforts in conjunction with the National Agroforestry Center in Lincoln, Nebraska	\$345,000
New Mexico	CO-01	Pilot Program to improve telecommunications capabilities	(H) The Committee has included additional funding for the following projects: \$1,500,000 for a pilot program to improve telecommunications capabilities in remote areas of New Mexico serving mostly minority or disadvantaged populations. The conference agreement does not include \$1,500,000 for field telecommunications pilot project program (NM) as proposed by the House.	\$0
New Mexico	CO-01	Southwest Strategy(AZ & NM)	(S)The committee expects the NRCS to continue to support the Southwest Strategy and its coordinated effort to help address the natural resource, cultural resource, and economic issues facing the people of New Mexico and Arizona.	\$150,000
New Jersey	CO-01	Slate Cost Share Program	(S)The Committee is aware of the additional demands for conservation TA resulting from the New Jersey State Conservation Cost Share Program and urges the agency to provide additional assistance in cooperation with that program.	\$1,000,000
New York	CO-01	Westchester County SWCD/Long Island Sound	(H) The Committee has provided for the continuation of following projects: \$350,000 for technical assistance to the Westchester Soil and Conservation District to address land use and water quality issues affecting the Long Island Sound, an increase of \$50,000. Conference, Funding is included for the following item: \$325,000 for the Westchester County SWCD/Long Island Sound	\$325,000
New York	CO-01	Pastureland Mgmt/Rotational Grazing	(H) The Committee has provided for the continuation of following projects: \$500,000 to promote pastureland management and rotational grazing in Central New York.	\$500,000
New York	CO-01	Skanateles and Owasco Watersheds	(H) The Committee has provided for the continuation of following projects:\$250,000 to establish best management practices to individual farmers to reduce the impact of agriculture non-point sources of pollution in the Skanateles & Owasco, New York Watersheds.	\$250,000
New York	CO-01	Address non-point pollution in Onondaga Lake Watershed	(H) The Committee has provided for the continuation of following projects: \$250,000 to address agriculture non-point source pollution in the Onondaga Lake Watershed.	\$250,000
New York	CO-01	Beaver Swamp Brook restoration	(H)The Committee has included funding for the following new project: \$300,000 for the Beaver Swamp Brook Project in NY.	\$300,000
New York	CO-01	For refinement of computer tools	(H)The Committee has included funding for the following new project: \$800,000 for the refinement, integration, and implementing of computer tools to improve nutrient management planning on dairy farms in NY. Conference, Funding is included for the following item: \$200,000 for the refinement, integration, and implementation of computer tools to improve nutrient management planning on dairy farms	\$200,000
New York	CO-01	Phase II of multi-year contract with NRCS and the Watershed Agricultural Stewardship funding for easements.	(H)The Committee has included additional funding for the following projects: \$650,000 to implement phase II of a multi-year agreement between NRCS and the Watershed Agricultural Council (WAC) in Walton, New York, of which \$80,000 should be designated for perpetual stewardship easements purchased by the WAC's Whole Farm Easement Program.	\$650,000
New York	CO-01	Coop Agreement with Pace University to promote sustainable growth	(S)The committee is aware of growing demands on natural resources in New York State resulting from increased development and urban sprawl. The Committee provides \$230,000 for use through a cooperative agreement with Pace University to promote sustainable growth and protection of soil and water resources. Conference, Funding is included for the following item: \$130,000 for a cooperative agreement with Pace University	\$130,000
North Carolina	CO-01	Evaluation of dairy cattle manure as a biofuel	(H) The Committee has included funding for the following new project: \$50,000 for the evaluation of dairy cattle manure as a biofuel in NC.	\$50,000
North Dakota	CO-01	Red River Basin Flood Prevention Project	(S)Recurring floods along the Red River in recent years have resulted in tremendous loss of property and have endangered residents throughout the basin. A number of methods, such as enhanced water storage capacity, more efficient drainage, and shifts in agricultural land use, may be employed to retard the flow of flood waters and reduce downstream flooding. It is important that these improvements be pursued in a manner beneficial to agriculture and result in minimal loss of productive farm land. Accordingly the Committee provides \$1,000,000 for the Red River Basin Flood Prevention Project in North Dakota in cooperation with the Energy and Environment Research Center. Conference, Funding is included for the following item: \$700,000 for the Red River Basin Flood Prevention Project	\$700,000
Ohio	CO-01	Maumee Watershed Hydrological study and Flood Mitigation Plan	(H)The Committee has included funding for the following new project: \$1,000,000 for the Maumee Watershed Hydrological Study and Flood Mitigation Plan in Northwest Ohio.	\$1,000,000



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STATE	FUND	PROJECT	CONGRESSIONAL LANGUAGE	FUNDING TO STATE
Ohio	CO-01	Urban Encroachment on rural areas.	(H)The Committee recognizes the major difficulties created by the encroachment of urban areas on rural areas. The Committee believes that there is a need to develop a more comprehensive and integrated view of transportation, land use by commercial, residential, agricultural, and public entities. The Committee directs the Service to develop a proposal for such a comprehensive view, including consultations with entities such as the American Farmland Trust and the Nature Conservancy. In the development of this proposal, the Committee expects the Service to identify projects for this activity, including highway development in Northwest Ohio.	\$50,000
Ohio	CO-01	Great Lakes Basin Program	(H) The Committee has provided funding for following as project continuations: \$725,000 for the Great Lakes Basin Program; (S)The Committee provides \$2,500,000 to continue work on the Great Lakes Basin Program for soil and erosion sediment control. Conference, Funding is included for the following item: \$1,250,000 for the Great Lakes Basin Program	\$1,250,000
OH, IN, & MO	CO-01	Source Water Protection Initiative	(H) NRCS is strongly encouraged to provide support and assistance to the local watershed associations in Ohio, Indiana, and Missouri working on Source Water protection Initiative.	\$150,000
Oregon	CO-48	Wetland Research, Hillsboro, OR	(S)The Committee provides \$350,000 for advanced wetland plant research at Silverton, OR, to plant and study optimal species for conserving water, reducing soil runoff, and removing toxins. In addition, the Committee is aware of needs for additional TA assistance in Oregon and other states and encourages the Secretary to examine the distribution of funds among states in correlation with overall conservation work. Conference, Funding is included for the following item: \$125,000 for the Advanced wetland plant research- Hillsboro, OR	\$125,000
Oregon	CO-46	Oregon Garden, Silverton, OR	(S)The Committee provides an increase of \$50,000 from FY 2001 for the Oregon Garden, Silverton, OR. Conference, Funding is included for the following item: \$325,000 for the Oregon Garden in Silverton, OR	\$325,000
Oregon	CO-01	TA for Oregon(NRCS)	(S)In addition, the Committee is aware of needs for additional TA assistance in Oregon and other states and encourages the Secretary to examine the distribution of funds among states in correlation with overall conservation work. Will accomplish with funds allocated to each state.	Ongoing
Rhode Island	CO-01	Vicinity of Jamestown, RI	(S)The Committee recommends the following provisions: Section 736. Notwithstanding any other provisions of law, the NRCS shall provide \$450,000 for a wetlands restoration and water conservation project in the vicinity of Jamestown, RI. Conference: Sec. 746. Notwithstanding any other provisions of law, the NRCS shall provide \$250,000 for a wetland restoration and water conservation project in the vicinity of Jamestown, RI.	\$250,000
Puerto Rico	CO-01	Digitization & certification of all published soil surveys	(H)The Committee has included funding for the following new project: \$150,000 for the digitization and certification of all published soil surveys for Puerto Rico to be made available through the internet.	\$150,000
South Carolina	CO-01	GIS based Model to integrate commodity and conservation	(S) The Committee provides an increase of \$250,000 from the fiscal year 2001 level of funding for the continued development of a geographic information systems (GIS)-based model in South Carolina to integrate commodity and conservation program data at the field level for watershed analysis purposes. Conference, Funding is included for the following item: \$600,000 for the GIS based model.	\$600,000
South Carolina	CO-01	Study for land use change with Clemson University	(S)The Committee provides \$550,000 for FY 2002 for a study to characterize the on-site consequences, estimate off-site impacts, and develop strategies to facilitate land use change while preserving critical natural resources. The agency is directed to work in cooperation with Clemson University in conducting this study. Conference, Funding is included for the following item: \$550,000 for the study to characterize land use change- Clemson University	\$550,000
Tennessee	FIP	Damage to forest health from Pine Beetles	(H) In light of severe damage to forest health from the pine beetle infestation in Tennessee, the Committee recognizes the need for reforestation activities as a result of this devastating outbreak and strongly encourages the Secretary of Agriculture to work with the Tennessee's state forester to mitigate this emergency.	\$250,000
Texas	CO-01	Facilitate water conservation and efficient irrigation activities in the Bexar, Medina, Uvalde Counties of Edwards Aquifer	(H)The committee has provide funding for the following new project: \$500,000 to facilitate water conservation in the Bexar, Medina, Uvalde Counties (TX) area of the Edwards Aquifer.	\$500,000
Texas	CO-01	Field Office telecommunication pilot project in West Texas	(H)The committee has provided funding for the following new project: \$1,500,000 for a field office telecommunication pilot program in West Texas. Conference: Funding is included for the following item: \$3,000,000 for the field office telecommunications pilot program.	\$3,000,000
Texas	CO-01	Cooperative Agreement with TIAER	(H)The Committee is concerned that funding allocations to the states are being reduced in proportion to Congressional earmarks funded in the Conservation Operations account. The Committee directs the chief of the NRCS, in making the FY 2002 CO funding allocations to the States to treat Congressional earmarks as additions to the State's funding allocations. The Committee directs NRCS to provide a report to the Committee on Appropriations, not later than 45 days after the enactment of this Act, including the following: FY 2001 CO allocation by State, FY 2002 CO allocation by State, the FY 2002 Congressional earmarks by State, and the total CO allocation by State. Conference. In cases in which the House or Senate have directed the submission of a report, such report is to be submitted to both the House & Senate Committees on Appropriations.	\$100,000

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STATE	FUND	PROJECT	CONGRESSIONAL LANGUAGE	FUNDING TO STATE
Texas	CO-01	TIAER	(H)The Committee has provided funding for a cooperative agreement with the Texas Institute of Applied Environmental Research (TIAER) for watershed management and demonstration projects coordinated jointly by the National Pork Producers Council, Iowa Soybean Association and TIAER. The projects will utilize water quality research, demonstrating a voluntary and incentive driven certification program that will help row crop and livestock agricultural producers comply with national environmental water quality regulations. The Committee encourages NRCS to work with these groups to identify federal resources available for the demonstration program and provide necessary technical assistance. (S) The committee encourages the agency to support watershed management and demonstration projects in cooperation with the National Pork Producers Council.	\$800,000
Texas	CO-46	Texas Plant Material Centers	<i>The conferees continue funding for the Texas Plant Materials Centers at not less than the FY2001 funding levels.</i>	\$568,000
Utah	CO-01	AFQ/CAFO pilot project in cooperation with the Utah Farm Bureau, the Association.	(H) The Committee has provided funding for the following as project continuations: 125,000 for a pilot AFQ/CAFO project in Utah in cooperation with the Utah Farm Bureau, the Utah Cattlemen Association, and the Utah Dairywomen Association.	\$125,000
Vermont	CO-01	Test emerging alternative technology to reduce phosphorus loading into Lake Champlain.	(S) The Committee encourages the agency to provide \$300,000 to support the emerging alternative technology to reduce phosphorus loading into Lake Champlain.	\$300,000
West Virginia	CO-01	Mid-Atlantic Highlands	(H)The Committee has included additional funding for the following projects: \$250,000 to design and implement natural stream restoration initiatives in the Mid-Atlantic Highlands of which \$125,000 shall be for the Canaan Valley Institute and \$125,000 for the NRCS office in Morgantown, West Virginia.	\$250,000
West Virginia	CO-02	Geo. Database to conduct digitized soil surveys w/Canaan Valley Instit.	(H)The Committee has included additional funding for the following projects: \$200,000 for the soil survey geographic database to conduct digitized soil surveys in the Mid-Atlantic Highlands in conjunction with the Canaan Valley Institute.	\$200,000
West Virginia	CO-01	Nitrogen Soil Tests	(S) The Committee provides \$160,000 for fiscal year 2002 to conduct nitrogen soil test and plant-available nitrogen tests, and to demonstrate poultry litter and wood composting in an effort to improve farmers' economic returns and minimize potential water quality conditions resulting from excess application of nutrients from manure and fertilizers on West Virginia cropland.	\$160,000
West Virginia	CO-02	GIS Center of Excellence at W Virginia University	(S)The committee directs the NRCS to develop a plan to establish a GIS Center of Excellence in cooperation with West Virginia University that will provide expertise to design, field and support new applications for capturing, managing, analyzing and delivering soil survey information in an easily accessible manner. Accomplished by ongoing soil survey funds allocated to state.	Ongoing
West Virginia	CO-01	Appalachian Small Farmer Outreach Program	(S) The Committee recognizes the need for a special outreach effort so that USDA can serve small-scale Appalachian farmers in sustaining agriculture production while protecting natural resources. The Committee provides the fiscal year 2001 level, for a total of \$690,000, for the Appalachian Small Farmer Outreach Program, etc.	\$690,000
West Virginia	CO-01	Potomac and Ohio River Basin Soil Nutrient Project	(S) The Committee provides \$300,000 to continue the expansion of the Potomac and Ohio River Basins Soil Nutrient Project to include Jefferson, Berkeley, and Greenbrier Counties. This funding will enable the NRCS, in cooperation with West Virginia University and the Appalachian Small Farming Research Center, to identify and characterize phosphorous movement in soils to determine appropriate transportation, the holding capacity, and the management of phosphorous. This information is critical in helping Appalachians farmers deal with nutrient loading issues and in protecting the Chesapeake Bay from eutrophication, and the Ohio River, Mississippi River, and Gulf of Mexico from depletion of life-sustaining oxygen.	\$300,000
Wisconsin	CO-01	Expand grazing lands initiative to augment EQIP	(H)The Committee has included funding for the following new project: \$150,000 for a cooperative agreement with the Wisconsin Department of Agriculture to expand the Wisconsin grazing lands initiative to augment the funding that this initiative is receiving through EQIP. (S) The Committee provides no less than \$250,000 for grazing land conservation activities in Wisconsin Conference: <i>The conferees agreement provides \$250,000 as proposed by the Senate instead of \$150,000 as proposed by the House, for a cooperative agreement with the Wisconsin State Dept of AG to expand the WI grazing lands initiative to augment the funding that this initiative is receiving through the EQIP.</i>	\$250,000
Wisconsin	CO-01	Conservation activities with Aldo Leopold Foundation	(S)The Committee provides \$1,000,000 for conservation activities in Wisconsin in cooperation with the Aldo Leopold Foundation.	\$1,000,000
Wisconsin	CO-01	Global Environment Education Center Landuse Program at Stevens point	(H)The Committee has provided funding for the following new project: \$2,000,000 for a cooperative agreement with the Global Environment Education Center land use program at Stevens Point, WI.	\$2,000,000
Not Specified	CC-01	National Fish and Wildlife Foundation Partnerships	(S)The Committee provides FY 2001 level of funding to develop partnerships between USDA and the National Fish and Wildlife Foundation. <i>The Conferees provide \$3,000,000, the same amount as fiscal year 2001, for matching funds to the National Fish &amp; Wildlife Foundation. The federal financial assistance shall be advanced without regard to when expenses are incurred for projects on or benefiting the mission of NRCS.</i>	\$3,000,000
Alaska	FIP	Reforestation	<i>The Conferees note authorization under FIP for removal and site preparation for replanting on private lands which may serve to reduce the potential of wildfires and direct the agency, where appropriate, to provide resources for that purpose, utilizing flexibility regarding minimum productivity requirements.</i>	\$500,000

NATURAL RESOURCES CONSERVATION SERVICE  
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STATE	FUND	PROJECT	CONGRESSIONAL LANGUAGE	FUNDING TO STATE
Kentucky		Conservation Easements	(S)Of the funds made available to the CREP for the State of Kentucky, \$490,000, and of the funds made available for competitive research grants, \$230,000, shall be made available to purchase conservation easements or other interest in land to not exceed 235 acres in Adair, Green and Taylor counties, Kentucky in accordance with the Farm and Forest Protection Program, Conference, Sec. 763. <i>In accordance with the FPP, a total of \$720,000 shall be made available to purchase conservation easements or other interest in land, not to exceed 235 acres, in Adair, Green and Taylor Counties, Kentucky: Provided that \$490,000 of this amount shall be made from funds made available to the CREP for the State of Kentucky. Provided, that \$490,000 of this amount shall be from funds made available to the Conservation Reserve Enhancement Program for the State of Kentucky. No NRCS Allocation - Funds from CCC</i>	\$490,000 (CCC)

*Alabama*

State: Alabama

Funds: CO-01, \$300,000

Project: Sand Mountain Water Quality Conservation Project

Progress/Status: NRCS is in the process of developing a grant agreement with the State of Alabama Soil and Water Conservation Committee to transfer \$300,000 to accelerate water quality initiatives on Sand Mountain. NRCS is recruiting a soil conservationist to add to our existing staff in our Rainsville Field Office to support this project.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: The Federal contract for the wetland treatment area will be completed by September 30, 2003. Long Term Contracts (LTCs) have conservation practices scheduled for installation through fiscal year 2003.

State: Alabama

Funds: CO-01, \$150,000

Project: Central Alabama/Birmingham Water Quality and Conservation Initiative

Progress/Status: A Project Coordinator has been appointed to complete studies and a plan of work for the project area. Preliminary meetings have been held to solicit local need and input from interested parties and local units of government.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: The installation of all conservation practices will be completed by September 30, 2003.

State: Alabama

Funds: CO-01, \$200,000

Project: Alabama Gulf Coast Water Quality and Conservation Initiative

Progress/Status: A Coordinator for the project has been appointed. Organizational meetings have been scheduled and input solicited from interested parties. The Coordinator will work closely with local units of government and the local community college to establish a GIS base from which to coordinate the data as it is collected and analyzed.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: The installation of all planned conservation practices will be completed by September 30, 2003.

*Alaska*

State: Alaska

Funds: FIP, \$504,600

Project: Reforestation

Progress/Status: Applications for 392 acres of reforestation, which should allocate \$120,636 of program funds, have been received. Currently, 70.5 acres have been reviewed and approved by State Forestry, which will be allocated in early May. The remaining 326.5 acres will be reviewed by State Forestry as time and staffing is available. Current status of seedlings arriving in Alaska will account for only 500 acres of planting to be completed in fiscal year 2002. The seedlings will be shared by the following programs: FSA, FIP, SIP, Kenai Peninsula Borough and Anchorage Municipality funding.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: Cost share agreements for the total amount should be allocated by September 30, 2002. Disbursements for a majority of the obligated funds should occur in fiscal year 2003 and 2004, dependent upon seedling and reforestation vendor availability as well as weather and climate.

State: Alaska

Funds: CO-01, \$50,000

Project: Harding Lake Association

Progress/Status: A Cooperative Agreement has been drafted to transfer \$30,000 to the SalchaDelta Soil and Water Conservation District. The SWCD will hire a project planner to coordinate NRCS effort with the Lake Homeowners Association. NRCS has promised to survey the entire lake, the properties, and possible inlet and outlet sites. We are currently negotiating with the Army Corps of Engineers to provide LIDAR data as a part of their ongoing work in the area (no agreement needed or requested). This would eliminate the need for a survey and allow NRCS to focus on hydrology and site analysis.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: None. Cooperative Agreement obligating \$30,000 will be signed by July 1, 2002. Surveying will be completed by September 1, 2002 utilizing the remaining \$20,000.

State: Alaska  
 Funds: CO-01, \$450,000  
 Project: Kenai Streambank Restoration Project  
 Progress/Status: A draft of Amendment #2 to the Cooperative Agreement is being developed. The city is prioritizing projects.  
 Fiscal year 2002 Obligations for Disbursement after September 30, 2002: Cooperative Agreement obligating entire \$450,000 will be signed by July 1, 2002. Construction will begin fall 2002 and continue through fall 2003.

State: Alaska  
 Funds: CO-01, \$2,250,000  
 Project: Offices and Staff  
 Progress/Status: USDA-NRCS has completed position descriptions for Juneau and Glennallen. Vacancy announcement for the Glennallen position has closed and selection of candidate will be made in the near future. The position in Juneau is advertised and will close on May 13. Funding has been allocated to technical support for these offices as, well as Nome and Bethel,—Alaska. Field Office furniture and equipment (including engineering equipment) is being purchased to assist in public information program and assistance in rural Alaska. Grant modification with AASWCD for \$500,000 was signed January 24, 2002. New Grant Agreement between the Alaska Association of Conservation Districts and Alaska NRCS for \$200,000 was finalized on March 8, 2002.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: Disbursement for a majority of the obligated funds should occur in fiscal year 2002.

State: Alaska  
 Funds: CO-46, \$300,000  
 Project: Cold Region Plants  
 Progress/Status: The project will develop a plant material plot network that will transect the State with resulting data that can be incorporated into ongoing global warming studies. Cooperative Agreement between the USDA Natural Resources Plant Materials Center was finalized on April 14, 2002. The Cooperative Agreement transfers \$300,000 to the State of Alaska Plant Materials Center to prepare a U.S. Cold Region Plant Materials Evaluation Network Project Plan. The Cold Regions Evaluation Network will benefit all cold regions researchers and people attempting to commercialize plants from geographic areas indigenous to regions North of 52 degrees North Latitude and equivalent vegetated regions in the Southern Hemisphere (South of 52 degrees South Latitude).

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: Cost Share agreements for the total amount are allocated. Disbursements for the obligated funds will occur in fiscal year 2002 and 2003.

State: Alaska  
 Funds: CO-46, \$350,000  
 Project: Native Plant Materials Evaluation and Developing  
 Progress/Status: Cooperative Agreement between the USDA Natural Resources Conservation Service and the Alaska Department of Natural Resources Plant Materials Center was finalized on April 8, 2002. The Cooperative Agreement supplement is a revision to the existing Cooperative Agreement signed in April 1999 for evaluating and increasing native plant materials in Alaska. To assure consistent program direction, an advisory committee has been formed. As the program is developing, the committee expects to have commercial seed producers throughout the State. The Agreement transfers \$350,000 to the State of Alaska Plant Materials Center for Native Plant Materials Evaluation and Development.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: Disbursements for the obligated funds will occur in fiscal years 2002 through 2005.

#### *Arkansas*

State: Arkansas  
 Funds: CO-01, \$2,750,000  
 Project: National Water Management Center  
 Progress/Status: National Water Center is accomplishing assigned items in national and local business plan.  
 Fiscal year 2002 Obligations for Disbursement after September 30, 2002: All funds will be obligated by September 30, 2002.

State: Arkansas  
 Funds: CO-01, No funds allocated to this project.  
 Project: Phase 2 of the Kuhn Bayou Project

Progress/Status: NRCS staff is 75 percent complete on the designs, plans, and specifications for Phase II with a scheduled completion date of August 1, 2002. Phase II contract will complete the main delivery system and the distribution system that will provide irrigation water to 14,000 acres of cropland and winter water for a wildlife management area. NRCS staff also inspected and administered the contract for Phase IA which was completed on February 7, 2002, at a final cost of \$947,623.90. Phase IA contract was for the installation of a portion of the main delivery system. Funds were made available for Phase IA through a CO-01 earmark in fiscal year 2000.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: No funding was allocated for this project in fiscal year 2002.

State: Arkansas

Funds: CO-01; \$375,000

Project: Little Red River Irrigation Project

Progress/Status: This project will provide water for 34,400 acres of cropland and a large portion of the cropland will be flooded in the fall and winter for waterfowl and other migratory birds. In 2001, NRCS provided technical assistance to the Irrigation District and the U.S. Army Corps of Engineers in conducting a reconnaissance-type study of the diversion project. The Corps completed work on the first phase in 2001. Work on the second phase began in 2001 and will be completed early in calendar year 2002. NRCS will use the Corps' work as it begins to develop a project plan and an environmental impact statement. NRCS has dedicated 1089 staff days for the planning process in fiscal year 2002. The plan/EIS will be completed in fiscal year 2003.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: No funds will be disbursed after September 30, 2002.

State: Arkansas

Funds: CO-01, \$150,000

Project: Upper Petit Jean Watershed Project

Progress/Status: NRCS will use the fiscal 2002 appropriation to prepare a generic (program neutral) plan and environmental assessment for this project. The project plan will add municipal and industrial water supply to an existing Public Law 566 planned single purpose structure. This water supply will provide additional water for Waldron and Booneville, and other rural water districts in Arkansas. NRCS has provided planning and other technical assistance information to the sponsor and their consultant in fiscal 2001 and 2002. The consultant has prepared a feasibility study that estimated the total cost of the project of approximately \$15.2 million. Due to NRCS' and the consultant's planning efforts this fiscal year; the revised project cost is \$21.3 million.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: No funds will be disbursed after September 30, 2002.

State: Arkansas

Funds: CO-01, \$150,000

Project: Walnut Bayou Irrigation Project

Progress/Status: NRCS will use the fiscal year 2002 appropriation to complete a generic (program neutral) plan and environmental assessment and the design of Phase I for this project. NRCS prepared a natural resource plan in fiscal year 2001 with funds provided by the State of Arkansas through the Arkansas Soil and Water Conservation Commission. That plan documented the feasibility of providing irrigation water from the Red River delivered through a pump station and pipeline to Walnut Bayou. The project will provide water to 30,000 potentially irrigated cropland.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: No funds will be disbursed after September 30, 2002.

#### *Arizona*

State: Arizona/New Mexico

Funds: CO-01, \$300,000

Project: Southwest Strategy

Progress/Status: Conducted Federal and State employee streamlining ESA process training sessions; Completed Section 7 consultations for the Programmatic Fire Related activities, formed agency issue resolution teams for addressing Section 7 consultation issues; Held Fire Risk Reduction and Recovery Workshops; Conducting monthly interagency briefings on Fire issues; Developed a national contract to train tribal and rural citizens to work on fire fighting and restoration and fuel reduction; Completed "A Guide to the Laws and Terminology of Federal Land Management; Co-sponsored Coordinated Resource Management (CRM) workshops with NM Asso-

ciation of Conservation Districts; Developed an interagency Rangeland Monitoring Handbook and Training Program for NM; Providing assistance to the current AZ CRM Monitoring efforts; Provided intergovernmental coordination on noxious weed management activities (inventory, mapping and public awareness); Sponsored a Tribal Lands and People Summit and Tour for Federal and Tribal leadership; Hosted the Farm Policy Listening Session for tribal government and members; Sponsored interdepartmental Cultural Resource & Law Enforcement Training session; Completed Biological Synthesis along the United States/Mexico border; and currently providing leadership, guidance and coordination through a partnership effort (Federal, State, tribal and local governments, local stakeholders and conservation districts) in addressing emergency Drought response and activities in the Southwest.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: The projects and activities will be completed prior to September 30, 2002.

#### *California*

State: California  
Funds: CO-01, \$600,000

Project: Monterey Bay Sanctuary

Progress/Status: The NRCS Rural Roads Engineer started work on March 11. The NRCS Rangeland Mgmt. Specialist position will be advertised in May. The Agriculture Plan Implementation Committee will finalize the partnership agreement funds (\$80,000) during the third quarter. NRCS staff completed curriculum development (fact sheets, self-assessment sheets, slide presentations) together with UCCE for Farm Water Quality Planning Short Courses & a course was held for farmers in San Benito County. Practice effectiveness field trials are underway for row arrangement and vineyard cover cropping by NRCS, UCCE, RCD and other partners.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: Partner Agreements: \$116,000

State: California  
Funds: CO-02, \$350,000

Project: Lake Tahoe Basin

Progress/Status: Implementation of the Backyard Conservation Program with over 100 Site Evaluations on private home sites conducted between October 1 and November 15, 2001. Staff is currently previewing 2001 progress and developing new program needs and objectives for 2002 field season. Soil Survey—Field work on 20,000 acres (private lands) completed.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: Soils Survey will need to be published.

State: California  
Funds: CO-01, \$375,000

Project: Agriculture Enhancement

Progress/Status: Alameda County: A Cooperative Agreement with the Alameda County Resource Conservation District is being developed for items within the Ag. Enterprise Plan. Funding will also be used to hire an NRCS Soil Conservationist and Ecologist. Contra Costa County: A Cooperative Agreement was signed with the Contra Costa Resource Conservation District for two major tasks: completing and publishing the Marsh Creek Watershed Plan and implementing high priority projects in the Alhambra Creek Watershed Plan.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: Partner agreement (Contra Costa): \$55,000, Partner Agreement (Alameda): \$97,500.

#### *Delaware*

State: Delaware  
Funds: CO-46, \$290,000

Project: Expand cooperative efforts with DE State University for Plant materials program.

Progress/Status: An agreement with Delaware State University and the Natural Resources Conservation Service has been obligated in the amount of \$290,000.00 to support the research efforts of the Claude Phillips Herbarium.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: All obligations will be completed prior to September 30, 2002.

#### *Florida*

State: Florida  
Funds: CO-01, \$5.0 million

Project: Creation and Implementation of pilot projects for innovative technology systems to treat waste and wastewater generated by confined animal feeding operations.

Progress/Status: NRCS entered into a Working Agreement with Farm Pilot Project Coordination, Inc. (FPPC) on January 30, 2002. FPPC has developed a Plan of Work and budget for the innovative technology projects. FPPC has submitted a draft Request for Proposal (RFP) for review by NRCS. Two hundred thousand dollars was provided to FPPC as start up costs to begin implementation of the project.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: The working agreement is for 3 years. It is anticipated \$3.5 million will be disbursed after September 30, 2002.

State: Florida

Funds: CO-01, \$500,000

Project: Coop agreement with Manatee Ag Water Reuse System Project.

Progress/Status: FL-NRCS is in the process of writing an agreement with Florida West Coast RC&D to develop a project plan. The plan will devise a method to rate potential users and determine the steps necessary to begin the hook-ups from transmission lines to user's pumps.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: The remaining dollars will be used to begin individual user hook ups. The \$500,000 will be spent by December 30, 2002.

#### *Georgia*

State: Georgia

Funds: CO-01, \$1,100,000

Project: Cooperative agreement with Georgia Soil and Water Conservation Commission

Progress/Status: NRCS has signed a grant agreement that transfers \$935,000 to the State of Georgia Soil and Water Conservation Commission (SWCC). The grant agreement work plan states that the SWCC will provide accelerated assistance on surface water irrigation supplies in the project area. Surface water structures and irrigation system enhancements will be installed on these farms. NRCS is providing technical assistance to plan and design these structures. Planning will be completed in fiscal year 2002.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: The installation of all conservation practices will be completed by September 30, 2003.

State: Georgia

Fund: CO-01; \$500,000

Project: Georgia Agricultural Water Conservation Initiative

Progress/Status: Water Conservation District (\$250,000), Middle South Georgia Soil and Water Conservation District (\$150,000), and the Georgia Association of Conservation Districts (\$25,000). The grant agreement work plans state that the Soil and Water Conservation Districts will provide accelerated assistance on resource management systems to enhance irrigation efficiencies in the project area. Surface water structures, irrigation system enhancements and water conserving conservation practices will be installed on these farms. Georgia Association of Conservation Districts will provide educational and information support to the overall project. NRCS is providing technical assistance to plan and design the conservation practices. Planning will be completed in fiscal year 2002.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: The installation of all conservation practices will be completed by September 30, 2004.

#### *Hawaii*

State: Hawaii

Fund: CO-46; \$250,000

Project: Molokai Agriculture Community Committee

Progress/Status: On April 11, 2002, NRCS sent a letter to the Tri-Isle RC&D Council, Inc. informing the council that additional funding in the amount of \$250,000 is available for fiscal year 2002. Upon receipt of the council's acceptance, the total amount for this Molokai Agricultural Development Program will be \$1,005,298.44. There are a total of 11 projects that are ongoing, which include, but are not limited to, farming (e.g., organic sweet potatoes), composting, noni processing, community kitchens, promotion of taro as a crop, working with the Maui Community College (Molokai) training grantees on agricultural courses, etc. It is anticipated that ten additional projects (e.g., hydroponics, promotion of Coffees of Hawaii, fruit farm expansion, etc.) will be developed by grantees with the fiscal year 2002 funding.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: The cooperative agreement will be extended prior to September 30, 2002, to accommodate grantees in completing their projects. Fiscal year 2002 funds will be disbursed to the Tri-Isle RC&D Council, Inc. as projects progress or are completed during fiscal year 2003.

State: Hawaii  
Fund: CO-46; \$20,000  
Project: Alien Weed Pests

Progress/Status: The Garden Island RC&D Council has submitted the "Proposal for the Kaua'i Invasive Species Committee" to NRCS. NRCS is currently reviewing the proposal and will award a noncompetitive discretionary grant agreement. The goal of the grant agreement is to promote and maintain a healthy and diverse forest environment by identifying and controlling alien and invasive species.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: The proposed grant agreement will be extended prior to September 30, 2002 to accommodate the project. Fiscal year 2002 funds will be disbursed to the Garden Island RC&D Council as the project progresses with a completion date of June 2003.

State: Hawaii  
Funds: CO-46, \$300,000

Project: PMC for Native Plants to Clean Up the Island of Kahoolawe

Progress/Status: The Hawaii Plant Materials Program continues to increase production of native plant seeds for the island of Kaho'olawe. Native seeds are being delivered to the island of Kaho'olawe in coordination with the Kaho'olawe Island Reserve Commission (KIRC). Twenty acres at the PMC are being developed for native seed production fields, eight acres of which are currently planted to four species of native grasses and shrubs. The NRCS Plant Material Program will be acquiring a plant specialist to assist in Kaho'olawe revegetation efforts.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: None

#### *Idaho*

State: Idaho  
Funds: CO-01, \$200,000  
Project: Idaho OnePlan

Progress/Status: Computer programmers are continuing to work on the nutrient management module. Comprehensive business requirements are being developed in cooperation with NRCS Information Technology Center (ITC) in Fort Collins, Colorado. The nutrient management module is scheduled for completion in 4 weeks. The conservation planning module is scheduled to be completed by September 1, 2002.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: Testing within the FifteenMile Creek Watershed is targeted from September to December 2002.

State: Idaho  
Funds: CO-01, \$500,000

Project: Little Wood River Irrigation District Gravity Pressure Delivery System

Progress/Status: The project will convert the current open canal gravity delivery system to a closed gravity pressurized system. The project will eliminate 4.3 mw of power usage, increase water savings by 30 percent on irrigated cropland, and eliminate the need for potable water use for city landscape watering. A scoping meeting has been held and a Plan of Work has been developed. NRCS has detailed a full-time employee to serve as the project coordinator. Development of an Environmental Impact Statement (EIS) is underway and the public notice has been placed in the Federal Register.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: Feasibility Study will be completed by June 2003.

State: Idaho  
Funds: CO-01, \$500,000  
Project: Irrigation Vicinity of Minidoka

Progress/Status: Funds are used to assist land users to convert from surface irrigation to sprinkler irrigation due to the closing of injection wells by the Bureau of Reclamation. The injection wells dispose of tail water from the surface irrigation, which is a direct conduit to groundwater. Cooperative agreement has been signed with the Minidoka Soil & Water Conservation District to provide pass-through dollars to develop long-term contracts with land users and the Administration of the contracts. Funds will be obligated by September 2002.



Fiscal year 2002 Obligations for Disbursement after September 30, 2002: The installation of all planned conservation practices and management items will be completed by September 2005.

*Illinois*

State: Illinois

Project: Trees Forever Program

Funding: CO-01; \$100,000

Progress/Status: Developing an Agreement to transfer funds.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: Anticipate completion and obligation of funds by May 1, 2002.

State: Illinois

Project: Conservation Measures in the Illinois River Basin (EQIP)

Funding: EQIP; \$600,000

Progress/Status: EQIP funds have been obligated to Priority Areas within the Illinois River Basin. All of the \$600,000 will be utilized.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: All funds will be expended by September 30, 2002.

State: Illinois

Project: Illinois River Basin

Funding: CO-01; \$50,000

Progress/Status: NRCS field staff will continue to provide planning assistance throughout several local resource planning activities in the basin.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: All funds will be expended by September 30, 2002.

State: Illinois

Project: Embarrass River Watershed and Shad Lake

Funding: CO-01; \$100,000

Progress/Status: NRCS has and continues to provide planning and engineering assistance to various groups and landowners throughout the watersheds.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: All funds will be expended by September 30, 2002.

State: Illinois

Project: Glen Shoals Lake

Funding: CO-01; \$50,000

Progress/Status: NRCS has and continues to provide planning and engineering assistance in the watershed.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: Anticipate funds to be expended by September 30, 2002.

*Indiana*

State: Indiana

Funds: CO-01, \$50,000

Project: Source Water Protection Initiative

Progress/Status: Public meetings have been held to obtain public input. NRCS is working with AIRS to develop a study to compare two watersheds. One watershed will implement Best Management Practices; the other watershed will not. A water monitoring site will be set up in each watershed for comparison. A GS-9 soil conservationist will be hired to provide technical assistance.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: The soil conservationist will be hired for a 1 year period starting in May 2002 and ending in May 2003.

*Iowa*

State: Iowa

Funds: CO-01, \$800,000

Project: Hungry Canyons & Loess Hills Erosion Control—Western Iowa

Progress/Status: Projects have been identified and screened by the Hungry Canyons Alliance. A grant agreement is being developed to cover ten selected projects. Dollars will be obligated by June 7, 2002.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: Construction on selected projects will begin during the summer of 2002 and carry over into 2003.

State: Iowa

Funds: CO-01, \$100,000

Project: Trees Forever Conservation Buffer Promotion

Progress/Status: A cooperative agreement has been executed with Trees Forever. The agreement includes a schedule of conservation buffer promotion activities and products to be accomplished by Trees Forever.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: Celebration and recognition events will be completed during the fall of 2002.

State: Iowa

Funds: CO-01, \$300,000

Project: Implement CEMSA with Iowa Soybean Association

Progress/Status: A draft cooperative agreement for \$300,000 with the Iowa Soybean Association and the National Pork Producers Council has been developed.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: Work products will be scheduled and completed, and payments will be disbursed during both fiscal year 2002 and fiscal year 2003.

State: Iowa

Funds: CO-01, \$100,000

Project: Cooperative Agreement with TIAER for a Watershed Management and Demonstration Project

Progress/Status: A draft cooperative agreement for \$100,000 with TIAER for a Watershed Management and Demonstration Project has been developed.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: Work products will be scheduled and completed, and payments will be disbursed during both fiscal year 2002 and fiscal year 2003.

#### *Kentucky*

State: Kentucky

Fund: CO-01; \$1,700,000

Project: Soil Erosion Cost Share Program

Progress/Status: NRCS serviced 3,200 applications for KY's State cost share program for the installation of conservation practices such as waste storage structures, heavy use area protection, and various erosion control practices. These requests totaled \$37 million; however, it appears that approximately \$10,350,000 will be appropriated by the State legislature from general revenue funds and KY's share of the Phase I Tobacco Settlement funds. This is a tremendous Partnership effort and provides an important program to the agricultural landowners in Kentucky to address nonpoint source pollution concerns on farms and ranches.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: NRCS will be asked to design, inspect and certify conservation practice implementation on those farms approved for State cost share.

State: Kentucky

Fund: FPP; \$720,000

Project: Homeplace Farm Purchase

Progress/Status: The earmark is for NRCS to assist The Homeplace on Green River Incorporated or a local government entity in the Taylor, Green, or Adair County(s) to purchase a farm of approximately 230 acres. The farm will be protected from encroaching development and will be used as an educational site to display active farming techniques. The Nature Conservancy has agreed to hold the conservation easement for the property. The property has been surveyed and an appraisal is being conducted.

Fiscal year 2002 Obligations for disbursement after September 30, 2002: We anticipate that the funds will be obligated by the end of the fiscal year.

State: Kentucky

Fund: CO-02; \$700,000

Project: Soil Survey Program

—\$40,000—Digital Map Finishing with NRCS—Tennessee

—\$17,186—English Editor, WV State Office NRCS—MO-13

—\$203,013—GPO/Photo Mechanics, NRCS—National Cartographic and Geospatial Center, Ft. Worth, TX

—\$28,450—NRCS—VA SSURGO, Certify Soil Surveys

—\$15,000—Graves Co. Conservation District Compilation

—\$8,752—Map Compilation, Private Contract, Bourbon and Nicholas Counties

—\$4,900—Map Compilation, Private Contract, Clark County, Carlisle and Hickman Map Compilation not yet contracted

—\$20,000—UGA/UT/UK Lab Assistance

Fiscal year 2002 Obligations for disbursement after September 30, 2002: We anticipate that the funds will be obligated by the end of the fiscal year.

*Louisiana*

State Louisiana

Fund: CO-01; \$125,000

Project: Barataria-Terrebonne National Estuary Program (BTNEP)

Progress/Status: NRCS in Louisiana, as a member of the BTNEP Management Committee, will continue to work on the implementation of the Comprehensive Conservation Management Plan (CCMP). NRCS has accelerated technical assistance for the development and implementation of twenty-two Resource Management Plans (RMS) on approximately 3,000 acres of cropland for participants in the Environmental Quality Incentive Program (EQIP). Wetlands Enhancement has been applied on over 9,000 acres within the Basin.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: Over 5,800 acres of RMS conservation plans have been developed on cropland and 1,700 acres on grazing lands for fiscal year 2002.

State: Louisiana

Fund: CO-46; \$344,000

Project: Golden Meadow Plant Material Center facility improvements and support for on-going plant materials work

Progress/Status: NRCS has developed and awarded a contract for construction of a metal building for cold storage. Within the next 30 days, NRCS will purchase, through a GSA contract, a surface water irrigation pumping station and contractor installation of the associated underground pipeline. A GSA contract will be utilized to acquire and install the walk-in cooler.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: All works of improvement are scheduled to be completed by August 30, 2002. All items in the business plan will be accomplished by September 30, 2002.

*Maryland*

State: Maryland

Fund: CO-01; \$1,728,000

Project: Chesapeake Bay

Progress/Status: Implementation procedures for AFO/CAFO and CNMP in Maryland are on target. All DCs have received training courses for certified conservation and nutrient management planning. We have CREP sign-up acres of 3,400 with 2,300 acres of buffers (46 percent of goals accomplished). Buffers and CREP are a high priority in coordination with State and Federal partnerships. Nutrient management plans have been applied on approximately 12,000 acres. Certified nutrient management plans have been developed on 42 sites with 39 CNMPs applied. Update of Sections I-IV of the FOTG is 60 percent complete.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: None

*Massachusetts*

State: MA, WI

Funds: CO-01, \$300,000

Project: Conservation Programs Related to Cranberry Production

Progress/Status: NRCS has signed a Cooperative Agreement that obligates \$280,000 to the Plymouth County Conservation District and \$20,000 to the Cape Cod Cranberry Growers Association. The objective of this project is to provide cranberry growers with planning assistance and access to technologies, to conserve water and other natural resources, evaluate their off-site impacts, mitigate environmental problems, improve efficiencies and diversify their farms. The goal of the project is complete farm plans on at least 225 farms.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: Funds will be obligated in contracts by September 30, 2002.

State: MA, NY, CT

Funds: CO-01, \$100,000

Project: Nature Conservancy's "Weed It Now" (WIN)

Progress/Status: The Nature Conservancy is currently making final review of "Grant Agreement" materials prepared with NRCS. The Grant Agreement will transfer \$100,000 to The Nature Conservancy to carry out the first year of the "Weed It Now" project. The purpose of the project is to eliminate six different exotic-invasive weeds from specific areas (approximately 565 acres total) within the Berkshire Taconic Landscape, thereby helping to protect the value of the forests for wild-life habitat, biodiversity and forest resources.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: Phase one work will be completed by 4/1/2002.

*Mississippi*

State: Mississippi  
 Fund: CO-01; \$1,500,000  
 Project: Franklin County  
 Project/Status: NRCS continues to work on the Franklin County Lake Project with an estimated completion date of August 2002.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: The Franklin County Lake Project should be completed by February 2003.

State: Mississippi  
 Fund: EQIP; \$1,560,000  
 Project: EQIP National Priority Area in Delta Region  
 Project/Status: The agency is in the final ranking stage for EQIP National Priority Area in the Delta.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: The funds for EQIP National Priority Area in the Delta will be obligated by September 2002.

State: Mississippi  
 Fund: CO-01; \$750,000  
 Project: Miss Delta Resources Study  
 Project/Status: The study is complete and NRCS has developed a fiscal year 2002 agreement with the Yazoo Water Management District to develop plans and implement practices, identified in the study that will enhance the quantity of water available to farmers in the Mississippi Delta.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: The plans and practices identified for fiscal year 2002 will be completed by September 2002.

State: Mississippi  
 Fund: CO-02; \$0  
 Project: Proper classification and taxonomic characteristics of sharkey soils  
 Project/Status: Soil Scientist in NRCS continues with the study using allocated funds to State.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: This project is on-going.

State: Mississippi  
 Fund: CO-01; \$1,300,000  
 Project: Delta Conservation Demonstration Center in Washington County  
 Project/Status: NRCS has entered into an agreement to provide funds to Washington County SWCD to implement activities planned for the Delta Conservation Demonstration Center.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: The scheduled activities will be completed by September 2002.

State: Mississippi  
 Fund: CO-01; \$900,000  
 Project: Mill Creek Watershed  
 Project/Status: NRCS has entered into an agreement to provide funds to the City of Magee to implement erosion control and flood control measures including vegetated buffers along the stream corridor.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: The scheduled activities will be completed by July 2003.

State: Mississippi  
 Fund: CO-01; \$250,000  
 Project: Squirrel Branch Drainage Project  
 Project/Status: NRCS has entered into an agreement with the City of Richland to provide funds to complete the Squirrel Branch Drainage Project. This City of Richland project is a carryover that was started in fiscal year 2001.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: The Squirrel Branch Drainage Project will be completed by November 2002.

State: Mississippi  
 Fund: CO-01; \$75,000  
 Project: Survey Chickasaway River  
 Project Status: NRCS will enter into an agreement with sponsors to provide them funds to conduct a study of the feasibility of designating the Chickasaways River in Southeast Mississippi.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: The Survey Chickasaway River project should be completed by September 2002.

State: Mississippi

Fund: CO-01; \$475,000

Project: Cattle & nutrient management

Project/Status: NRCS has entered into an agreement with the Mississippi Soil and Water Conservation Commission to provide funds to implement nutrient management systems with landusers throughout the State.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: The cattle & nutrient management project will be completed by September 2002.

State: Mississippi

Fund: CO-01; \$400,000

Project: Improve Drainage along Lyons Creek

Project/Status: NRCS has entered into an agreement with the Town of Taylorsville to provide funds to improve the Lyon Creek Drainage System.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: The Lyons Creek project should be completed by November 2002.

State: Mississippi

Fund: CO-01; \$175,000

Project: Cooperative agreement with Alcorn State University

Project/Status: NRCS has entered into an agreement with Alcorn State University to provide the funds and technical assistance to analyze soil erosion and water quality needs in the area.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: This project will be completed by November 2002.

State: Mississippi

Fund: CO-46; \$275,000

Project: Jamie Whitten PMC

Project/Status: NRCS has been developing plans and designs to implement improvements at the PMC. The implementations should begin April 2002 and be completed by August 2002.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: This project will be completed by September 2002.

State: Mississippi

Fund: CO-01; \$150,000

Project: Mallard Pointe

Project/Status: NRCS has entered into an agreement to provide funds to the Madison County Board of Supervisors to implement erosion control and channel bank protection at Mallard Pointe.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: This project will be completed by November 2002.

State: Mississippi

Fund: CO-01; \$75,000

Project: Choctaw County Impoundment Study

Project/Status: NRCS plan to enter into an agreement with the Choctaw County Board of Supervisors to provide them funds to conduct a feasibility study pertaining to the proposed surface impoundment structure.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: This project will be completed by September 2002.

State: Mississippi

Funds: CO-01, \$5,609,000

Project: Wildlife Management Institute

Progress/Status: National Water Center is accomplishing assigned items in national and local business plan. An agreement is being implemented to transfer \$3,000,000 to US Fish & Wildlife Foundation.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: All funds will be obligated by September 30, 2002.

#### *Missouri*

State: Missouri

Funds: CO-01, \$20,000

Project: Upper White River Basin

Progress/Status: A report titled "Establishment of a USDA-NRCS Water Quality Project Serving the Upper White River Basin in Missouri" has been completed. It reflects input from various natural resources partners and captures budget projec-

tions for staffing and support costs. Copies of the report have been forwarded to the Chief of NRCS.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: None.

State: Missouri

Fund: CO-01; \$50,000.00

Project: Source Water Protection Initiative

Progress/Status: NRCS is in process of signing an agreement with State agency to complete agreed to work objectives.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: All work will be completed by July 2003.

#### *Nebraska*

State: Nebraska

Fund: CO-01; \$345,900

Project: National Agroforestry Center

Progress/Status: \$231,900 was transferred to the National Business Management Center (NBMC) who provides all administrative support for the National Agroforestry Center (NAC). This transfer allows the NBMC to process all vouchers, grants and agreements, travel and other expenditures for activities related to the NAC. \$114,000 is the allowance for Gary Wells in Nebraska for his salary and expenses while working at the NAC. The USDA National Agroforestry Center (NAC) had its origins in the 1990 Farm Bill. It began as a Forest Service effort in 1992 and expanded into a partnership with the Natural Resources Conservation Service in 1995. NAC conducts research on how to design and install forested buffers to protect water quality and develops and delivers technology on a broad suite of agroforestry practices to natural resource professionals who directly assist landowners and communities.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: \$57,000 in salary and support costs has been spent for the employee in Nebraska, Gary Wells, working at the NAC. The rest of the money is being spent at the NAC administered through the NBMC.

#### *New Jersey*

State: New Jersey

Funds: CO-01, \$1 million

Project: State Cost Share Program

Progress/Status: Technical assistance has been provided in planning, estimating costs and ranking of offers on 163 fiscal year 2002 applications. Ninety contracts are currently being developed. Implementation is ongoing on over 100 prior year contracts. NRCS has hired additional staff (term employees) to meet this workload need.

Fiscal year 2002 Obligations for Disbursement after September 2002: Technical assistance will be offered in the implementation of contracts throughout fiscal year 2002.

#### *New Mexico*

State: New Mexico

Funds: CO-01, \$150,000.

Project: Southwest Strategy

Progress/Status: The SW Strategy develops an annual plan of operations with partnership input each year. Seventeen projects have been identified this year. Several additional projects (5 to 7) not initially identified are also incorporated into the plan and completed. Coordination between numerous partnerships continues.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: All funds will be obligated by September 30, 2002.

#### *New York*

State: New York

Funds: CO-01, \$325,000

Project: Westchester County SWCD/Long Island Sound

Progress/Status: Negotiations have been completed with the Westchester County SWCD and have led to an agreement to pass through \$250,000.00 to the District for projects to be completed to conserve and protect Long Island Sound. The remaining \$75,000.00 will be used by NRCS to provide technical assistance to the project.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: \$0

State: New York

Funds: CO-01, \$500,000

Project: Pastureland Management/Rotational Grazing

Progress/Status: This earmark is more commonly referred to as Graze New York. Cooperative Agreements are currently being negotiated to pass through approximately \$325,000.00 to eight central New York Soil and Water Conservation Districts to provide technical assistance for the planning and implementation of prescribed grazing systems. The remaining \$175,000.00 will be used to provide NRCS technical assistance to the project.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: \$0

State: New York

Funds: CO-01, \$250,000

Project: Skaneateles and Owasco Watersheds

Progress/Status: Negotiations are currently underway with the Cayuga, Onondaga and Tompkins County Soil and Water Conservation Districts to provide technical assistance to plan and implement Best Management Practices in both watersheds. Approximately \$130,000.00 will be passed through to the Districts with the remaining \$120,000.00 used to provide NRCS technical assistance to both projects.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: \$0

State: New York

Funds: CO-01, \$250,000

Project: Onondaga Lake Watershed NPS

Progress/Status: NRCS retains this funding in order to provide technical assistance to the Onondaga Lake Watershed Project in Onondaga County. Our assistance to the project supports the planning and implementation of Whole Farm Plans throughout the watershed.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: \$0

State: New York

Funds: CO-01, \$300,000

Project: Beaver Swamp Brook

Progress/Status: Negotiations are currently underway with the City of Rye and Village of Harrison which are developing their plans at this time. The entire \$300,000.00 will be passed through.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: \$0

State: New York

Funds: CO-01, \$200,000

Project: Computer Tools for NMP

Progress/Status: NRCS is working with David Galton, Professor, Dairy Management at Cornell University who is developing a proposal for the refinement, integration and implementation of computer tools to improve nutrient management planning on dairy farms in New York.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: \$0

State: New York

Funds: CO-01, \$650,000

Project: Phase II Watershed Ag. Council

Progress/Status: NRCS will use \$570,000.00 for technical assistance to the NYC Watershed Agricultural Program for the development and implementation of farm plans in the NYC Watershed. The remaining \$80,000.00 will be used for the stewardship of easements in the NYC Watershed. Negotiations for developing the Cooperative Agreement for this purpose are currently underway with the Watershed Ag. Council.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: \$0

State: New York

Funds: CO-01, \$130,000

Project: Pace University

Progress/Status: A Cooperative Agreement has been developed with Pace University in order for them to promote sustainable growth and protection of soil and water resources. The entire \$130,000.00 will be passed through to Pace University.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: \$0

State: New York/Pennsylvania

Funds: CO-01, \$204,000

Project: American Heritage Rivers

Progress/Status: NY received \$90,000 and PA received \$104,000 for technical assistance for river navigator positions in the two States.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: \$0

*North Carolina*

State: North Carolina

Funds: CO-01, \$50,000.00  
 Project: Dairy Cattle Manure Evaluation.  
 Progress/Status: Report in progress.  
 Fiscal year 2002 Obligation for Disbursement after September 30, 2002: Funds are expected to be obligated by September 30, 2002.

*North Dakota*

State: North Dakota  
 Funds: CO-01, \$700,000  
 Project: Red River Basin Flood Prevention Project  
 Progress/Status: A grant agreement to begin the flood prevention study was signed with the University Of North Dakota, Energy & Environmental Research Center for \$700,000 on April 3, 2002. The objective of the study is to establish a program to evaluate the feasibility of utilizing existing infrastructure in a systematic way for temporary storage of flood water in the Red River Basin.  
 Fiscal year 2002 Obligations for Disbursement after 9/30/02: Anticipate that \$300,000 will be disbursed after 9/30/02.

*Ohio*

State: Ohio  
 Fund: CO-01; \$1,000,000.00  
 Project: Maumee Watershed Hydrological Study and Flood Mitigation Plan  
 Progress/Status: Funding will be used for land treatment and technical assistance using multiyear contracts. This assistance will enhance partner funding from the Army Corp of Engineers that has been made available to five local conservation districts for upland treatment.  
 Fiscal year 2002 Obligations for Disbursement after September 30, 2002: Funds will be obligated according to the plan developed by the local working group.

State: Ohio  
 Fund: CO-01; \$50,000.00  
 Project: Urban Encroachment on Rural Acres  
 Progress/Status: NRCS has an agreement with the Fulton County Planning Commission to gather landuse data and produce GIS products. Currently, work is being done on survey development; actual survey is to be completed in September 2002. The data will be utilized to identify land cover/use, environmentally significant areas, agricultural significance, ground water information, and suitability for development.  
 Fiscal year 2002 Obligations for Disbursement after September 30, 2002: Preliminary maps are to be developed by November 2002 with the final map products and presentation to be completed by October 2003.

State: Ohio  
 Fund: CO-01; \$1,250,000.00  
 Project: Great Lakes Basin Program  
 Progress/Status: The basin program supports a competitive annual grants program that funds several types of erosion and sedimentation control projects. Grant applications were reviewed and applicants notified of their application status by the Great Lakes Commission.  
 Fiscal year 2002 Obligations for Disbursement after September 30, 2002: All funding was transferred to the Great Lakes Commission on March 21, 2002.

State: Ohio  
 Fund: CO-01; \$50,000.00  
 Project: Source Water Protection Initiative  
 Progress/Status: This funding will increase planning efforts in the Upper Big Walnut Creek watershed. A nationally recognized CREP program has been initiated in this watershed. This 13 million-dollar local, State, and Federal partnership is working to protect the drinking water for nearly 600,000 people.  
 Fiscal year 2002 Obligations for Disbursement after September 30, 2002: Funds will be obligated according to the developed plan.

*Oregon*

State: Oregon  
 Funds: CO-46, \$325,000  
 Project: Oregon Garden Foundation  
 Progress/Status: The NRCS is developing an amendment to the fiscal year 2001 cooperative agreement that transfers funding to the Oregon Garden Foundation. The cooperative agreement work plan submitted by Oregon Garden on April 4, 2002 states that the funds will be used to pay salaries and expenses for 10 individuals



to support improvement of the wetlands on site and provide interpretive signage, literature, and other educational opportunities that enhance visitor understanding of wetland ecology.

Fiscal year 2002 Obligations for Disbursements after September 30, 2002: The Federal contract will be completed December 31, 2003.

State: Oregon

Funds: CO-46, \$125,000

Project: Advanced Wetland Plant Research—Jackson Bottom Wetland Preserve

Progress/Status: NRCS is finalizing an agreement that transfers funding to test and evaluate wetland and upland edge enhancement techniques in 10 studies plots designated around the perimeter of the education center. The NRCS plant materials specialist is serving as a project advisor to establish enhancement goals and set success criteria.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: The Federal contract will be completed September 30, 2004.

State: Oregon

Funds: EQIP, \$250,000; CO-01, \$250,000

Project: Klamath Basin Accelerated Planning and Implementation Assistance

Progress/Status: NRCS is currently assisting the Oregon Klamath Soil and Water Conservation District and California's Lava Beds/Butte Valley Resources Conservation District to develop a natural resources plan that will address Klamath Basin natural resources issues. These two districts have established a local Steering Group and will be soliciting additional stakeholder participation. The planning process will initially focus on delivery of accelerated EQIP financial assistance. In the longer term the planning process will need to adapt to different planning scales such as the Upper and Lower Klamath Basin, sub-watersheds of these basins, irrigation districts, and individual farms. NRCS will focus its assistance efforts at the sub-watershed and individual farm scale. Complexity of this planning effort is compounded by the interaction of the Klamath Basin Project Area, The Endangered Species Act, and Tribal concerns with the demands on limited water resources in the Klamath Basin. The planning and implementation effort will be a long-term project with anticipated benefits to be derived when landowners/operators implement conservation systems to improve water management—quality and quantity; improve wildlife habitat for aquatic and upland wildlife; restore wetland to improve water quality and improve/increase wildlife habitat; and improve grazing land management. Implementation will lead to improved Klamath Basin watershed health with related improvement in hydrologic condition.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: All EQIP financial assistance funding will be awarded to private landowners before September 30, 2002. Related EQIP technical assistance will be utilized well before the end of this fiscal year. All CO-01 funding technical assistance funding will be utilized before the end of this fiscal year.

#### *Pennsylvania*

State: Pennsylvania

Fund: CO-01; \$1,338,000

Project: Chesapeake Bay Program

Progress/Status: NRCS has provided planning, me&E, design and construction quality assurance to farmers in the Chesapeake Bay area in cooperation with the local Conservation District. This accelerated technical assistance was provided to manage nutrients, reduce erosion, eliminate runoff from barnyards, and improve soil quality.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: The design and installation of planned conservation practices will continue through fiscal year 2003. Technical assistance will be necessary to fulfil the contracts signed with landowners to install conservation practices in their CBP contract. These contracts may have planned practices for up to 3 years. Payments will need to be processed to the landowners.

#### *Puerto Rico*

State: Puerto Rico

Funds: CO-01, \$150,000

Project: Digitization and Certification of all published soil surveys

Progress/Status: Three of six published soil surveys in Puerto Rico, are digitized and SSURGO certified. Two have been compiled and in process of digitizing. These two soil surveys are in schedule to be digitized and SSURGO certified before the end of the fiscal year 2001. Digital Soil Survey CD products will be prepared for

each one of these five published Soil Surveys. Only one, the Humacao Area Soil Survey, is pending because Digital Orthophotography Quadrangles (DOQ's) are not available.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: The digitizing, certification and digital CD products of all published soil surveys (except for Humacao Soil Survey) will be completed by September 30, 2003.

*Rhode Island*

State: Rhode Island

Fund: CO-01; \$250,000

Project: Jamestown Water Supply and Wetland Restoration Project

Progress/Status: NRCS has drafted a cooperative agreement that transfers \$225,000 to the town of Jamestown, RI. The Town will develop a proposed budget, certify that the real property right and permits have been obtained, assure compliance with NHPA, ensure the wetlands are restored and/or protected, provide engineering designs and as built drawings, construct the system connector and assume operations and maintenance of the project. NRCS is reviewing the engineering designs, conducting inspections during project installation, providing technical assistance in ensuring the protection of the wetlands. Town officials expect to sign the agreement by April 30, 2002.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: The project installation will be completed by December 31, 2002.

*South Carolina*

State: South Carolina

Fund: CO-01; \$600,000

Project: Natural Resources Conservation Decision Support System

Progress/Status: NRCS has amended the existing cooperative agreement to transfer \$450,000 to the University of South Carolina for fiscal year 2002 activities. The cooperative agreement work plan states that the Earth Sciences and Resources Institute of the University (ESRI-USC) will continue the development and improvement of GIS-based conservation planning and prioritization tools. Current tools developed under prior funding include: (1) AFOWizard, a compliance-oriented, site specific, nutrient management tool; (2) CRPWizard, a CRP site prioritization tool based on the Environmental Benefits Index; and (3) PriorityWizard, a watershed prioritization tool. The fiscal year 2002 scope of work includes: (1) Expedite and improve the comprehensive nutrient management planning process with the use of AFOWizard; (2) Use spatial analysis to solve current field problems and to address new challenges that may arise from the upcoming Farm Bill; (3) Use web-based applications to better serve and reach NRCS customers; and (4) Provide technical support for ESRI-USC-developed applications. Focus of the effort will be on NRCS SC needs. The ESRI-USC team is available to consult with other States. NRCS is providing technical specialists from both field and state office levels.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: None

State: South Carolina

Fund: CO-01; \$550,000

Project: Changing Land Use and the Environment (CLUE)

Progress/Status: NRCS has amended the cooperative agreement to transfer \$412,500 to Clemson University for fiscal year 2002 activities. The objective of this research program is to develop a knowledge base to understand the impact of land use changes on the environment. Results of this research will provide quantitative answers to questions posed by stakeholders, policy and decision-makers, developers, and planners concerning land use alternatives. The project has six objectives: (1) Characterize water quality and quantity before, during, and after land use change; (2) Evaluate efficacy of installed best management practices (BMP's) and compare this efficacy with reported values and model predictions; (3) Establish a comprehensive water quality monitoring program in two subwatersheds (one developed and another undergoing development) to characterize changes in storm water and receiving water quality as a function of land use; (4) Analyze the determinants of the current use of land-converting techniques, some of which may be BMP's; (5) Analyze the cost effectiveness of currently used and proposed BMP's; and (6) Collaborate with existing outreach programs to insure that the knowledge learned in this research is translated to the general public who have questions regarding changing land use. The fiscal year 2002 funding will be used to continue work on tasks begun in fiscal year 2001 and to initiate work on objectives not previously funded. Focus will be on completing installation of remaining instrumentation, field data collection and analysis, laboratory analyses of water samples, analysis and preliminary conclusions, and technology transfer.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: Data collection and analyses following storm events are expected to extend beyond September 30, 2002, since these are weather dependent. This will extend the project completion date beyond fiscal year 2002.

*Tennessee*

State: Tennessee

Fund: FIP; \$250,000

Project: Damage to Forest Health from Southern Pine Beetle

Progress/Status: NRCS-TN is currently in negotiations with the Tennessee Department of Forestry to utilize the funding to provide financial assistance to landowners, as a supplement to the TN Dept. of Forestry, Southern Pine Beetle Program, to establish new stands of pines with proper spacing to resist the pine beetle infestation. Subject to agreement, stands will be established on cut-over hardwood plots to disperse the pines to areas not previously infested with the Southern Pine Beetle.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: The plantings and financial assistance will be completed by May 30, 2003.

*Texas*

State: Texas

Fund: CO-01; \$500,000

Project: Facilitate water conservation and efficient irrigation activities in the Bexar, Medina, Uvalde Counties of Edwards Aquifer.

Progress/Status: Texas received a \$500,000 earmark located in Congressional District 23 to facilitate water conservation and efficient irrigation activities in the Edwards Aquifer Area in Bexar, Medina and Uvalde Counties. To date, the irrigation water management plan has been developed and 60 percent of the staffing has been completed. The remaining 40 percent of the Irrigation Team staffing have been selected and will be in place by June 2, 2002. Equipment purchases are currently being made for implementing the water conservation activities.

The funding will be used to establish an Irrigation Team responsible for evaluating existing irrigation systems, recommending installation of more efficient systems and improved irrigation water management, outreach activities and developing cost-share contracts in the area through the Environmental Quality Incentives Program (EQIP) and the Bexar-Medina-Atascosa (BMA) Public Law 566 Program.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: All dollars will be dispersed by September 30, 2002.

State: Texas

Fund: CO-01; \$3,000,000

Project: Field Office telecommunication pilot project in West Texas

Progress/Status:

- Interagency planning meeting was completed in December
- Information Technology Center, Fort Collins, was involved in the December meeting
- A detailed plan for implementation has been drafted.
- Starting to purchase telecommunications equipment
- Installing T-1 lines or upgrading frame relay in 31 service centers
- A telecommunications contractor has been selected and additional telecommunications equipment will be purchased based on the contractor's assessment and recommendations
- Based on a field trip, it has become apparent training is a high priority and steps are underway to implement interagency computer software training. This may be a model for future agency training.
- Based on interagency planning meeting and field trip, the telecommunication project will encompass innovative means of improving service to our customers. The process is underway to identify, develop, and test new telecommunications application services with customers and agency personnel.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: All funds will be obligated by September 30, 2002.

State: Texas

Funds: CO-01, \$300,000

Project: TIAER Demonstration Project

Progress/Status: NRCS has a draft cooperative agreement prepared and is negotiating with Texas Institute of Applied Environmental Research (TIAER) to finalize project deliverables and responsibilities. NRCS-Texas will submit complete agreement draft to Animal Husbandry & Clean Water Programs Division for review.

NRCS-Texas will transfer \$300,000 of the earmark to NRCS-Iowa the National Pork Producers Council and the Iowa Soybean Association for their demonstration project. The utilization of mirrowatershed planning and third-party certification of CNMP's has potential to demonstrate a new approach for addressing water quality issues in agricultural communities.

Fiscal year 2002 Obligations for Disbursement after June 2003: The activities set forth the cooperative agreement and work plan will be completed by May 31, 2003.

State: Texas

Funds: CO-01, \$100,000

Project: TIAER Demonstration Project

Progress/Status: NRCS has utilized staff time to develop a draft cooperative agreement and conduct meetings with the Texas Institute of Applied Environmental Research (TIAER). On site meetings between staff have supported the development of the draft agreement and work plan for the project. NRCS-Texas has expended 50 percent of the funds to support agreement development and project deliverables. NRCS-Texas will work with the Animal Husbandry & Clean Water Programs Division to coordinate with NRCS staff in Iowa to formalize consistent and comparable agreements for the demonstration projects.

Fiscal year 2002 Obligations for Disbursement after June 2003: The funds will be utilized throughout the fiscal year to cover staff time and expenses to support the demonstration project, work with TIAER, and provide staff resources as agreed. All funds shall be expended by the close of the 2002 fiscal year.

State: Texas

Fund: CO-46; \$568,000.00

Project: Texas Plant Materials Centers

Progress/Status: fiscal year 2002 funding to the Texas Plant Materials Centers (PMCs) was specified to be not less than the fiscal year 2001 level. Texas received \$568,000, the same as fiscal year 2001, which was distributed as usual among the three PMCs in the State.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: All planned activities for 2002 will be completed by September 30, 2002.

#### *Utah*

State: Utah

Fund: CO-01; \$125,000

Project Name: AFO/CAFO

Progress/Status: Utah State legislature was trying to add \$400,000 to the \$125,000 as was done in fiscal year 2001. The legislature did not pass the additional \$400,000. Last year, there was a ranking criteria that determined who what get what dollars. Due to the legislation not passing, the Utah Department of Agriculture and Food (UDAF), is now re-doing the criteria. When the criteria are completed . . . . a contract will be initiated.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: A contract between UDAF and NRCS for the \$125,000 is expected to be signed by May 15.

#### *Vermont*

State: Vermont

Fund: CO-01; \$300,000

Project: Alternative Manure Management Technology

Progress/Status: NRCS has not signed any agreements at this time, but the funds will be obligated for several activities and projects. An existing agreement to hire an Alternative Manure Management Coordinator will be amended to continue through 2003; an agreement to continue with Super Soil Inc., (a system that delivers electricity to manure to change odor and nutrient properties). Potential new projects include installing a milkhouse wastewater system that flocculates out solids that can be treated separate from liquids; and converting animal waste into fuel pellets.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: Depending on how the work plan schedules are written, most of the fiscal year 2002 Earmark could be disbursed in fiscal year 2003.

#### *Virginia*

State: Virginia

Funds: CO-01, \$1,404,000

Project: Chesapeake Bay Program

Project Status: \$1.4 million in Chesapeake Bay funds are earmarked in the fiscal year 2002 budget for NRCS in Virginia. These funds support a total of 19 NRCS

staff years within the watershed. Included in that number, 2 civil engineering technician positions have been filled. These positions provide detailed conservation practice layout, design, and training assistance to numerous NRCS and Soil and Water Conservation District (SWCD) employees within the drainage area of the Bay. In general, our employees provide resource data and technical advice to help counties and soil and water conservation districts identify buffer and wetland protection areas as part of the tributary strategy's process. We provide training and assistance on conservation planning and resource management/protection to public and private landowners and managers. NRCS service center staff work with SWCDs in carrying out education activities, analyzing workload and developing a means to improve natural resource conditions. The next step is to track and measure progress. Most NRCS staff time is spent helping landowners plan, layout, design, and install best management practices to protect groundwater and surface water by controlling non-point source pollution from agricultural and urban lands. This includes properly managing excess animal waste and providing a variety of standards and specifications for best management practices cost-shared under State and Federal programs. To date, fiscal year 2002 accomplishments have consisted of helping landowners apply resource management systems on 6,100 acres of cropland, 1,400 acres of forestland, and 5,000 acres of pasture and hay land; installed 900 acres of riparian forest buffers; 5,600 acres of nutrient management systems; and 5,200 acres of pest management systems.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: None

*West Virginia*

State: West Virginia

Funds: CO-01, \$250,000

Project: Mid-Atlantic Highlands-Design & Implement Natural Stream Restoration Initiatives.

Progress/Status: Currently the watershed Work Group is identifying a site on Knapps Creek.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: Work will be completed by 12/31/2002.

State: West Virginia

Funds: CO-02, \$200,000

Project: Geographic Database to conduct digitized soil surveys w/Canaan Valley Insti.

Progress/Status: To conduct digitized soil surveys in the Mid-Atlantic Highlands in conjunction with the Canaan Valley Institute (CVI). Established priority work list to include following counties:

Morgan County; Jeferson County; Kanawha County; Mercer County; Summers County; Harrison County and Taylor County.

After priority list was established, cartographic base materials were requested from NRCS's National Cartographic Center. Work is currently underway on Morgan and Kanawha County.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: \$0

State: West Virginia

Funds: CO-01, \$160,000

Project: Nitrogen Soil Test

Progress/Status: Eleven counties have been identified for conducting the testing program. A vacancy announcement has been prepared for hiring temporary soil conservation aids to start working this summer to collect and test manure, litter and soil samples. This information will be provided to the cooperating farmers to reduce, costs and protect water quality.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: \$0

State: West Virginia

Funds: CO-02, \$0.00

Project: GIS Center of Excellence at WV University

Progress/Status: Met with VVWU department heads and dean several times since December 7th to establish a planning team. NRCS met on Friday, January 18, 2002 to outline framework of plan. Members of planning team include: NRCS Soil Survey Division Director, WVU Dean of Arts and Sciences, Department Chair WVU Geology and Geography, NRCS State Soil Scientist, and NRCS State Conservationist (Chairman). First formal meeting was held in February to approve outline of plan draft.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: N/A

State: West Virginia

Funds: CO-01, \$860,000

Project: Appalachian Small Farmer Outreach Program

Progress/Status: Thirty-three (33) public outreach meetings are scheduled, and 33 in-service training sessions are scheduled during the second quarter of fiscal year 2002. NRCS continues to support 13 conservation positions for grassland outreach. NRCS is continuing the evaluation of pilot project for the development of technology for riparian grazing and winter grazing. NRCS is working with ARS, WVU Extension Service and WV Conservation partnership to develop and conduct Appalachian Grazing School fiscal year 2002 Obligations for Disbursement after September 30, 2002: \$0

State: West Virginia

Funds: CO-01, \$300,000

Project: Potomac & Ohio River Basin Soil Nutrient Project

Progress/Status: Sampled 14 soil series in Greenbrier Valley and 7 soil series in the Potomac Basin and submitted to WVU Laboratory. Currently summarizing data collected to date. NRCS prepared sampling plan for 2002 field work in Northern Panhandle and Greenbrier Valley. Mine soils was added to list for characterization for background on soil phosphorus status and potential retention capacity. Meet monthly with representatives of Agriculture and Forestry Experiment Station to monitor progress in lab work.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: \$0

State: West Virginia

Funds: CO-01, \$546,000

Project: Chesapeake Bay Program:

Progress/Status: Funding supplements salaries and benefits for conservation staff working in the Chesapeake Bay Drainage Area Counties of West Virginia.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: None

*Wisconsin*

State: Wisconsin

Funds: CO-01, \$300,000

Project: Wisconsin Cranberry Growers

Progress/Status: NRCS and the Wisconsin State Cranberry Growers Association (WSCGA) have mutually agreed on a "whole farm planning" process that will address the needs of cranberry growers within the State. A cooperative working agreement has been initiated that solidifies the partnership between NRCS and WSCGA. NRCS will provide office space and the like, along with dedicating a soil conservationist to the process. WSCGA will employ a project coordinator with extensive experience in Wisconsin cranberry production, train the NRCS soil conservationist and formulate a WSCGA Advisory Committee for the process.

Fiscal year 2002 Obligation for Disbursement after September 30, 2002: All funds will be obligated for implementation of the whole farm planning process by December 31, 2003.

State: Wisconsin

Funds: CO-01, \$2,000,000

Project: Global Environmental Management (GEM)

Progress/Status: A cooperative agreement has been completed and signed with the University of Wisconsin Stevens Point. The objective of the agreement is to develop community planning processes and methodologies related to natural and agricultural resources. Approaches will be tested in the course of assisting two Wisconsin counties to develop comprehensive community plans by 2010. Products and protocols will be accomplished in the following areas: social/institutional capital, natural and farmland resource inventory techniques, alternative resource management strategies.

Fiscal year 2002 Obligation for Disbursement after September 30, 2002: Completion of the agreement objectives/products will by June 30, 2005.

State: Wisconsin

Funds: CO-01, \$1,000,000

Project: Aldo Leopold Foundation

Progress/Status: A cooperative agreement is completed and awaiting signatures between NRCS and the Leopold Foundation. After several working meetings between NRCS, Leopold Foundation and FACT (Farming and Conservation Together), an agreement has been completed to install conservation practices that promote the conservation of natural resources of the Fairfield Marsh area. Such practices and programs could include, wetland restoration, soil conservation, water quality improvement, forest management, conservation buffers, wildlife habitat improvement, and farmland protection.

Fiscal year 2002 Obligation for Disbursement after September 30, 2002: The installation of all conservation practices will be completed by December 2005.

State: Wisconsin

Funds: CO-01, \$250,000

Project: GLCI—Wisconsin Department of Agriculture

Progress/Status: NRCS, DATCP and the GLCI council have agreed on the implementation of the educational assistance program for Wisconsin grazers. The cooperative agreement has been finalized and the call for proposals has been released.

Fiscal year 2002 Obligations: All funds will be obligated to successful grant recipients by September 30, 2002.

*Question.* Please provide a status report in regard to activities of individual NRCS plant materials centers.

*Answer.* I will ask the Natural Resources Conservation Service to provide that information for the record.

[The information follows:]

Plant Materials Centers (PMC) continue to focus on high priority issues like invasive species, fire restoration, drought management, nutrient management and water quality. Products from PMC work include conservation plant releases, printed materials and oral presentations that help land owners and managers address key conservation needs and environmental concerns.

Plant materials work is organized according to national projects that address key conservation needs. Technology development and transfer that relate to these national projects is realized by studies at individual PMCs. Consequently, PMC studies form the basic foundation upon which the plant materials program functions. Each PMC has multiple studies, and these studies emphasize high priority issues of the geographic area served by that PMC. A table summarizing this information according to plant materials projects, PMCs working on them, and the number of studies at each PMC and a table reflecting critical resource issues being addressed by the plant materials (PM) program are provided for the record.

STATUS OF PLANT MATERIALS PROJECTS

Project Title and Brief Description	PMCs addressing the project (and number of active studies at each PMC to address the project)
Critical Area 1.1: Controlling erosion on highly disturbed areas such as highways, dams etc.	Arkansas (6), Colorado (1), Florida (2), Hawaii (2), Louisiana (5), Michigan (2), Mississippi (1), Montana (1), New Jersey (1), New Mexico (1), New York (2), Washington (4)
Cropland 1.1: Controlling erosion on cropland with cropping and residue management systems. Florida (2), Georgia (2), Hawaii (2), Maryland (1), Mississippi (2), New York (2), North Dakota (1) Cropland 2.1: Controlling erosion on cropland with vegetative barriers in the US.	East Texas (1), Hawaii (1), Knox City, TX (2), Maryland (2), Michigan (1), Mississippi (3), Missouri (2), New Mexico (2), South Texas (1), Washington (1)
Cropland 3.1: Controlling erosion on cropland by crop conversion to perennial crops or less erosive annuals.	Georgia (2), Kansas (1), Mississippi (11), New York (1), Washington (3), West Virginia (1)
Cropland 4.1: Protecting surface and ground water with vegetative filters.	California (1), Idaho (2), Kansas (10), Knox City, TX (2), Montana (6), North Dakota (16), Washington (1)
Forestland 1.1: Conservation systems for controlling erosion and improving water quality within forested watersheds.	Georgia (1), Hawaii (2), Mississippi (2), Montana (1), New Mexico (1), Oregon (2), Washington (1)
Mineland 1.1: Improve erosion control and the quality of water leaving mined land and other drastically disturbed sites.	Arkansas (1), Colorado (7), East Texas (2), Florida (4), Kansas (3), Montana (7), New Mexico (10), West Virginia (6)
Natural Areas 1.1: Maintaining plant diversity and controlling soil erosion on natural areas.	California (1), Colorado (4), Florida (4), Hawaii (5), Kansas (3), Knox City, TX (2), Louisiana (1), Maryland (4), Michigan (8), Mississippi (4), Montana (5), New Jersey (3), New Mexico (6), New York (3), North Dakota (5), Oregon (6), Washington (11), West Virginia (3)
Pasture/Hayland 1.1: Improving forage production and other conservation systems with cool season plants.	Colorado (2), East Texas (2), Idaho (1), Kansas (2), Knox City, TX (1), Maryland (1), Michigan (1), Missouri (1), Montana (2), New Mexico (4), New York (3), North Dakota (1), South Texas (1), Washington (4), West Virginia (3)
Pasture/Hayland 2.1: Improving forage production and other conservation systems with warm season plants.	Arizona (1), Arkansas (6), East Texas (3), Florida (7), Georgia (6), Hawaii (2), Kansas (2), Michigan (3), Mississippi (31), Missouri (7), New Jersey (3), New Mexico (2), New York (4), North Dakota (1), West Virginia (1)

STATUS OF PLANT MATERIALS PROJECTS

Project Title and Brief Description	PMCs addressing the project (and number of active studies at each PMC to address the project)
Rangeland 1.1: Improving the ecological status, production and soil protection of rangeland.	Arizona (8), California (3), Colorado (3), Florida (3), Idaho (12), Kansas (2), Knox City, TX (6), Montana (6), New Mexico (13), North Dakota (2), South Texas (14), Washington (5)
Urban 1.1: Developing plants to use in urban areas to control erosion and protect water quality.	Florida (1), Maryland (1), Missouri (1), New Mexico (2)
Urban 2.1: Developing plants to use in urban areas to reduce water quantity use (xeriscapes fit here).	Colorado (1), Florida (3), Montana (1), New Mexico (4)
Water Quality 1.1: Develop the technology for creating and restoring wetlands for water quality improvement.	East Texas (1), Florida (2), Idaho (6), Knox City, TX (3), Louisiana (2), Maryland (1), Missouri (3), New Mexico (1), North Dakota (1), Oregon (22), South Texas (3)
Water Quality 2.1: Develop the technology for restoring or creating riparian areas for water quality improvements.	Colorado (6), Georgia (1), Idaho (3), Kansas (1), Maryland (4), Mississippi (1), Missouri (1), New Jersey (3), New Mexico (12), New York (1), Oregon (17), South Texas (1), Washington (5)
Water Quality 3.1: Develop the technology for stabilizing channels for soil erosion control.	Arkansas (1), Idaho (13), Kansas (4), Maryland (1), Michigan (3), New York (1), Oregon (4), West Virginia (1)
Water Quality 4.1: Develop plants for shoreline erosion control.	Louisiana (3), New Jersey (4), New York (1), South Texas (7)
Wildlife 1.1: Develop plants for improving wildlife habitat ....	Colorado (8), East Texas (3), Florida (2), Hawaii (1), Knox City, TX (5), Louisiana (2), Michigan (1), Mississippi (3), Missouri (7), Montana (1), New Jersey (3), New Mexico (1), New York (4), North Dakota (4), Oregon (1), South Texas (6), Washington (1)
Animal Waste Management .....	California, Colorado, Idaho, Maryland, Mississippi, Montana, North Dakota, Oregon, Washington

CRITICAL RESOURCE ISSUES ADDRESSED BY PLANT MATERIALS PROGRAM

Critical Resource Issues addressed by the PM Program	PMCs addressing this resource concern in one or more studies
Water Quality (Buffers) .....	California, Colorado, East Texas, Florida, Georgia, Idaho, Kansas, Knox City (TX), Maryland, Michigan, Mississippi, Missouri, Montana, New Jersey, New Mexico, New York, North Dakota, Oregon, South Texas, Washington
Carbon Sequestration .....	California, Georgia, Idaho, Kansas, Louisiana, Michigan, Mississippi, Montana, New Jersey, New Mexico, North Dakota, Washington
Grazing Land Conservation .....	Arizona, Arkansas, California, Colorado, East Texas, Georgia, Idaho, Kansas, Knox City (TX), Louisiana, Maryland, Michigan, Mississippi, Missouri, Montana, New Jersey, New Mexico, New York, North Dakota, Oregon, South Texas, Washington, West Virginia
Invasive Species .....	Arizona, California, Hawaii, Idaho, Kansas, Knox City (TX), Maryland, Michigan, Mississippi, Montana, New Mexico, North Dakota, Oregon, South Texas, Washington
Native Species .....	Arizona, Arkansas, California, Colorado, East Texas, Florida, Georgia, Hawaii, Idaho, Kansas, Knox City (TX), Louisiana, Maryland, Michigan, Mississippi, Missouri, Montana, New Jersey, New Mexico, New York, North Dakota, Oregon, South Texas, Washington, West Virginia
Nutrient Management .....	California, Colorado, Florida, Idaho, Kansas, Knox City (TX), Louisiana, Maryland, Mississippi, Missouri, Montana, North Dakota, Oregon, Washington
Restoration of Disturbed Areas (e.g., fire, minelands, overgrazing, etc.).	Colorado, East Texas, Florida, Idaho, Michigan, Mississippi, Montana, New York, North Dakota, Oregon, South Texas, Washington, West Virginia
Riparian Zones .....	Arkansas, Colorado, East Texas, Florida, Georgia, Idaho, Kansas, Knox City (TX), Maryland, Michigan, Mississippi, Missouri, Montana, New Jersey, New Mexico, New York, North Dakota, Oregon, South Texas, Washington



CRITICAL RESOURCE ISSUES ADDRESSED BY PLANT MATERIALS PROGRAM

Critical Resource Issues addressed by the PM Program	PMCs addressing this resource concern in one or more studies
Soil Erosion .....	Arizona, Arkansas, Colorado, East Texas, Florida, Georgia, Hawaii, Idaho, Kansas, Knox City (TX), Louisiana, Maryland, Michigan, Mississippi, Missouri, Montana, New Jersey, New Mexico, New York, North Dakota, Oregon, South Texas, Washington, West Virginia
Water Management (e.g., drought) .....	Colorado, East Texas, Idaho, Knox City (TX), Montana, New Mexico, Washington
Wetland and Wildlife Conservation .....	Arizona, Colorado, East Texas, Florida, Hawaii, Idaho, Kansas, Knox City (TX), Louisiana, Maryland, Michigan, Mississippi, Missouri, Montana, New Jersey, New Mexico, New York, North Dakota, Oregon, South Texas, Washington, West Virginia

*Question.* Please provide information in regard to activities of the individual NRCS conservation institutes.

*Answer.* The NRCS Institutes activities focus on providing relevant, timely, up-to-date technical tools to field staff. Priority activities include development of training and technical guide materials, nutrient management, carbon sequestration, and conservation planning; development of internet access to technical information and resource data; and testing new and innovative methods for protecting the nation's natural resources. Specific activities are provided for each Institute.

[The information follows:]

*Wetland Science Institute (WLSI)*

**Training**—developing and delivering specialized training in wetland restoration, hydric soil identification, wetland plant identification, and application of hydrology tools for wetland identification. Six of 15 courses/workshops have been delivered to NRCS field personnel with wetland restoration and delineation responsibilities thus far in fiscal year 2002.

**Technical Guidance**—developing and disseminating technical guidance documents for wetland restoration, delineation, and assessment. The Index of Biotic Integrity Case Study and the Wetland Restoration Handbook are scheduled for completion and distribution to the field in fiscal year 2002.

**Direct Assistance**—providing direct assistance to NRCS State staff and others for resolving wetland problem areas in the field. WLSI staff has provided assistance to South Dakota (wetland hydrology); Arkansas, Louisiana and Oklahoma (wetland restoration); Maryland and Delaware (wetland plant issue); Vermont, New Hampshire, Maryland and Delaware (hydric soils); and North Dakota (wetland functional assessment).

*Social Sciences Institute (SSI)*

**Technical Procedures and Skill Enhancement Assistance:** The SSI has several procedures on compact disk including (1) Self Scoring Evaluation of Locally Led Conservation Planning and (2) Adding Up Social Capital: An Investment in Communities. Both procedures are designed to help NRCS field staff expand community participation in conservation planning. The SSI has also developed 30 technical fact sheets to help NRCS field staffs improve their human relation skills to better serve our customers.

**Gathering and Assessing Customer Feedback**—The SSI obtains feedback from our customers and assesses internal employee or program needs. These assessments include gallop poll of customer satisfaction and surveys of: (1) adoption barriers perceived by small and limited resource farmers; (2) NRCS employees; (3) council members from the Resource Conservation and Development Program Area; and (4) Earth Team Volunteers for recruiting and retention purposes.

**Training**—developed and delivered training courses to NRCS field and management staff. Some examples follow:

- Developing Your Skills to Involve Communities in Implementing Locally Led Conservation, SSI has trained trainers from 35 States.
- Sponsorship of 27 Leader in You Training Programs since 1996. These programs are satellite transmissions featuring the top trainers in the country, including Steven Covey, Tom Peters, and Warren Bennis.
- Consultation with American Indian Governments training course. This course provides NRCS employees better tools and techniques to work with our historically under-served Indian tribal customers.

*Soil Quality Institute (SQI)*

*Soil Carbon Assessment and Monitoring.*—Developing soil carbon assessment and monitoring protocols, tools and models. Work is being conducted in cooperation with the Agricultural Research Service, the National Resources Ecology Laboratory, Los Alamos National Laboratory, and Land Grant Colleges to determine the ability of different soils to sequester carbon undergoing different management systems.

*Soil Quality and Conservation Practice Effects.*—One of the functions of the SQI is to determine the effects of management systems (i.e., agricultural, forestry, grazing, urban) on soil quality. One example is the Soil Conditioning Index; a field office tool to be distributed this fall, which will give field office staffs the ability to assess agricultural systems effects on soil quality.

*Dynamic Soil Properties.*—SQI is leading the effort in defining dynamic soil properties and its importance to natural resource management. Dynamic soil properties are those that change in response to land use and management. This type of information is currently not available in our soil databases. It will allow field office staffs, farmers and ranchers to improve management decisions that enhance soil, water, and air quality.

*Training and Outreach.*—Four soil quality courses have been taught the first two quarters of this fiscal year in New York, Nebraska, Louisiana, and Tennessee to NRCS and other partners at the field office level. Four more courses will be taught during the last two quarters of this fiscal year in Washington, Iowa, Hawaii, and Kansas. Approximately 20 soil quality workshops reaching over 6,000 people have been given to various farm groups and non-government organizations. Well over 100,000 publications have been distributed on soil quality information.

*Natural Resources Inventory and Analysis Institute (NRIAI)*

*Technical Assistance*—sponsored development of new inventory and trending technologies for natural resources on the nations privately owned lands. NRIAI is involved in these activities with a variety of State and Federal agencies, universities, and not-for-profit organizations.

*Technology Development*—developed technology to assist NRCS field and management staffs perform surveys and statistical analysis. Some examples follow:

- Modern, efficient methods of information management and delivery using geographic information systems, remote sensing, database management, online delivery, economic analyses, and computer modeling to provide practical views of the State of the land and its trends.
- Relevant new technologies on surveying, statistical analysis, and design to support the NRCS continuous National Resources Inventory.

*Grazing Lands Technology Institute (GLTI)*

*Technology Development*—developing technology to assist NRCS field offices in conservation planning processes. Ecological site descriptions provide information describing the interactions among soils, vegetation, and land management across the landscape. Grazing lands application software is utilized to inventory land and animal resources and develop a balanced plan between grazing resources and animal demand. A web-based version of this software is scheduled for release at the end of fiscal year 2002.

*Training*—supporting technology delivery to the field level through developing and conducting specialized workshops and training sessions with NRCS State specialists. Workshops and training sessions have been conducted and are scheduled in animal nutrition, prescribed burning, rangeland health, pasture condition scoring, ecological site descriptions, and forage suitability group descriptions during fiscal year 2002.

*Technical Assistance*—providing technical assistance to States regarding complex grazing management issues. Technical assistance has been provided to Northern Plains, South Central, Southeast, and West Regions regarding development of ecological site descriptions and forage suitability group descriptions. The institute has also provided technical assistance to several States regarding grazing management-animal nutrition issues utilizing the Nutritional Balance Analyzer software program.

*Watershed Science Institute (WSI)*

*Technology Development*—developed a model State practice standard for forest riparian buffers as well as a watershed ecosystem nutrient dynamics model for phosphorus to dynamically simulate phosphorus budgets at a watershed scale. The watershed ecosystem nutrient dynamics model for phosphorus has been applied in Inland Bays Watershed, Delaware; Little Cobb River Watershed, Minnesota; and the Eucha-Spavinaw WS, Oklahoma/Arkansas.

Technology Delivery—prepared technical reports for distribution to field offices on: (1) Waterborne Pathogens in Agricultural Watersheds; (2) Fate and Transport of Waterborne Pathogens; and (3) The Potential Use of DNA Fingerprinting in Ag-Related Pathogen/Bacteria Management.

Training—prepared and distributed handbooks and training materials for: Conservation Corridor Planning at the Landscape Level—Managing for Wildlife Habitat.

Technical Assistance—provided technical assistance to States and National Headquarters in preparation of environmental assessments to accelerate program and project implementation (Tillamook Basin, OR). The institute has also provided technical assistance in developing the framework and pre-population of the Electronic Field Office Tech Guide (EFOTG).

*Wildlife Habitat Management Institute (WHMI)*

Training—Supports technology to the field by developing and conducting workshops and training courses. Forty-five video lectures have been completed through universities and WHMI's staff on courses such as (1) Wildlife in Agricultural Ecosystems and (2) Understanding the Landscape.

Technology Development—Supports the field through conducting, developing, and managing various technical projects that will enhance farm bill delivery through conservation planning. Forty-five projects have been completed or are underway at present.

Assessment—Conducts assessments and findings on USDA–NRCS programs as to the effects on fish and wildlife habitat on private lands. Leads special efforts to show and substantiate private land conservation efforts through partnerships such as “Our Living Land” project.

A table is provided with the funding levels for fiscal year 2002 for each Institute. [The table follows:]

*Fiscal Year 2002 Budget Allocation for NRCS Institutes*

<i>Institute</i>	<i>Budget Allocation</i>
Grazing Lands Technology Institute .....	\$859,200
Natural Resources Inventory and Analysis Institute .....	576,600
Social Sciences Institute .....	1,082,000
Soil Quality Institute .....	587,100
Watershed Science Institute .....	902,100
Wetland Science Institute .....	496,500
Wildlife Habitat Management Institute (allocation includes \$3 million for National Fish & Wildlife Foundation) .....	5,609,000
Total .....	10,112,500

NRCS WATERSHED AND FLOOD PREVENTION OPERATIONS

*Question.* Please provide a status report on project items included under the heading of “Watershed and Flood Prevention Operations” on page 69 House Report 107–275 and any other projects that are included on pages 92 through 94 under the same heading in Senate Report 107–41.

*Answer.* NRCS will provide the Committee with a listing of the funds allocated to States for Watershed and Flood Prevention Operations project items. NRCS has requested that each State Conservationist submit a second quarter status for each project in their State.

[The information follows:]

NATURAL RESOURCES CONSERVATION SERVICE  
WATERSHED AND FLOOD PREVENTION OPERATIONS

STATE	FUND	PROJECT	CONGRESSIONAL LANGUAGE	FUNDING TO STATE
Alaska	WF-08	Tanana River bordering Big Delta State Historical Park	(S)Notwithstanding any other provisions of law the Secretary acting through the NRCS, shall provide FA & TA to the Tanana River bordering the Big Delta State Historical Park. Conference: Sec. 754. Notwithstanding any other provisions of law, the Secretary, acting through the NRCS, shall provide FA & TA relating to the Tanana River bordering the Big Delta State Historical Park.	\$340,000
Arkansas	EWP	Phase one of the Kuhn Bayou Project	(S)Notwithstanding any other provisions of law, the Secretary, acting through the NRCS, shall provide FA from available funds from EWP funds in an amount not to exceed \$0.4 million for completion of the current construction phase of the Kuhn Bayou (Point Remove) Project. Conference: Sec. 780. Notwithstanding any other provisions of law, the Secretary, acting through the NRCS, shall provide FA from available funds from the EWP program in Arkansas, in an amount not to exceed \$400,000 for completion of the current construction phase of the Kuhn Bayou (Point Remove Project).	\$400,000 (FY2001)
Arkansas	WF-08	Little Red River Watershed and Big Slough Watersheds	(H) The Committee is aware of and expects progress to continue on the following projects: Little Red River and the Big Slough in Arkansas. Not an approved project.	\$1,100,000
Arkansas	WF-08	Flooding problems in Lavaca, AR	(H) The Committee encourages NRCS to provide technical and financial assistance to the following projects: To address flooding problems in Lavaca, AR. Not an approved project.	\$0
California	WF-08	Chino River Dairy Reserve Project, San Bernardino	(H) The Committee is aware of and expects progress to continue on the following projects: Chino Dairy Preserve Project, San Bernardino, California. Work ongoing with previously allocated funds.	\$0
California	WF-08	Complete the Beardslay Wash WIS in Ventura county	(H)The Committee urges the NRCS to complete the Beardslay Wash Watershed in Ventura, CA.	\$2,500,000
Florida	WF-08	Four Pilot Projects in No. FL (Dairy and Poultry Cleanup)	(H) The Committee is aware of and expects progress to continue on the following projects: the four pilot projects in North Florida related to dairy and poultry cleanup efforts.	\$1,684,000
Hawaii	WF-08	Water Storage and Delivery Systems	(S) The Committee encourages the agency to support the increased demands for project completions dedicated to increasing water storage capacity, improving the efficiency of delivery systems, and conserving water through flood control projects in Hawaii.	\$3,010,000
Illinois	WF-08	Ferry Creek Mainstream WIS, DuPage County TA & FA	(H) The Committee includes funds for DuPage County, Illinois for FA & TA at the same level provided in FY 2001. Conference: Notwithstanding any other provisions of law, the NRCS shall provide TA & FA to DuPage County, Illinois, from funds available for the Watershed & Flood prevention Operations Program, not to exceed \$1,400,000. (Ferry Creek Mainstream Watershed Plan)	\$1,400,000
Illinois	WF-08	Embrass River Basin, Lake County Watershed & Dupage County	(S)The Committee provides funds and expects NRCS to provide assistance for projects in Embrass River Basin, the Lake County Watershed, and Dupage county in Illinois.	\$8,940,000
Illinois	CO-01	Glen Shoals Lake	(H) The Committee is aware of and expects progress to continue on the following projects: Glen Shoals Lake in Illinois.	\$50,000
Iowa	WF-08	Soap Creek	(H) The Committee is aware of and expects progress to continue on the following projects: Soap Creek in Iowa. (S) The Committee provides funds for continuing work in connection with Soap Creek parts 10 & 11 in Iowa.	\$1,070,000
Iowa	WF-08	East Fork of the Grand River	(S)The Committee provides funds for continuing work in connection with the East Fork of the Grand River, Twelve mile Creek, Twin Ponies, Troublesome Creek, West Fork of Big Creek, Soap Creek parts 10 and 11, Mill creek and Little River projects all located in Iowa.	\$760,000
Iowa	WF-08	Twelve Mile Creek	(S)The Committee provides funds for continuing work in connection with the East Fork of the Grand River, Twelve mile Creek, Twin Ponies, Troublesome Creek, West Fork of Big Creek, Soap Creek parts 10 and 11, Mill creek and Little River projects all located in Iowa.	\$170,000
Iowa	WF-08	Twin Ponies	(S)The Committee provides funds for continuing work in connection with the East Fork of the Grand River, Twelve mile Creek, Twin Ponies, Troublesome Creek, West Fork of Big Creek, Soap Creek parts 10 and 11, Mill creek and Little River projects all located in Iowa.	\$40,000
Iowa	WF-08	Troublesome Creek	(S)The Committee provides funds for continuing work in connection with the East Fork of the Grand River, Twelve mile Creek, Twin Ponies, Troublesome Creek, West Fork of Big Creek, Soap Creek parts 10 and 11, Mill creek and Little River projects all located in Iowa.	\$530,000
Iowa	WF-08	West Fork of Big Creek	(S)The Committee provides funds for continuing work in connection with the East Fork of the Grand River, Twelve mile Creek, Twin Ponies, Troublesome Creek, West Fork of Big Creek, Soap Creek parts 10 and 11, Mill creek and Little River projects all located in Iowa.	\$220,000
Iowa	WF-08	Mill Creek Watershed	(S)The Committee provides funds for continuing work in connection with the East Fork of the Grand River, Twelve mile Creek, Twin Ponies, Troublesome Creek, West Fork of Big Creek, Soap Creek parts 10 and 11, Mill creek and Little River projects all located in Iowa.	\$200,000
Iowa	WF-08	Little River	(S)The Committee provides funds for continuing work in connection with the East Fork of the Grand River, Twelve mile Creek, Twin Ponies, Troublesome Creek, West Fork of Big Creek, Soap Creek parts 10 and 11, Mill creek and Little River projects all located in Iowa.	\$920,000
Iowa	WF-03	Little Sioux Watershed Project	(S)The committee continues the fiscal year 2001 level of funding for the Little Sioux Watershed Project in Iowa	\$1,840,000
Iowa	WF-08	Mosquito Creek Watershed Project	(S) The Committee continues the fiscal year 2001 level of funding for the Mosquito Creek Watershed Project in Iowa.	\$150,000
Kansas	WF-08	Wet Walnut Creek Watershed	(H)The committee encourages NRCS to Provide TA & FA to the following project: Wet Walnut Project in Kansas.	\$1,842,100
Kentucky	WF-08	Caney Creek Project	(H)The committee encourages NRCS to provide TA & FA to the following project: Caney Creek Project in Grayson County, KY	\$100,000
Louisiana	WF-08	Bayou Bourbeux Watershed Project	(H)The Committee encourages NRCS to provide TA & FA to the following project: Bayou Bourbeux Watershed project in Opelousas, LA.	\$300,000
Louisiana	WF-08	Dairy Farmers in Lake Pontchartrain & Middle Tangipahoa Watershed	(S)The Committee urges the NRCS to assist dairy farmers with the installation or renovation of waste management features to protect water quality in Lake Pontchartrain and the Middle Tangipahoa watershed, Louisiana	\$100,000
Minnesota	WF-08	Snake River Watershed Project TA & FA	(H)The Committee urges the NRCS to complete the Snake River Project in Warren, MN.	\$6,450,000

NATURAL RESOURCES CONSERVATION SERVICE  
WATERSHED AND FLOOD PREVENTION OPERATIONS

STATE	FUND	PROJECT	CONGRESSIONAL LANGUAGE	FUNDING TO STATE
Mississippi	WF-08	Town Creek/Coonewah Creek	(H)The Committee encourages NRCS to provide TA & FA to the following project: To address flooding problems in Town Creek (S)The Committee provides \$250,000 for FY2002 to finish installing the remaining channel work on Coonewah Creek in Lee County, Mississippi. Conference, Funding is provided to finish the installation of the remaining channel work on Coonewah Creek in Lee County, MS	\$313,000
Mississippi	WF-08	Design flood water retarding structures in Pellaphalia Creek WS, Carthage, MS	The Conference provides funds study, planning, and design of floodwater retarding structures in the Pellaphalia Creek Watershed, Carthage, MS. Conference, Funding is provided for the study, planning and design of flood water retarding structures in the Pellaphalia Creek Watershed	\$975,000
Mississippi	WF-08	Pearl River Basin/Dry Creek Watershed	(S)The Committee provides \$350,000 for fiscal year 2002 for flood control in the Pearl River Basin, Dry Creek Watershed in Marion County, Mississippi. Conference, Funding is provided for flood control in the Pearl River Basin, Dry Creek Watershed in Marion County, MS	\$430,000
Mississippi	WF-03	Install grade stabilization structures in the Skuna River	(S)The Committee provides \$400,000 for FY2002 to install grade stabilization structures in the Skuna River, Mississippi. Conference, Funding is provided for the installation of grade stabilization structures in the Skuna River in Mississippi	\$625,000
Mississippi	WF-03	Strayhorn Creek Watershed	(S)The Committee provides \$300,000 for FY2002 to provide bank stabilization structures in the Strayhorn Creek Watershed, Mississippi. Conference, Funding is provided for bank stabilization structures in the Strayhorn Creek	\$375,000
Missouri	WF-08	Hickory Creek	The conferees provide funds for continuing work in connection with the Hickory Creek, MO. Conference, Funding is provided for continuing work in Hickory Creek	\$3,120,000
Missouri	WF-08	Marthasville	The conferees provide funds for continuing work in connection with Marthasville, MO. Conference, Funding is provided for continuing work in Marthasville	\$1,100,000
Missouri	WF-08	West Fork of Big Creek	The conferees provide funds for continuing work in connection with the West Fork of Big Creek, MO. Conference, Funding is provided for continuing work in the West Fork of Big Creek	\$850,000
Missouri	WF-08	East Fork of Grand River	The conferees provide funds for continuing work in connection with the East Fork of Grand River, MO. Conference, Funding is provided for continuing work in the East Fork of the Grand River	\$450,000
Missouri	WF-08	Mckenize Creek	The conferees provide funds for continuing work in connection with Mckenize Creek, MO. Conference, Funding is provided for continuing work in Mckenize Creek	\$365,000
Missouri	WF-08	Upper Locust Creek	The conferees provide funds for continuing work in connection with Upper Locust Creek, MO. Conference, Funding is provided for continuing work in the Upper Locust Creek	\$600,000
Missouri	WF-08	Troublesome Creek	The conferees provide funds for continuing work in connection with the Troublesome Creek, MO. Conference, Funding is provided for continuing work in Troublesome Creek	\$600,000
Missouri	WF-08	East Yellow Creek	The conferees provide funds for continuing work in connection with the East Yellow Creek, MO. Conference, Funding is provided for continuing work in the East Yellow Creek	\$370,000
New Mexico	WF-08	Truth or Consequences/Williamsburg Arroyos Watershed	(H)The Committee encourages NRCS to provide TA & FA to the following project: Truth or Consequences/Williamsburg Arroyos Watershed in New Mexico.(S)The Committee urges NRCS to proceed with construction of Phase 2 of the watershed flood control project in the vicinity of Truth or Consequences, NM	\$7,230,000
North Carolina	WF-08	Swan Quarter Project	(H)The Committee encourages NRCS to provide TA & FA to the following project: The Swan Quarter (NC) project. (S)The Committee supports work by NRCS to assist the Town of Swan Quarter NC, to provide protection from flooding from area farm lands	\$1,213,000
North Dakota	WF-08	Devils Lake Basin. NOTE: Work with FSA	(H) The Committee is aware of continued flooding in the Devils Lake basin in North Dakota, and notes that the lake has risen 25 feet over the last several years. The Committee encourages, the NRCS in cooperation with the FSA to assist in the locally coordinated flood response and water management activities being developed with the Federal Emergency Management Agency. NRCS and FSA utilize conservation programs in providing water holding and storage are on private land as necessary intermediate measures in watershed management. (S) The Committee continues to be aware of flooding in the Devils Lake basin in North Dakota, and notes that the lake has risen each of the past 8 years. The lake is now nearly 25 feet higher than it was in 1993. The Committee encourages the agency, with the cooperation of the Farm Service Agency, to assist in the locally coordinated flood response and water management activities. NRCS and FSA should continue to utilize conservation programs in providing water holding and storage areas on private land as necessary intermediate measures in watershed management. Ongoing CTA in state.	Ongoing
Pennsylvania	WF-08	Final site on the Oven Run Project	(H)The Committee urges NRCS to complete the sixth and final site on the Oven Run (PA) Project	\$430,000
Rhode Island	WF-08	Pocasset River Watershed	(S)The committee encourages the agency to provide assistance for the small watershed program for the Environmental assessment and design phase of the Pocasset River Watershed Plan, RI.	\$100,000
Texas	WF-03	Muenster Dam and Blanket Creek Reservoir	(S)The Committee provides funds for continuing work by NRCS for the Muenster watershed, Texas.	\$2,430,000
Texas	WF-08	Bexar-Medina-Atascosa Watershed Project	(H) The Committee directs the NRCS to fund the Bexar-Medina-Atascosa Watershed project in Texas at the future obligation request proposed by the Texas NRCS.	\$4,270,000
West Virginia	WF-08	Deckers Creek Mine Watershed & Land Mine Treatment	(S) The Committee urges the agency to proceed with the implementation of the watershed plans for the Deckers Creek Watershed Acid Mine Drainage Remediation and Land Mine Treatment project, the Potomac Headwaters Land Treatment Watershed project, and the Knapps Creek Stream Restoration Watershed project, West Virginia.	\$735,000
West Virginia	WF-03	Potomac Headwaters Land Treatment	(S) The Committee urges the agency to proceed with the implementation of the watershed plans for the Deckers Creek Watershed Acid Mine Drainage Remediation and Land Mine Treatment project, the Potomac Headwaters Land Treatment Watershed project, and the Knapps Creek Stream Restoration Watershed project, West Virginia.	\$550,000

NATURAL RESOURCES CONSERVATION SERVICE  
WATERSHED AND FLOOD PREVENTION OPERATIONS

STATE	FUND	PROJECT	CONGRESSIONAL LANGUAGE	FUNDING TO STATE
West Virginia	WF-08	Knapps Creek Stream Restoration Watershed	(S) The Committee urges the agency to proceed with the implementation of the watershed plans for the Deckers Creek Watershed Acid Mine Drainage Remediation and Land Mine Treatment project, the Potomac Headwaters Land Treatment Watershed project, and the Knapps Creek Stream Restoration Watershed project, West Virginia.	\$360,000
West Virginia	WF-03	Lost River Watershed Dam #10	(S) The Committee recognizes the importance of building the Lost River Watershed Dam Number 10, West Virginia, and encourages the funding for the award of the construction contract for this project.	\$4,800,000
West Virginia	WF-08	Redesign existing flood impoundments to include water storage	(S) Access to a consistent source of potable water became even more difficult for West Virginia families and farmers during the drought of 1999. While existing flood impoundments protect these people during floods, these impoundments do not include a water storage component that would allow the impoundment to serve a dual role. The Committee directs the NRCS in West Virginia to initiate the redesign of its existing flood impoundments to include water storage as an additional function.	\$100,000
Wisconsin	EWP	Lake level stabilization project	Conference. Notwithstanding any other provisions of law, from funds previously appropriated for Watersheds & Flood prevention Operations of the NRCS, the Secretary shall provide TA & FA, but not to exceed \$1,000,000, in connection with a lake level stabilization project carried out as part of local efforts to restore and repair watersheds damaged by the 2001 tornado and storms in Burnett and Washburn Counties, WI. Provided, That the Secretary shall waive the cost share requirement of the local sponsors of such efforts in Burnett and Washburn Counties, WI.	\$1,000,000 (FY2001)

FISCAL YEAR 2002 NRCS WATERSHED EARMARK STATUS REPORT

*Alaska*

State: Alaska

Funds: WF-08, \$340,000

Project: Tanana River Erosion Control

Progress/Status: A Cooperative Agreement has been drafted and delivered to Alaska Department of Natural Resources, Parks and Outdoor Recreation to transfer funds to DNR for implementation. Implementation will continue in fiscal year 2003.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: The Cooperative Agreement is scheduled to be signed in the third quarter of 2002. Disbursement will likely occur in fiscal year 2003.

*Arkansas*

State: Arkansas

Funds: EWP, \$400,000 financial assistance funds in fiscal year 2002 and \$3,300,000 financial assistance funds carryover from an EWP earmark in fiscal year 2001.

Project: Phase one of the Kuhn Bayou Project

Progress/Status: NRCS awarded Phase IB contract on January 25, 2002, at a cost of \$3,619,346 with a scheduled completion date of January 30, 2004. Phase IB contract includes a portion of the main delivery system and the main pumping station that will provide irrigation water to 14,000 acres of cropland and winter water for a wildlife management area. NRCS staff will administer and inspect the installation of this contract through January 2004.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: Progress payments for construction installation will be made after September 30, 2002, and will continue through January 2004.

Funds: WF-08, Encourages

Project: Little Red River Watershed and Big Slough Watersheds

Progress/Status: NRCS has allocated \$700,000 in financial assistance and \$200,000 in technical assistance in fiscal year 2002 for the Little Red River Watershed Land Treatment Project. This water conservation project provides cost-share on approved on-farm conservation practices that will reduce the rate of decline of available groundwater on 25,000 irrigated acres. The financial assistance will be obligated to approximately seven new longterm contracts (LTC's) on about 1,000 acres. The technical assistance will be used to write the new LTC's and service contracts on 40 existing LTC's on approximately 13,000 acres. NRCS staff continues to formulate a plan supplement for the Big Slough Watershed. The \$200,000 that has been allocated to this project for fiscal year 2002 will be used to prepare the plan supplement, including economic and hydrology and hydraulic analyses. The plan supplement addresses floodwater damages to approximately 17,000 acres of cropland and urban communities.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: No funds will be disbursed after September 30, 2002 except for progress payments on the seven new LTC's in the Little Red River Watershed. Payments will be made on these LTC's through September 2006.

*California*

State: California  
 Funds: WF-08, total no funds earmarked  
 Project: Chino River Dairy Reserve Project  
 Progress/Status: Watershed planning staff working with local sponsors to prepare an application for a watershed project. Application has been received.  
 Fiscal year 2002 Obligations for Disbursement after September 30, 2002: N/A

Funds: WF-08, total \$2,500,000  
 Project: Beardsley Wash Watershed  
 Progress/Status: Project will be installed by local contract administered by Ventura County Flood Control District. (VCFCD). Design underway by VCFCD. NRCS will review and concur in the design with anticipated delivery by May 20. Ventura County will advertise the project for bids, and construction is expected to begin by July 30, 2002.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: Estimated installation of the planned work by December 15, 2002 with disbursement to follow.

*Florida*

State: Florida  
 Funds: WF-08, \$1,914,000  
 Project: Four pilot projects in north Florida (dairy and poultry cleanup).  
 Progress/Status: Six new long-term contracts (LTCs) executed as of April 23, 2002 for \$248,393. Plans are to finish an additional 27 LTCs for the remaining \$961,607 during fiscal year 2002.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: This project will be completed during fiscal year 2004, with 65 LTCs still needing funds during fiscal year 2003 and fiscal year 2004.

*Hawaii*

State: Hawaii  
 Funds: WF-08, \$3,010,000  
 Project: Water Storage and Delivery Systems (Lower Hamakua Ditch Watershed (LHD), Upcountry Maui WS and Lahaina WS)  
 Progress/Status: LHD WS—Survey and design of Phase 2 Flume Repair and Historic Flumes Repair underway, Project Agreements for repairs to be completed by August 31, 2002. Upcountry Maui WS—Survey and design of Phase 2 Main Pipeline underway, Project Agreement for pipeline installation to be completed by August 31, 2002. Lahaina WS—Agreement for Services executed to contact EIS preparation.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: LHD WS—CLO contracts for Phase 2 Flume Repairs and Historic Flume Repair to be awarded by November 30, 2002; Upcountry Maui WS—CLO contract for Phase 2 Main Pipeline installation will be awarded before November 30, 2002.

*Illinois*

State: Illinois  
 Funds (WF-08): \$1,400,000  
 Project: DuPage County  
 Progress/Status: In process of developing an agreement with DuPage County to transfer funds. Funds will be obligated when Agreement is signed that addresses stormwater management.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: Anticipate funds to be obligated by June 1, 2002.

Funds (WF-08): \$8,590,000  
 Project: Provide Assistance for Embarras River Basin, Lake County Watershed and DuPage County

Progress/Status: Currently working with staff and local sponsors to determine funding needs, potential projects/activities, and authorities to expend the funds.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: Anticipate funds to be obligated by September 30, 2002 and disbursed during fiscal year 2003.

*Iowa*

State: Iowa  
 Funds: WF-08, \$1,015,000  
 Project: Soap Creek Watershed

Progress/Status: Designs are being finalized on eight dams. Project agreements on these sites will be executed by June 30, 2002.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: Construction on these sites will begin in late summer and carry over into fiscal year 2003.

Funds: WF-08, \$834,000

Project: East Fork of the Grand River Watershed

Progress/Status: A project agreement obligating financial assistance funds has been signed covering the construction of 10 dams. In addition, an architectural and engineering contract solicitation is being prepared for the design of a large multi-purpose dam.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: Construction on the 10 dams will begin this summer. Construction on sites will likely carry over into fiscal year 2003. Design work on the multi-purpose dam will begin this summer with disbursements into fiscal year 2003.

Funds: WF-08, \$169,000

Project: Twelve-Mile Creek Watershed

Progress/Status: Design is being completed for two dams. A project agreement obligating funds for these two sites will be executed by June 30, 2002.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: Construction on the two dams will begin this summer, with disbursement in fiscal year 2003.

Funds: WF-08, \$40,000

Project: Twin Ponies Watershed

Progress/Status: Plans are being finalized for the repair of one dam. A project agreement obligating funds for this repair work will be executed by June 30, 2002.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: Repair work will begin late this summer, with disbursement in fiscal year 2003.

Funds: WF-08, \$532,000

Project: Troublesome Creek Watershed

Progress/Status: Design work is being completed for two dams. A project agreement obligating funds for these two sites will be executed by the end of June 2002.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: Construction on the two dams will begin this summer, with disbursement in fiscal year 2003.

Funds: WF-08, \$221,000

Project: West Fork of Big Creek Watershed

Progress/Status: Design work is being completed for five dams. A project agreement obligating funds for the five sites will be executed by the end of June 2002.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: Contracting for construction of the five dams will be completed by late summer, and construction of the sites will carry over into late fiscal year 2002. Disbursement will occur in fiscal year 2003.

Funds: WF-08, \$210,000

Project: Mill Creek Watershed

Progress/Status: Financial assistance funds for this project have been obligated. The local contracting organization is currently working with individual landowners to complete land treatment projects.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: Land treatment work is currently underway; however, some of the work will carry over into fiscal year 2003 with disbursements also in fiscal year 2003.

Funds: WF-08, \$526,000

Project: Little River Watershed

Progress/Status: Design and plan development work for one dam is being completed. A project agreement for construction of the dam will be executed by June 30, 2002.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: A contract for the dam construction will be awarded in late summer. Construction will carry over into fiscal year 2003 with disbursement in fiscal year 2003.

Funds: WF-03, \$1,940,000

Project: Little Sioux Watershed

Progress/Status: Eighty-seven land treatment contracts have been executed to date, and several others are pending. In addition, designs for three dams, and the repairs of three other dams, are being completed at this time. Project agreements



for these six sites and the remaining land treatment work will be executed by June 30, 2002.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: Work on the dam construction and dam repair projects will carry over into fiscal year 2003. Land treatment work that has not commenced will also carry over into fiscal year 2003. Disbursements will occur in fiscal year 2003.

Funds: WF-08, \$150,000

Project: Mosquito Creek Watershed

Progress/Status: Local site conditions will likely preclude dam construction work in this watershed. Technical assistance for upland treatment is ongoing.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: The sponsors have been contacted regarding the status of remaining dam work and those actions that are needed to make additional work possible. Reprogramming of current dam construction dollars to other projects is also being discussed with the sponsors. Disbursements will likely occur in fiscal year 2003.

#### *Kansas*

State: Kansas

Funds: WF-08, \$1,942,100

Project: Wet Walnut Creek Watershed

Progress/Status: The funds will be obligated by May 1, 2002. The engineering plans have been completed for the remedial work on 20 dams, with construction underway on 4 sites. All construction work is to be completed by 12/31/02.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: The construction of the last three sites is scheduled in fiscal year 2003 with disbursements to follow.

#### *Kentucky*

State: Kentucky

Funds: WF-08, \$100,000

Project: Caney Creek Watershed Project

Progress/Status: Discussions with sponsors are underway to ascertain the purpose of the earmark and concerns of the residents. Planning efforts will be underway once sponsors articulate their objectives.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: Disbursements to occur in fiscal year 2003.

#### *Louisiana*

State: Louisiana

Funds: WF-08, \$300,000

Project: Bayou Bourbeux Watershed Project

Progress/Status: Five new long-term contracts (LTC) were executed in April 2002. Fifty-four LTC's are in force with conservation practices installed. Twenty-one LTC's are scheduled to complete conservation practice installation this fiscal year. Awaiting funding for concrete lining of a channel phase.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: Ten LTC's have conservation practices scheduled for installation by December 2002 with disbursements to follow in fiscal year 2003.

Funds: WF-08, \$100,000

Project: Dairy Farmers in Lake Pontchartrain & Middle Tangipahoa Project

Progress/Status: Phase II of the animal waste system clean-out program has begun. During Phase I, 28 systems were cleaned during fiscal year 2001, updating an estimated 20 percent of the 275 waste systems installed in the Lake Pontchartrain Basin during the 1990's. Average cost of the system clean-out is \$1,040.00. Contracts are awarded by the Lake Pontchartrain Foundation to assist dairy farmers in protecting water quality by the construction waste management systems.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: The Federal contract for waste management systems will be completed on May 30, 2003. Twenty-three LTC's have conservation practices scheduled for installation October—December, 2002 with disbursement in fiscal year 2003.

#### *Minnesota*

State: Minnesota

Funds: WF-08, \$6,450,000

Project: Snake River Watershed Project

Progress/Status: Phase I (Lower Floodway) 80 percent complete. Phase II (Floodwater Impoundment) currently in bid award process with construction start expected in May 2002. Phase III (Upper Floodway) will be advertised in August or

September 2002. Funds will be obligated in by August 30, 2002, with a project agreement for local contracting.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: It is expected that approximately 50 percent of Phase II (\$2.2 million) and all of Phase III (\$3 million) will be disbursed after fiscal year 2003.

#### *Mississippi*

State: Mississippi

Fund: WF-08, \$313,000

Project: Town Creek/Coonewah Creek

Project/Status: Implementation of channel improvements on the Coonewah Creek Channel will begin in May 2002.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: The Town Creek/Coonewah Creek project will be completed by September 2002.

Fund: WF-08, \$575,000

Project: Design flood water retarding structure in Pellaphalia Creek Watershed.

Project/Status: The plan has been completed. The design and implementation will be completed in fiscal year 2002.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: The flood water retarding structure in Pellaphalia Creek Watershed should be completed by November 2002 with disbursement to follow.

Fund: WF-08, \$430,000

Project: Pearl River, Dry Creek Watershed, Marion County

Project Status: Implementation of this bank stabilization measure will begin in May 2002.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: The flood control project should be completed by November 2002 with disbursement to follow.

Fund: WF-03, \$625,000

Project: Install grade stabilization structures in the Skuna River.

Project Status: Implementation of these bank stabilization structures will begin in May 2002.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: The grade stabilization structures in the Skuna River should be completed by November 2002 with disbursement to follow.

Fund: WF-03, \$300,000

Project: Strayhorn Creek Watershed

Project/Status: Implementation of these bank stabilization structures will begin in May 2002.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: The Strayhorn Creek Watershed project will be completed by November 2002 with disbursement to follow.

#### *Missouri*

State: Missouri

Funds: WF-08, \$3,120,000

Project: Hickory Creek

Progress/Status: Contract awarded for construction of site H-10D to implement watershed plan. A cooperative agreement for a local contract is scheduled to be developed in the 4th quarter for construction of sites H-1A and H-2A. Approximately \$200,000 has been placed in a cooperative agreement with the City of Neosho in order to purchase additional properties in the buyout. Final plans completed for sites H-10D, H-1A, and H-2A.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: The local contract for sites H-1A and H-2A will be completed in fiscal year 2003. The buyouts are anticipated to be completed in the first quarter of fiscal year 2003.

Funds: WF-08, \$1,100,000

Project: Marthasville

Progress/Status: To implement watershed plan, contract awarded for construction of site MV-5. Final plans completed for site MV-5.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: The Federal contract for construction of site MV-5 is scheduled to be completed in November 2002.

Funds: WF-08, \$850,000

Project: West Fork of Big Creek

Progress/Status: Contract awarded for construction of five floodwater retarding dams. Contract for construction of small floodwater retarding dams scheduled to be bid in 4th quarter. Final plans completed on 11 floodwater retarding dams.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: The Federal contract for construction of six floodwater retarding dams has an estimated completion date in Summer 2003.

Funds: WF-08, \$450,000

Project: East Fork of Grand River

Progress/Status: A Federal contract for construction of four small floodwater retarding dams is scheduled to be bid in 4th quarter. Final plans completed on nine floodwater retarding dams.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: The Federal contract for construction of four floodwater retarding dams has an estimated completion date in Summer 2003

Funds: WF-08, \$365,000

Project: McKenzie Creek

Progress/Status: In order to purchase an additional 12-15 properties in the buyout, \$300,000 has been added to the cooperative agreement. This is being done through a partnership with the Missouri Department of Transportation, the City of Piedmont, and NRCS.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: The buyout is expected to extend into the first quarter of fiscal year 2003.

Funds: WF-08, \$600,000

Project: Upper Locust Creek

Progress/Status: A bid opening for a Federal contract for construction of seven floodwater retarding dams is scheduled for May 30, 2002. Final plans completed on 13 floodwater retarding dams.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: The Federal contract for construction of seven floodwater retarding dams has an estimated completion date of August 2003.

Funds: WF-08, \$500,000

Project: Troublesome Creek

Progress/Status: A bid opening for a Federal contract for construction of six floodwater retarding dams is scheduled for May 24, 2002. Final plans completed on 10 floodwater retarding dams.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: The Federal contract for construction of six floodwater retarding dams has an estimated completion date in July 2003.

Funds: WF-08, \$370,000

Project: East Yellow Creek

Progress/Status: A bid opening for a Federal contract for construction of five floodwater retarding dams is scheduled for May 30, 2002; Final plans completed on five floodwater retarding dams.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: The Federal contract for construction of five floodwater retarding dams has an estimated completion date in April 2003.

#### *New Mexico*

State: New Mexico

Funds: WF-08, \$7,777,000

Project: Truth or Consequences/Williamsburg Arroyos Watershed, Site 3C, phase III.

Progress/Status: The design of phase III is complete. Preparation of final drawings and specifications are progressing on schedule and are expected to be complete by May 30, 2002. A construction contract for installation will be awarded by August 30, 2002.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: Funds will be disbursed in fiscal year 2003.

#### *North Carolina*

State: North Carolina

Funds: WF-08, \$1,743,000

Project: Swan Quarter Watershed Project

Project/Status: The design for phase I, to construct 15,000 foot dike is nearly complete. A project agreement will be signed to start construction on Phase I by September 1, 2002.

Fiscal Obligation for Disbursement after September 30, 2002: Funds will be disbursed in fiscal year 2003.

*North Dakota*

State: North Dakota

Funds: WF-08, No earmarked funds were provided in fiscal year 2002.

Project: Devil's Lake Basin Flooding

Progress/Status: NRCS continues to utilize the WRP, EQIP, and WHIP programs in working with individual producers to increase the potential water retention capability of wetlands in the basin. NRCS is currently working with the Devil's Lake Basin Joint Water Resource Board, the North Dakota State Water Commission, and other Federal, State, and local agencies to update and revise the 1995 Devils Lake Basin Water Management Plan. This Plan will be used in determining future directions to address the flooding, transportation, agricultural, and other socioeconomic impacts the flooding is continuing to have on the Region.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: None.

*Pennsylvania*

State: Pennsylvania

Funds: WF-08, \$430,000

Project: Oven Run Watershed Project

Progress/Status: Site A Phase I construction contract is nearing completion. Site A, Phase II will be bid in May 2002. Design of Site E will be completed in May and will be out for bids in June. Based on engineer's estimates, the total construction cost (NRCS share) to complete this watershed in fiscal year 2002 is \$532,000. An additional \$172,000 will be needed in fiscal year 2002.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: Sites A (Phase II) and Site E construction will continue in fiscal year 2003. NRCS quality assurance responsibilities will continue during construction. Payments will need to be made to the agreement holders in fiscal year 2003 to meet contractual obligations.

*Rhode Island*

State: Rhode Island

Funds: WF-08, \$100,000

Project: Pocasset Flood Plain Management Study and Watershed Plan

Progress/Status: Flood control watershed measure plan and EIS are being drafted. Hydrologic models are being finalized. Draft plan and EIS expected to be published in Federal Register in late fiscal year 2002.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: None

*Texas*

State: Texas

Funds: WF-03, total (FA and TA): \$2,430,000

Project: Elm Fork of the Trinity Site 19MP (Muenster Dam)

Progress/Status: All permits obtained, design completed for Phase I construction, Phase I contract award will be early June 2002, design of Phase II will be completed in August 2002, obligate Financial Assistance funds for Phase II by Contracting Local Organization Agreement in September 2002.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: Phase I construction will be completed in fiscal year 2003, contract for Phase II construction will occur in fiscal year 2003 with disbursement to follow.

Funds: WF-08, total (FA and TA): \$4,270,000

Project: Bexar-Medina-Atascosa (BMA) Watershed Project

Progress/Status: Activities are being carried out to meet the intent of the earmark:

- On-farm land treatment to improve irrigation efficiencies using long term contracts (LTCs) with irrigation farmers in the BMA District
- Technical assistance to implement 4 LTCs planned in fiscal year 2001
- Technical assistance to plan an estimated 10 new LTCs in fiscal year 2002
- Obligate financial assistance funds for 10 LTCs by September 30, 2002
- Structural measures (canal improvement and/or Pearson Reservoir)
- Considerable resources have been dedicated to provide technical assistance on engineering surveys, geologic investigations, preliminary designs in order to be ready to implement in fiscal year 2002.
- President of the BMA Board has notified NRCS that the Board has postponed implementation of the canal improvement under the Watershed Plan. Since the local sponsors are not ready to carry out their responsibilities of the struc-

ture measures under the Plan, construction funds for the canal improvement can not be obligated on this project in fiscal year 2002.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: All LTCs will have conservation practices schedule for installation during fiscal year 2003.

#### *West Virginia*

State: West Virginia  
Funds: WF-08, \$735,000

Project: Deckers Creek Watershed

Progress/Status: Watershed plan revisions underway and will be completed in May to be ready for project authorization.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: Design and construction of land treatment and reclamation measures will continue in fiscal year 2003.

Funds: WF-03, \$550,000

Project: Potomac Headwaters Land Treatment Watershed Project

Progress/Status: Implementation of conservation practices in the Potomac Headwaters Land Treatment Watershed is underway. Approximately 60 percent of planned practice installations were completed as of January 2002.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: Funds for installation practices will be disbursed through fiscal year 2003 and fiscal year 2004.

Funds: WF-08, \$360,000

Project: Knapps Creek Stream Restoration Watershed Project

Progress/Status: Draft plan for Knapps Creek Watershed was completed on January 2, 2002. Completion of plan has been suspended pending completion of demonstration project on reach of Knapps Creek.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: Authorization of the Watershed Plan will be sought in fiscal year 2003 after completion of the demonstration project. Cost data from the demonstration project will be used in completion of the final Watershed Plan.

Funds: WF-03, \$4,800,000

Project: Lost River Watershed Dam #10

Progress/Status: Final design of the dam is completed and under peer review. Local sponsors are in process of obtaining land rights. A contract for construction should be awarded in September 2002.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: Construction of the dam will continue through December 2004 with disbursements to follow.

Funds: WF-08, \$100,000

Project: Redesign existing flood impoundments to include water storage

Progress/Status: Several watershed structures have been identified for the option of adding water supply. Deckers Creek Watershed, Site 1 has 30 percent of the planning phase completed. The costs for including water supply storage and upgrading the structure to current Federal standards have been completed.

Fiscal year 2002 Obligations for Disbursement after September 30, 2002: Planning and design will continue in fiscal year 2003.

#### *Wisconsin*

State: Wisconsin

Funds: Emergency Watershed Protection Program Earmark received \$1,000,000

Project: Shell Lake (\$750,000) Burnett and Washburn Counties (\$250,000)

Progress/Status: Agreement with the City of Shell Lake has been completed and signed. A cooperative agreement was completed as a grant agreement with limited NRCS involvement in the project. Agreement with Burnett County to act as the sponsor for tornado debris clean up in Burnett and Washburn Counties is in draft and will be signed by April 30, 2002. NRCS will assist Burnett and Washburn Counties with inventory and project design. Four lakes have been identified as priority by the sponsor. Three other lakes will be considered in the second phase.

Fiscal Obligation for Disbursement after September 30, 2002: A request for reimbursement of \$83,000 was approved for payment on April 19, 2002. Remaining products are scheduled through fiscal year 2003.

#### NRCS WATERSHED REHABILITATION PROGRAM

*Question.* Please provide a status report on activities carried out through the Watershed Rehabilitation Program in fiscal year 2002.

Answer. The fiscal year 2002 Agriculture Appropriations Bill provided \$10 million to begin implementation of the watershed rehabilitation activities authorized by Public Law 106-472. The appropriation language directed that priority be placed on those projects, which posed the highest risk to life and property. I have asked the Natural Resources Conservation Service to provide additional information for the record.

[The information follows:]

Applications from 80 local communities were received in the first quarter of fiscal year 2002. Each application was ranked using a risk-based system in January 2002, and funds were provided to State Conservationists for the selected projects in February 2002. All of the 43 selected projects in 17 States involve high hazard dams with the potential loss of life of at least 11,000 people living below the dams selected for rehabilitation activity. The funds for fiscal year 2002 were projected to:

- Initiate 43 watershed rehabilitation plans in 17 States;
- Complete 10 project plans in 7 States; and
- Have implementation/construction underway on 8 projects in four States.

#### NRCS FORESTRY INCENTIVES PROGRAM

*Question.* Please provide information in regard to Forestry Incentives Program activities to reduce the potential of wildfire.

Answer. Since inception of the Forestry Incentives Program in 1975, almost 1,463,000 acres of non-industrial private forest land has been thinned and pruned to save marketable trees and rural areas from the potential destructive forces of wildfire.

In addition, over 3,868,000 acres of trees have been planted on lands that are managed in a manner to protect the resource from wildfire, insect infestation, and other natural calamities.

In 2002, preventive emergency funds were made available to address specific reforestation needs and to reduce fire risk due to massive insect infestations in Tennessee and Alaska. These funds were made available, until expended, for thinning and reforestation in order to reduce the fire hazard from the dead and dying trees. It is expected the preventive emergency funds will impact 3,600 acres in Alaska and 4,500 acres in Tennessee.

#### SOIL, WATER AND AIR SCIENCES RESEARCH

*Question.* The fiscal year 2003 President's budget for ARS proposes a decrease of \$10.737 million to terminate numerous Congressionally-designated projects appropriated in fiscal year 2001 and 2002 in Soil, Water, and Air Sciences research to provide savings to finance higher priority research.

Please provide a status on each of the projects you propose to eliminate in fiscal year 2003 and State when you could complete each project if you receive funding to do so, as well as how much future funding would be necessary.

Answer. The fact that the Department has requested new funding for an initiative while at the same time proposing to eliminate projects under the same general initiative is a significant strength of our internal review process as reflected in the fiscal year 2003 budget. ARS has over 1000 individual projects grouped under different areas, and not all of these projects have equal value. The fiscal year 2003 budget reflects a reallocation of resources to projects that represent the most effective use of taxpayer dollars to meet overall national needs. Projects that, while of value, are not as important are proposed for elimination. Thus, the fiscal year 2003 budget is a valuable statement of what the Department believes to be the highest priority allocation of resources within each initiative.

The Agency has about 2,000 scientists (what we refer to as category 1 scientists) working in 100+ locations across the nation. In recent years, scientific research (not just agricultural research) has moved away from work being done by a single scientist or a small cohesive group of scientists working in a single location. Now, discoveries at ARS are far more likely to come from multi-disciplinary research conducted at more than one location. In fact, one of the principal reasons ARS created National Programs during the mid-1990s was to aggregate the research projects that were doing closely related work into a structure that would expedite interaction between these locations and scientists. A second benefit of the new National Program structure has been the strengthening of communication between ARS scientists and managers and the various customers and stakeholders in each area. The 40 National Program Workshops which were held during the startup phase were very helpful in defining the research agendas for each program.

When ARS is asked to address a new or re-emerging problem we assess many factors. First we ascertain scope and nature of the problem (location, crop(s)/com-

modity(ies) affected, nature of the problems, potential options, etc.). Then we assess the Agency's capabilities (where are the scientific skills needed to address the problem; what locations have the necessary equipment and facilities to support the work needed to address the problem; and what other factors such as climatic zones, soil type, are critical to the work). Sometimes these analyses produce predictable decisions. But in other cases, some or all of the work may be done at locations far from where the problem exists or the commodity grows.

ARS believes that the development of its annual budget, which is submitted to Congress as part of the President's budget is the agency's most comprehensive statement of how it can and should proceed with a comprehensive research plan for addressing the issues confronting American agriculture. These issues are identified by interactions with our customers and stakeholders, the Congress, and the Administration.

*Question.* Three projects recommended for elimination are waste management research (Starkville, MS); improved animal waste management/animal waste treatment research (Florence, SC); and, manure management research (Ames, Iowa). Your budget request, however, also proposes a \$5 million increase for research in support of managing wastes to enhance air and water quality involving all phases of animal feeding; manure handling; storage and treatment; land application; crop production; and conservation practices and alternative uses to provide solutions to problems associated with animal waste management. Please explain the differences and similarities between the proposed reductions for the waste management research in Starkville, animal waste/animal waste treatment research in Florence, and manure management research in Ames, with the \$5 million waste management research project you are proposing.

*Answer.* The \$5 million initiative proposed in the President's budget is designed to provide tools to producers and their advisors so they can effectively deal with animal waste while protecting the environment, human health, and animal health. The initiative has three main parts: (1) determine the processes controlling losses of manure nutrients, emissions and pathogens to soil, water, and air; (2) develop management practices, treatment technologies, and decision tools to reduce or eliminate risks from animal production systems to the environment and human health; and (3) determine the effectiveness of the practices, technologies, and tools at the farm and watershed scale. The main focus of the new initiative is to strengthen ARS research efforts in two key areas: (a) control of atmospheric emissions from livestock and poultry production systems and (b) control of manure pathogens that may pose a threat to human health. These efforts will involve cooperation among ARS scientists, university scientists, and scientists from State and other Federal agencies.

The projects at Starkville, Mississippi are designed to develop and evaluate poultry litter management systems for forage and row crop production. This research focuses on nutrient management for water quality protection and is being done in cooperation with Western Kentucky University. These projects would complement the initiative proposed in the President's budget.

The project at Florence, South Carolina addresses the development, evaluation and improvement of farm-scale systems of swine waste treatment technologies. This project complements the work proposed in the President's budget initiative.

The current manure management research project at Ames, Iowa focuses on modification of swine diet to reduce emissions of volatile organic compounds associated with odor by manipulating microorganisms in the swine gut. The new initiative looks at the whole swine production system, not just within the animal, to bring about a reduction in emissions of odor causing compounds. The current work at Ames would represent one part of the research on an overall system of odor control proposed in the 2003 budget.

#### PLANT SCIENCES RESEARCH

*Question.* The fiscal year 2003 President's budget for ARS proposes a decrease of \$53.192 million to terminate numerous Congressionally-designated projects appropriated in fiscal year 2001 and 2002 in Plant Sciences research to provide savings to finance higher priority research.

Please provide a status on each of the projects you propose to eliminate in fiscal year 2003 and State when you could complete each project if you receive funding to do so, as well as how much future funding would be necessary.

*Answer.* The proposed increases included in the budget are part of a national program plan to fund high priority agricultural research initiatives that are less project specific and are generally broader in scope than are the projects proposed for termination. The Agency has about 2,000 research scientists working in 100+ locations across the Nation. In recent years, scientific research (not just agricultural research)

has moved away from work being done by a single scientist or a small cohesive group of scientists working in a single location. Now, discoveries at ARS are far more likely to come from multi-disciplinary research conducted at more than one location. In fact, one of the principal reasons ARS created National Programs during the mid-1990s was to aggregate the research projects that were doing closely related work into a structure that would expedite interaction between these locations and scientists. A second benefit of the new National Program structure has been the strengthening of communication between ARS scientists and managers and the various customers and stakeholders in each area. The 40 National Program Workshops which were held during the startup phase were very helpful in defining the research agendas for each program.

When ARS is asked to address a new or re-emerging problem we assess many factors. First we ascertain scope and nature of the problem (location, crop(s)/commodity(ies) affected, nature of the problems, potential options, etc.). Then we assess the Agency's capabilities (where are the scientific skills needed to address the problem; what locations have the necessary equipment and facilities to support the work needed to address the problem; and what other factors such as climatic zones, soil type, are critical to the work). Sometimes these analyses produce predictable decisions. But in other cases, some or all of the work may be done at locations far from where the problem exists or the commodity grows.

ARS believes that the development of its annual budget, which is submitted to Congress as part of the President's budget, is the agency's most comprehensive statement of how it can and should proceed with a comprehensive research plan for addressing the issues confronting American agriculture. These issues are identified by interactions with our customers and stakeholders, the Congress, and the Administration.

*Question.* Please explain the differences and similarities between the proposed reductions for sorghum research (Manhattan, KS; Bushland, TX; Stillwater, OK; Lubbock, TX) and citrus/horticultural research (Ft. Pierce, FL) with the proposed \$500,000 increase for research to thwart plant pathogens that could significantly harm agricultural productivity and U.S. trade.

*Answer.* The sorghum research projects that are cut in the fiscal year 2003 President's budget focus on serious problems for the U.S. sorghum industry. These include: developing new uses and new markets for sorghum (Manhattan, KS), developing cropping and tillage systems to improve effectiveness of irrigated and dryland systems for sorghum production in the Southern Great Plains, (Bushland, TX), enhancing sorghum resistance to drought, heat stress and cold damage (Lubbock, TX), and increasing sorghum resistance to the insects, greenbug and sorghum midge (Stillwater, OK). However, these sorghum projects do not contribute to thwarting the plant pathogens and invasive species that are a higher priority in the President's fiscal year 2003 budget.

Research programs at Ft. Pierce, Florida, are dealing with serious diseases of citrus such as citrus canker and citrus tristeza virus. The work being done at this site is of critical importance to the national citrus industry as there are still serious citrus diseases poised to enter the United States, such as citrus variegated chlorosis, which is leading to the destruction of 5 million trees per year in the Sao Paulo area of Brazil. Given the critical nature of these efforts nationally in the United States, research on these important diseases is being incorporated into a national defense strategy against exotic and invasive plant pathogens. Funds proposed in the 2003 Budget would support development of detection and identification methods, including genomic sequencing for molecular identification, to aid regulatory agencies and policy-makers, an essential element to enhance our defense against plant pathogens.

*Question.* Please explain the differences and similarities between the proposed reduction for sudden oak disease research (Ft. Detrick, MD) with the proposed \$5.357 million increase for emerging, reemerging, and exotic diseases of plants.

*Answer.* ARS is conducting multi-disciplinary research on emerging, reemerging, and exotic diseases of plants to prevent and control their spread. Sudden Oak Death is responsible for killing large numbers of *Quercus* species (oak) from Monterey County, California to southern Oregon. The cause of the disease has only recently been identified as *Phytophthora ramorum*, a previously undescribed species of fungus capable of killing mature, otherwise healthy trees. Recently, the disease has been identified on several plants of horticultural significance including rhododendron and related crops. To date, the disease has only been found on the west coast. Exotic diseases such as Sudden Oak Death pose severe problems of regional and sometimes national significance throughout the United States. ARS's multidisciplinary research program seeks to determine the basis of host specificity and the nature and scope of pathogen diversity in the United States. ARS seeks to address longer-term problems of plant diseases at a national level. Given the critical nature



of exotic diseases in the United States, ARS research is being incorporated into a national defense strategy against exotic and invasive plant pathogens.

*Question.* Please explain the differences and similarities between the proposed reductions for soybean genetics research/two geneticists (Columbia, MO) and microbial genomics research (Pullman, WA) with the proposed \$2.95 million increase for agricultural genomes research.

*Answer.* Projects proposed in the 2003 Budget are part of a national program planning process used to develop the agency's budget, and are generally part of more broadly defined initiatives. The proposed \$2.95 million increase for agricultural genomics research is in support of a multi-commodity program to develop complete maps of the location of genes on chromosomes by sequencing DNA from maize, legumes, microbes and insects (honey bee). The genetic maps derived from interpretation of these DNA sequences are needed to facilitate the development of sophisticated gene markers that will help geneticists identify and select germplasm with enhanced product quality, productivity, food safety and resistance to diseases. Knowledge gained from these sequences is a committed step toward future efforts to define genetic mechanisms that regulate these biological systems. The proposed distribution of funds for these DNA sequencing activities is: maize and other cereals such as rice (\$1.2 million), soybean and *Medicago truncatula* (\$0.8 million), alfalfa and other legumes (\$0.4 million) and insects (\$0.55 million).

The research associated with the proposed reduction for soybean genetics at Columbia, Missouri involves the development of higher value soybeans to help improve profitability for farmers. This work focuses on the identification and the regulation or expression of genes that govern quality of soybean meal, specifically the genes that control the level of undesirable carbohydrates and the organic phosphorus in seed. These traits respectively reduce feeding efficiency and escalate the potential for undesired environmental impact of livestock wastes). This work is similar to the proposed agricultural genomes research in that it deals with a legume, soybean, and it investigates traits that are important to soybean product value. It differs by the fact that the work involves the discovery of function for a limited number of genes, and does not involve sequencing the entire soybean genome or the development of gene markers for the specified traits. This research would benefit significantly from knowledge gained by the work proposed for agricultural genomes research. In fiscal year 2002, \$480,000 was appropriated for this project.

The research associated with the proposed reduction for microbial genomics research at Pullman, Washington involves acquisition of the genome sequence of *Babesiosis bovis* (tick) to develop biological control strategies or vaccines to block infections that are transmitted by ticks to cattle and horses. This work is similar to the proposed agricultural genomes research in that it deals with the DNA sequence of a microbial organism. DNA sequencing was to be performed under a specific cooperative agreement with Washington State University, but this agreement did not involve the development of genetic markers or a complete genetic map of the *B. bovis* genome. The investigation focused on only a limited number of genes relative to the project objectives. Future research on this topic also would benefit significantly from knowledge gained by the work proposed for agricultural genomes research. In fiscal year 2002, \$480,000 was appropriated for this project.

*Question.* Please explain the differences and similarities between the proposed reductions for the Center for Biological Controls/FAMU (Gainesville, FL) and Pierce's Disease research (Parlier, CA; Ft. Pierce, FL; Davis, CA) with the proposed \$2.7 million increase for research in support of controlling invasive species.

*Answer.* These research programs are similar in that they address important agricultural pests—in Florida (associated with Florida A&M University), both native and invasive pests, and in California, the newly introduced glassy-winged sharpshooter that vectors Pierce's disease (a \$33 billion annual threat to the grape, raisin, and wine industry, a potential threat to production of almonds and other commodities, and to roadside safety buffers of oleander). The proposed increase of \$2.7 million will be directed to developing a national plan for fighting additional invasive species, including such potentially devastating insect pests as the Asian longhorned beetle in New York City and Chicago (a \$670 billion annual threat), the Chinese soybean aphid (a newly introduced vector of bean viruses) and Russian wheat aphid in the Midwest, pink hibiscus mealybug in California, imported fire ant and silverleaf whitefly in the South, fruit flies (near ports of entry in California and Florida), Formosan termite in New Orleans, cereal leaf beetle in the Northwest, mite and beetle pests of bees, and many other high priority pests. Invasive weeds such as leafy spurge, melaleuca, old world climbing fern, giant salvinia, saltcedar, hydrilla, waterhyacinth, yellow starthistle, downy brome, Brazilian pepper, jointed goat grass, purple loosestrife, and many other weeds that infest over 100 million acres

throughout the United States resulting in a 12 percent loss in crop yields valued at \$36 billion annually, will also be targeted.

#### ANIMAL SCIENCES RESEARCH

*Question.* The fiscal year 2003 President's budget for ARS proposes a decrease of \$19 million to terminate numerous Congressionally-designated projects appropriated in fiscal year 2001 and 2002 in Animal Sciences research to provide savings to finance higher priority research.

Please provide a status on each of the projects you propose to eliminate in fiscal year 2003 and State when you could complete each project if you receive funding to do so, as well as how much future funding would be necessary.

*Answer.* The Agency has about 2,000 research scientists working in 100+ locations across the Nation. In recent years, scientific research has moved away from work being done by a single scientist or a small cohesive group of scientists to a more multi-disciplinary approach where research is conducted at several locations. One of the principal reasons ARS created National Programs during the mid-1990s was to aggregate the research projects that were doing closely related work into a structure that would expedite interaction between these locations and scientists. A second benefit of the new National Program structure has been the strengthening of communication between ARS scientists and managers and the various customers and stakeholders in each area. The 40 National Program Workshops which were held during the startup phase were very helpful in defining the research agendas for each program.

When ARS is asked to address a new or re-emerging problem we assess many factors. First we determine the scope and nature of the problem (location, crop(s)/commodity (ies) affected), and then we assess the Agency's capabilities (scientific skills needed, locations with facilities and equipment to support the work, and factors such as climatic zones, soil type, etc.).

ARS believes that the development of its annual budget, which is submitted to Congress as part of the President's budget is the agency's most comprehensive statement of how it can and should proceed with a comprehensive research plan for addressing the issues confronting American Agriculture, which includes animal sciences research. These issues are identified by interactions with our customers and stakeholders, the Congress, and the Administration.

*Question.* Please explain the differences and similarities between the proposed reduction for the livestock genome mapping initiative (Clay Center, NE) with the proposed \$3 million increase to identify genes that influence disease resistance, reproduction, nutrition, and other economically important production traits in livestock and poultry.

*Answer.* The proposed reduction at Clay Center, NE, is for the development of a specific laboratory resource (physical map) needed for genomics research while the \$3 million increase proposed this year is to support high through-put genomic sequencing of farm animal genomes in collaboration with NIH.

#### COMMODITY CONVERSION AND DELIVERY RESEARCH

*Question.* The fiscal year 2003 President's budget for ARS proposes a decrease of \$5 million to terminate numerous Congressionally-designated projects appropriated in fiscal year 2001 and 2002 in Commodity Conversion and Delivery research to provide savings to finance higher priority research.

Please provide a status on each of the projects you propose to eliminate in fiscal year 2003 and State when you could complete each project if you receive funding to do so, as well as how much future funding would be necessary.

*Answer.* As stated in previous responses to similar questions, the Agency has about 2,000 research scientists working in 100+ locations across the Nation. Discoveries at ARS are far more likely to come from multi-disciplinary research conducted at more than one location. When ARS is asked to address a new or re-emerging problem we assess many factors, including scope and nature of the problem and the Agency's capabilities. Sometimes these analyses produce predictable decisions. But in other cases, some or all of the work may be done at locations far from where the problem exists or the commodity grows.

ARS believes that the development of its annual budget, which is submitted to Congress as part of the President's budget, is the agency's most comprehensive statement of how it can and should proceed with a comprehensive research plan for addressing the issues confronting American agriculture. These issues are identified by interactions with our customers and stakeholders, the Congress, and the Administration.

*Question.* Please explain the differences and similarities between the proposed reduction for the biomass crop production research (Brookings, SD) with the proposed \$3.5 million increase to develop technologies to produce biobased products from agricultural commodities and byproducts.

*Answer.* These research programs are similar in that they develop technologies to expand the use of agricultural commodities and byproducts through conversion of these materials into value-added biobased products that benefit the rural economy, the environment, and national security. The projects differ in the kinds of agricultural materials used and in the types of biobased products that result. The biomass crop production research objective at Brookings, South Dakota is to improve the quality and value of animal feed produced from distillers' dried grains (a byproduct of ethanol production) and from wheat straw, corn stover, and switchgrass. The proposed \$3.5 million increase to ARS will focus on developing technologies to develop composites from cereal grain starches and residues, high-performance natural rubber polymers, oil-producing plants that serve as biofactories for chemical feedstocks, procedures for processing flax fiber, activated carbon adsorbents from agricultural wastes such as soybean hulls and nutshells to remove contaminants from water, environmentally-friendly enzymatic methods to modify vegetable oils for use as lubricants, starch and protein-based copolymers from agricultural materials; efficient processing technologies for value-added co-products from corn milling and ethanol production, biobased substitutes for imported products, and value-added products from rendered animal byproducts.

#### HUMAN NUTRITION RESEARCH

*Question.* The fiscal year 2003 President's budget for ARS proposes a decrease of \$1 million to terminate numerous Congressionally-designated projects appropriated in fiscal year 2001 and 2002 in Human Nutrition research to provide savings to finance higher priority research.

Please provide a status on each of the projects you propose to eliminate in fiscal year 2003 and State when you could complete each project if you receive funding to do so, as well as how much future funding would be necessary.

*Answer.* The Agency has about 2,000 research scientists working in 100+ locations across the Nation. In recent years, scientific research has moved away from work being done by a single scientist or a small cohesive group of scientists to a more multi-disciplinary approach where research is conducted at several locations. National Program Workshops are held to develop a national research agenda for the 40 national programs. When ARS is asked to address a new or re-emerging problem we assess many factors, including capability of ARS staff, available space/facilities, and equipment needs. ARS believes that the development of its annual budget, which is submitted to Congress as part of the President's budget is the agency's most comprehensive statement of how it can and should proceed with a comprehensive research plan for addressing the issues confronting American Agriculture, which includes Human Nutrition research.

#### BUILDINGS AND FACILITIES

*Question.* In fiscal year 2002, ARS received almost \$119 million in appropriated funding for buildings and facilities with an additional \$73 million from the fiscal year 2002 Homeland Security Supplemental.

With the increased threats to lab security as a result of the terrorist attacks and anthrax scares last year, is \$16.58 million sufficient for your buildings and facilities account in fiscal year 2003?

*Answer.* The \$16.58 million is sufficient to meet the highest priority projects identified through the budget development and Administration priority-setting phase. These proposed funds are not related to the lab security needs. We are in the process of reviewing our security needs. Security enhancements are being financed with the \$21.7 million provided in the fiscal year 2002 Emergency Supplemental under the Salaries and Expenses account. These funds will help us to address the needs at the five laboratories that handle high-risk biological agents and needs at selected other high-risk labs as well.

*Question.* Of the \$16.58 million, how much is directly related to enhancing lab security? Has the Department conducted a complete analysis of ARS building security needs and if so, what are their findings?

*Answer.* None of the \$16.58 million requested is directly related to enhancing lab security, although design and construction projects begun with this money will incorporate enhanced lab security features.

ARS is in the process of conducting physical security assessments on our facilities. As of April 2002, 22 assessments have been completed. The balance of ARS locations

will be completed by September 2002. Based on the findings of the first 22 sites, ARS estimates that it will cost \$80 million to address all security needs.

*Question.* Please provide a status report on project items or locations included under the heading of "Agricultural Research Service" on page 52 of House Report 107-275 and any other project items that are included on pages 20 through 39 under the same heading in Senate Report 107-41.

*Answer.* The status of each of the building and facility items funded in fiscal year 2002 appropriation is:

Project location	Appropriated	Status
Maricopa, AZ .....	\$8,400,000	Pre-design contract completed in first quarter fiscal year 2002. Design scheduled to be completed in the third quarter, fiscal year 2003.
Albany, CA .....	3,800,000	Design for Phase 3 will be completed in first quarter of fiscal year 2003. Construction contract for Phase 1 was awarded in first quarter, fiscal year 2002. Phase 2 will be awarded in the third quarter, fiscal year 2002.
Davis, CA .....	5,000,000	Design scheduled for completion by the first quarter, fiscal year 2003. Construction contract scheduled for award in third quarter, fiscal year 2003.
Washington, DC (USNA) ....	4,600,000	Design contract for the Administration Building Modernization will be awarded in the second quarter of fiscal year 2002. Planning and Design of the headhouse/greenhouse will be awarded in the third quarter of fiscal year 2002. Design of the Bladensburg Road entrance will be awarded in the fourth quarter, fiscal year 2002.
Hilo, HI .....	3,000,000	Pre-design contract is scheduled for completion in the fourth quarter of fiscal year 2002. Design is scheduled for award upon signing of lease agreement with the University of Hawaii.
Aberdeen, ID .....	500,000	Design scheduled for award in third quarter of fiscal year 2002.
Peoria, IL .....	6,500,000	Construction contract for Phase 1 of the 4-phase project will be awarded in the third quarter, fiscal year 2002.
Ames, IA .....	40,000,000 1 14,081,000	Design contract for the Large Animal BSL-3Ag facilities was awarded the second quarter, fiscal year 2002. Construction award is anticipated in fourth quarter, fiscal year 2003. Planning and design for the remaining facilities will begin in the fourth quarter, fiscal year 2002, including the facility to be built by APHIS to relocate labs. Construction of APHIS facilities will begin in fiscal year 2003 and be completed in mid-fiscal year 2004.
Manhattan, KS .....	3,000,000	Partial funding for construction of Phases 3 and 4 was provided in fiscal year 2001 and 2002.
Orono, ME .....	3,000,000	Design for the new aquaculture facility is fully funded. A design contract for the new facility was awarded in the second quarter, fiscal year 2002.
Beltsville, MD (BARC) .....	3,000,000	Design for replacement greenhouses is on hold until reprogramming request of fiscal year 2002 funds is approved.
Beltsville, MD (NAL) .....	1,800,000	Construction award for major upgrade of plumbing and Phase 2 electrical systems is anticipated for the fourth quarter, fiscal year 2002.
St. Paul, MN	300,000	Design award anticipated in the third quarter, fiscal year 2002, with completion expected by the second quarter, fiscal year 2003.
Poplarville, MS .....	800,000	Pre-design award anticipated by the first quarter fiscal year 2003.
Stoneville, MS .....	8,400,000	Design for the replacement facility is complete. The construction of lab/office is fully funded. Construction award anticipated by the fourth quarter, fiscal year 2002.
Las Cruces, NM .....	475,000	Design and construction of replacement facility are fully funded. Design is complete. Construction is scheduled for completion in the fourth quarter of fiscal year 2002.
Greenport, NY .....	3,762,000 1 23,000,000	Contracts for the construction of the debris removal, coastal erosion control, and design of the potable water system will be awarded in the fourth quarter, fiscal year 2002. Release of the fiscal year 2002 Supplemental funding is contingent upon a report to Congress on security issues, and an independent review of the needs and options for these facilities.
Woodward, OK .....	1,500,000	Design awarded the second quarter, fiscal year 2002.
Wyndmoor, PA .....	5,000,000	Design award of Phases 8 and 9 is scheduled for the fourth quarter, fiscal year 2002. Phase 7 construction is scheduled for award in the first quarter, fiscal year 2003.
Charleston, SC .....	4,500,000	Construction of Phase 1 of the replacement facility is scheduled for completion in the third quarter of fiscal year 2002. Award for construction of headhouse anticipated by the fourth quarter, fiscal year 2002.
Brookings, SD .....	850,000	Design award anticipated by the fourth quarter, fiscal year 2002.
Logan, UT .....	5,600,000	Design for new facility is complete. Construction contract is scheduled for award in the third quarter, fiscal year 2002.

Project location	Appropriated	Status
Leetown, WV .....	2,200,000	Pre-design awarded in the first quarter of fiscal year 2002 and scheduled for completion by the third quarter, fiscal year 2002.
Madison, WI .....	3,000,000	Future site of replacement facility is under negotiation.

<sup>1</sup>2002 Supplemental.

ALLOCATION OF HOMELAND SECURITY FUNDS

*Question.* Madam Secretary, in your testimony you indicate that you have established the USDA Homeland Security Council. This Council will play a significant role in implementing the final plans for the proper disbursement of the \$328 million provided for operational security and upgrading facilities. In your request for fiscal year 2003, you have asked for an additional \$28 million for security improvements.

What do you currently see as the most serious threats facing the mission areas of USDA and to what extent do you think you are ready at this time to respond to those threats?

*Answer.* The greatest threats facing U.S. Agriculture are those that relate to the intentional introduction of highly infectious animal pathogens into the U.S. food and agriculture system. Having learned a lesson from the U.K. Foot and Mouth Disease outbreak, USDA has increased its capacity to block the introduction of such pathogens and quickly respond to an outbreak. If, however, terrorists were to simultaneously and surreptitiously infect livestock at multiple locations, it would greatly stress our capacity to respond and therefore could have far reaching economic consequences for the United States. Therefore, we are allocating funds to strengthen the detection, diagnostic and rapid response capabilities in the States. The introduction of plant pathogens is likely a lesser threat, as the spread of plant disease is generally a slower process. However, once introduced, plant pests could become well established and have very serious long-term consequences to production and the ability to export commodities. Therefore, selected plant pathogens are also on the priority list of threats.

*Question.* Can you tell us what has been completed to date in terms of upgraded facilities and security needs, specifically in the area of biosecurity, and how much of this money is supporting new security officers that will continue to be in the baseline for future requests? Further, to what extent will the decision on allocation of these funds be made by the Office of Homeland Security?

*Answer.* After September 11 we developed a list of about 130 facilities that were in critical need of security enhancements. Priorities were set within that list and we have been proceeding to make improvements. The supplemental funds will greatly assist us in making the highest priority improvements and performing assessments to assist us in determining additional needs for security enhancements. About \$1 million of these funds will be used to develop integrated standards and methodology for conducting facilities, cyber, and human security assessments in accordance with GAO recommendations. About \$1.25 million will support a staff of security officers that will be in the baseline for future requests.

In the area of biosecurity, USDA entered into an inter-agency agreement with the Department of Energy to employ Sandia National Laboratories to conduct a risk-based vulnerability survey of five ARS and APHIS bio-safety level 3 (BSL-3) laboratories and make recommendations to improve the physical, personnel and information security at those facilities—that project is essentially concluded and cost approximately \$0.5 million. Approximately \$1.5 million will be obligated under the supplemental to follow through by having Sandia assist lab managers in implementing the security recommendations and in developing biosecurity training and field manuals for these laboratories.

- In the interim we have made improvements to heighten security. For example,
- we moved the Ames, Iowa less secure laboratory facility from a shopping center location to the more secure main campus;
  - the USDA emergency operations center is staffed 24 hours a day, 7 days a week for any agriculture related disaster;
  - the guard presence in headquarters has been significantly increased and armed;
  - we have worked with the Coast Guard to increase the surveillance around Plum Island;
  - the NFC, NITC and Ft. Collins computer centers security procedures have been reviewed and improvements are underway;
  - all facilities are updating their Emergency Occupant Plans;
  - new procedures are being put in place for communication of emergency situations to employees;
  - we have served as a government leader for anthrax monitoring and testing; and

—we continue to monitor headquarters for anthrax and certain other pathogens; and we assisted with security for the Olympics.

Although the Department will make final decisions on allocation of these funds, we will certainly work closely with the Office of Homeland Security and seek their advice when appropriate.

*Question.* How do you justify a request for an additional \$28 million for Homeland Security when you have yet to determine how to allocate funds already at your disposal?

*Answer.* We are working to assure that we are allocating the supplemental funds to the highest priority projects and should have that completed soon. The \$28 million primarily would be used to continue to fund those facility and operational security needs that cannot be covered with the supplemental. Also, we need some funding that gives us some flexibility for unforeseen needs. We would certainly work with the appropriations committees on the allocation of these funds.

*Question.* I understand that the Department has contracted with the Sandia Corporation for a security review of operations at Plum Island, New York. Can you provide us an update on this review, when will it be complete, and what do you hope it will reveal?

*Answer.* In October 2001, the Department retained the Sandia Laboratories, through an interagency agreement with the Department of Energy, to conduct security reviews at the Department's Biological Safety Level 3 (BSL 3) labs that conduct research programs involving high consequence pathogens. The draft reports are nearing completion. Sandia was tasked with providing a conceptual design for improving areas such as electronic security; onsite and local response forces; physical protection requirements; personnel suitability determinations; escort procedures; material access control and accountability; and computer network security.

*Question.* Will you please provide a copy of the review to this Committee upon completion?

*Answer.* The Sandia report has to be classified in order not to disclose publicly the nature any vulnerabilities might exist or the details of our protective systems. We can and will provide an unclassified executive summary, and would be happy to meet face-to-face with the Committee or its staff to discuss the findings and the steps we are taking to enhance lab security.

*Question.* Will you please notify this Committee of decisions in the allocation of funds for Homeland Security?

*Answer.* Yes, we will notify the Committee as soon as the Administration makes decisions on the allocation of these funds.

*Question.* Secretary Veneman, what has been obligated to date and in which mission areas?

*Answer.* I will provide that information for the record.  
[The information follows:]

As of April 29, 2002, all of the funds (\$39 million) for the WIC Program of the Food, Nutrition and Consumer Services had been obligated as well as about \$8.8 million of funds for Departmental Administration, \$2.0 million for the Agricultural Research Service, and \$0.18 million for the Office of the Inspector General.

*Question.* Who serves on this new USDA Homeland Security Council and what authorities do they have?

*Answer.* The Deputy Secretary serves as Chairman of the Council. Membership is made up of Under and Assistant secretaries, the Chief Information Officer, the Chief Financial Officer, the Inspector General and the General Counsel. The Chief Economist and the Department's Budget Officer also participate. The Council has three Sub-Councils:

—The Under Secretaries for Food Safety and Marketing and Regulatory Programs co-chair the "Protection of the Food Supply and Agricultural Production" Sub-Council.

—The Under Secretaries for Research, Education and Economics and Natural Resources and Environment co-chair the "Protecting USDA Facilities and Other Infrastructure" Sub-Council.

—The Assistant Secretary for Administration and the Inspector General co-chair the "Protecting USDA Staff/Emergency Preparedness" Sub-Council.

This structure was established to provide a corporate view of what the Department needs to do to fill its part in making the country safer. This Council will facilitate coordination and reduce duplication of efforts among mission areas.

*Question.* How much of the activity in the Department is being reviewed, directed or approved by Tom Ridge's Office of Homeland Security?

*Answer.* We have shared the Homeland Security related information we are developing with the Office of Homeland Security and have participated in many of the

coordination meetings called by the Office and have provided expertise concerning protecting the food supply to them. Governor Ridge and his staff are not directing USDA's homeland security efforts. I believe that it is important from the overall perspective that we have coordination across the government just as that coordination is important within the Department.

#### STREAMLINING/CSRS AND RENTAL PAYMENTS

*Question.* I see your request includes \$5 million for workforce and organizational streamlining with a target consolidation of 200 additional field offices. This Service Center streamlining has been a long and hard process. You also indicated in your explanatory notes you would build on lessons learned.

What lessons have you learned and what new factors will you consider ensuring USDA has the proper coverage for rural residents and farmers to access your programs?

*Answer.* We have learned that everyone is in favor of streamlining, but no one wants their local field office "consolidated." In order for any office consolidation effort to be successful it must be based on sound, objective information and take subjective circumstances into consideration before final decisions are made. For this reason, we have established a special work team made up of field and headquarter representatives of the Natural Resources Conservation Service, Farm Service Agency, Rural Development and the Departmental Offices of Budget and Program Analysis and Chief Information Officer. The Field Office Review and Restructuring Team, operating under the guidance of the National Food and Agriculture Council, are preparing options for reviewing office operations and improving our field delivery system. Field and customer involvement are also being planned in the review and plan preparation process. Our goal is to improve customer service and access to the best possible program services. The criteria being considered in the study reflect the needs for serving rural residents and farmers as well as impacts of new farm program legislation and improvements in technology.

*Question.* The budget request also includes moving rental payments and pension and health benefits costs from centrally administered accounts to individual agencies. Is this action not contrary to the streamlining strategies you are putting in place for other USDA activities, such as the county field structure?

*Answer.* As the Federal Government increases its efforts evaluate the effectiveness of programs and to tie program performance to budget costs, it is necessary to know the full cost of these programs. Therefore, it was decided to attribute the costs you mentioned to individual agencies.

#### COMMON COMPUTING ENVIRONMENT

*Question.* Please provide an update on the progress of the Common Computing Environment.

*Answer.* Significant progress continues to be made regarding the critical infrastructure components that form the basis for the Common Computing Environment (CCE).

The following major CCE improvements are planned for fiscal year 2002. Successful completion of these tasks will bring the CCE to 90 percent complete. Network servers and workstations will be fully deployed, thereby providing enhanced security, a shared and robust e-mail system, ability to manage and monitor IT systems from a central location and enhanced local data capabilities. A GIS strategy will be updated and all remaining CCE architectural issues will be finalized. The telecommunications capabilities of the Service Centers will be significantly enhanced to support the growing number of web-based applications and to meet the e-Gov and e-File requirements. Shared application servers will be acquired and deployed to support GIS and other new program applications. Investments will be made in data warehouses, data centers, security components and the Web Farms to support internal and external data sharing and electronic services. Training is planned to insure employees have the skills needed to effectively use and support the new technologies.

Although the CCE infrastructure will be in place shortly, the full utilization of the infrastructure will depend upon (1) how quickly the agencies can develop and digitize the base data needed to support GIS applications, and (2) the rate of conversion of current business applications to more streamlined integrated applications fully utilizing the CCE shared systems and data.

AGRICULTURE BUILDINGS AND FACILITIES AND RENTAL PAYMENTS

*Question.* Construction of the South Building is still underway. Please provide a status report on the progress, including where you are placing employees in temporary setting AND what agencies are affected.

*Answer.* We are making good progress on the renovation and appreciate the support Congress has provided. Phase 2 of the planned eight-phase renovation is now under construction in Wing 4. The construction of Phase 2 was funded in fiscal year 2001, started in August 2001, and is now scheduled to be completed in November 2002. Phase 3 construction, comprised of the headhouse along Independence Avenue between Wings 3 and 5, was funded in fiscal year 2002 and is scheduled to be awarded in the fall of 2002. Contract documents, started in fiscal year 2001, are now being completed and a solicitation for the contract will be advertised in May 2002.

The fiscal year 2003 budget request includes funds for construction of Phase 4A: comprising Wing 5, a new mail facility, and the renovation of the basement of Wing 4. The design of the new mail facility was begun in response to the anthrax-related events of the fall of 2001. Design of Phase 4A in Wing 5 is being planned to begin in late 2002, to be completed in May 2003, and for award of a construction contract in the Fall of 2003. I will provide information for the record on the agencies affected. [The information follows:]

In order to proceed with construction in each phase of the renovation, the construction zone must be vacated. The relocation space strategy for the renovation has included several components, including: relocating agencies to the new George Washington Carver Center, completed in 1998; relocating agencies to other locations in the downtown Agriculture complex, including areas of the South Building either previously renovated or not yet renovated; and use of leased space in South West Washington near to the South Building. Relocation space planning is underway with each mission area or agency.

Mission Area or Agency	Planned Relocation Space
Agencies located within Phase 3 boundaries include:	
Natural Resources Conservation Service .....	South Building, Carver Center
Rural Development .....	South Building
Grain Inspection, Packers and Stockyards Administration .....	South Building
Office of the Chief Financial Officer .....	South Building
Farm and Foreign Agricultural Services .....	South Building, Limited Leased Space
Office of the General Counsel .....	South Building
Agricultural Marketing Service .....	South Building
Office of Operations .....	South Building
National Agricultural Library .....	South Building
Office of Administrative Law Judges .....	South Building
Office of the Chief Information Officer .....	South Building, Carver Center, Whitten Building
Agencies located within the Phase 4A boundaries include:	
Farm and Foreign Agricultural Services .....	South Building, Limited Leased Space
Agricultural Marketing Service .....	South Building
Office of Operations .....	South Building, Annex
Office of Communications .....	South Building
Office of Small and Disadvantaged Business Utilization .....	South Building
Grain Inspection, Packers and Stockyards Administration .....	South Building
Agriculture Research Service .....	South Building
Natural Resources Conservation Service .....	South Building
Office of Civil Rights .....	South Building

ASSISTANCE FOR SOCIALLY DISADVANTAGED FARMERS

*Question.* I understand the Department is requesting the same funding level as in fiscal year 2002 but has decreased the direct farm operating and ownership credit programs that are the principal tool to assist disadvantaged farmers.

With your limited and oversubscribed funds, how will FSA be able to adequately serve this population?

*Answer.* The levels requested in the budget were based on estimated demand. Changes in the subsidy costs for these programs have made them more expensive to deliver in fiscal year 2003 than in fiscal year 2002. For example, in fiscal year 2003, we requested \$12 million in budget authority (BA) to provide \$100 million in direct farm ownership loans. This compares to \$4 million in BA, in fiscal year 2002,



to provide \$147 million in loans. For direct farm operating loans we have requested \$104 million in BA to provide \$600 million in loans, in fiscal year 2003, compared to \$55 million in BA to provide \$621 million in loans in fiscal year 2002. Overall, we have nearly doubled the amount of budget authority requested for these programs. The higher subsidy rates are primarily the result of changes to the subsidy model to more accurately reflect the actual timing of cash flows for these programs.

*Question.* What is the breakdown of guaranteed lending in comparison to the direct in addressing the need of the Socially Disadvantaged farmers in fiscal year 2000 and fiscal year 2001?

*Answer.* I will provide that information for the record.

[The information follows:]

FARM SERVICE AGENCY LOAN OBLIGATIONS TO SOCIALLY DISADVANTAGED FARMERS

	Number of Loans		Obligations	
	Fiscal year 2000	Fiscal year 2001	Fiscal year 2000	Fiscal year 2001
Operating:				
Direct .....	2,256	2,377	\$74,236,000	\$79,317,000
Guaranteed .....	488	419	74,293,000	69,718,000
Farm Ownership:				
Direct .....	318	312	35,850,000	35,829,000
Guaranteed .....	314	333	92,760,000	103,970,000

*Question.* Please provide information on new and completed projects funded in fiscal year 2002 with section 2501 dollars and where the funds were obligated.

*Answer.* No 2501 funds have been awarded for fiscal year 2002. A Notice of Request for Proposals—RFP—soliciting section 2501 project proposals for fiscal year 2002 is currently in clearance within USDA and will be published in the Federal Register in the near future.

*Question.* Please provide information on the requirements for receiving this money, as well as examples of successful and unsuccessful uses of section 2501 funds.

*Answer.* The statute limits eligibility under this program to 1890 Land-Grant colleges, including Tuskegee University; Indian Tribal community colleges; Alaska Native cooperative colleges; Hispanic-serving post-secondary educational institutions; other post-secondary educational institutions with demonstrated experience in providing agricultural education or other agriculturally-related services to socially disadvantaged family farmers or ranchers in their region; and any community-based organization that (1) has demonstrated experience in providing agricultural education or other agriculturally-related services to socially disadvantaged farmers and ranchers; (2) provides documentary evidence of its past experience in working with socially disadvantaged farmers and ranchers during the 2 years preceding its application for assistance; and (3) does not engage in activities prohibited under Section 501(c)(3) of the Internal Revenue Code of 1986.

Applicants must have the financial, legal, administrative, and operational capacity to carry out the objectives of the program. I will provide examples of projects for the record.

[The information follows:]

*Alabama A&M University, Normal, Alabama.*—This Project employs farmer groups, associations and/or cooperatives to marshal existing resources in rural Alabama to address the issues socially disadvantaged farmers and rural residents in the area face. This concept and the holistic approach to outreach form the cornerstones of the outreach and technical assistance efforts in North Alabama. The 2501 Project at Alabama A&M University believes that it can help rural areas apply the cooperative model to a wide variety of problems. It is instrumental in the development of three organizations: (1) the Northwest Alabama Small Farmers' Agriculture Improvement Association, (2) the Reed Town Incubator Center, and (3) the Madison County Agricultural Production and Marketing Cooperative. The first organization, the Northwest Alabama Small Farmers' Agriculture Improvement Association, headquartered in Franklin County, has 43 active members from three counties. Working with both the 2501 Project and the Alabama Cooperative Extension Service, using a \$37,000 grant from the Heifer Project International, this organization produces meat goats, cattle, and pastured poultry. The second organization, the Reed Town Incubator Center, also headquartered in Franklin County has 22 members. Its aim is to stimulate general economic growth in the Russellville area by attracting agricultural and non-agricultural business to the area. The third organiza-

tion, Madison County Agricultural Production and Marketing Cooperative, is producing and marketing non-traditional produce such as canola, fruits, vegetables, and organic agricultural products. The 2501 Project and the Alabama Cooperative Extension Service provide these groups with training and technical assistance in the development process of cooperatives, principles of cooperatives, functions and roles of cooperative procedures, and grant writing. The 2501 Project serves over 500 participants in 13 counties.

*Tuskegee University, Tuskegee, Alabama.*—The Farm Management Specialists are working with 2501 participants to explore value added prospects and projects and to develop detailed marketing plans targeted to livestock, fruits and vegetables. Farm and Home plans were developed with participants and an agreement was reached with the Commonwealth National Bank of Mobile, Alabama, to provide a revolving loan program to Tuskegee University's 2501 project participants. This agreement also involves partnership with the USDA Resource conservation and Development Area and the Alabama Tom District. The 2501 participants registered and took part in the Booker T. Washington Economic Development Conference, Professional Agriculture Workers Conference, USDA/Food and Agriculture Council Working Group, USDA/Food and Agriculture Council Meeting and the USDA Outreach Working Group Meeting.

*Kentucky State University, Frankfort, Kentucky.*—Kentucky State University Small Farmer Outreach Training and Technical Assistance Program conducted a Risk Management Workshop on February 26, 2002, at the Boneyville Baptist Church in Lincoln County, Kentucky. The workshop focused on Financial Management and USDA Programs. Farmers were given a workbook to keep records for the 2002 crop year. The Workshop emphasized the importance of crop insurance and record keeping for all enterprises in their farming operation. Approximately 75 farmers attended this meeting. In addition, several USDA programs were discussed along with tobacco and livestock management.

*North Carolina A&T State University, Greensboro, North Carolina.*—The 2501 Project is bridging the Digital Divide of socially disadvantaged farm families. Technology via computers is being used to help meet global changes in agriculture. North Carolina farmers and their families are practicing good record keeping procedures and keeping abreast of trends in agriculture to maintain and sustain their farming operations. The Farmers Adopting Computer Training—FACT—Project was designed to improve and enhance the farm management practices through the use of technology. FACT has provided in-home, one-on-one assistance on an as needed basis for at least 4 days to farm families by exposing them to computers, and assisting them in building skills that will help with communicating, problem solving, and decision-making. This project features a software program that is totally customizable to each farm and operation. Prior to implementing the FACT Project, several North Carolina farmers were surveyed and it was discovered that some farmers kept records in record books or file cabinets; however, their traditional ways of record keeping were on notepads, in file boxes, on the dashboards of trucks, under truck seats and in shoeboxes. Inaccurate record keeping and filing systems have reduced farmers' abilities to obtain loans, legal settlements, and to effectively market their crops. Introducing farmers to computers as a method of record keeping is a new innovative way to keep track of their total farm operations in one location. Now, farmers will be able to access records and reports in less time; leaving them more time to operate their farms.

*Cankdeska Cikana Community College—CCCC, Fort Totten, North Dakota.*—At one time the bison was the sole source of life to the Indians of the Great Plains. In the mid-1800s, their numbers shrank to near extinction. With the aid of the 2501 Project, bison are making their resurgence on the Spirit Lake Nation Indian Reservation. In November 1999, the management of the bison herd was handed over to the CCCC. With the assistance of the Intertribal Bison Cooperative, based out of Rapid City, South Dakota, detailed management and marketing plans have been established, including harvesting all 2-year-old and older bulls that are not going to be used as breeding stock. This will not only produce a significant amount of meat, but also a substantial supply of bison-by-products, which will be offered to artisans in the Spirit Lake Nation. Plans are being made so that once the number of bison increases to levels of self-sufficiency local ranchers may acquire bison calves to start their own herds.

*Fort Berthold Community College—FBCC, New Town, North Dakota.*—The 2501 Project has incorporated machinery, equipment, labor, and other resources to provide six segments of the Fort Berthold Indian Reservation the means to return to gardening. Gardening has an integral part in the history and heritage of the Three Affiliated Tribes—Mandan, Hidasta, and Arikara Nations. Historically, these nations were known to be great farmers of vegetable crops. The Garrison project,

which is the largest earth filled dam, inundated 155,000 acres of productive bottomlands in 1951. As a result, the native people were forced to urban areas to find jobs in factories thousands of miles away. Today, these people are returning to their home reservation and their traditional roots. In an effort to restore the gardens, FBCC initiated a project to help restore a reliable, quality food source, promote nutritionally sound diets, and increase the availability of fresh vegetables for the reservation. FBCC has provided the people on the reservation with services such as preparing old garden sites, and creating new ones at their residences where they can plant traditional and non-traditional gardens. This 2501 Project initiative is growing and continues to be successful as an outreach assistance, training, and an inspiration for the elders and tribal members of the Fort Berthold Reservation.

Another 2501 Project for Fort Berthold Community College, New Town, North Dakota, with the assistance of local producers established a cooperative on the Fort Berthold Indian Reservation to help enhance beef cattle production on the reservation. In the past, reservation producers have incurred some obstacles while trying to compete as suppliers in the modern beef industry. Some of the obstacles producers faced included difficulty in obtaining adequate financial assistance to increase herd sizes and lack of timely technical assistance to establish beef cattle enterprises. This cooperative will purchase and distribute livestock to members based on various guidelines. The number of cattle appropriated to each member will depend on the producer. A member cannot exceed a base herd size of 75 head if he/she plans to receive cattle from the cooperative. This restriction will ensure that the cooperative is concentrating on helping small farmers. The college has developed a loan repayment schedule for producers to follow. The repayment plan is based on the price of 500-pound steers on October 30 of each year at the Stockmen's Livestock Exchange in Dickinson, North Dakota. It also considers fluctuating prices in the beef industry, and the repayment plan of the loan reflects those changing prices. Members interested in joining the program are required to take courses in animal husbandry and farm and ranch accounting. By taking the courses, the producers will take home practices and techniques to apply on their operations. The college will support this joint venture by providing meetings, seminars, and workshops to keep members abreast of the latest trends, technology, and information available.

*Texas A&M University, College Station, Texas.*—The 2501 Project's Women in Agriculture Business Management program is targeted to farm and ranch wives. The program was created in response to the fact that more women are becoming involved in the management of farms and also because farming is a high-risk business in which the wife needs to be prepared if she is suddenly thrust into the position of being fully in charge as the result of an accident, divorce, or death.

*Prairie View A&M University, Prairie View, Texas.*—The 2501 Project demonstrated some of the latest techniques in sustainable agriculture to farmers, leaders in the local agricultural community, and reporters during the Smith County Cooperative Extension Program, Media Field Day. The 2501 Project facilitates the acquisition and application of knowledge and skills focused on agricultural systems that are holistic and profitable in their approach to farm resource management, and places emphasis on sustainable agriculture. The 2501 Project Farm Advisors made 885 direct contacts with producers concerning sustainable agriculture issues, resulting in 139 producers reporting that they acquired new skills. In addition, 800 program participants received technical information on farm pond management and soil conservation practices. The goal of sustainable agriculture is to extend the life and productivity of area soils and wetlands. Coordinators of the Texas Sustainable Agriculture Program, who were on hand to witness the demonstrations, plan to train Extension agents on sustainable agriculture practices so they can work with growers across the State.

*Rural Community Development Resources, Yakima, Washington.*—The Center for Latino Farmers, with primary focus on farm worker to farm owner initiatives was established in Yakima County, Washington. A Spanish/English survey was developed by the 2501 Project staff and USDA Outreach personnel in Washington State to learn about the needs of this new generation of limited English speaking Latino farmers and their knowledge of USDA programs. A preliminary summary of the initial survey results were as follows: 90 percent of the respondents preferred Spanish as a way to communicate; 50 percent of the farmers were in some type of fruit production; 37 percent are beginning farmers; and 13 percent are vegetable and livestock producers. The 2501 Project has identified 150 Latino farmer participants in five rural central east Washington counties of Yakima, Grant, Chelan, Adams, and Benton. The Project is providing outreach and assistance to these socially disadvantaged farmers to increase their access to USDA Programs, develop their understanding of computers and train them to set up their own computerized accounting systems at home.

*Lac Courte Oreilles (LCO) Ojibwa Community College, Hayward, Wisconsin.*—The 2501 Project, known locally as the Guiding Resource Opportunities with Tribal Heritage—GROWTH, is making tremendous strides in its outreach initiatives. Project GROWTH provides students with practical learning experiences and is improving several community services utilizing the Geographic Information Systems—GIS, a computer tool that combines demographic and road information for future land use planning. As a result of providing the GIS computer laboratory at LCO Ojibwa Community College, the students can now participate in interesting and interactive projects with several community entities.

*Growing Power, Inc., Milwaukee, Wisconsin.*—The Milwaukee Small Farmer Distribution Center, Growing Power, Inc., developed a market basket approach for improving the distribution of fresh produce and healthy foods to the inner-city areas of Wisconsin. As a result, Growing Power, Inc., is contributing to the development of the urban markets for the Wisconsin farmers while providing quality food products for city residents. Locally, several socially disadvantaged farmers have started or increased their scale of truck farming to supply the market for Growing Power, Inc. The increased size of these produce farmers with their specialty crops will be able to increase their income.

*Question.* What are you using to determine these funds are used properly and can you see a direct correlation between the outreach efforts and increased program participation in this target population?

*Answer.* The USDA Office of Outreach provides oversight to determine that the funds authorized are used for outreach, training, and technical assistance to socially disadvantaged farmers and ranchers by: (1) monitoring and evaluating the business management capability through reviews of quarterly performance reports; (2) monitoring performance of the project recipients and assessing compliance with requirements through conducting on-site visits, reviewing progress reports, submitted publications, and recipient correspondence; and (3) serving as liaison and coordinating the close collaboration between project recipients and USDA agencies that administer relevant agricultural programs.

Although we do not have statistical data to show a direct correlation between the Program and increased program participation, we do have positive anecdotal evidence. Today, we have organizations and agencies working together that would have found it impossible to do so 10 years ago. The Project recipients have implemented programs with input and participation from county, State and USDA agencies, State Departments of Agriculture, community-based organizations, foundations, and churches. The number of participants now actively using the local agencies has steadily increased. Since the inception of the program, approximately 80 percent of 2501 project participants now use the Cooperative Extension Service; and about 75 percent of the participants are now familiar with services offered by the Natural Resources Conservation Service as compared to pre-project awareness that ranged from 5 to 10 percent.

#### RHS—RURAL COMMUNITY DEVELOPMENT INITIATIVE GRANTS

*Question.* The President's budget request eliminates the RCDI program. This program was created to provide capacity building for non-profits to provide housing and other essential community needs. It was modeled after a program at HUD. Many small rural communities have non-profits and governmental entities that lack sophistication to access, administer and conduct the proper accounting required by Federal programs. The non-profit community-based programs are critical for poor rural States to deliver service.

What was the demand for the first NOFA in dollars and requests?

*Answer.* The Rural Housing Service received 79 applications for \$26 million for the Rural Community Development Initiative under the first Notice of Funds Availability issued during fiscal year 2000.

*Question.* Do you see this need addressed in another format?

*Answer.* A number of organizations, including Rural Development's Office of Community Development, the Resource Conservation and Development Districts, the Cooperative Extension System and the Forest Service support such capacity building. The Department of Agriculture is working hard to continue the strong collaboration among these programs that prevents duplication and synergizes more effective results.

*Question.* HUD has this assistance to our urban counterparts, why is rural America left behind again?

*Answer.* Rural Housing Service has \$12 million available during fiscal year 2002 for the Rural Community Development Initiative. The Notice of Funds Availability has been published in the Federal Register and applications are due on July 2,

2002. We will evaluate the demand for this program based upon the number, types, and variety of applications received.

OFFICE OF ASSISTANT SECRETARY FOR CONGRESSIONAL RELATIONS

*Question.* The Budget request for fiscal year 2003 shows a decrease in allocations to the agencies but an increase in the combined account for Headquarters and Intergovernmental Affairs. What is the reason for the combining Headquarters with Intergovernmental Affairs? Will there be significant increased activity in Intergovernmental Affairs and for what purpose?

*Answer.* The breakout for the Assistant Secretary for Congressional Relations is \$1,312,000 for Headquarters and \$484,000 for Intergovernmental Affairs. The increase is to ensure the headquarters staff is strengthened to better coordinate the activities of congressional relations within the Department of Agriculture. This is an effort to ensure our responses to the Congress are timely and accurate. This can be accommodated by adjusting the resources devoted to congressional relations by our USDA agencies to reflect vacancies in those staffs as well as workload considerations.

FOOD AND NUTRITION SERVICE

*Question.* Recently, the New York Times published an interview with the author of a book alleging that the food industry is encouraging consumers to eat larger portions of food than ever before. "Biggie-size" meals are more prevalent in our society than ever before, and while the argument can be made that Americans are more health conscious than in years past, the fact still remains that over one-half of Americans are overweight. Surgeon General Satcher reported recently that over 300,000 Americans die each year from fat-related causes, and last year alone we spent \$117 billion on obesity-related economic costs.

What actions is USDA taking to counteract the "eat more" messages consumers are receiving from some members of the food industry, both within USDA and in conjunction with the food industry and other government agencies?

*Answer.* USDA recognizes the seriousness of the problem of overweight and obesity in America. Many ongoing nutrition promotion activities in the Food, Nutrition, and Consumer Services (FNCS) mission area are directed to helping Americans follow the Dietary Guidelines, which include guidelines urging Americans to "aim for a healthy weight" and "be physically active." In addition, we are in the process of planning specific program directions and activities that focus on an obesity initiative. I will have the Food and Nutrition Service (FNS) provide additional information for the record.

[The information follows:]

This initiative, "Breaking the Barriers: Practical Approaches to Improve Americans' Eating Behaviors," focuses on changing American's eating behaviors and exercise patterns. To help us develop a plan that will make a difference in the way people eat, FNS recently hosted two forums to solicit input from experts in the areas of obesity, portion control, and behavior change. Among those present and providing us with valuable advice was Dr. Marion Nestle of New York University, the author of the book referenced in this question.

In order to change eating behaviors, these experts advised us to plan a focused campaign with specific goals and simple and clear messages. We hope to develop a campaign that includes (1) raising awareness about the issue and motivating individuals to make changes, (2) working to change social norms about how much to eat, and (3) incorporating efforts to promote changes in eating environments, so that healthful choices are easier to make. The entire initiative will center on building partnerships both within the Federal Government and with private organizations to leverage our efforts.

When individuals recognize that they want to make changes in their diet, they will need clear, specific, and practical advice. Therefore, as one part of the overall effort, we plan to develop practical, actionable materials for consumers centered on the Dietary Guidelines for Americans and the Food Guide Pyramid. For example, one brochure in development is titled "How Much are You Eating?" It focuses on becoming aware of portion sizes and provides tips to help manage these portions. It will be released in the Spring of 2002. The FNS is using nutrition education, promotion, and environmental approaches to encourage healthy diets and physical activity among program participants, and encourage proper portion size. Some examples of activities underway in this area include:

—The messages used in the Eat Smart. Play Hard. campaign, such as "Balance your day with food and play," are intended to promote both better diets and physical activity among children. The campaign also provides guidance for par-

ents and caregivers that includes simple tips to help parents to foster these behaviors.

- Team Nutrition, in supporting the school meals standards updated through the School Meals Initiative for Healthy Children, provides training and technical assistance to schools and childcare to ensure that portions served in schools are in line with recommendations for age.
- FNS is currently developing tools for families and childcare providers that teach parents and caregivers about appropriate serving sizes. This material includes guidance on appropriate serving sizes and uses familiar items to communicate a clear picture to help parents accurately estimate the volume of the food they serve.

*Question.* What actions are being geared specifically towards children (such as through programs authorized by the Child Nutrition Act), who are much more easily impressed with toys in fast-food meals, and the lure of soda and candy at school vending machines?

*Answer.* The health of America's children is a great concern to the Department, especially relating to their food intake. We have a number of activities underway for them so I will ask the Food and Nutrition Service to provide for information for the record.

[The information follows:]

The Food and Nutrition Service (FNS) has focused its efforts on educating children about the importance of healthy eating and physical activity. Working with schools that participate in the School Nutrition Programs, nutrition messages are delivered through fun, interactive activities that are designed to change children's behavior. While the agency cannot, nor does it want to, compete directly with the food industry with toys or similar incentives, it has worked to make the educational material it develops, colorful and attractive to children. Also, the activities are engaging and designed to get children to try new foods and to enjoy eating.

More specifically, Team Nutrition is the agency's initiative designed to reach children with simple, consistent nutrition messages from a variety of sources on a consistent basis. The messages are delivered through the classroom, cafeteria, school, home, community and media. The messages are: Eat a variety of foods; Eat more fruits, grains and vegetables; Eat lower fat foods more often; and Be physically active. Materials have been developed and distributed which can be used in the classroom and in school activities while others can be taken home and used with the family to expand message delivery.

Another area of emphasis is the school environment. FNS has developed and distributes, upon request, kits that help local groups evaluate their school's policies and practices to determine if changes are needed. It then provides suggested actions to take to make improvements. Areas explored are time to eat, the quality of meals served, other food options, nutrition education and physical activity policies, etc. The issue is that we are teaching children it is important to eat healthy and be physically active in the classroom and not supporting those messages in the school environment.

The EAT SMART. PLAY HARD. Campaign contains a variety of materials developed for families that include brochures, activity sheets, bookmarks, stickers, and book covers, which deliver positive nutrition and activity messages. These materials are available to State and local agencies participating in any of the FNS Programs to use in encouraging children and their families to eat healthy and be physically active.

There are many messages being delivered to children in the commercial marketplace. We are working to be sure positive nutrition and physical activity messages are delivered to them in schools and through the agency's programs. We are also working to build partnerships with other agencies and organizations that are concerned about children's health and well being. By collaborating, we can deliver consistent messages to children and their families and, over time, change the negative health trends we are seeing now.

*Question.* It has been reported many times that lower-income Americans are more likely to be overweight than other Americans. Has USDA made an effort to streamline information about healthy eating and exercise to make it easily accessible to lower-income Americans?

*Answer.* FNS recognizes that the Federal nutrition assistance programs play a vital role not only in increasing access of low-income Americans and children to nutritious foods, but also to helping them to develop healthy eating and lifestyle behaviors that promote long-term health, reduce risk of disease and support produc-

tive lives. I will have the Food and Nutrition Service (FNS) provide additional information for the record.

[The information follows:]

FNS provides educational and promotional materials designed specifically to motivate and encourage healthy choices to State and local level cooperators who then use a variety of communication channels to reach low-income program participants. The agency also distributes nutrition guidance, research, and tools that translate science to practice to program stakeholders at the State and local levels to assist them in designing comprehensive interventions aimed at fostering and sustaining behavior change among low-income populations. Examples of these include:

- A book of Recipes and Tips for Healthy, Thrifty Meals, distributed to food stamp recipients nationwide to provide information on preparing and serving low-cost meals.
- Educational and promotional materials being developed for low literacy and Spanish language groups in the Food Stamp Program that will support maintaining a healthy weight and adherence to the Dietary Guidelines.
- The cross-program EAT SMART.PLAY HARD.<sup>TM</sup> campaign designed to improve long-term health by encouraging behaviors consistent with the Dietary Guidelines and the Food Guide Pyramid, including new educational resources now under development in English and Spanish to help make good dietary practices and physical activity easy for parents and children.
- Healthy Eating for Boys, a collaborative initiative now under development between FNS, CDC and 100 Black Men of America (100 BMA Inc.) to introduce nutrition and physical activity component in the 100 BMA Inc. mentoring program. The goal is to promote healthy eating and help to teach young men to act as change agents for healthy communities.

These educational resources are developed with input from cooperators and national experts and generally include testing with consumers to ensure relevance, clarity and readability for their target populations, including low-income populations.

*Question.* Please provide an outline of the activities funded in the President's budget directly related to reducing obesity and increasing activity among Americans. What role will the Center for Nutrition Policy and Promotion and Team Nutrition specifically play in these activities?

*Answer.* I will have the Food and Nutrition Service provide that information for the record.

[The information follows:]

The FNCS Obesity Initiative titled Breaking the Barriers is a new initiative under the current Administration. The goals of the initiative are to promote healthy weight and to prevent and reduce the incidence of overweight and obesity. The strategies for the obesity initiative include educating American consumers about what constitutes a healthy diet, fostering change in social norms about eating and exercise, helping consumers develop skills to put nutrition and exercise knowledge into practice, and promoting changes in eating environments, so that healthful choices are easier to make. Additional strategies include improving Food Assistance program standards and nutrition education and expanding partnerships and collaborations to leverage resources.

The Center for Nutrition Policy and Promotion's (CNPP) responsibilities related to overweight and obesity are to promote healthy weight among the general public. CNPP is working to help change consumer's eating behaviors through focused, individualized messages that offer real-life solutions and practical approaches to help Americans make sensible food choices. The Center plans to continue collaboration with potential partners to leverage CNPP resources to reach the largest possible audience with our messages. CNPP will strive to initiate a number of private/public partnerships to promote the Dietary Guidelines, 2000. CNPP is also involved in collaborative partnership efforts such as 5-A-Day with CDC and NCI, to promote the consumption of fruits and vegetables. Using current funding, specific projects recently completed or in the planning stages include:

- Forums Breaking the Barriers: Practical Approaches to Improve Americans' Eating Behaviors and Breaking the Barriers: Helping Americans Eat Smaller Portions.*—Experts in nutrition, behavior, the media and potential partners in this effort were invited to advise USDA at two forums. In addition, these forums inform these experts about the initiatives that USDA is promoting to improve health and reduce obesity in America, as well as to begin to define roles and contributions of potential partners. The discussion at these forums is being used to plan USDA initiatives.

- Consumer brochure How Much are You Eating.*—A consumer friendly brochure to help consumers become more aware of how much food is on their plate and to link the amount they eat to Food Guide Pyramid recommendations. The brochure will be released in April 2002, and made available on the CNPP website as well as through print copies.
  - Media campaign.*—Organize press conferences, appearances, and media events to raise the public's awareness through the media. Media opportunities include USA Weekend, Parade Magazine, and other monthly women's magazines.
  - Promotion and education materials.*—Consumer-friendly materials are being developed to increase awareness of food choices, and offer practical tips on making sensible decisions in real life situations such as snacking, fast foods, and restaurants.
  - Food Label Initiative.*—Collaborate with the food industry to design and implement nutrition education information on the food label to help consumers relate the amount of food they're eating to the recommendation in the Food Guide Pyramid.
- FNS is working to better address obesity through Federal nutrition assistance programs by improving program standards and nutrition education, and expanding partnerships and collaboration. Key activities include:
- The Food Stamp Program (FSP) is developing education and promotional materials for low literacy and Spanish language groups that will support maintaining a health weight and adherence to the Dietary Guidelines.
  - Updated nutrition standards in the school meals programs that have contributed to dramatic improvement in the number of schools offering students the opportunity to select a low-fat lunch; FNS is working to support further improvements through:
    - Team Nutrition, an integrated, behavior-based comprehensive program for promoting the nutritional health of the Nation's school children, and infants and preschoolers in child care centers;
    - An action kit, Changing the Scene: Improving the School Nutrition Environment, to help schools provide students with the skills, opportunities and encouragement they need to adopt healthy eating patterns;
    - Improvements in the nutritional quality of commodity foods, including lowering fat levels and increasing the quantity and variety of produce for schools; and
    - Team Nutrition Grants and cooperative agreements to support comprehensive school-based efforts to promote healthy eating and physical activity.
  - Activities in the WIC Program to improve nutrition education include:
    - Revitalizing Quality Nutrition Services (RQNS) in WIC by revising nutrition services standards and promoting effective nutrition education strategies
    - Consistent program nutrition risk criteria to identify infants and children at risk of becoming overweight and to facilitate early intervention; and
    - FIT WIC Demonstration Grants to State Agencies to identify ways that WIC might be changed to help prevent childhood overweight and obesity.
  - Cross-program activities that support healthy eating and physical activity are also underway, including the EAT SMART. PLAY HARD.? campaign designed to improve long-term health by encouraging behaviors that are consistent with the Dietary Guidelines for Americans and the Food Guide Pyramid, and new educational resources in English and Spanish to help make good dietary practices and physical activity easy for parents and children.

#### FOOD STAMP PROGRAM

*Question.* The President's Budget includes, and the Senate has passed, a legislative proposal to allow legal immigrants who have resided in the U.S. for 5 years or more to be eligible to apply for food stamps. You have mentioned this proposal in your remarks.

Please provide the estimated cost over 10 years in order to fund this proposal.

*Answer.* This proposal would cost \$2.099 billion over 10 years.

*Question.* Does USDA believe that this proposal will result in a rapid influx of new applications for food stamps? Are there administrative resources available to handle such an influx?

*Answer.* USDA's experience is that when the number of eligible households increase in response to new legislation, the new applicants come in gradually, allowing State agencies time to hire and train any additional personnel that may be needed.

For example, in fiscal year 2003, we are projecting that the proposal would add approximately 129,000 people to a total food stamp caseload of about 20 million



which would be less than a 1 percent increase. The expected number of additional people participating would rise to 247,000 in fiscal year 2004 and 358,000 in fiscal year 2005. While States with a concentration of immigrants (such as California) may have to increase resources slightly to handle the workload, these increases would be offset because States would not have to use their own resources to provide food stamp benefits and other nutrition resources to immigrants who are now ineligible. In addition, USDA pays half of all operating costs for the Food Stamp Program, providing a dependable source of funding for State agency expansions.

*Question.* There are several legislative proposals intended to simplify the eligibility requirements to encourage participation by low-income families. However, there is also a proposal to require TANF recipients to qualify based on actual income and resources, as opposed to being categorically food stamp eligible. This particular proposal appears to be contradictory to easing eligibility requirements.

Please explain its justification in light of the Administration's attempt to encourage less restrictive eligibility.

*Answer.* The President's proposal would restore legislation to the pre-Welfare Reform policy of allowing recipients of cash assistance to be categorically eligible for food stamps. It would require recipients of other, non-cash TANF benefits to qualify for food stamps on the basis of their household's income and assets like any other household. This proposal targets benefits to those most in need and simplifies the current complex policy that requires States to explore eligibility under a number of programs rather than looking at a single program—TANF cash assistance. While households that qualify for cash assistance need food stamps, it is less clear that households receiving TANF-funded benefits other than cash assistance experience a similar level of need. For example, the practice of making households categorically eligible by providing a low-cost, TANF-funded benefit, such as giving them a brochure on domestic violence, may direct food stamp benefits to households with significant levels of liquid resources. The proposal would allow the benefits now going to such households to be redirected to reduce the cost of the other provisions to improve the Food Stamp Program.

*Question.* I understand that the Administration is concerned that the House and Senate Farm Bills make changes to the Quality Control system in the Food Stamp Program that you believe will result in a loss of State accountability for erroneous payments. I also understand that the Administration has a separate proposal regarding the Quality Control system.

Please explain your concerns with both Farm Bill proposals, as well as your proposal.

*Answer.* The Administration believes that the Food Stamp Quality Control system—the program's key measure of payment accuracy—needs reform. The system can do a better job of encouraging accuracy and effective management in the program, and our proposals do that. I will have the Food and Nutrition Service provide additional information for the record.

[The information follows:]

Under the current system, all States with higher than average error rates are liable for a portion of the cost of these errors. With sanctions based on the national average, roughly half of all States face liabilities in any given year. Thus, the current system does not effectively target those States with the worst problems with strong incentives for improvement.

For this reason, the Administration proposed major revisions to the current system. The Administration's proposal would sanction States with error rates greater than the 75th percentile for two consecutive years. The amount of the sanction would equal 10 percent of the cost of erroneous payments. Current provisions for enhanced funding would be replaced with \$70 million in annual performance bonuses for payment accuracy and high quality customer service.

These revisions parallel the House and Senate proposals in that they would dramatically reduce the number of States facing liabilities in most years. But they differ significantly from the House and Senate bills in that they balance this reduction with tough sanctions that ensure that States with persistently high error rates continue to face serious consequences for failing to perform.

In contrast, the quality control revisions in the House and Senate bills would raise the erroneous payment rate above which penalties would be imposed and require USDA to use a lower estimate of each State's error rate. States would then have to exceed this higher target for three consecutive years before any penalties could be assessed. We estimate that only two States would have faced any liability in 2000 under these provisions, and they would have been liable for only \$3 million.

In fiscal year 2000, improper payments in the Food Stamp Program totaled an estimated \$1.33 billion. About \$970 million of this amount represented benefits re-

ceived by individuals to which they were not entitled. More troubling, however, is that \$360 million in benefits were not made available to individuals who were entitled to them. An increase of just one percentage point in fiscal year 2003 could amount to \$200 million more in erroneous payments.

The Administration is concerned that erroneous payments are sure to increase if the House and Senate proposals are adopted. Food stamp caseloads are rising in response to a softer economy, State administrative resources are stretched thin, and with growing pressures to eliminate State budget deficits, attention to program management is likely to suffer. The Quality Control provisions in the House and Senate bills would reduce, if not eliminate, the incentives for States to keep erroneous payments low.

*Question.* The President's budget recommends a number of legislative changes to the Food Stamp Program. During senate consideration of the Farm Bill, an amendment was adopted that included changes similar to those proposed by the President.

Are the Food Stamp provisions in the Senate farm bill consistent with the President's proposal or are there other changes still recommended.

*Answer.* The President's proposal includes changes that would ensure program access, help modernize the program, enhance work supports and increase the emphasis on work and eventual self-sufficiency, simplify program rules, and strengthen out-come based performance measures including payment accuracy. These are some of the fundamental principles. I will ask the Food and Nutrition Service to provide additional information for the record.

[The information follows:]

The President's proposal included changes that would: (1) simplify the program by standardizing the medical and child care deductions, excluding interest and dividend income, and allowing the full standard utility allowance rather than a prorated amount in certain situations; (2) support work by excluding from countable resources one vehicle per adult and allowing States more flexibility in using employment and training funding; (3) maintain the nutrition safety net by restoring eligibility to legal immigrants who have been in the country for 5 years and indexing the standard deduction to household size; and (4) improve accountability by replacing the Quality Control system with a system that balances payment accuracy with other program goals.

While the Senate bill simplifies the program, it does not address some areas of complexity that would be streamlined or strengthened by the President's proposal. The Senate-passed Farm Bill includes an amendment that would restore eligibility to legal immigrants after a five-year wait but imposes restrictions if the immigrant has been in the country illegally for a year or more. Quality Control revisions in the Senate bill raise the erroneous payment rate for which penalties would be imposed and require USDA to use a lower estimate of each State's error rate. States would then have to exceed this higher target for three consecutive years before any penalties could be assessed.

#### WIC PROGRAM

*Question.* The President's Budget proposes funding for the WIC program at a level intended to support a monthly average of 7.8 million participants, an increase of 0.3 million above the fiscal year 2002 estimated average participation.

Given the changes in the U.S. economy that have occurred since the submission of the President's fiscal year 2002 budget, do you believe that adequate resources remain available this fiscal year to meet current caseload demand, and potential increases in participation?

*Answer.* The Department is currently working closely with its State partners to assess the adequacy of fiscal year 2002 funds to support program caseload and to estimate the level of any potential State agency shortfalls. This information will be used, in consultation with OMB, to evaluate our program management options for the balance of the year.

*Clerk's Note:* On March 21, 2002, the Administration submitted an emergency supplemental proposal to Congress. This proposal included \$75 million for the WIC Program.

*Question.* What is the expected carryover of funds into fiscal year 2003 based on USDA's most recent data?

*Answer.* It is estimated that \$110.6 million will be recovered from fiscal year 2002 and made available in fiscal year 2003.

*Question.* Have any States implemented caseload management strategies for the current fiscal year due to depleting funds? If so, please describe a typical caseload management plan, and how various WIC constituencies may be affected.

Answer. At this point, it appears several States have implemented caseload management strategies in some locations. There are several ways that WIC State agencies can efficiently and effectively manage caseload. WIC regulations, for example, provide that it be achieved through targeting benefits to those most in need on the basis of nutritional risk. WIC State agencies may also establish shorter certification periods on a participant case-by-case basis, or discontinue new certifications of lower-priority participants, or in extreme cases, discontinue new certifications of all applicants, while implementing applicant waiting lists. As a last-resort measure, State agencies can discontinue or temporarily suspend benefits to all applicants during a certification period. Please let me ask the Food and Nutrition Service for additional details on this.

[The information follows:]

The following provides the current status of caseload management strategies:

*Restricting access.*—Arizona and Michigan have established waiting lists for individuals in the lower nutritional risk priorities. Michigan currently has four local agencies with waiting lists. One of the local agencies has approximately 700 postpartum women and 4-year old children on a waiting list. Additionally, some Oregon and Washington local agencies are restricting access to lower priorities.

*Potential restrictions.*—Many State agencies, including California, are predicting the need to restrict access unless additional funding is available. Other State agencies are considering making changes to the food packages to help reduce food costs (i.e., lowest prices juice, store brands, etc.).

*Question.* Do you anticipate that any people who apply for the WIC Program will be placed on a waiting list or turned away this year? Please compare your answer to recent years.

Answer. There are currently a few local agencies in several States that are placing people on waiting lists or not serving certain priority levels. Other State may have to take similar action later this fiscal year. This has not occurred in recent years except in isolated cases that affected relatively few, if any, local agencies at the end of a fiscal year.

*Question.* Please provide detailed information on the proposed \$150 million WIC contingency funds. What circumstances would trigger the use of these funds? If the funds are not used, will they carry over the next year? How was this number decided on?

Answer. The contingency reserve funds will only be allocated to WIC State agencies to prevent adverse caseload actions. It is our intent to allocate these funds on a case-by-case basis to help State agencies dealing with unanticipated circumstances related to caseload levels and food costs. We will remain flexible in distributing the funds by allocating the money outside the WIC funding formula. The unused portion of the contingency reserve would carry forward into fiscal year 2004.

The budget was formulated to support an average monthly participation of 7.8 million. The contingency fund will serve an additional 200,000 participants which should provide an adequate cushion in case food costs or program demand exceed current expectations.

*Question.* Is there anticipation on the part of the Administration that funding in the fiscal year 2003 President's budget will not be enough to fully fund the WIC program for the entire year? If not, why is a contingency fund necessary? If so, why not simply make the funds available at the beginning of the fiscal year?

Answer. The request for contingency funds reflects the Administration's commitment to support this vital program. It is anticipated that the fiscal year 2003 President's budget can support all participants for the entire year. A contingency fund is desirable, however, in the event that the appropriated amount is not sufficient to maintain participation in particular States as a result of unforeseen events, such as increased food costs. We would not expect States to plan caseload management decisions based on these contingency funds though, and for this reason, it would be inappropriate to allocate the money as part of the normal grant award process.

*Question.* Many State WIC Directors feel that this contingency fund would be more beneficial if they had definite knowledge during their planning process whether or not the funds would be available. Please comment on their concerns.

Answer. We envision the contingency funds would be targeted to support caseload in those State agencies where there is an unanticipated funding shortfall. We believe it is imperative to remain flexible in distributing the funds by allocating the money outside of the current funding formula; thereby possibly making funds available to WIC State agencies that would not otherwise be eligible to receive funds.

*Question.* Has the Department taken into consideration the enhancing activities by WIC providers in regard to nutrition education and lowering the childhood obesity rate? What, if any, specific actions have been proposed?

Answer. I will have the Food and Nutrition Service provide this information for the record.

[The information follows:]

In addition to receiving nutritious supplemental foods, WIC participants are offered targeted nutrition education individually or as part of a group. WIC's nutrition education approach is designed to teach participants and caregivers about the important role nutrition plays in health promotion and disease prevention as well as overcoming specific risk conditions. WIC nutrition education messages support the recommendations of the Dietary Guidelines and the Food Guide Pyramid that encourage physical activity, portion control and healthy eating.

Impacting the issue of childhood obesity is a very complex problem requiring a multitude of complex solutions. Specifically, the WIC Program has developed consistent nutrition risk criteria to identify infants and children who are at risk of becoming overweight and to facilitate early intervention. In addition, the "FIT WIC" demonstration grants given to five State agencies are examining ways that WIC might help be more responsive to the problem of childhood overweight and obesity. One outcome of this project is the development of an implementation manual that will assist other State and local agencies in developing similar projects.

#### WIC FARMERS' MARKET NUTRITION PROGRAM

*Question.* The WIC Farmers' Market Nutrition Program has long been an active player in bringing together the programs of nutrition assistance and support for farmers and the rural economy. I have recently been informed that USDA has decided to not release the additional \$10 million for the WIC Farmers' Market Nutrition Program provided in fiscal year 2002, and a letter is currently being sent to the Appropriations Committees informing Members of this decision.

Please provide information on the factors taken into consideration when making this decision.

Answer. The Agriculture Appropriations Act for fiscal year 2002 made \$10 million available for the WIC Farmers' Market Nutrition Program without conditions and another \$15 million available if the Secretary determined that sufficient funds were available to meet WIC caseload requirements. Taking into account the costs and participation reported so far this year by States indicate that the funds may not be sufficient to continue participation at these record levels for the balance of fiscal year 2002 and that the conditions delineated in the fiscal year 2002 Agriculture Appropriations Act for release of the additional \$15 million for the WIC Farmers' Market could not be met.

*Question.* Please explain why the Administration chose not to continue this program in fiscal year 2003, especially in light of significant increase in funding for the WIC Program, including a contingency fund of \$150 million.

Answer. While all can agree that supporting America's farmers and providing low-income seniors and WIC participants access to fresh fruits and vegetables is a laudable goal, these are small programs that do not operate in all States and, in many cases, provide a very limited benefit level. The Administration believes that we can best serve these populations as well as America's agricultural producers, by focusing precious resources on broad-based, more universally established programs tailored to the nutritional needs of the populations they target. We are focused on improving the structure of current programs. This kind of hard choice is central to the Administration's responsibilities and we accept the need and responsibility for making tough choices.

*Question.* In addition to farmers' markets program that are directly linked to nutrition programs, does USDA have other authorities, such as through the Agricultural Marketing Service, to provide support for the development and expansion of farmers' markets?

Answer. Yes. In fact, the Agricultural Marketing Service has put a lot of effort into expanding farmers' markets all over the nation. Further, food stamps may be redeemed at approved farmers' markets.

The Food and Nutrition Service and the Agricultural Marketing Service (AMS) are the two USDA Agencies that deal directly with the development and expansion of farmers' markets. While FNS programs provide low-income Americans with access to farmers' markets, AMS supports direct marketing opportunities for small farmers including farmers' markets, pick-your-own farms, roadside stands, subscription farming and community supported agriculture. AMS provides training and technical assistance to farmers in the design of facilities, transportation, expansion and promotion activities as well as promoting research in support of farmers' direct marketing efforts.

## SENIORS' FARMERS' MARKET NUTRITION PROGRAM

*Question.* In fiscal year 2002, the Congress provided \$10 million from the Commodity Assistance Program to fund the Senior Farmers' Market Program, which helps make fresh produce available to senior citizens and supports local farmers markets. We also encouraged the Secretary to use additional CCC funds to supplement the Seniors' Farmers' Market Nutrition Program.

Do you intend to use additional resources from the Commodity Credit Corporation to supplement the appropriated funds for the Seniors' Farmers' Market Nutrition Program in fiscal year 2002? If a decision has not yet been made, when can one be anticipated?

*Answer.* The Department is working closely with OMB to evaluate the option of making funds available from the Commodity Credit Corporation to supplement the appropriated resources of the Seniors' Farmers Market Program. We hope to inform the Committee of the decision on this matter shortly.

*Question.* This program has been eliminated in the Administration's fiscal year 2003 budget. Please explain why the decision was made not to fund the program.

*Answer.* As with the WIC Farmers' Market Nutrition Program, we agree that supporting America's farmers and providing low-income seniors access to fresh fruits and vegetables is a laudable goal. However, this is a small program that does not operate in all States and, in many cases, provides a very limited benefit level. The Administration believes that we can best serve low-income populations as well as America's agricultural producers, by focusing precious resources on broad-based, more universally established programs tailored to the nutritional needs of the populations they target. We are focused on improving the structure of current programs. This kind of hard choice is central to the Administration's responsibilities and we accept the need and responsibility for making tough choices.

## FNS ELDERLY FEEDING PROGRAM (NUTRITION SERVICES INCENTIVE PROGRAM)

*Question.* The Administration's budget deletes all funds for this program, which provides cash and commodities to States for distribution to organizations that deliver meals to elderly citizens in their homes, or in group settings. The Administration proposes moving this program to the Department of Health and Human Services, Administration on Aging and consolidating it with the HHS elderly meals program.

Has the Administration provided adequate funding to DHHS to absorb this program request?

*Answer.* The Nutrition Service Incentive Program is included in the Department of Health and Human Services (DHHS) fiscal year 2003 budget request. The level of funding requested by DHHS for the program is the same as the amount appropriated to USDA to administer the program in both fiscal year 2001 and fiscal year 2002.

*Question.* Has the USDA received any assurance from DHHS that this program will indeed be funded in the Labor/HHS appropriations bill?

*Answer.* The Nutrition Service Incentive Program is included in the Department of Health and Human Services (DHHS) fiscal year 2003 budget request. DHHS is working with its appropriations committees to support and promote the proposed transfer of funding to their appropriation.

*Question.* If this Subcommittee accepts the President's recommendation and does not fund this program, and the Labor/HHS Subcommittee also fails to provide funding, does the Administration have a contingency plan in place to support the Nutrition Services Incentive Program in fiscal year 2003 by other means?

*Answer.* Even though the Administration is committed to this important program, we would not be able to provide these services if the program were to not be funded by either Subcommittee.

## FOOD SAFETY AND INSPECTION SERVICE

*Question.* Protecting the nation's food supply, both from harm caused intentionally and unintentionally, are an extraordinary important function of government. If we relax our standards or our efforts for even the shortest period of time, the consequences could be extremely dire. The human and economic tolls would be very high, and consumer confidence could be affected for a significant period of time. Therefore, it is imperative that the Food Safety and Inspection Service have the resources necessary to enable us to continue protecting America's food.

You state that the President's budget will maintain approximately 7,600 inspectors. Is this number an increase from the number of inspectors funded previously?

Answer. FSIS reached its goal of 7,610 in-plant permanent full-time employees in September 30, 2000 and maintained it throughout fiscal year 2001. We believe this level, along with the flexibility to use temporary or part-time employees as needed, will be adequate to meet the industry's demand for inspection services. The Agency plans to maintain that level throughout 2003.

*Question.* How many, if any, of these inspectors were hired as a result of funds provided to the FSIS in response to the terrorist attacks?

Answer. We are planning to use \$1.5 million of the funds provided by the Homeland Security Supplemental to hire 20 additional import inspectors for a total of 100 import inspectors.

*Question.* Please provide an update on the efforts of FSIS, including work done with other government agencies, within USDA, and with industry, to prevent an outbreak of any major animal diseases, such as foot-and-mouth, BSE, or other potential animal diseases.

Answer. I have asked the Food Safety and Inspection Service to provide that information for the record.

[The information follows:]

Although FSIS conducts post-mortem inspection of animal carcasses to determine the presence of disease, FSIS does not operate on the farm and its mandate is limited to zoonotic diseases, those that impact human health and are transmitted from animals to humans. This mandate excludes many animal diseases, including foot and mouth disease. However, FSIS has been aggressive and proactive for over a decade to prevent Bovine Spongiform Encephalopathy (BSE) from entering the United States. No cases of BSE have been found in cattle in the United States.

State, local and Federal agencies already coordinate strategy on BSE and other Transmissible Spongiform Encephalopathies (TSE) through an interagency strategic planning committee. The Interagency BSE Steering Committee is responsible for planning ways to minimize the spread of BSE and identifying potential vulnerabilities in our present system, clarifying jurisdictional issues, improving communication between Federal agencies on TSE-related matters, and developing strategies for communicating with the public if a case of BSE or variant Creutzfeldt-Jacob Disease (vCJD) or BSE-contaminated animal feed were found in the United States. The Committee consists of representatives from USDA, Health and Human Services, U.S. Customs Service, Office of the U.S. Trade Representative, Department of Defense (DOD), State Department, Office of Management and Budget, White House Office of Science and Technology, American Association of Feed Officials, National Association of State Departments of Agriculture, and the National Assembly of Chief Livestock Health Officials.

Coordination and planning at the technical level occurs among scientists addressing BSE issues through participation in the Interagency BSE Working Group. Technical representatives from the Animal and Plant Health Inspection Service (APHIS), Agricultural Research Service, Center for Disease Control and Prevention, Customs Service, DOD, Foreign Agricultural Service, Food Safety and Inspection Service (FSIS), and the National Institutes of Health participate in the Group. The Group discusses prevention activities, new science, and changing world events and coordinates efforts across agencies. Annual meetings with Canadian and Mexican technical experts from counterpart organizations include the following subject areas: animal health, public health, diagnostics and research. These annual interactions have contributed to increased understanding and harmonization of TSE control and prevention policies among the three countries.

Within USDA, the Animal and Plant Health Inspection Service is primarily responsible for efforts to prevent animal disease outbreaks. On January 10, 2002, President Bush signed the Defense Appropriations Bill, which bolstered USDA homeland security efforts. This bill included \$105 million for APHIS for pest and disease exclusion, detection, and monitoring. A portion of these funds is being expended to enhance activities designed to protect the U.S. from serious animal disease threats such as Foot and Mouth Disease (FMD) and BSE.

*Question.* Have these activities been enhanced since the terrorist attacks of September 11?

Answer. Yes, we have taken a number of steps to enhance our efforts to prevent animal disease outbreaks. For example, in October, 2001, USDA provided \$1.8 million in State grants for emergency animal disease preparedness activities. These grants are to be used to help various States better prepare and coordinate emergency preparedness activities related to animal disease protection. On January 10, 2002, President Bush signed the Defense Appropriations Bill, which bolstered USDA Homeland Security efforts. This bill included \$105 million for APHIS for pest and disease exclusion, detection, and monitoring. A portion of these funds is being ex-

pending to enhance activities to protect the U.S. from serious animal disease threats, such as FMD and BSE.

FSIS is using a portion of its Homeland Security supplemental funding to provide biosecurity training to FSIS inspectors. All FSIS inspectors are already trained to look for food safety problems in the plants and in the products we regulate—whether the problems are intentionally or accidentally caused. The Agency is committed to further enhancing the skills of its inspection force to deal with biosecurity events. On September 20, 2001, all FSIS inspectors were placed on heightened alert and given instruction to report any suspicious in-plant activity to FSIS and local law enforcement authorities. In addition, FSIS has integrated biosecurity responsibilities into the new veterinary medical specialist positions created in each District. These individuals will coordinate emergency response activities at the District level in conjunction with State and local food safety and law enforcement authorities.

*Question.* What is the funding level in the Administration's budget for these activities?

*Answer.* The 2003 budget includes \$146 million of increased funding to strengthen training and technology to enhance homeland security and protect agriculture and the food supply. Highlights of these increases include: (A) a \$19 million increase in the AQI program for improved point-of-entry inspection programs; (B) a \$5 million increase to strengthen the capability of APHIS to assess and monitor outbreaks of diseases in foreign countries that have the potential to spread to this country; (C) a \$48 million increase for plant and animal health monitoring; (D) a \$12 million increase for other APHIS programs to expand diagnostic, response, management, and other scientific and technical services; (E) a \$28 million increase to support FSIS food safety activities; and (F) a \$34 million to support research aimed at protecting the Nation's agriculture and food system.

*Question.* The FSIS was provided an additional \$15 million in emergency supplemental funds after the terrorist attacks of September 11.

Please provide information on how this money has been expended to date, or how the FSIS plans on spending this money.

*Answer.* Funds allocated to FSIS from the Homeland Security Supplemental will be used to improve facility security, educate and train inspectors regarding bioterrorist threats, increase monitoring and surveillance of the food supply, expand FSIS laboratory capabilities for detecting contaminants, and provide technical assistance and biosecurity awareness to State and local government inspection officials and international cooperators. In addition to the \$15 million provided directly to FSIS, an additional \$1.5 million will be allocated to them from funds appropriated to the Office of the Secretary to strengthen inspection at ports of entry.

*Question.* How were decisions made on how the money would best be used?

*Answer.* The Department has established a USDA Homeland Security Council to provide policy oversight and coordinate Department-wide homeland security issues. It also approves budgets and other major commitments, appoints representation to inter-agency groups and tracks USDA progress on high priority homeland security objectives. The Homeland Security Council examined proposals submitted by the agencies for spending the \$328 million of emergency supplemental funds made available to the Department.

#### HUMANE SLAUGHTER

*Question.* Funding was provided supplemental to the fiscal year 2001 appropriations to enhance humane slaughter activities carried out by FSIS. It is my understanding that these funds were used to hire 17 District Veterinary Medical Specialists (DVMS)

Please provide information regarding the functions to be performed by the DVMS.

*Answer.* Using funding provided in the recent supplemental appropriations bill, FSIS added 17 District Veterinary Medical Specialists (DVMS) to its workforce. These additional resources will further bolster FSIS' oversight of humane slaughter and handling issues. Each DVMS will be responsible for on-site coordination of nationally prescribed humane slaughter procedures and verification of humane handling activities, as well as dissemination of directives, notices, and other information from Headquarters through the district office to Veterinary Medical Officers in the field.

*Question.* Will the DVMS be working solely on humane slaughter activities? If not, approximately what percentage of their time will be spent on humane slaughter activities?

*Answer.* The DVMS' primary responsibility will be the monitoring and promotion of humane slaughter practices in their respective Districts. It is difficult to assign a strict percentage as to the time spent by the DVMS on humane slaughter activi-

ties, as that will depend on the functional requirements of their Districts. However, it is expected that the majority of the DVMS's work hours will be devoted to humane slaughter activities and other functions will be incidental.

*Question.* Along with disseminating information regarding humane slaughter to the field, will these employees also perform ante-mortem inspections? If not, will other employees be performing these inspections?

*Answer.* No, ante-mortem inspection is currently performed on livestock presented for slaughter in Federally inspected facilities by the veterinarians and inspectors assigned to slaughter plants.

*Question.* Is the hiring of the new DVMS expected to increase overall the number of ante-mortem inspections to ensure humane slaughtering?

*Answer.* The DVMS will spend time in the ante-mortem area of slaughter plants monitoring the slaughter practices of the plant and providing expertise to both plant and FSIS staff in the conduct of humane handling practices, as well as in other incidental activities, such as the recognition of foreign animal diseases. During their visits to plants in their respective Districts, they will provide techniques and training in humane slaughter practices and biosecurity to the FSIS inplant inspection personnel.

*Question.* What would the estimated cost be of providing an ante-mortem inspection at all continuously operating slaughter plants at least once per day?

*Answer.* Ante-mortem inspection is currently performed on all livestock presented for slaughter, as well as on poultry in Federally inspected facilities. These functions are already provided for by funds currently appropriated to FSIS.

*Question.* Are funds requested in the Administration's budget to continue the activities of the 17 new DVMS?

*Answer.* The Administration's 2003 budget for FSIS will continue to provide funds for the 17 District Veterinary Medical Specialists (DVMS) from within the base-level funding appropriated to the Agency.

*Question.* Are funds requested to hire more DVMS?

*Answer.* The Administration's 2003 budget does not request additional funds to hire more DVMS.

#### INSPECTION OF FOREIGN MEAT-PACKING PLANTS

*Question.* Madame Secretary, I believe it is extremely important to follow up on reports such as the one by the USDA Inspector General in June of 2000, that put into doubt the safety of all meat consumed by Americans. Currently, there is no way for the average consumer to easily find out whether the meat they are buying at the grocery store is coming from a USDA approved, clean facility, whether it be domestic or abroad. Therefore, according to newspaper articles, and the IG report itself, one could conclude that there is no way for the average consumer to make a truly informed guess at whether or not the meat they are consuming is safe. This is unacceptable, and it is unthinkable that plants that have completely failed USDA inspections would be allowed to import meat into the United States without ever being re-inspected by someone from the USDA. I have asked many of these questions earlier, and feel that they are absolutely worth asking again in order to receive the best information for the public.

In view of the current threats posed to Americans by those wishing to do us harm, should additional steps be taken by USDA in the area of foreign meat and poultry inspections to ensure Americans' safety and confidence in these products?

*Answer.* We are allocating \$1.5 million of Homeland Security Supplemental funding to hire 20 additional import inspectors, for a total of 100, to perform intensified surveillance of imported meat, poultry, and egg products. The inspectors will be located at various ports-of-entry to augment the existing inspection force.

*Question.* Please expand on any additional steps you feel are warranted.

*Answer.* The efforts of States and other cooperators with whom USDA works are essential to provide in-depth protection of the Nation's from security threats to our food supply. Therefore, Federal assistance will also be used to bolster State capabilities. This will help maximize our ability to contain any outbreaks.

*Question.* What actions has USDA taken in response to the IG report mentioned above?

*Answer.* I have asked FSIS to provide the information you requested for the record.

[The information follows:]

The IG report identified weaknesses in documentation of FSIS decisions on determining the eligibility of countries to export to the United States. FSIS has taken a number of steps in response to the 35 recommendations in the report. These have included strengthening documentation on equivalence decisions taken by the Agency



on the eligibility of foreign countries to export to the United States, strengthening management controls on all aspects of the equivalence and plant certification processes, documenting procedures for entering plant certification information in the Automated Import Information System (AIIS) to assure that ineligible shipments are not allowed to enter the United States, training managers in management control principles, and assuring that FSIS auditors have all the information they need to plan in-country audits.

*Question.* How often, on average, are foreign meat-packing plants inspected by USDA officials? Do you feel that this is adequate?

*Answer.* FSIS reviews all foreign inspection systems in countries eligible to export meat and poultry to the United States. In fiscal year 2001, FSIS reviewed the documentation of and performed on-site audits in 27 of the 32 countries eligible to export meat and poultry products to the United States, as well as two countries requesting eligibility, and was satisfied that all 29 countries had implemented inspection systems equivalent to the U.S. inspection system. These audits included visits to 217 slaughter and processing establishments and 82 laboratories.

*Question.* What is the standard procedure when a foreign meat-packing plant fails to meet USDA guidelines?

*Answer.* A foreign plant that fails to meet USDA guidelines is delisted; that is, it is no longer allowed to export to the U.S. It may be recertified for export to the U.S., however, if it has corrected all deficiencies by the time of its next USDA audit.

*Question.* If a plant fails to meet USDA guidelines during an inspection, should there be a follow-up inspection by USDA officials to ensure that the meat is safe before it is sent to the United States, or is it the Administration's position that it is acceptable to rely on assurances from other countries that the meat is safe?

*Answer.* FSIS officials currently conduct follow-up inspections of those plants that fail to meet USDA guidelines.

*Question.* It does not appear that there is an increase for foreign inspectors in the USDA budget.

*Do you believe additional inspectors should be hired?*

*Answer.* FSIS plans to hire an additional 20 import inspectors with funds provided through the Homeland Security supplemental appropriation.

*Question.* How many inspectors, and how much money, would it take to ensure that foreign meat-packing plants were inspected often enough to adequately ensure the meat imported into the United States is safe for consumers?

*Answer.* The resources requested in the fiscal year 2003 Budget are sufficient to support USDA's Food Safety program in the next fiscal year. This includes reviews of foreign inspection programs and the inspection of imported product. It is important to remember that all meat and poultry imported into the United States must be produced under a foreign inspection program that USDA determines provides equivalent public health safeguards to our domestic inspection program. Additionally, when imported product arrives at a port-of-entry, USDA inspectors then reinspect it prior to allowing it to enter the country.

*Question.* Can you certify that no meat or poultry products are being imported into this country, and sold to American consumers, that do not meet at least minimum USDA standards? If your answer is no, what are you doing to fix what would appear to be a broken system?

*Answer.* All meat and poultry imported into the United States must be produced under a foreign inspection program determined to be equivalent to the USDA's program. When imported product arrives at a port-of-entry, USDA inspectors then reinspect imported product prior to allowing it to enter the country.

*Question.* This topic also brings into consideration the subject of country-of-origin labeling.

*If certain plants, or certain countries, repeatedly fail USDA inspections and are then allowed to import meat into the United States, do you believe it is the right of the consumer to know where their meat is coming from?*

*Answer.* Currently, all imported meat shipments are reinspected upon arrival at U.S. ports of entry. Shipments not meeting USDA standards are refused entry to the U.S. Therefore, country of origin labeling in no way affects the safety of imported product. The inspection it receives is the same as domestic product. The determinations as to whether it is fit or unfit for human consumption are the same. As for imported retail packages or consumer-ready packages, these are already required to bear country of origin labels.

*Question.* What effect on this problem do you believe required country-of-origin labeling would have?

*Answer.* Country of origin labeling would not have any affect on the safety of the product.

## RUS—BROADBAND

*Question.* What role do you see the government playing in the rural broadband transmission arena when the private sector is still debating their participation considering cost, regulations, mergers, and other factors?

*Answer.* Broadband service is vital to the economic development, education, health and safety of rural Americans. For rural communities to prosper, as they move from predominantly agricultural-based economies into today's global marketplace, they must have the same access to the world markets and educational and health care opportunities as urban residents. Because of the vast distances often separating rural communities and the nation's urban economic and educational centers, rural broadband deployment is critical to sustaining the agricultural economy and the development of e-commerce. To further this objective, Rural Utilities Service believes the government's role in fostering rural broadband deployment today is more important than ever since the private sector's efforts are not focused on a universal broadband solution.

## GOVERNMENT FUNCTIONS—CONTRACTING OUT

*Question.* In the fiscal year 2002 report, this committee identified functions that affect eligibility determination, disbursement, collection or accounting for government subsidies provided under any direct or guaranteed loan of the Rural Development and Farm Service Agency mission area as an inherent government function. Additionally, the Committee asked for a report by March 1, 2002, on all efforts by the Department to enter into contracts to carry out any of the previously stated activities.

When will the Department submit the report?

*Answer.* The Department submitted the report on March 6, 2002. In the report we noted that we have not entered into any contracts for these services and do not plan to do so.

*Question.* In the President's Budget for USDA, the section titled "competitive sourcing" states the goal is to compete 15 percent of the commercial positions by the end of 2003.

What positions fall under the title of commercial positions?

*Answer.* Some examples of the type of positions we are considering for competitive sourcing include; data processing, finance and accounting, public affairs specialists, education and training, administrative support, fleet management, charting and mapping, grounds maintenance, mapping and charting, and construction management.

*Question.* Would these positions include what the Committee considers as inherent government functions in the Rural Development or Farm Service Agency mission area?

*Answer.* We do not believe that these positions will include what the Committee considers as inherent government functions.

*Question.* Do you have a plan you can share with the Committee to reach the President's goal?

*Answer.* We are working on our plan to meet the President's goal and will provide a copy to the Committee once it is final.

## INSPECTOR GENERAL

*Question.* Was the increase in staff years between fiscal year 2001 and fiscal year 2002 sufficient to carry out duties of the Inspector General?

*Answer.* The Office of the Inspector General's (OIG) full-time equivalent (FTE) ceiling was 723 in fiscal year 2001 and 2002. The agency was not able to fully fund the 723 FTE ceiling in fiscal year 2001 with available resources. Actual FTE usage was 650. Additional resources for staffing is not available in fiscal year 2002.

At the current funding and staffing levels, OIG is able to carry out the most critical aspects of its mission. The agency performs ongoing determinations of its responsibilities and priorities in order to direct resources to the areas of most urgent and immediate need.

*Question.* How much money is used for overtime of existing employees in the field to carry out investigations?

*Answer.* As law enforcement officers, OIG's special agents receive availability pay as part of their standard compensation package. OIG does not utilize overtime pay for its Investigations special agents.

*Question.* A few years ago, the USDA RHS and OIG created a joint initiative in the multi-family housing portfolio. What was the result of this effort, and is it still ongoing?

Answer. OIG and the Rural Housing Service (RHS) formed the joint initiative to review Rural Rental Housing (RRH) projects because of concerns about continuing fraud, waste, and abuse in the Rural Rental Housing (RRH) program. The result of this initiative was evaluation report "Rural Rental Housing Program Uncovering Program Fraud and Threats to Tenant Health and Safety," issued in March 1999.

The initiative targeted 32 multi-family owners and management owners that had been identified by Rural Development State Offices as potential abusers of the program. We identified 18 owners and management agents who misused over \$4.2 million while neglecting the physical condition of the properties, some of which threatened the health and safety of the tenants. The OIG Audit staff referred sixteen cases to the Investigations staff.

*Question.* What unauthorized funds were collected by the government as a result of this effort?

Answer. The initiative identified \$4.2 million in misused funds. All funds have been collected, written off, or resolved through additional documentation.

*Question.* Has the Agency adequately responded to any weaknesses that were identified by OIG?

Answer. The agency has adequately responded. Recommendations from all 18 audit reports have received management decision or final action. The agency established a Multi-Family Enforcement Task Force, including OIG participation. RHS has also implemented improvements to its RRS computer database to allow the agency to better monitor and identify potential abusers of the program. RHS inspected the projects where OIG found significant deficiencies in the physical condition of the properties and has required the State Offices to continuously report on the status of corrective actions. RHS plans to inspect all of its 17,000 RRH projects.

#### APHIS COMMODITY CREDIT CORPORATION TRANSFERS

*Question.* The fiscal year 2003 President's budget proposes to amend the Agricultural Risk Protection Act by preventing the Secretary of Agriculture from transferring funds from the Commodity Credit Corporation (CCC) to combat emergencies for plant pest or noxious weed infestations that the CCC funded the previous year.

What will the Department do if appropriated funding for emergency programs, such as Asian long-horned beetle (ALB) eradication efforts, in fiscal year 2003 is insufficient to manage the program that year?

Answer. We feel that activities for infestations whose scope and magnitude are known should be funded through the appropriations process. We retain authority to seek the use of funds from the CCC to combat any emergency pest and disease outbreak that is outside the scope of the appropriations.

*Question.* Also, what if the ALB infestation spreads to another State, such as Wisconsin, in fiscal year 2003—is that considered a new infestation and can the Secretary transfer CCC funds for it?

Answer. As you describe the situation, I would consider Wisconsin to be outside the scope of the infestation to be funded by the appropriations. As a result, we retain the to use funds from the CCC for such infestations.

#### BIOSECURITY

*Question.* U.S. biosecurity is of great concern to all Americans. Last year's foot-and-mouth disease outbreaks in other countries, and the events of September 11, have heightened the need for increased inspection efforts at U.S. ports of entry to prevent biosecurity invasions.

What is the Department doing to better coordinate efforts with all inspection agencies at the ports to share data, establish targets for inspection, and direct travelers appropriately?

Answer. Several recent steps have been taken to improve communication with Customs, INS and FSIS at the ports. APHIS is developing its Port Information Network Operations (PINOPS) database to track meat and animal product shipments and its Automated Targeting System (ATS) to track product to be held for inspection. The ATS corresponds to Customs' Automated Manifest System. It will improve identification and automatic targeting of high-risk imports for inspection and possible entry refusal. ATS and PINOPS will be linked to share relevant data and will contain separate modules for tracking and accounting for products on hold, including entry refusal, and communicating that status with FSIS and other agencies. We are currently at the contracting stage of the development, having completed an initial phase of testing. As Customs updates their system, we will continue to keep pace with their changes.

With FSIS, APHIS has also taken broad steps to improve port procedures for ensuring that harmful meat products do not enter the country. APHIS signed a memo-

random of understanding with FSIS to better define operational procedures and more clearly define the roles and responsibilities of each agency at the ports of entry. APHIS inspectors have also begun independently transmitting FSIS inspection forms to FSIS to enhance port processes.

*Question.* What actions are you taking to identify ports of entry that pose high risks for foreign animal disease and plant pest introductions?

*Answer.* APHIS AQI staff monitor ports nationwide as well as at pre-clearance locations to determine the level of risk from different ports of entry. We collect data in a standard form that identifies what biological material has come to the port. If it did not meet the requirements to enter the U.S., we track whether it requires treatment or would have to be destroyed or returned to its origin. We analyze the data at both the regional level and at a central level to determine where the greatest risk lies for introductions of pests and diseases.

*Question.* How are you enhancing agricultural quarantine inspection staffing and technology to prevent the unlawful entry of regulated items?

*Answer.* APHIS has increased staffing to prevent illegal products and will continue to hire additional personnel. APHIS will continue to add new positions to address the current safeguarding need. We are increasing inspection personnel at the Northern border to look at passengers and cargo using Canada as a transit to the U.S. from a third country. As part of that effort, staff are gathering intelligence on the use of Canada as a transit country. We have increased the number of detector dog teams and have begun using them to inspect cargo and will also increase their mandate to include post offices and refrigerator cars. We have also hired personnel specifically to prevent smuggling. Those additional personnel are analyzing data for the highest risk places for illegal entry.

In our efforts to prevent illegal entry of restricted product, we are also increasing the use of technology. Analysts are developing the Automated Targeting System and the Automated Cargo System to track illegal imports. Port staff use a database to post violations across the country to be aware of potential violators. We have also increased the use of x-ray technology at ports to detect what is in containers and bags.

*Question.* What is USDA doing to increase prosecutions for trade compliance violations to deter the illegal smuggling of produce?

*Answer.* Beginning January 1, 2002, APHIS implemented new penalty guidelines allowed under the Plant Protection Act. The guidelines increased the maximum penalty from \$1,000 per violation to \$250,000 per violation and \$500,000 per case. This level of penalties is a better deterrent to crime because before, violators could absorb fines as a general business cost. Also, to complement the additional activities to search for violators, APHIS has increased the number of investigators who prosecute violations. This has led to an increase in the number of cases we can prosecute, further deterring crime.

*Question.* Please provide the amount requested, by line item, in the fiscal year 2003 President's budget to prevent foreign animal disease establishment in the U.S.

*Answer.* I will provide that information for the record.

[The information follows:]

In the fiscal year 2003 request, the following line items have a foreign animal disease or pest implication:

FISCAL YEAR 2003 FOREIGN ANIMAL DISEASE OR PEST-RELATED

[Dollars in the thousands]

Program	Fiscal Year 2002 Base	Program Increase	Total Program Request <sup>1</sup>
AQI Appropriated .....	\$58,090	\$11,979	\$70,069
FMD/Emerging Foreign Animal Diseases .....	3,898	4,119	8,017
Import/Export (import work only) .....	4,710	1,012	5,722
AHM&S (FAD investigations) .....	1,000	0	1,000
AHM&S Surveillance (FMD and other FADs) .....	0	19,333	19,333
Screwworm .....	30,797	0	30,797
Tropical Bont Tick .....	424	0	424
Emergency Management Systems .....	4,201	6,945	11,146
Wildlife Services Operations (FMD Surveillance) .....	0	8,225	8,225
Veterinary Diagnostics (foreign animal disease and lab quality assurance) .....	5,865	3,400	9,265

## FISCAL YEAR 2003 FOREIGN ANIMAL DISEASE OR PEST-RELATED—Continued

[Dollars in the thousands]

Program	Fiscal Year 2002 Base	Program Increase	Total Program Request <sup>1</sup>
Total .....	108,985	55,013	163,998

<sup>1</sup> Excluding non-program related changes.

*Question.* Please provide an update on the Department's cooperative efforts with the Vermont Department of Agriculture and the University of Vermont, College of Agriculture, to develop a biosecurity demonstration and outreach program.

*Answer.* APHIS is working with the Vermont Department of Agriculture and the University of Vermont to finalize an agreement.

*Question.* A recent USDA press release announced the Department's efforts with Health and Human Services to strengthen bovine spongiform encephalopathy (BSE) protection systems for cattle, including the doubling of BSE tests conducted this fiscal year compared to the previous year. The news release also mentioned a Harvard BSE risk assessment to evaluate current preventative measures and to identify additional actions necessary to minimize the risk of BSE.

Are you planning to enhance BSE testing again in fiscal year 2003 and, if so, what funds are in the budget request for these tests?

*Answer.* We requested \$8,443,000 in fiscal year 2003 to enhance our national BSE surveillance and laboratory activities.

*Question.* What actions is the Department taking to strengthen protection programs as a result of the Harvard BSE risk assessment?

*Answer.* Though the Harvard study indicated that the risk of BSE occurring in the United States is extremely low, we intend to take several steps to aggressively protect American consumers and the livestock sector. We intend to enhance surveillance by increasing the number of cattle samples tested in fiscal year 2002 to more than 12,500 compared to approximately 5,200 sampled in fiscal year 2001. We have invited public comment on further possible regulatory options to further reduce human exposure to products that could contain the BSE infective agent. Options considered are:

- Prohibiting the use of brain and spinal cord from specified cattle in human food;
- Prohibiting the use of central nervous system tissues in boneless beef products, including meat from Advanced Meat Recovery (AMR) systems, and,
- Prohibiting the use of the vertebral column from certain categories of cattle, including downed animals, in the production of meat from AMR systems.

Further, the Food Safety and Inspection Service will propose to prohibit the use of certain stunning devices used on cattle prior to slaughter.

APHIS will publish an advance notice of proposed rulemaking to consider disposal options for dead and downer animals, which are considered an important potential pathway for BSE spread in the food chain.

USDA has taken proactive protective measures to prevent the introduction of BSE into the United States. Most recently, APHIS imposed import restrictions in September, 2001, on Japanese ruminants and ruminant products due to a confirmed case of BSE there.

*Question.* The threat to agricultural production and the food supply from causes either unintended or otherwise, especially since the events of September 11, requires our special attention and proper education and communication within the agriculture sector. At the same time, poorly timed or ill-conceived announcements may have a negative effect on the domestic commodity markets and among our trading partners. For example, a suggestion that foot and mouth disease has possibly been detected in the U.S. would undoubtedly send shock waves throughout the livestock markets.

What is the best approach the Department can take to make sure all prudent information in the area of biosecurity is made publicly available without unintended market consequences?

*Answer.* The Department has been very careful about assuring that only accurate information is made publicly available. The recent market scare regarding FMD at a Kansas stockyard was precipitated by speculative discussions. APHIS immediately dispensed accurate information about the extent of testing which was occurring. No FMD was found and the markets returned to normal shortly. However, the situation underscored the impacts that could occur from an outbreak and the need for a quick response with accurate information.

*Question.* In view of recent events, do you think it is advisable to classify certain security-related USDA information for review only by certain leadership positions within government?

*Answer.* We are reviewing the need for original classification authority.

*Question.* Over the years, the Extension Service has developed a level of trust within the farming community that far exceeds that of other agencies which are considered more regulatory in nature. As a consequence, farmers are often more willing to make inquiries of or share information with Extension Service personnel than with other representatives of government.

Do you think the Extension Service could play a role as first responder in the area of sharing and collecting bio-security information within the agriculture sector?

*Answer.* Yes, the resources of the Cooperative Extension System (CES) of the USDA, the land-grant colleges and universities, and local county governments can be mobilized as first responders to support a homeland security initiative. The CES is present in all U.S. counties—including more than 3,000 local offices. It has a long history of educational efforts with all communities, offering timely research-based programs to youth, families, community leaders, and those involved in agriculture, natural resources, and business and industry. It brings the resources of land-grant colleges and universities to bear in addressing locally identified priorities and issues and provides a feedback mechanism to these educational institutions so that they can better serve citizens and communities. The local CES presence—the staff who live and work in these counties and communities—makes the CES a logical partner in the homeland security effort.

A key part of the approach to homeland security will be the capacity to reach throughout the U.S. into all communities in a constructive and non-threatening way—and in a manner that complements rather than disrupts local customs and traditions. The nature of the threats will likely change, requiring an ongoing presence and association with communities. If the threats materialize, affected communities will need help with recovery—which in itself may be a protracted task.

As it has repeatedly demonstrated over the years, the CES can effectively respond to natural disasters and other emergency situations. The Extension Disaster Education Network (EDEN)—in place for a number of years—offers a wide range of educational materials that the public and CES staff can use to mitigate the impacts of disasters such as floods, storms, droughts, and disease outbreaks. The substance and format of these materials can be adapted to support a successful homeland security effort. The Department has allocated \$600,000 to EDEN with funds provided in the fiscal year 2002 Emergency Supplemental for Homeland Security. Funds would be used to develop educational materials, recruit and train personnel to deliver information at times of crises, and secure computer systems. These efforts build on the existing network of extension agents who are trained to help people and communities deal with natural disasters. Funds are needed to expand the Network to meet homeland security needs.

*Question.* What role do you think the Extension Service can play in education and awareness to reduce future risks of bio-terrorism, such as better ways to secure farm chemical storage, protect livestock from the spread of disease, or other potential threats?

*Answer.* The CES is poised to become a major player in the homeland security initiative. It has a vast array of experiences and resources—as well as a long history of community involvement—to carry out the educational and communication tasks that are critical to the success of homeland security in an open society. The CES also has a strong record of cooperating with other organizations, such as public schools, law enforcement agencies, fire and emergency services, local governments, and other higher education institutions. The CES is, of course, a national organization and as such has communications and other systems firmly in place that can assure a focused response to threats and a capacity to engage with communities in responding to terrorist or other episodic events.

CES can, as it does with other efforts, greatly multiply its resources by training volunteers to train others and using its existing presence and communication networks. Specialized materials would be prepared, tested, and disseminated for each of the four action-related focuses—awareness, risk assessment, mitigation, and recovery.

#### BIOLOGICAL CONTROL

*Question.* As a method to reduce the use of chemicals, there has been a significant employment of biological control agents to counter various threats to agricultural production. Unfortunately, there are cases in which this practice can have unintended consequences. For example, it has been reported that in the late 1970's and

early 1980's, USDA introduced into a number of States a species known as *Harmonia axyridis* (multicolored Asian lady beetle) as a biocontrol agent. Since that time it spread rapidly, killing the native lady beetles, and now posing potentially millions of dollars in damage to the domestic wine industry and causing other harm.

Does USDA continue to support the release of non-native species to serve as biocontrol agents, and if so, please provide information on such activities and explain what actions USDA takes to ensure that unforeseen consequences, as with the *Harmonia axyridis*, do not occur?

Answer. The USDA continues to support the release of non-native species to serve as biocontrol agents of pests that devastate natural areas and severely reduce crop production. ARS facilities overseas collect and evaluate the natural enemies of such designated invasive pests. These natural enemies are reared, and tested in quarantine to determine their effectiveness against the target pests, and to ensure that they do not attack native species (predators with a broad host range such as the multicolored Asian lady beetle, *Harmonia*, are now categorically excluded from importation for biocontrol). Biocontrol agents that have been proven to be effective and safe by this science-based process are packaged and shipped stateside for use in classical biocontrol programs, and are monitored post-release for non-target effects. Available ARS resources will continue to be directed toward evaluating and improving these procedures. Some of the invasive pests that are currently targeted for biological control are: the melaleuca paper bark tree in Florida, codling moth in the Pacific northwest, glassy-winged sharpshooter and olive fruit flies in California, leafy spurge in the upper States, Asian longhorned beetle in New York and Illinois, and saltcedar and yellow starthistle in the West.

Invasive species account for approximately \$137 billion per year in damage costs in the United States alone. Non-native weeds infest at least 100 million acres in the United States, and increase by 8 to 20 percent annually. ARS works with APHIS to streamline the regulatory process governing testing and introduction of biological control agents for management of invasive exotic weeds, resulting in faster approval for release of biological control agents.

Damage from invasive insects costs U.S. agriculture an estimated \$30 billion annually; typically, the more damaging invasive insects cost U.S. agriculture at least \$1 billion each, with the glassy-winged sharpshooter and Asian longhorned beetle representing threats of \$33 billion and \$670 billion, respectively. Invasive mite, beetle, and disease threats to bees threaten, through loss of pollination, \$15 billion in fruit, nut (almond), and legume crop value.

By conservative estimates, biological control is responsible for saving \$20 billion in damage from invasive insects annually in the United States. ARS is further developing biological control as a major cost-effective (\$100 return for each \$1 invested) strategy for management of invasive insects. Biological control programs help increase agricultural production while decreasing the industry's reliance on chemical pesticides.

ARS firmly believes that integrated pest management (IPM) and areawide pest management systems, employing biologically-based or pest-specific methods, can substantially decrease the risks from the most hazardous pesticides and simultaneously increase economic benefits for agriculture, as well as provide substitutes for at-risk pesticides impacted by the FQPA.

The key to controlling insect pests and improving the health and effectiveness of beneficial insects such as bees and biocontrol wasps could be hidden in their genes. To capitalize on developing genomics techniques, ARS and CSREES co-sponsored the 1st International Insect Genomics Workshop in 2001. The workshop prioritized projects that would benefit from a more coordinated effort, with the honey bee (related to biocontrol wasps) genome emerging as the initial target for sequencing, followed by important pest moths, beetles, and fruit flies.

*Question.* Is USDA undertaking any actions now, or proposed for fiscal year 2003, to combat the *Harmonia axyridis* either through research or pest management activities?

Answer. The multicolored Asian lady beetle, *Harmonia axyridis*, is a predator of aphids and other small insects, including pests such as the pecan aphid, hemlock woolly adelgid, and the recently established Chinese soybean aphid.

This beetle is native to Asia. In an attempt to establish the beetle for biological control in the United States, many Federal and State agencies and universities were involved in releases in 12 States. This effort continued intermittently from 1916 to 1983. Immediately following each release, the species disappeared, making it impossible to determine whether these releases resulted in establishment of the beetle. Biological control practitioners, using newly emerging ecological concepts, decided that further importation might be risky to wildlife, and importations ceased. Biological control agents such as this beetle, with a broad host range that included native

insects, that could potentially out compete native natural enemies and become pests themselves, were no longer imported. Nevertheless, a strain of the beetle, which is believed to have escaped from infested cargo at seaport in New Orleans, Louisiana, did become established by 1988. Once established it has been an effective biological control agent of pecan aphids in Georgia and other locations. In 2001, the beetle was also shown to provide economic control of spirea aphid on apple and was the predominant lady beetle species attacking the soybean aphid.

Beginning in the autumn of 1993, this beetle was found creating a nuisance in homes in Georgia, Oregon, Virginia, Maryland, Alabama, Delaware, New Jersey, Washington, and Pennsylvania. It has since expanded its range and is found as a nuisance in much of the eastern United States and several mid-western states and continues to expand its range. As do many native lady beetles, this species forms large swarms in the fall and moves into sheltered areas, including attics and crawl spaces, for overwintering. The beetles are particularly attracted to buildings (of all sizes, shapes and colors).

Programs are now underway to isolate, identify, and use aggregation pheromones (insect-produced odors that cause the beetles to congregate in the fall) and repellents (odors that can be placed near homes to discourage beetle entry). The Chemicals Affecting Insect Behavior Laboratory, Beltsville, Maryland, has found two compounds that act as repellents; they are being evaluated. A trap has also been developed by Dr. Louis Tedders, formerly at ARS, and the design has been posted on the web by the Office of Technology Transfer, thus making it available to interested homeowners for use in removing the beetles from their homes. Through cooperation with the Extension Service, efforts are underway to make the ARS trap design and a pest fact sheet, produced by the ARS Information Service, generally available to homeowners.

Currently, exclusion by sealing cracks in housing exteriors is the best way to keep the beetles from entering homes, a method that serves, additionally, to improve regulation of home climate and to conserve energy.

#### FOREIGN AGRICULTURAL ASSISTANCE

*Question.* As part of the U.S. policy in the Afghan theater, it has been suggested that this country should take actions to help shift local farmers from the lucrative poppy production to a form of agriculture that does not have implications for internal drug trafficking or other illegal purposes.

Is USDA involved in helping Afghan farmers move to alternative forms of agriculture?

*Answer.* USDA is not currently working in Afghanistan but is prepared to assist, if requested, by providing technical assistance and training to facilitate Afghanistan's recovery. USDA has extensive expertise that could be relevant to Afghanistan, including experience, albeit years ago, in working with that country regarding alternatives to poppy production.

*Question.* Is USDA involved in other international agricultural development as part of a larger U.S. foreign policy strategy aside from pure economic development in those regions?

*Answer.* USDA is involved in a number of U.S. Government inter-agency processes focused on broad U.S. foreign policy strategies designed to promote political, economic, and social stability. An inter-agency working group meets weekly at the State Department, for example, to work on joint agency strategies for cooperation with Afghanistan, Pakistan, and other nations in the region.

USDA is heavily involved in outreach and scientific collaboration on biotechnology, which along with other international research activities, are helping increase the capacity of the world to feed its hungry people, thus reducing one of the conditions that breeds terrorism. Similarly, work in multilateral organizations, such as the Food and Agriculture Organization of the United Nations, is helping establish the political will and strategies needed to significantly reduce the number of undernourished people. Some of these efforts have been ongoing, but are being expanded and refocused as a result of the September 11 events.

USDA is developing strategies and focusing increased attention on policy and institutional frameworks to foster the growth of competitive, market-based agricultural sectors. This enhances one of our other strategic goals for being involved in international agricultural development: to expand market opportunities for U.S. producers.

Several other activities are taking place under the rubric of the Middle East Peace Initiative. USDA is a key player in a Middle East integrated pest management project, training programs on environment management, and programs promoting scientific research cooperation among countries in the region.



## ILLINOIS RIVER

*Question.* Section 745 of Public Law 107-76 directs you to participate in a conservation pilot project in the Illinois River Basin.

Please provide information in regard to this directive.

*Answer.* Over \$1.1 million of Environmental Quality Incentive Program Funds have been committed for cost sharing on conservation practices to be installed in the Illinois River Basin this fiscal year. In addition, according to the national CREP/CRP data base, the Illinois CREP has enrolled 30,002 acres (1,257 contracts) at a total estimated cost share of over \$4.6 million for fiscal year 2002.

## BIOTECHNOLOGY

*Question.* Consumers are still distrustful of products that contain genetically modified organisms.

What is USDA doing to assure the credibility of the U.S. regulatory system in regard to environmental and food safety of genetically engineered products?

*Answer.* The National Economic Council has established an Agriculture Biotechnology Working Group (ABWG). One of the first priorities of this group is to work on the regulatory safety issues, both scientific and procedural, associated with the unintended or adventitious presence of genetic material in seeds introduced through genetic engineering. This is a complex regulatory issue that will involve the food safety and environmental regulatory agencies. In addition, the ABWG has set up a system for interagency coordination and communication concerning the categories of new products (pharmaceutical plants, fish, animals, insects) that the regulatory system is or will be reviewing over the next several years.

To assure that the scientific basis of APHIS' regulatory review remains current, USDA contracted with the National Academy of Sciences (NAS) to conduct a review of the scientific basis for determination of non-regulated status for transgenic crops under the Plant Protection Act and the National Environmental Policy Act. The NAS evaluated the appropriateness of methodologies, the type and quality of data, and adequacy of issues assessed. Their report, entitled "Environmental Effects of Transgenic Plants: The Scope and Adequacy of Regulation" was issued on February 22, 2002. The report notes that new transgenic plants receive greater regulatory scrutiny than conventional plants, and views its recommendations ". . . as a means to help improve an already functioning system." APHIS is now reviewing the report and studying its recommendations, with a view to improving our system. We believe NAS is a valuable resource to assure that our regulatory activities have high credibility in the scientific community.

Coordination efforts are underway to establish the Federal review infrastructure for transgenic animals. APHIS, the Food Safety and Inspection Service (FSIS), and the Food and Drug Administration (FDA) will work to articulate a transparent process for a variety of products and also address overlapping jurisdictions between the agencies. Potential concerns over animal welfare issues could impact the Agency's inspection responsibilities. APHIS plans to clarify its regulatory approach to transgenic vectors of animal disease (transgenic arthropods) and coordinate this with our existing oversight approach to transgenic insects of plant disease.

APHIS continues to work with the Environmental Protection Agency (EPA) to clarify the two agencies' respective roles in evaluating plant pest risk and plant pesticides; herbicide tolerant plants and herbicide use; and EPA's work to develop exemptions to its rule on the regulation of plants containing plant pesticides. In addition, the Agency is developing expanded guidance for applicants on information needed to satisfy requirements for granting a petition.

## ANIMAL WELFARE

*Question.* The Committee is very concerned about the Department's actions to support animal welfare.

Please provide a summary of fiscal year 2001 Animal Welfare activities including number of investigations, the nature of violations, enforcement actions, and their outcomes.

*Answer.* I will provide that information for the record.

[The information follows:]

In fiscal year 2001, APHIS continued to employ a two-pronged enforcement strategy. For licensees and registrants who show an interest in improving the conditions for their animals, we pursue innovative penalties that allow them to invest part or all of their monetary sanctions in facility improvements, employee training, research on animal health and welfare issues, or other initiatives to improve animal well-being. This approach enables the individuals to immediately improve the conditions

for their animals while we send a clear message that future violations will not be tolerated. On the other hand, for licensees and registrants who do not improve the conditions for their animals, APHIS pursues enforcement action. Such action typically includes significant monetary penalties and/or license suspensions or revocations. It may also include confiscation of their animals and relocation of the animals to another facility if they are found to be suffering.

An important component of APHIS' enforcement strategy is the high-priority designation for certain cases. Cases are deemed high priority based on the following criteria:

- Severity of animal suffering (death or severe injury)
- Past compliance history of facility
- Potential public or animal safety or health concerns
- Abusive or potentially violent nature of licensee or registrant
- Type of facility and species of animal involved
- Severity of the issue resulting in extensive public interest

For high priority cases, APHIS and the USDA Office of the General Counsel put special emphasis on investigation and enforcement to expedite their resolution. This measure has been successful in shortening the time frames of significant cases and providing quicker relief for animals protected under the AWA.

Through this multifaceted enforcement strategy, APHIS and the Office of the General Counsel have been able to virtually eliminate the backlog of Animal Welfare Act violation cases awaiting resolution through the formal administrative process. The results have been shorter time frames for resolving cases and the ability to expedite high-priority cases. In addition, APHIS imposed penalties totaling almost \$510,000 in fiscal year 2001.

The following table provides detailed information on the number of enforcement actions conducted and resolved during fiscal year 2001:

Numbers of Enforcement Actions Conducted and Resolved, fiscal year 1999–2001.  
Cases Investigated and Reviewed:

**NUMBERS OF ENFORCEMENT ACTIONS CONDUCTED AND RESOLVED, FISCAL YEAR 1999-2001**

Fiscal year	Investigated and reviewed			Cases resolved			Sanctions imposed		
	Cases	Submitted to investigative and enforcement services staff	Submitted for formal prosecution	Official warnings	Stipulations offered/settled <sup>1</sup>	Administrative law judges decisions <sup>1</sup>	Fines imposed by administrative	Fines imposed by stipulation	Revocations, suspensions, and disqualifications
1999	313	188	104	143	89/79	28	\$585,162	\$82,152	16
2000	329	184	101	125	75/100	70	343,301	110,848	23
2001	276	201	51	178	130/97	74	365,875	143,440	10

<sup>1</sup>Some stipulations settled were originally offered in the previous year.

We resolved several high-profile cases or brought charges against parties in fiscal year 2001. The following are just a few examples:

In November 2000, APHIS and a zoo in Oregon settled charges that a handler severely beat an elephant. The zoo agreed to a civil penalty of \$10,000. Of that amount, APHIS approved \$5,000 to hire outside experts on elephant care and to implement all reasonable recommendations. The other \$5,000 was paid to the U.S. Treasury. The zoo also agreed to not rehire the handler who beat the elephant.

In January 2001, a USDA judicial officer upheld a decision that found a Missouri dealer guilty of charges that she was acting as a dog dealer without a license. Her \$5,000 fine was suspended as long as she does not violate the AWA in the future. She is also permanently disqualified from being licensed under the AWA.

In April 2001, a USDA administrative law judge found a Nevada exhibitor guilty of charges that he harassed APHIS officials and failed to maintain proper acquisition records, keep animal enclosures in good repair, protect stored food from spoilage, provide enclosures to protect animals from inclement weather and the elements, provide sufficient and potable water, control pests, properly clean enclosures, provide sufficient perimeter fencing, and provide sufficient space for animals to make normal postural and social adjustments. He was fined \$27,500, and his license was revoked. This decision was upheld on appeal.

*Question.* How is the Department utilizing the fiscal year 2002 funding increases for Animal Welfare and Animal and Plant Health Regulatory Enforcement?

*Answer.* We are using the increases to hire, train, and equip additional animal care inspectors and investigators in areas of the country where the need is most pressing. By so doing, we intend to improve our program of inspections and follow-up investigations and enforcement. Recently, we have hired ten new animal care inspectors, to be stationed in the following States: New York; District of Columbia; Georgia; Florida; Michigan; Illinois; Missouri (2 positions); Montana; and Texas. Before the end of fiscal year 2002 we plan to hire seven additional inspectors, to be stationed in West Virginia; Puerto Rico; California (2 positions); Colorado; Pennsylvania; and northern Indiana.

In similar fashion, we are using the increased funding for animal and plant health regulatory enforcement to hire, train, and equip additional investigators in areas where animal care violations are most prevalent. Recently, we hired new investigators to be stationed in Arkansas, Georgia, Illinois, Nebraska, New Jersey, Pennsylvania, South Carolina, and Washington. We plan to hire additional investigators this year to be stationed in northern California, southern California, New York, Tennessee, North Texas, and South Texas. The result will be improved response time to reports of Animal Welfare Act violations and a greater ability to expedite higher priority cases.

*Question.* The fiscal year 2003 President's budget proposes decreased funding for animal welfare; how will this decrease affect the USDA's ability to conduct necessary inspections at licensed and registered facilities?

*Answer.* While we may reduce the absolute number of inspections, the effect will be partially mitigated by the newly hired inspectors having a full year of experience, enabling them to operate at an improved level of efficiency. Also offsetting the reduced funding, we incurred a number of one-time costs in fiscal year 2002 associated with hiring and equipping the new inspectors such as new vehicles (\$340,000) and computers (\$85,000). We will continue to employ a risk-based inspection system so as to concentrate activities on facilities where animal welfare concerns are the greatest.

#### BOLL WEEVIL ERADICATION PROGRAM

*Question.* The Committee is concerned about the President's proposal to decrease funding for the Boll Weevil Eradication Program.

How is the Department working with the cotton industry in regard to the President's proposal to decrease the Federal cost share for active eradication zones of the program? Specifically, how will the proposed budget affect grower ability to meet program requirements and not lead to an increased spread of infestations?

*Answer.* We work closely with the cotton industry on budget issues regarding the Boll Weevil Eradication Program. As we approach fiscal year 2003, we expect to see significant acreage move from the more expensive active phase of the program, into the weevil-free, post-eradication phase. As a result, we can afford to reduce the amount of our total contribution, while still providing a 20 percent cost-share for the zones still involved in active eradication. The balance of program costs can be met through grower assessments, varying levels of State funding, and short-term loans from the Farm Service Agency (FSA). Growers can meet remaining program requirements through some combination of grower assessments, State funding, and

FSA loans. In any case, our proposed budget will not lead to an increased spread of infestations.

*Question.* Please provide an update on the Boll Weevil eradication program and the status of geographic information systems development.

*Answer.* The cooperative Boll Weevil Eradication Program (BWEP) has been highly successful in reducing and ultimately eliminating losses caused by the boll weevil. Of the nearly 16 million acres of U.S. cotton, the BWEP has eradicated the boll weevil from 5.9 million acres since eradication activities began in 1983. As a result, we and our cooperators are very encouraged with the program's progress. The 5.9 million acres are in the program's post-eradication phase, while nearly 10 million acres are in the active phase, leaving less than 1 million acres outside the program. These final areas are expected to join the BWEP within the next few years. We project to eradicate boll weevil from all cotton growing areas of the U.S. and northern Mexico by 2005, in cooperation with States, the cotton industry, and Mexico.

#### CHRONIC WASTING DISEASE

*Question.* Chronic Wasting Disease (CWD) is becoming a serious problem in U.S. deer and elk populations.

Please provide an update on the Department's surveillance and indemnity efforts for CWD in deer and elk.

*Answer.* Since 1997, program officials have found CWD in 21 farmed elk herds in six States. We have also found CWD in the free-ranging deer and elk population of five States including Colorado, Wyoming, Nebraska, South Dakota, and most recently Wisconsin. To date, APHIS has tested approximately 6,200 farmed cervid with more than 2,100 of these animals tested this fiscal year. We have also tested more than 7,000 free-ranging deer and elk. We expect to test an additional 1,100 free-ranging deer and elk this fiscal year including 500 deer from Wisconsin sampled as a result of our recent finding of CWD in the State's wild deer. To date, Federal and State officials have depopulated 18 positive elk herds including 7 in South Dakota, 1 in Montana, 7 in Colorado, 2 in Nebraska, and 1 in Kansas. Three herds remain, 1 in Oklahoma, 1 in Colorado, and 1 in Nebraska. While the Colorado herd has just recently been exposed to infected free-ranging deer, the Nebraska herd has undergone 4 years of surveillance with no further evidence of disease. The State of Nebraska has released the herd from quarantine. We have spent \$3.6 million for indemnities.

*Question.* There have been three recent finds of CWD in free-ranging deer in Wisconsin. How did CWD, which until recently had only been found primarily in the Rockies, suddenly appear in Wisconsin?

*Answer.* Presently, APHIS does not know how the free-ranging deer in Wisconsin were infected with CWD. We are working with the Wisconsin Department of Natural Resources (DNR) to determine the source of infection.

*Question.* What action is the Department taking to identify the presence of this disease and prevent it from spreading in Wisconsin and elsewhere?

*Answer.* In fiscal year 2001, I declared an emergency and transferred \$2.6 million from the Commodity Credit Corporation (CCC) to APHIS to conduct enhanced CWD surveillance in both the farmed and free-ranging cervid populations, and to remove existing and newly infected herds. An additional \$12.2 million has been transferred in fiscal year 2002 to continue the emergency effort.

Specific to Wisconsin, APHIS has cooperated with the Wisconsin Department of Natural Resources (DNR) to collect samples from an additional 500 deer killed from the area where the 3 positive animals were collected. This additional testing has resulted in program officials identifying 10 more deer as infected with CWD. We are also working with DNR to gather epidemiological data to determine the source of infection for the free-ranging deer. APHIS is encouraging the State to require mandatory surveillance and restrict movements from captive cervid herds in the area where free-ranging animals were found to be positive for CWD. In addition, APHIS is encouraging States to require additional barriers between captive and free ranging cervids in areas where transmission of CWD between these two groups is a risk.

#### WEST NILE VIRUS

*Question.* West Nile Virus (WNV) is continuing to spread in the U.S., killing numerous horses, birds, and now humans.

Please update the Committee on how APHIS plans to address West Nile Virus activities in Illinois and other States in fiscal year 2002.

*Answer.* In fiscal year 2002, APHIS will enhance cooperative education, surveillance and monitoring efforts in the following States: Alabama, Georgia, Massachusetts, Maine, Connecticut, Missouri, New Hampshire, Vermont, New Jersey, New

York, North Carolina, South Carolina, Virginia, Wisconsin, Minnesota, Kentucky, Tennessee, Nebraska, Kansas, Oklahoma, North Dakota, South Dakota, Texas and Puerto Rico.

In addition, based on a fiscal year 2002 congressional directive, APHIS, Wildlife Services will work in the State of Illinois to enhance WNV surveillance efforts in wildlife through collection, sampling and testing of birds to complement and supplement ongoing WNV research and management activities associated with State Agencies and the University of Illinois.

*Question.* Which Federal agency has the lead responsibility for ensuring that we are focusing adequate attention to this disease and what is APHIS's role in this coordinated effort?

*Answer.* APHIS has the lead Federal role in protecting livestock from impacts of West Nile virus. The Center for Disease Control and Prevention is the lead Federal agency for protecting human health from WNV.

*Question.* Should APHIS have a greater role in the effort to detect and prevent the spread of WNV?

*Answer.* APHIS has technical and field expertise regarding the management and research of wildlife facilitated diseases including WNV. We believe that the budget provides an appropriate utilization of that expertise at this time.

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QUESTIONS SUBMITTED BY SENATOR BYRON L. DORGAN

PLANT SCIENCE RESEARCH

*Question.* I am very concerned about the \$53,192 million cut of "Congressionally-designated projects" from the plant science ARS account. Of particular concern to me are the cuts for National Wheat and Barley Scab Initiative and the National Sclerotinia Initiative, which is of great importance to sunflowers and other commodities. These two programs are national initiatives conducted in various locations all over the country and cannot be deemed mere "Congressional earmarks" targeted toward beefing up the research budget of any particular site. I think it would be a real shame to eliminate these national initiatives now—particularly since the National Sclerotinia Initiative just got off the ground last year. This initiative has great promise—as demonstrated by the National Wheat and Barley Scab Initiatives' progress in developing scab resistant varieties like the spring wheat variety named Alsen. The new variety is named after the town of Alsen, located on route 66 in Northeastern North Dakota, an area, which was particularly hard hit by this disease. The discovery would not have been possible if it were not for the National Sclerotinia Initiative funding.

Does the Administration recognize the benefits of these national research initiatives?

*Answer.* Congress appropriated \$3,000,000 in fiscal year 1999 for the National Wheat and Barley Scab Initiative and appropriated increases of \$1,800,000 in fiscal year 2000 and \$798,200 in fiscal year 2001. The fiscal year 2003 President's proposed budget only affects the fiscal year 2001 increase of \$798,200. There still is \$4,800,000 in the fiscal year 2003 President's Budget for research aimed at combating this devastating wheat and barley disease through the National Wheat and Barley Scab Initiative. The fiscal year 2003 President's proposed budget does target the fiscal year 2002 National Sclerotinia Initiative appropriation due to higher priority needs in the fiscal year 2003 budget.

The Agency has about 2,000 research scientists working in 100+ locations across the nation. In recent years, scientific research (not just agricultural research) has moved away from work being done by a single scientist or a small cohesive group of scientists working in a single location. Now, discoveries at ARS are far more likely to come from multi-disciplinary research conducted at more than one location. In fact, one of the principal reasons ARS created National Programs during the mid-1990s was to aggregate the research projects that were doing closely related work into a structure that would expedite interaction between these locations and scientists. A second benefit of the new National Program structure has been the strengthening of communication between ARS scientists and managers and the various customers and stakeholders in each area. The 40 National Program Workshops, which were held during the startup phase, were very helpful in defining the research agendas for each program.

When ARS is asked to address a new or re-emerging problem we assess many factors. First we ascertain scope and nature of the problem (location, crop(s)/commodity(ies) affected, nature of the problems, potential options, etc.). Then we assess the Agency's capabilities (where are the scientific skills needed to address the prob-

lem; what locations have the necessary equipment and facilities to support the work needed to address the problem; and what other factors such as climatic zones, soil type, are critical to the work). Sometimes these analyses produce predictable decisions. But in other cases, some or all of the work may be done at locations far from where the problem exists or the commodity grows.

ARS believes that the development of its annual budget, which is submitted to Congress as part of the President's budget, is the agency's most comprehensive statement of how it can and should proceed with a comprehensive research plan for addressing the issues confronting American agriculture. These issues are identified by interactions with our customers and stakeholders, the Congress, and the Administration.

*Question.* I am also concerned about this \$53.192 M cut in ARS plant science research because it wastes the investments that we put into this research in fiscal year 2001 and fiscal year 2002 Agriculture Appropriations bill. Let me give you an example. I have been working with my colleagues and a number of national commodity groups for barley and wheat who joined together to increase the base funding for the Cereal Crops Unit at the Fargo ARS, and the Subcommittee has graciously met our request for the last 2 years.

But the facility has found it nearly impossible to hire researchers in this area because the Administration keeps cutting out this funding in its budget request and no reasonable person would take a position only to have it eliminated a year later. This is a particularly frustrating situation for me and the commodity groups that have waited so long to augment presently underfunded national research in the area of Cereal Crops. I have heard that this same problem is happening at ARS facilities across the nation.

How does the Administration justify wasting the investments we put in these areas of research last year by not being able to attract researchers to fill these research positions?

*Answer.* The increases for the base funding of the ARS Cereal Crops Unit, Fargo, North Dakota, in fiscal year 2001 and fiscal year 2002 have been used effectively to address the serious problems that threaten the economic viability of small grains and sunflower producers. Funding has been used to initiate and strengthen research to increase genetic resistance to scab, stem and leaf rust, septoria and other diseases of wheat and barley. Research has been expanded to identify and develop new cereal and sunflower germplasm and varieties with enhance grain quality and oil traits. Molecular markers and candidate genes linked to desired traits in small grains and sunflower are being identified. Much of this research is facilitating use of new genomic discoveries to develop new, effective breeding tools for wheat, barley, oat and sunflower improvement programs. New research scientists have been hired including a sunflower molecular geneticist and a cereal plant pathologist. The fiscal year 2001 and fiscal year 2002 Congressional appropriations have also been used to replace and upgrade laboratory equipment. The fiscal year 2001 and fiscal year 2002 increases for the Cereal Crop Unit have been targeted for cuts in fiscal year 2003 due to higher priority needs in the President's budget

#### FOREIGN FOOD ASSISTANCE

*Question.* This morning's Congressional Daily, is reporting that ag and humanitarian groups went to the White House yesterday to tell the President that the USDA's budget for international food aid would result in a reduction in U.S. food aid and embarrass the U.S. at the UN World Food Summit scheduled for next June.

As a member of this Subcommittee, I share their concerns about the budget request. I am very concerned that the budget would end the annual purchases of \$500 million to \$700 million in commodities under CCC and Food for Progress. Although the budget asks for an increase in the Food for Peace budget of \$350 million, this increase comes at the expense of other things this Subcommittee needs to fund through its 302b allocation, such as ag research, farm loans and other important domestic, discretionary needs. I am one of the strongest supporters of international food aid, and I believe the numbers in this plan simply don't add up. I agree that this plan would bring down the total amount of food distributed through international aid.

What rationale does the Administration have for ending the annual purchases of commodities under the CCC and Food for Progress?

*Answer.* The budget and program proposals for U.S. foreign food assistance activities in 2003 reflect the results of the Administration's recent management review of those activities. The purpose of the review was to rationalize and reform their Administration and to strengthen their effectiveness. One of the topics examined by the review was the number of U.S. food aid programs and the number of agencies

involved in administering them, raising the possibility of an overlap of functions and inefficiencies.

Another consideration was the recognition that future food aid activities should be placed on a more solid foundation by reducing reliance on the year-to-year availability of surplus U.S. commodities. The lack of assurance on the availability of surpluses creates uncertainties among both recipient countries and distributing agencies.

As a result of the review, the number of programs through which U.S. food assistance is provided will be reduced and program Administration will be streamlined. USDA will continue to carry out government-to-government programs, while AID will assume responsibility for all programs carried out in cooperation with private voluntary organizations (PVOs), cooperatives, and the World Food Program.

In addition, there will be a reduced reliance on the year-to-year availability of surplus U.S. commodities in our food aid activities, which should provide greater assurance and stability to those activities. Therefore, Section 416(b) activities that rely on the purchase of surplus commodities will not be continued. However, the section 416(b) statutory authority will continue, which will allow for the donation of commodities that are acquired by CCC in the normal course of its domestic support operations.

It is important to note that, while section 416(b) donations will be scaled back, the President's budget requests an increase of \$335 million for the Public Law 480 Title II program. Donation programs that in recent years have been carried out in conjunction with PVOs and the World Food Program under section 416(b) authority will now be conducted under Title II.

Food for Progress programming carried out with CCC funding will not be continued in 2003, as those programs generally have been conducted in conjunction with PVOs and such programs will now be administered by AID. However, Title-I funded Food for Progress programs that traditionally have been carried out through government-to-government agreements will continue.

Another benefit of these reforms is increased budget clarity. Reducing reliance on mandatory CCC funding for both section 416(b) and Food for Progress activities will make U.S. foreign food aid activities subject to the annual appropriations process. This will provide more transparency and scrutiny in the budget management process and improve oversight of these activities.

*Question.* Do you agree with the assessment of PVOs that this plan would actually bring down the U.S. provision from 5 million tons to no more than 3.5 million tons?

*Answer.* There will be some decrease in the overall tonnage level of U.S. food assistance in 2003, but the PVO estimate for 2003 programming is too low. Our estimate for 2003 programming exceeds 3.7 million metric tons.

However, it is important to note that the Administration's reforms place an increased emphasis on direct feeding activities in our food aid programs, with a corresponding reduction in the level of sales—monetization—of food aid commodities. Much of U.S. food aid in recent years has been provided to support non-feeding, economic development activities, carried out with funding raised through the sale of the commodities in local markets. The Administration proposes to scale back the level of monetization and to support economic development objectives through other means. In fact, the President's budget proposes a substantial increase in funding for U.S. development and humanitarian assistance.

By placing greater emphasis on direct feeding in our food aid activities, we believe the United States will continue to provide a leadership role in meeting global food needs despite some reduction in the overall level commodity programming. In addition, the Administration has made clear that it is prepared to release commodities from the Bill Emerson Humanitarian Trust should a need for emergency food assistance arise. As a follow-up to the management review, the Administration will be reviewing the procedures for use of the Trust to ensure their flexibility and responsiveness. There are currently 2.5 million metric tons of wheat in the Trust, which is available for release should it be warranted. Its continued availability provides an important backstop to our efforts to meet world food needs.

#### BROADBAND GRANTS

*Question.* I see that the \$24 million for broadband grants in fiscal year 2002 has been cut back to \$2 million. I think this is a shame because many rural areas have slow Internet service and need help achieving high-speed, broadband Internet access. It's highly unlikely that the private sector is willing to invest funds to bridge this digital divide.

Don't you agree that high-speed broadband Internet access is crucial to any region's economic viability?



Answer. With the passage of the Rural Electrification Loan Restructuring Act of 1993, all loans made by the Rural Utilities Service's Telecommunication Program have been for facilities that will provide broadband services to rural America. Since that time, small rural commercial and cooperative telecommunications providers have borrowed more than \$5 billion in Federal loan dollars at an interest rate equal to the cost of money to the U.S. Treasury for broadband infrastructure, much of which is installed and providing service today.

In fiscal year 2001, Congress appropriated \$100 million in loans and \$2 million in grants for broadband infrastructure and local dial-up Internet as part of a pilot program. In fiscal year 2002, Congress appropriated \$80 million in loans and \$25 million in grants. The President's budget requests \$2 million for grants and \$79.5 million loans. An important feature of the pilot program was an increase in the population level of the communities that were eligible for funding. In the traditional Rural Utilities Service Telecommunications Program, Rural Utilities Service may only loan to communities with 5,000 inhabitants or less. Under the broadband pilot program, Rural Utilities Service could provide financing to communities of up to 20,000. Response to the pilot loan program was enormous. By the close of fiscal year 2002, therefore, Rural Utilities Service will have financed \$180 million in broadband infrastructure loans from fiscal year 2001 and 2002 funds through this pilot program.

While the task of wiring rural America for broadband service is far from complete, the response to both our traditional telecommunications loan programs and the broadband loan programs have shown that small, rural telecommunications systems can provide rural America with broadband and advanced telecommunications services capable of providing high-speed Internet connections as well as distance learning and telemedicine services with Federally-financed loans. Only the smallest of communities have demonstrated the need for grant funds to accomplish this task. Therefore, with adequate funding of the Rural Utilities Service loan programs and \$2 million in grant assistance, we believe that Rural Utilities Service can continue to be the catalyst for broadband deployment in rural America.

#### EZ/EC PROGRAM

*Question.* I notice that funding for rural Empowerment Zones has been eliminated this year. I am disappointed to see this because the EZ/EC program provides the tools needed by these distressed areas to create new businesses, meaningful jobs, decent housing, and safe neighborhoods. The Zones were designated based on the quality of their strategic plans to address these socio-economic challenges. They are held accountable for various performance measures that assess progress of both individual projects and overall effort. They also leverage notable support from private, public and non-profit partners.

Last year, I wholeheartedly supported the \$15 million funding level provided by this Subcommittee and recommended in the Administration's budget. Unfortunately, your budget for this year did not continue to support the program at the level needed to meet the annual Federal funding commitment made to EZ/EC during the competitive designation process.

Would you support the Subcommittee in its efforts to provide this funding in order to fill our Federal funding commitment to this program?

Answer. Only 2.6 percent of total funding received to implement strategic plans for the Round II Empowerment Zones/Enterprise Communities (EZ/EC) has come from the EZ/EC grants. Approximately half of the \$60 million that has been appropriated so far is still available to EZ/ECs due to judicious management and pending final program regulations, which will be completed in March 2002. Available funding is sufficient to meet the projected needs of EZ/ECs.

#### FARM SERVICE AGENCY—FARM LOANS

*Question.* This year, the proposed total FSA loan program level is \$3.8 billion for direct and guaranteed farm loans, which are down from \$4.2 billion in fiscal year 2002.

The level of funding for these programs concerns me. I have heard complaints from my district offices about these loan levels. Every year, farmers whose applications for FSA Direct Farm Ownership loans have been approved are turned away because the money appropriated in October has run out by the first of the year. The ND FSA office says money for farm ownership loans has run out already, and headquarters confirms that there is no more until next year. The fiscal year 2003 proposed level is of particular concern because increased subsidy costs in 2003 have reduced the amount of program that can be supported with the same amount of budget authority.

In January, North Dakota FSA already had more than a \$1 million shortfall for direct ownership loans for 2002 and about \$5 million less than they need for direct beginning farmer and guaranteed non-beginning farmer loans. Farmers who come to FSA are told that they must wait until at least October to get the money they have already qualified to receive. Does the Administration recognize the problem? What kind of funding level would be needed in fiscal year 2003 to ensure that FSA does not have to start a waiting list for farmers who want a direct ownership loan so early in the year?

Answer. We are always working to assist eligible family farmers with FSA direct loan assistance. As you noted, increased subsidy costs in 2003 have made the direct loan programs more expensive to operate. The amount of loans that could be supported under the direct farm ownership and operating loan programs was reduced based on estimated demand.

Guaranteed loans are a more cost-effective method of assistance. By maximizing the use of guaranteed loans, the limited amounts of direct loan funds are available to applicants who truly have nowhere else to turn. Administrative efforts undertaken in the guaranteed programs to reduce the paperwork burden on lenders and expedite the approval process have increased the amount of loan activity in fiscal year 2002 compared to the previous year. This increase is most dramatic in the guaranteed farm ownership loan program where use has increased by 41 percent compared to a year ago. We have also been successful in increasing the use of guaranteed loans to reach beginning farmers. So far in fiscal year 2002, guaranteed farm ownership assistance to beginning farmers has increased 40 percent over last year.

This increased use of guaranteed loan programs would assist in fulfilling the demand for FSA loan assistance. It is critical to use guaranteed loans to the maximum extent possible to preserve direct funds for applicants who have no alternative to direct financing. The surge in use of the guaranteed programs by applicants previously seeking direct loans will also enhance the ability of non-beginning farmers to obtain direct loan assistance.

Although direct loans are essential for those that need them, many farmers are able to use loan guarantees to stay, or start, in business. Diverting most, or all, of the guaranteed loan resources to the direct loan programs would only reduce the total number of people that FSA can help. We believe that the approach set forth in the President's budget makes the best use of the available resources.

#### RURAL TELEPHONE BANK

*Question.* The Rural Telephone Bank program has been a great tool for meeting telecommunication needs in rural areas but the Administration has eliminated the \$175 million for Rural Telephone Bank loans again this year. Last year, the Administration requested similar action and this Subcommittee restored this funding upon the recommendation of those in rural America who thought the time was not right to eliminate this program. I am curious about the lack of support for this funding from the Administration.

Does your proposal to eliminate the funding for new Rural Telephone Bank loans have the support of telephone cooperatives?

Answer. Under statutory authority mandated by the Rural Electrification Act of 1936, the Rural Telephone Bank began privatization in 1996 by redeeming Class A stock currently owned by the Federal Government. Language that has appeared in each appropriations bill since 1996 currently restricts redemption of Class A stock to no more than 5 percent of the outstanding balance. Under this restriction, the Bank cannot privatize for more than 20 years. The six elected members of the Rural Telephone Bank board, 3 representing cooperative telecommunications providers and 3 representing commercial telecommunications providers, have all publicly expressed their desire to privatize the bank in a much shorter time frame. Toward this end, the Rural Telephone Bank, with funding provided by Rural Development, has commissioned a study to develop a plan that would provide a seamless transition to a privatized institution. Since the Rural Telephone Bank has sufficient cash to retire the remaining Federal equity contribution—Class A stock—the budget proposes no new Federal lending authority to provide the impetus for a more timely privatization of the Rural Telephone Bank. Privatization will provide the bank greater flexibility than available as a government entity. This flexibility will increase the bank's ability to meet the changing telecommunication needs of rural America.

#### LOCAL TELEVISION LOANS

*Question.* The Administration has also cut the \$20 million in funding for Local Television Loans that the Subcommittee included in last year's appropriations bill,

but I don't see an explanation for this change in the budget summary. Can you explain why the Administration didn't request funding for these loans in its fiscal year 2003 budget submission?

Answer. Access to local as well as global communications services is critical for the health, safety, and economic development of rural communities. We believe that a satellite communications system is one of the essential components of meeting rural citizens' information and multi-media services needs and Rural Utilities Service wants to play an integral role in this endeavor. From a philosophical standpoint, the need for rural communities' access to local weather and news is not a debatable issue. Pragmatically, however, the implementation of the Act has been cause for considerable debate within the industry, a debate that has only intensified with the recently proposed merger of DirectTV and Echostar. The most recent merger proposal includes provisions to charge uniform rates nationwide for monthly charges and installation charges and to broadcast local television channels in all 210 Designated Market Areas, including full compliance with Federal must-carry requirements. The primary players, the cable television industry as well as current and prospective satellite providers, are all rethinking their future financial feasibility in light of the proposed merger. We are monitoring developments in the proposed merger to determine an appropriate strategy before proposing additional funding for local television loans.

#### SECTION 515 MULTI-FAMILY HOUSING

*Question.* The budget does not include funding for direct loans or any new multi-family housing projects pending completion of a review of this program. Can you give the Subcommittee a list of planned projects that this funding cut will affect?

Answer. Because the Section 515 direct loan program uses a national Notice of Funds Availability to accept, evaluate, score and rank for selection project proposals, specific projects cannot be identified at this time for the current fiscal.

#### FARM BILL

*Question.* I am pleased that the Administration made good on its promise to include the farm bill allocation of \$73.5 billion over 10 years. I am concerned, however, that other proposals will not meet the mandates of the farm bill when enacted. What amendments to your budget request do you anticipate making after the enactment of the farm bill later this year?

Answer. It is too early in the process to know whether any adjustments would be needed to meet any mandates of the farm bill. We will continue to assess the budget implications as the bill is finalized.

*Question.* Over the last several months, your Administration has repeatedly gone on record against the largest farms in the U.S. receiving the bulk of the farm program payments. These statements represent a position that more or less castigates present law, condemns the House bill, and then the Senate bill..all for the same reason. I know the Administration has other concerns, but this payment limit objection is one of the common complaints your Administration has consistently raised.

Many in the Senate apparently took heed of these objections, because in a historic bipartisan vote, they defeated a motion to table the payment limitation amendment by a margin of 31 to 66. Yet, despite this margin—despite all of your Administration's statements condemning the large payments of the largest farms—a position on this amendment has not been forthcoming from the Administration.

This debate has clearly shown that our current payment limits are a charade, due to "blossoming triple entities," the use of commodity certificates to skirt LDP limits, and the proliferation of "ghost farmers."

Where does the Administration stand on Payment Limitations?

The Administration does not list payment limitations in its 5 priorities for the farm bill. Does this absence mean that the Administration would not support a bill that emerges from conference with meaningful payment limitations—i.e. language that closes all the loopholes? Would the President feel compelled to veto such a bill?

Answer. As you note, we have not identified the payment limitation aspects as one of the most fundamental issues we are concerned with from a national perspective. We believe the payment limit issue should be resolved by the Congress.

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

#### RENEWABLE FUELS

*Question.* What is the USDA going to do to promote the use and production of renewable fuels?

Answer. The Department has a number of activities that expand use of biobased products and bioenergy, including programs aimed at increasing the use of biobased products and biofuels. For example, I recently issued a Memorandum to agencies directing them to increase use of biodiesel and ethanol in USDA fleet vehicles where practicable and reasonable in cost and to purchase and lease alternative fuel vehicles in geographic areas that offer alternative fueling. I will include for the record additional details on the Department's efforts in this area prepared by the agencies.

[The Information follows:]

The Department supports programs that encourage expanded use of biobased products, both in-house and throughout Government; conducts research to improve efficiency and economics of biobased products and fuels production; provides incentives to increase purchases of domestic ag commodities used for increased production of alternative fuels; and, provides information to those seeking to use biobased products. Some specific examples of how the Department is responding to this effort are listed below.

Under Executive Order 13101 on Greening the Government Through Waste Prevention, Recycling, and Federal Acquisition, USDA is charged with developing and publishing a list of biobased products. Currently, CSREES, ARS and the Office of Energy Policy and New Uses are preparing a Federal Register notice to solicit public comment on criteria, such as minimum biobased content, that products must meet to be considered for the biobased products list. The list is to be used by agencies in modifying their procurement programs to give increased consideration of biobased products. Congress provided funding for this activity to the Department through appropriations for the Agricultural Research Service, and these funds are maintained in 2003 at the 2002 level of \$0.5 million.

The Department is actively involved in cooperative efforts with the Department of Energy, the Environmental Protection Agency, and the Office of the Federal Environmental Executive to foster increased use of biobased products and bioenergy. For example, USDA and DOE are cooperating to demonstrate the use of methane produced from dairy animal manure for electricity and heat production. USDA, DOE, the Forest Service, and the Bureau of Land Management are involved in a feasibility study on biomass feedstock for gasification, the results of which will be useful in determining USDA Rural Utilities Service loan guarantee amounts and economic benefits of gasification technologies.

The Commodity Credit Corporation (CCC) is supporting the second year of a 2-year program of bioenergy incentive payments by providing up to \$150 million in 2002 in bioenergy incentive payments to encourage increased production of fuel grade ethanol and biodiesel from grain.

In support of the National Energy Policy goals for Building the Rural Infrastructure for Energy Sources, the Rural Development mission area supports several programs aimed at renewable energy. Funds may be made available for renewable and alternative energy projects under the Business and Industry Loan Program. The 2003 budget for RD proposes an increase of \$2 million for cooperative research agreements to study emerging cooperative structures.

A general focus of research in this area is to reduce costs for conversion of feedstocks and other phases of production to reduce overall production costs for energy/fuels production from agricultural biomass. Reducing production costs increases the competitiveness of the products compared to traditional sources. An increase of \$8.8 million above the 2001 level is included in the 2002 Act for Agricultural Research Service (ARS) research on bioenergy. Building upon the 2002 initiative, a 2003 budget increase of \$3 million is proposed to improve quality and quantity of ag biomass feedstock. Increased funding for the National Research Initiative Competitive Grants Program will focus on conversion of biomass and co-product development, with emphasis on more efficient conversion of cellulosic biomass and starch to ethanol. Added emphasis will also be placed on new energy crop development and biodiesel work will be continued. There is an estimated increase of \$7 million for the NRI for all research related to bioproducts, about \$2 million of which is projected to be supportive of bioenergy research. An increase of \$5 million is proposed for the Forest Service bioenergy research program to develop economic technologies for converting woody materials into energy; develop energy efficient processing and production systems for woody fiber and solid wood products; develop and demonstrate systems for producing energy from small diameter and low valued source material; and develop and demonstrate new woody cropping systems for energy feedstock production.

Executive Order 13123, Greening the Government Through Efficient Energy Management establishes energy management and emissions reduction goals for the Government and requires agencies to promote energy efficiency, water conservation, use

of renewable energy products and to help foster markets for emerging technologies. ARS currently estimates continued spending of about \$0.5 million to support energy efficiency projects at the agency locations based on energy improvement implementation plans.

*Question.* How can Congress work in concert with the USDA to promote incentives for the use and production of ethanol and biodiesel?

*Answer.* The Department has worked with Congress as it works to complete a 2002 Farm Bill. Since Farm Bill legislation provides many of the Department's authorities for carrying out our mission, I view work on this piece of legislation as an important part of a cooperative effort to help ensure the best use of USDA resources to address this issue. We are prepared to assist Congress by providing research, data, analysis, or statistics for new legislation. The Administration supports the renewable fuels standard proposed in the Senate version of the Energy Bill that would enhance the use of ethanol and biodiesel.

*Question.* How can a renewable fuels standard benefit all farmers?

*Answer.* Increasing the use of biofuels will help stabilize farm income and reduce farm subsidies, decrease U.S. dependence on imported oil, increase demand and prices for corn and other agricultural biomass, create jobs, help protect the natural environment, and generate new rural economic activity. Many studies have been released that use varying assumptions and sources of data, resulting in a wide range of estimates for the net energy value of corn-based ethanol. A recent study by the USDA Office of Energy Policy and New Uses reported that energy in ethanol is 1.34 times the energy needed for its production.

*Question.* Would the Department support extension of the Bioenergy Program in fiscal year 2003?

*Answer.* The Administration's proposed budget supports the original commitment to fund the program for 2 years, fiscal year 2001 and fiscal year 2002. As part of the 2002 Farm Bill, the program is extended.

*Question.* Did the Department provide an extension to the program in its budget submission to OMB? If so, can you explain why the provision was removed prior to passback?

*Answer.* The Administration's proposed budget supports the original commitment to fund the program for 2 years, fiscal year 2001 and fiscal year 2002. While the program was designed to help increase production capacity of renewable fuels, the program was also stimulated by rising stocks of grains and oilseeds and low prices. Corn stocks in particular are now declining, and corn prices rising. The bioenergy incentive payments were offered to provide a temporary, added incentive to boost the expansion of the biofuels industry. Industry will respond to market demands, including changes in commodity and fuel prices, commodity surpluses, and demand for alternative, renewable fuels.

#### BSE/MAD COW DISEASE

*Question.* What actions are you taking to ensure the protection of the human food supply from BSE? What actions need to be implemented?

*Answer.* The Department is pursuing a variety of activities aimed at protecting the U.S. food supply from Bovine Spongiform Encephalopathy (BSE). On November 30, 2001 USDA released a landmark study by Harvard University that shows the risk of BSE occurring in the United States is extremely low. The report showed that early protection systems put into place by the USDA and Department of Health and Human Services (HHS) have been largely responsible for keeping BSE out of the U.S. and would prevent it from spreading if it ever did enter the country. Even so, officials outlined a series of actions to be taken that would continue strengthening programs to reduce that risk even further.

I will provide for the record a press release that identifies all the actions we plan to take:

[The information follows:]

[NEWS RELEASE]

#### HARVARD STUDY SHOWS VERY LOW RISK OF BSE IN THE UNITED STATES—GOVERNMENT CONTINUES TO BOLSTER PREVENTION PROGRAMS IN EFFORT TO CONTINUE PROVIDING IMPORTANT SAFEGUARDS TO PROTECT CONSUMERS AND AGRICULTURE

Washington, Nov. 30, 2001—The U.S. Department of Agriculture today released a landmark study by Harvard University that shows the risk of Bovine Spongiform Encephalopathy (BSE) occurring in the United States is extremely low. The report showed that early protection systems put into place by the USDA and Department of Health and Human Services (HHS) have been largely responsible for keeping

BSE out of the U.S. and would prevent it from spreading if it ever did enter the country. Even so, officials outlined a series of actions to be taken that would continue strengthening programs to reduce that risk even further.

The risk assessment was commissioned by USDA and conducted by the Harvard Center for Risk Analysis. It evaluates the ways BSE could spread if it were to ever enter the United States. The report's purpose is to give agencies a scientific analysis to evaluate preventative measures already in place and identify additional actions that should be taken to minimize the risk of BSE.

"The study released today clearly shows that the years of early actions taken by the Federal Government to safeguard consumers have helped keep BSE from entering the United States," said Agriculture Secretary Ann M. Veneman. "Even if BSE were to ever be introduced, it would be contained according to the study. However, we cannot let down our guard or reduce our vigilance. We must continue to strengthen these critical programs and today we are announcing a series of actions to bolster our protection systems."

"Based on 3 years of thorough study, we are firmly confident that BSE will not become an animal or public health problem in America," said Dr. George Gray, deputy director of the Harvard Center for Risk Analysis and director of the project.

In response to the report, Veneman announced a series of actions the USDA would take, in cooperation with HHS, to strengthen its BSE prevention programs and maintain the government's vigilance against the disease.

First, USDA will have the risk assessment peer reviewed by a team of outside experts to ensure its scientific integrity.

Second, the USDA will more than double the number of BSE tests it will conduct this fiscal year, with over 12,500 cattle samples targeted in 2002—up from 5,000 during 2001.

Third, USDA will publish a policy options paper outlining additional regulatory actions that may be taken to reduce the potential risk of exposure and ensure potential infectious materials remain out of the U.S. food supply. To ensure its decisions are science-based, options will be tested using the computer model developed through the risk assessment to determine the potential impact they would have on animal and public health.

The options to be considered will include: prohibiting the use of brain and spinal cord from specified categories of animals in human food; prohibiting the use of central nervous system tissue in boneless beef products, including meat from advanced meat recovery (AMR) systems; and prohibiting the use of vertebral column from certain categories of cattle, including downed animals, in the production of meat from advanced meat recovery systems. USDA will invite public comment on the options and then proceed with appropriate regulatory actions.

Fourth, USDA will issue a proposed rule to prohibit the use of certain stunning devices used to immobilize cattle during slaughter.

Fifth, USDA will publish an Advance Notice of Proposed Rulemaking (ANPR) to consider additional regulatory options for the disposal of dead stock on farms and ranches. Such cattle are considered an important potential pathway for the spread of BSE in the animal chain.

"We found that even if BSE were ever introduced, it would not become established," said Gray. "With the government programs already in place, even accounting for imperfect compliance, the disease in the cattle herd would quickly die out, and the potential for people to be exposed to infected cattle parts that could transmit the disease is very low."

BSE has never been detected in U.S. cattle, nor has there been a case of the human form of the disease, variant Creutzfeldt-Jakob Disease (vCJD), detected in the United States. Since 1989, USDA has banned the import of live ruminants, such as cattle, sheep and goats, and most ruminant products from the United Kingdom and other countries having BSE. The ban was extended to Europe in 1997. To stop the way the disease is thought to spread, HHS prohibited the use of most mammalian protein in the manufacture of animal feed intended for cows and other ruminants. Should a case of BSE ever be detected in this country, an emergency response plan has been developed to immediately control suspect animals and prevent them from entering the food supply.

This summer, HHS Secretary Tommy Thompson announced an action plan outlining new steps to improve scientific understanding of BSE that incorporates a comprehensive approach to further strengthen surveillance, increase research resources and expand existing inspection efforts.

BSE is a chronic, degenerative neurological disorder of cattle that belongs to a family of diseases known as transmissible spongiform encephalopathies. Also included in that family of illnesses is vCJD, which is believed to be caused by eating neural tissue, such as brain and spinal cord, from BSE-affected cattle.

A complete copy of the Harvard Report can be obtained from USDA's official website at <http://www.usda.gov/>. For more information about BSE and the many efforts being taken to prevent its entry and spread into the United States, also visit <http://www.usda.gov> or <http://www.hhs.gov/>.

*Question.* How quickly can you act, now that the multi-year Harvard Risk Assessment is complete?

*Answer.* USDA has already begun to act upon the findings of the Harvard BSE risk assessment. FSIS published a paper for comment in the January 17, 2002, Federal Register outlining additional regulatory actions it may take to further reduce the potential risk of BSE and to ensure that potentially infectious materials do not enter the U.S. food supply. A proposed rule is currently being drafted to prohibit the use of certain stunning devices used to immobilize cattle during slaughter. Additionally, an advance notice of proposed rulemaking is being drafted that will consider additional regulatory options for the disposal of dead stock from farms and ranches.

*Question.* What methods of testing exist to detect BSE in cattle? How many cattle are currently being tested? Is this number adequate? Are you testing cattle that die on farms? If so, at what rate?

*Answer.* I have asked the Animal and Plant Health Inspection Service to provide that information for the record.

[The information follows:]

The United States has actively monitored for BSE since 1990. Several Federal Agencies have been involved in this effort including the Animal and Plant Health Inspection Service (APHIS) and the Food Safety and Inspection Service (FSIS). The US surveillance effort focuses on testing high-risk cattle such as animals exhibiting signs of neurologic disease; animals condemned at slaughter for neurologic reasons and nonambulatory animals, commonly referred to as "downer cattle". Recently, we began testing cattle which have died on the farm. BSE can only be detected by testing brain material. Currently we use both histology and immunohistochemistry as our primary testing methodologies. Histological examination is the microscopic evaluation of brain tissue to look for the degenerative changes. Immunohistochemistry is used to detect the abnormal form of prion protein, which is a marker for the disease.

As of March 31, 2002, APHIS, National Veterinary Services Laboratories (NVSL) has tested 25,487 brain samples for BSE. Of the 25,487 samples, NVSL tested 8,583 in fiscal year 2002. We expect to test at least 4,000 additional samples in fiscal year 2002. Of the samples already tested this fiscal year, slightly more than 1,000 samples have been from cattle which have died on the farm. We have steadily increased the level of surveillance over the last 5 years from 3,000 samples in fiscal year 1997 to over 12,500 samples in fiscal year 2002, an increase of over 300 percent. We feel this increased level of surveillance is needed to demonstrate our BSE free status.

#### SINGLE FOOD SAFETY AGENCY

*Question.* Following September 11, Secretary Thompson said that food safety should be one of our Nation's greatest concerns. Do you agree with his statement?

*Answer.* Ensuring the safety of the food supply is one of the Nation's greatest concerns and has been one of USDA's top priorities for almost 100 years. Our food safety system was functioning effectively prior to September 11 and is continuing to function effectively.

*Question.* What risks do you feel are facing our Nation's food supply?

*Answer.* Our food safety programs are designed to reduce all types of hazards in the food supply, whether they are chemical, physical, or microbiological. One primary function is to identify and remove diseased and unwholesome animals. In recent years, we have emphasized the reduction of and control of pathogens that contribute to an estimated 76 million cases of foodborne illness reported by the Centers for Disease Control and Prevention. FSIS also continues to operate a strong residue control program to address chemical contamination. These programs have been very successful and are recognized worldwide as the most appropriate means for controlling food contamination, whether unintentional or intentional.

*Question.* Do you think our current food safety system is able to adequately protect consumers?

*Answer.* The United States has one of the safest food supplies in world. Even so, this Administration continues to strengthen USDA's food safety programs to ensure safe and wholesome meat, poultry and egg products. For two consecutive years, we have proposed record-level spending for food safety programs and strengthened our inspection systems to ensure regulatory compliance and safety. We will continue to

examine prudent and sound measures that will further strengthen USDA's food safety programs. We are serious about protecting public health and we must continue to incorporate proven scientific principles throughout the food safety system to enhance our food safety infrastructure.

*Question.* What steps do you think are needed to create a food safety system that will provide the best protection to consumers?

*Answer.* The Administration believes that continued investment in the food safety infrastructure is necessary to ensure that the appropriate personnel, tools, and information are available to address the emerging food safety hazards that threaten public health and the viability of our agricultural system. Therefore, the 2003 budget includes an increase of \$146 million to strengthen training and technology to enhance homeland security and protect agriculture and the food supply. Highlights of these increases include: (A) a \$19 million increase in the AQI program for improved point-of-entry inspection programs; (B) a \$5 million increase to strengthen the capability of APHIS to assess and monitor outbreaks of diseases in foreign countries that have the potential to spread to this country; (C) a \$48 million increase for plant and animal health monitoring; (D) a \$12 million increase for other APHIS programs to expand diagnostic, response, management, and other scientific and technical services; (E) a \$28 million increase to support FSIS food safety activities; and (F) a \$34 million to support research aimed at protecting the Nation's agriculture and food system.

*Question.* Would you support efforts to modernize food safety statutes?

*Answer.* I would be happy to work with Congress on any efforts to ensure that the U.S. has the safest food supply possible.

*Question.* What should be done to create a single voice on food safety in the U.S., as recommended by the National Academy of Sciences?

*Answer.* The Administration's report, *Food and Agricultural Policy: Taking Stock for the New Century* indicates that where possible, Federal policies and programs must be coordinated and integrated to reduce duplication of effort, regulatory burdens, and program costs. This is especially important where several agencies share regulatory responsibilities or have a role in research, development, and implementation of food safety policies. USDA and FDA have had a Memorandum of Understanding in place since 1999 to exchange information on an on-going basis about establishments that fall under both of our jurisdictions. As a result, both agencies have worked together on several cases in which we were jointly able to ensure the safety of specific food products. USDA is committed to engaging in substantive discussions with FDA and other agencies with food safety responsibilities about other areas where cooperation can and should be utilized.

#### NATIONAL SCHOOL LUNCH PROGRAM

*Question.* Why has there been an increase in foodborne illness outbreaks associated with the Federal school lunch program?

*Answer.* Currently, Centers for Disease Control and Prevention (CDC) relies on States to voluntarily report outbreak information. A change in outbreak reporting forms and policies in 1998, showed an increase in the number of foodborne illness outbreaks reported. CDC does not consider this to be an absolute increase in the number of outbreaks that have occurred but rather a response to the change in the reporting system. Therefore, we have no reason to believe that there has been a recent upturn in foodborne illness events in schools.

*Question.* What oversight authorities are needed by USDA to effectively regulate the school lunch program?

*Answer.* We believe that we do not need any additional oversight authority in the area of food safety in the National School Lunch Program at this time. This is based on the longstanding practice that such oversight is the responsibility of State and local officials. These entities, working with the Centers for Disease Control, have systems in place intended to monitor the safety and sanitation procedures in food service facilities.

In this regard, however, the Department did propose legislation that would require local schools to obtain health inspections at least twice during the school year during the last Child Nutrition Program reauthorization. This proposal was based on an understanding that, in some areas, health inspections of school food service facilities were not required. The proposal, as finally enacted in the William F. Goodling Child Nutrition Reauthorization Act of 1998, now requires schools to have a health inspection at least once a year where no local regulations apply.

*Question.* What efforts are made by USDA to coordinate with State and local officials in regulating the school lunch program?



Answer. Responsibility for food safety in the operation of the National School Lunch Program is primarily the responsibility of local schools and State and local health departments charged with this responsibility. The Department's involvement in this area is limited to the purchase and delivery, as well as inspection, of commodities purchased for the Program. Commodities are only purchased from manufacturers who operate under the food safety inspections of the Department's Food Safety and Inspection Service, the Food and Drug Administration and the Department of Commerce.

In our effort to support State and local efforts above, the Department has a significant effort underway to provide school food service personnel with training and technical materials directed towards providing information on all aspects of food safety. These materials emphasize the importance of personal hygiene, preparing, holding and storing foods at proper temperatures and preventing the spread of bacteria through cross-contamination.

#### FOREIGN FOOD ASSISTANCE

*Question.* Would you please confirm whether the Administration's 2003 budget request would increase or reduce total outlays for international food assistance? What would you consider an appropriate trend in spending for such programs?

Answer. The 2003 budget request does include a reduction in funding for international food assistance activities. In part, this reflects the Administration's decision to provide greater stability and assurance to our food aid efforts by reducing their reliance on the year-to-year availability of surplus U.S. commodities. Hence, section 416(b) activities that rely on the purchase of surplus commodities will not be continued. However, this will be offset by the requested \$335 million increase in funding for Public Law 480 Title II.

Although the overall level of funding is reduced, it is important to note that the Administration's food aid reforms place an increased emphasis on direct feeding activities in our programs with a corresponding reduction in the level of monetization, or sales, of food aid commodities. Much of U.S. food aid in recent years has been provided to support non-feeding, economic development activities carried out with funding raised through the sale of the commodities in local markets. The Administration proposes to scale back the level of monetization and to support economic development objectives through other means. So, while the overall level of food aid programming may decline, the increased emphasis on direct feeding programs should allow us to continue our leadership role in responding to world food aid needs.

Finally, the Administration has stated that it is prepared to release commodities from the Bill Emerson Humanitarian Trust should unanticipated, emergency food aid needs arise during 2003. As a follow-up to the management review of foreign food aid activities, the Administration will be reviewing the procedures for use of the Trust to ensure their flexibility and responsiveness. There are 2.5 million metric tons of wheat in the Trust at present, which could be released should circumstances warrant. The availability of the Trust also will help to ensure we can respond to global food needs.

#### GLOBAL FOOD FOR EDUCATION INITIATIVE

*Question.* Under the consolidation of food aid programs, who would have responsibility for the Global Food for Education Initiative? What is the Administration's justification for omitting funding for GFEI in fiscal year 2003, given that there has not yet been any assessment of the pilot program's impact?

Answer. No decision has been made on which agency would be responsible for administering GFEI, should the initiative be continued beyond the pilot program currently being implemented by USDA. No funding for GFEI was included in the 2003 budget because the Administration believes the results of the pilot program should be assessed before a decision is made on whether the initiative should be continued on a more permanent basis. However, we will be extending many of the GFEI country projects currently underway by using resources that remain from the initial \$300 million program level.

#### FISCAL YEAR 2002 AGRICULTURE APPROPRIATIONS PROJECTS

*Question.* Madam Secretary, I would like to address a couple of matters lingering out there from last year. First, the fiscal year 2002 Senate Report (107-41) included language under the Natural Resources Conservation Service's (NRCS) Watershed and Flood Prevention Operations that provides funding for a number of Illinois watershed projects. The second matter is, the Senate report included \$300,000 for the University of Illinois and the State of Illinois for research, educational initiatives,

and West Nile Virus disease surveillance. The conference report included Report Language under APHIS. To this date, these issues remain unresolved. Madam Secretary what does USDA intend to do about these projects? Could you tell me what the Department is waiting for?

Answer. The fiscal year 2002 Appropriations Act provided \$8.6 million for assistance for the Embarras River Basin, Lake County Watershed, and DuPage County. NRCS is currently working with State and local officials to determine funding needs, potential projects, and activities, and appropriate authorities to spend the funds. We anticipate that the funds will be obligated by the end of the fiscal year, and disbursed during fiscal year 2003.

With regards to the West Nile Virus (WNV) initiative, based on an fiscal year 2002 congressional directive, APHIS, Wildlife Services will work in the State of Illinois to enhance WNV surveillance efforts in wildlife through collection, sampling and testing of birds to complement and supplement ongoing WNV research and management activities associated with State Agencies and the University of Illinois.

#### FOOD STAMP PROGRAM

*Question.* Will the department weigh in with the House conferees on the farm bill and urge them to adopt the Senate language restoring food stamp eligibility for low-income legal immigrants who have lived in this country for at least 5 years?

Answer. Department officials and legislative liaison personnel are in touch with the conferees of both houses and are working to advocate the provisions of the President's budget proposal.

#### WIC SHORTFALLS ON FUNDING

*Question.* What information does the Department have concerning potential shortfalls in State WIC funds for fiscal year 2002?

Answer. WIC State agencies were surveyed in February regarding potential shortfalls prior to the allocation of the \$39 million supplemental appropriation. At that time, they reported a \$78.4 million shortfall of food funds. The supplemental appropriation provided State agencies with approximately \$28.5 million in food funds that helped reduce the estimated funding shortfall. The remaining \$10.5 million was allocated for nutrition services and administration funding.

In preparation for the upcoming May reallocation of prior year unspent funds, we are again surveying WIC State agencies. They have been asked to provide us with an estimated shortfall of food funds for fiscal year 2002 and a justification for requesting additional funds. We are expecting the survey forms back by early May 2002.

Clerk's Note: On March 21, 2002, the Administration submitted an emergency supplemental proposal to Congress. This proposal included \$75 million for the WIC Program.

*Question.* Are any States taking action to cope with this situation (for example, by restricting access for certain categories of eligible participants)?

Answer. Several local agencies in several States have implemented caseload management actions. I will ask the Food and Nutrition Service to provide additional information for the record.

[The information follows:]

The following provides the current status of caseload management strategies:

*Restricting access.*—Arizona and Michigan have established waiting lists for individuals in the lower nutritional risk priorities. Michigan currently has four local agencies with waiting lists. One of the local agencies has approximately 700 postpartum women and 4-year old children on a waiting list. Additionally, some Oregon and Washington local agencies are restricting access to lower priorities.

*Potential restrictions.*—Many State agencies, including California, are predicting the need to restrict access unless additional funding is available. Other State agencies are considering making changes to the food packages to help reduce food costs (i.e., lowest prices juice, store brands, etc.).

*Question.* How does the department plan to monitor on an ongoing basis whether funds are sufficient to maintain WIC participation across the States?

Answer. The Food and Nutrition Service will continue to survey State agencies prior to each reallocation this fiscal year to determine the need for additional funds. This year the reallocation of funds will occur every other month, as mandated by law.

Clerk's Note: On March 21, 2002, the Administration submitted an emergency supplemental proposal to Congress. This proposal included \$75 million for the WIC Program.

*Question.* I would like to ask that the Secretary provide this information to the Committee on a timely basis, and work with us in the months ahead to assess the potential need for additional funding in the upcoming supplemental appropriations bill.

*Answer.* We commit to work with the Committee in the upcoming months by providing information and assessing the potential need for additional funding for the WIC Program.

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QUESTIONS SUBMITTED BY SENATOR TIM JOHNSON

PRIME QUESTION

*Question.* Madam Secretary, I am a strong supporter of renewable fuels such as ethanol. The benefits of ethanol are obvious; the production of ethanol leads to reduced dependence upon foreign oil, strengthened energy security, increased farm income, job creation and economic growth in rural America.

Moreover, while concentration dominates most sectors of agriculture, ethanol production concentration has decreased from 67 percent in 1999 to 49 percent today. This decline in the concentration of ethanol production can best be attributed to the increasing number of farmer-owned ethanol co-ops that have been established across the country.

Of the nine ethanol plant projects currently underway in South Dakota, one is an innovative ethanol production and cattle feeding operation, known as "PRIME" or the Dakota Value Capture Cooperative. Once complete, this project will produce approximately 20 million gallons of ethanol, and, capture the value of the wet distillers grains—byproduct of ethanol production—and employ it as an input in the feeding of cattle in an adjacent feedlot.

To help jump-start this innovative project, I worked to provide \$6 million in appropriations last year (one-half from the Energy Department and the other half from USDA). As you know, I've been trying to get USDA to expedite their share, (\$3 million) of this grant to PRIME because the Energy Department has already approved funding and is set to devote their share, (\$3 million) to PRIME within 1–2 weeks. Yet USDA indicates that the Energy Department must provide some confidence to you that the project is indeed the sole source of funding. I promise to work with all parties to get USDA this information. Over 700 South Dakota farmers and ranchers have invested over \$14 million in equity towards this cooperatively held ethanol and cattle feeding project. These agriculture producers deserve the cooperation of those of us at the Federal level, in accordance with the enactment of the fiscal year 2002 Agriculture Appropriations Conference Report, to do our jobs and help provide the grant assistance authorized last year.

I urge you and USDA in the strongest terms possible to work with me to complete the process of awarding this grant, and I intend for us to move ahead in the following manner.

First, that USDA make this grant to PRIME-Dakota Value Capture Co-op on a non-competitive basis. Second, that the project receive the full \$3 million from USDA that has been earmarked in the most expeditious fashion. And finally, that this matter be sanitized of any and all political underpinnings that may jeopardize the process and the project.

Madam Secretary, first do you agree to work with me on this matter? Second, how will you help us move the process along to ensure the expeditious delivery of grant funds to the project?

*Answer.* Yes, we do agree to work with you on this matter. Following is a status report on the results of our efforts on this matter.

The Department of Agriculture has completed a review of Public Law 107–76, Section 747, and documents prepared by PRIME Technologies. It has been determined that the grant can be awarded on a non-competitive basis. We are proceeding in that manner. In March 2002, the Rural Business-Cooperative Service Administrator expects to delegate authority to administer the grant funds at the State Office level to our Rural Development South Dakota State Director. The total project is projected for \$60 million for the purpose of development of an "Integrated Ethanol Plant, Feedlot, and Animal Waste Digestion Unit."

LEAKING AGRICULTURAL MARKET FORECAST

*Question.* Madam Secretary, over the weekend it was reported that the chairman of USDA's World Agricultural Outlook Board (Mr. Gerald Bange) admitted that USDA provides advance information to preferred individuals with respect to USDA's annual crop forecasts each February in preparation for USDA's Annual Conference.

On Tuesday, USDA Chief Economist Keith Collins issued a statement that USDA would halt the practice of disclosing details of some crop reports to selected commodity traders before the information is disclosed to the public.

However, members of congress are already curious as to why this practice of sharing sensitive crop report information to preferred individuals was ever permitted in the first place, as reflected by Senator Lugar's announcement that he will ask the GAO to investigate USDA's Handling of the crop reports.

While I have great respect for you, Madam Secretary, your fine staff and certainly for Mr. Collins, USDA should not believe that Mr. Collins' statement about ending this practice will also end the inquiry into this inflammatory matter.

Madam Secretary, this is not entirely the fault of USDA under your reins, that is clear. But, what is also clear to me is that we must take strong steps to provide some confidence back into the producer's minds with respect to this market information and the way it is reported.

Will you inquire within USDA as to this preferential information disclosure practice and use all your resources to determine if the information released this year was indeed "market moving" or influential upon commodity prices?

Second, will you prepare for the members of this subcommittee the following:

- the identities of the parties receiving this information?
- when the information was distributed?
- any written USDA policy on such information distribution?
- the identity of the parties disclosing the information?
- and the full range of information affected by this policy or practice?

Finally, I am also very interested in your view of the role of USDA in providing market information to the public in general. As you know, the 3-70-20 rule, which relates to the Mandatory Price Reporting results in blackouts of livestock market information in regions of the country which have little competition. Now I am a strong supporter of price reporting and I think the new 3-70-20 rule is much better than the problematic 3-60 rule. Yet, producers in some regions are at a disadvantage with regard to bid competition by buyers. A full discussion on the role of information in the marketplace would be helpful to the subcommittee in determining whether additional resources must be devoted to USDA in this regard or not.

Answer. The Department of Agriculture takes the provision of market information to market participants as one of its highest priorities. We are committed to ensuring such information is accurate, objective, reliable, relevant and secure. Our key agencies that provide market information, such as the Economic Research Service, National Agricultural Statistics Service, Foreign Agricultural Service and Agricultural Marketing Service, issue many hundreds of reports annually devoted to improving the efficiency of markets and the capacity of market participants to engage in competitive, equitable transactions. These reports adhere to various protocols for clearance and release to the public. Some reports are prepared solely by USDA staff and are released under secure conditions because they are developed from confidential information or are judged to be more market sensitive than other reports. Reports based on economic trends and not on confidential information are minimally market sensitive, or not sensitive at all. Such reports are not prepared in, or released from, secure conditions and may involve external review.

A February media article by Bloomberg reported on the peer review process used by USDA to assess the highly tentative, pre-season outlook presented by USDA economists at the Department's annual agricultural outlook Forum in February. Unfortunately, the Bloomberg article failed to recognize the difference between the outlook material discussed at the Forum, which is based solely on publicly available data, and the Department's monthly commodity market forecasts, which incorporate information from confidential survey-based reports. Each month the Department prepares and releases highly market-sensitive forecasts of production, use, stocks, and prices for a number of commodities under tightly secured "lockup" conditions. There has been no premature release of such information.

Contrary to the press article by Bloomberg, no one from the World Agricultural Outlook Board—WAOB—or any other USDA agency, "leaks" forecasts or "tips off" commodity traders, researchers, or investors, routinely or otherwise, with early details of market moving reports before they are disclosed to the public. Following the Bloomberg story, some follow-up media articles highlighted inaccurate and inflammatory portions of the Bloomberg article. This has misled some in the farm community, traders, and the general public to incorrectly conclude that details of a "crop report" were disclosed to selected individuals. There is absolutely no substance to this allegation; there was no such disclosure.

I will provide additional material for the record regarding the specific questions you raise.

[The information follows:]

The information presented at USDA's annual outlook Forum is of an entirely different nature than market sensitive "lockup" reports. The purpose of the Forum is to publicize and encourage public comment in a collegial environment regarding USDA's very preliminary observations on prospects for the forthcoming year. The pre-season projections presented at the Forum are simple updates of projections prepared the prior fall and published in the Commodity Credit Corporation Commodity Estimates book, released as part of the President's budget submission to Congress in early February. At the Forum at the end of February, these early-February budget-book projections are updated to reflect additional information available to the public after the budget projections are first developed. For example, on January 11 of this year, USDA's National Agricultural Statistics Service—NASS—published significantly revised planted acres, harvested acres, and yields for corn and soybeans for 2001. Consequently, these changes required private sector and USDA economists to revise their early-season projections for 2002/03 so that supply and demand variables would balance.

The early-season projections by economists discussed in February are clearly different than the highly market-sensitive monthly forecasts released as part of the crop production report process. Starting in May of each year, USDA begins the monthly supply and demand forecasts for the new crop year, which are published in the World Agricultural Supply and Demand Estimates Report. These forecasts reflect survey-based estimates, including the first winter wheat production forecast to be released by NASS. It is only within the confined lockup area in the South Building, where all means of communication with the outside are cut off, that NASS developed market information is provided to WAOB and analysts from other agencies to prepare market forecasts. All monthly lockup reports are handled with utmost security.

As clearly stated in USDA commodity papers presented at the Forum, the pre-season projections released at the Forum do not reflect any surveys conducted by USDA, which have not been publicly released well in advance of the Forum. Similar to numerous projections by private sector research firms and university extension specialists, USDA's Forum projections were developed by USDA economists. No USDA employee responsible for the collection, analysis, and reporting of survey based-data was involved in the preparation of these projections. Because these early-season economic projections are based solely on economic trends and publicly available information—and not on survey or confidential information—they generally reflect a consensus of market analysts and are, at most, minimally market sensitive.

In the mid-1990s, USDA began inviting well-respected industry researchers and university analysts—not traders and investors, as was reported—to participate in sessions as peer reviewers of the early-season outlook presented at the Forum. The purpose was to enrich the content of the Forum by stimulating feedback and discussion. This procedure resulted in extensive positive feedback from participants attending the Outlook Forum in general and, in particular, improved quality of the commodity outlook sessions. Peer reviewers were provided our assessments several days prior to the Forum, so they would have time to conduct their review. Peer reviewers were also entrusted to keep the information confidential, and we know of no violations of this arrangement.

This year USDA invited two highly respected analysts to review and comment on USDA's outlook for grains, oilseeds, and cotton. As listed in the Forum program, their speech topics, names, and titles were as follows: "Industry Perspective on the USDA Grain Outlook," Nancy DeVore, Vice President, Bellingham Commodity Trade Analysis, Inc.—Ms. DeVore addressed both USDA's grains and oilseeds outlook. "Response to the USDA Outlook," Mark Lange, Vice President, Program and Policy Analysis, and Program Coordinator, National Cotton Council.

These speakers were asked to provide their prepared remarks to the Forum staff 2 days prior to their presentations at the Forum. Copies of the outlook papers to be presented by USDA at the Forum were provided to these speakers several days in advance of the Forum, so they would have time to peer review the USDA papers and prepare their comments. The USDA papers were provided to the private sector reviewers by the Chairs of USDA's Interagency Commodity Estimates Committees for grains and cotton:

Gerald R. Rector, Chair, Interagency Commodity Estimates Committees for Wheat and Feed Grains, WAOB.

Carol Skelly, Chair, Interagency Commodity Estimates Committee for Cotton, WAOB.

While Outlook Forum research papers and discussions do not present, or are based on, new survey-based information, the Forum is designed to stimulate alternative viewpoints and discussion of issues that may affect the outlook for the up-

coming season. Infrequently, the results of discussions at the Forum have a very slight impact on commodity markets. However, our review indicates that there is no evidence that USDA outlook papers shared in advance with expert reviewers were used inappropriately, affected markets, or provided an unfair market advantage to anyone.

Notwithstanding the benefits of the external review process to conference participants and the general public, the Bloomberg report has raised confusion and created misperceptions about USDA's procedures and integrity. Such misunderstandings diminish the public trust, which the Department has worked so hard to achieve. USDA's record is unblemished and the Department intends to keep it that way. Consequently, USDA announced on February 25 that the external review process has been terminated.

#### BEE RESEARCH PROGRAM

*Question.* Madam Secretary, domestic honey producers and beekeepers have contacted me with deep concerns about the cuts proposed in the fiscal year 2003 USDA budget with respect to honey bee research and the Agricultural Research Service (ARS). Honey producers play an important role in the agricultural economy in South Dakota.

They are concerned with the reduction of bee research from \$5.7 million to less than \$2.5 million, given that this program comprises less than 1 percent of the total budget for ARS.

Why did the bee research program bear such a sizable reduction in this year's budget when the total program represents simply a small share of the total ARS budget?

Did USDA seek input from honey producers, beekeepers, or researchers concerning these cuts? If so, what sort of meetings or events took place to seek input on the cuts? If not, why not?

*Answer.* The President's Budget proposal actually reduces ARS' research on honeybees by \$4 million, from \$8 million in fiscal year 2002 to some \$4 million in fiscal year 2003 and represents a relatively small share of the total reduction of \$104,486,000 proposed for ARS in fiscal year 2003.

The Department based its decision to consolidate and reduce honeybee research in order to finance national high priority research initiatives in fiscal year 2003 strictly from the recommendations of the Strategic Planning Task Force, which conducted site visits and laboratory reviews at these locations.

#### FARM BILL PAYMENT LIMITATIONS

*Question.* Why does the September 2001 report, Food and Agricultural Policy: Taking Stock for the New Century document published by USDA suggest that too few farmers are receiving too many of the Federal Government payments, yet, USDA has not supported or even taken a position on the Dorgan-Johnson-Grassley payment limitations amendment in the Senate farm bill?

*Answer.* Our policy document was primarily addressing a broader concern with the distribution of farm program benefits across all sectors of agriculture and not the narrower question/issue of the distribution of payments among traditional program crop producers. We believe that current programs have not addressed the needs of many producers as well as they have commercial producers of the few major program crops. There are many sectors of agriculture which receive relatively little assistance from government programs and services and that was one of the concerns we were addressing. The Senate payment limitation provision addresses a narrower concern regarding the distribution of payments and benefits for producers of those few program crops. This is a somewhat different issue. The payment limit provision will have disparate effects on producers of a few major program crops in different regions of the country, but will not address the issue of providing benefits to producers of other commodities who also need assistance of various kinds. We believe the Congress is the appropriate body to address the largely regional distributional questions brought up by the Dorgan-Johnson-Grassley amendment.

#### QUESTIONS SUBMITTED BY SENATOR THAD COCHRAN

##### OFFICE OF THE CHIEF FINANCIAL OFFICER/WORKING CAPITAL FUND

*Question.* The President's fiscal year 2003 budget requests a \$21 million appropriations to the Working Capital Fund. (No funds were appropriated for fiscal year 2002.) How has the Working Capital Fund been financed to date? Why is an appropriation to the Working Capital Fund required for fiscal year 2003? How will this

appropriation be used? What would be the result of not providing the appropriation requested? Will additional appropriations to the Working Capital Fund be required in future fiscal years? Why or why not?

Answer. The Working Capital Fund was established in language making appropriations to USDA for fiscal year 1944. This language is codified at 7 U.S.C. 2235 and requires that activities supported by the Fund recover actual or estimated costs of good and services from their customers. Recurring operations of the Fund are not subsidized through appropriations or other sources of funds.

In the late 1980's through the early 1990's, USDA and the Congress engaged in a cooperative effort to recapitalize the Fund, providing over \$30 million in direct appropriations for capital equipment purchases and annual authority to collect contributions from agencies of up to \$2,000,000 in growth capital. In this way, the Fund replenished capital for large-scale equipment purchases. However, this recapitalization plan did not anticipate the significant investments that would be necessary in systems development as we moved to upgrade corporate administrative systems that in some cases were more than 20 years old.

Having to upgrade our systems to address concerns voiced by our Inspector General, the General Accounting Office, and the Congress, we were in the position of having to fund investments out of operating funds, which placed a considerable burden on the budgets of our customer agencies.

By October of this year, we will have completed the implementation phase of our core accounting and financial management system the Foundation Financial Information System (FFIS). However, we are in great need of upgrading the systems that feed administrative and financial information to the core system. Investments in procurement systems, property, travel, and other solutions will be critical to USDA's success in addressing concerns over our financial management practices.

The Office of the Chief Financial Officer, along with partners from the Assistant Secretary for Administration and the Office of the Chief Information Officer, have established a major initiative and task force to address our corporate administrative systems needs. Our work will serve as the basis for a new comprehensive plan to be shared with OMB later this year. However, work continues in developing integrated procurement systems and other applications, hence the need for the \$21 million in appropriated support.

\$21 million is not sufficient for all modernization efforts, although it is an important first step. As part of the plan shared with OMB last year, USDA provided an estimate to OMB of the resources needed over 5 years for corporate and other selected system modernizations. At the time, we estimated a total investment of about \$300 million.

OCFO is focused now on capturing value in the near-term modernization of subsystems closely related to financial management accountability. This is an important part of our review and revision of our corporate systems investment plan. Specifically, we are reviewing our plan for subsystems to ensure that it addresses internal control and audit issues.

Not providing the appropriation would delay any progress we might make in addressing the financial management issues and system needs identified in audits and voiced as concerns by Congress. Having made the considerable investment of agencies' funds in bringing the core FFIS system on line, we need to take the next step to ensure that the systems supporting the core financial system can support our vision of providing timely, accurate, and reliable financial and administrative information to managers so that they can manage their programs more effectively. Without the appropriation, we will not have sufficient capital to invest in pilot projects to demonstrate the effectiveness of our approaches. We will not have the capital to purchase software applications to serve as the foundation for this new generation of systems. In short, we will be left for some time to come with a new financial information system that can serve our needs in that area, but it will be supported by old, ineffective, unreliable administrative systems.

With respect to future investments, the need for appropriations is largely contingent upon other funding strategies that could be made available. Use of unobligated balances could be a source of funds as an alternative or to supplement appropriations. We can say, however, that the need for investment capital is there.

#### HOMELAND SECURITY

*Question.* The fiscal year 2003 request for the Office of the Secretary includes an increase of \$28.250 million for "building security and other terrorism protection costs".

Please explain how and when this \$28.250 million will be allocated.

How was it determined that \$28.250 million will be required to meet these needs?

Answer. The \$28.25 million will be allocated in fiscal year 2003 to continue to fund those facility and operational security needs that cannot be covered with the Supplemental appropriations funding provided in 2002 and to give the Secretary the flexibility to meet unforeseen needs. As we move to increase the security of our infrastructure and people, we are faced with costs that we cannot always predict. Therefore, we estimated what would be a reasonable level of funding to meet those needs, based on the information we had at the time. We will continue to work with Congress as we allocate and spend funds for security needs.

#### WORKFORCE AND ORGANIZATIONAL STREAMLINING

*Question.* The fiscal year 2003 request for the Office of the Secretary includes an increase of \$5 million "for funding workforce and organization streamlining and restructuring activities." What coordination and implementation cost for office consolidation analysis and planning are expected to be incurred by the Office of the Secretary? Please be specific.

Answer. One of the goals of this Administration is to put in place significant management improvements that streamline government operations, use the private sector as the provider of services when these services are commercial in nature, and increase customer service. These management improvements will result in efficiencies over the long run, but do require some upfront capital to put in place. This fund would be used to support some of the costs of these streamlining efforts.

In recent years, the Department has co-located field offices of the Farm Service Agency (FSA), Natural Resources Conservation Service (NRCS) and Rural Development (RD) into one-stop USDA Service Centers to provide seamless, quality customer service to farmers and rural residents. Since 1993, about one-third of the country offices of the Service Center agencies and a number of State offices have been consolidated. The Department will build on the analyses and lessons learned from this effort and develop a plan during 2002 to initiate the consolidation of at least 200 additional offices in 2003. The Department's review will include an assessment of the costs and benefits of further office consolidations. The Department will also review other business and administrative processes in the Service Center agencies and develop plans to restructure or reengineer them as appropriate. The budget provides a \$5 million increase for the Office of the Secretary to coordinate and implement these activities.

*Question.* The Department of Agriculture clearly has a requirement to protect its critical information to ensure continuity of operations after any disaster. Presidential Decision Directives 63 and 67 specifically address this requirement.

The events of September 11 demonstrated the importance of this, when entire data centers on Wall Street, containing massive amounts of financial information, vanished in an instant. The financial markets, however, were up and running almost immediately because this critical information was "mirrored" to a geographically remote site. In other words, I understand the information was not "backed up" to tape and stored in a warehouse, but instead was "mirrored" to a secondary data center which was able to immediately take over all operations when the primary data center went down.

Is the Department developing a secondary site and capability similar to that, which seems to have saved the day for our Nation's financial markets?

What is required, in terms of funding or other resources, to establish a secondary site?

There may be many functions that the Department performs that are absolutely dependent on information technology. Has the Department identified its mission-critical systems? Which are they?

What direction is the Department heading with respect to an overarching disaster recovery/business continuance capability Department-wide?

The Department's National Finance Center (NFC) in New Orleans processes about 40 percent of the payroll for the Federal Government, and also houses the Federal Government's Thrift Savings Plan.

Does the NFC "mirror" its data to a secondary site that could quickly take over essential operations should there be an outage of any kind?

What is NFC's current method for back up data storage for those data functions that need to be performed if there ever were an outage at the Center, or worse yet, if data was ever lost as a result? Has this system ever been tested?

Answer. USDA recognizes that contingency planning is a critical component of a sound information security strategy. Re-establishing automated processes in the event of a malfunction or disaster is essential to the Department's ability to meet its mission objectives. No departmental-level activities are currently underway to establish a single secondary site with the capacity to continue operations of USDA's



critical systems without a noticeable delay. In preparation for the Year 2000 Computer problem, USDA identified its most essential information technology systems. These 52 systems remain the focus of our cyber security efforts and are the first systems analyzed for risk, tested for vulnerabilities and monitored to ensure security measures are appropriate and efficient. The complete list of these 52 mission-critical systems will be provided for the record.

With respect to an over-arching disaster recovery/business continuance capability Department-wide, USDA presently has in place a rigorous Continuity of Operations (COOP) plan for USDA facilities in the Washington, D.C area. This plan was partially implemented successfully on September 11, 2001. USDA is currently developing a strategy to extend COOP planning to critical USDA facilities located outside the Washington, D.C area. This extended planning effort will include such critical facilities as the National Finance Center, National Information Technology Center, and USDA Bio-safety Level III laboratories. Many of these facilities currently have well defined business continuity and emergency operations plans, which will form the basis for future COOP plans. Upon completion of the draft COOP plan for these critical facilities, USDA will follow-up with a large scale COOP exercise in the late fiscal year 2003 timeframe to assess if the plans can be executed as indicated. A plan review program will be established to monitor annual changes and biennial updates. This will ensure that the plans adjust to exercise lessons learned, incorporate the latest policy changes, and stay current with events/conditions. USDA is also in the process of revising its emergency management structure to provide a more responsive and efficient emergency response capability.

The decision to invest in "mirroring" at a secondary site and other more timely backup technology and processes, similar to that which enabled the financial markets to rapidly recover, will be based on the criticality of the systems, data, and technology infrastructure on which program delivery depends. Each agency that has not already done so will be conducting a risk-assessment of its critical systems throughout the remainder of this fiscal year. Based on the results of these risk assessments, appropriate disaster recovery and business resumption plans will be developed. To further assist in this effort, the Department will be using emergency supplemental funds to establish a standard process for preparing appropriate disaster recovery and business resumption plans for all of its mission-critical systems. Funds to continue this activity are included in the Department's fiscal year 2003 budget request.

With respect to the NFC, backup tapes are created daily for all applications, databases, operating system software, and other business system files. These backup data are sent daily to an offsite storage facility. The NFC has contracted with SunGard Systems to provide recovery capabilities for the NFC at recovery centers in Philadelphia and Atlanta should a disaster or other outage occur that renders the NFC inoperable.

The NFC's plan is to recover their critical information technology infrastructure and their critical application systems within 48 hours of the declaration of a disaster (outage). Within 6 hours of an event, an assessment is made and, if necessary, a disaster is declared. Following the declaration, notification and mobilization of the key recovery personnel with backup data occurs. The notification and mobilization occurs within 18 hours with key personnel and backup data arriving at the Philadelphia and Atlanta recover centers. Within the next 24 hours after arriving at the Philadelphia recovery center, NFC infrastructure is restored and operational. At the same time, the NFC business systems are restored and operational at the Atlanta recovery center. Within 48 hours, NFC's critical systems are restored and normal business operations resume.

The NFC performs disaster recovery testing twice a year using the backup data. The tests conducted twice a year have proven generally successful in recovering and processing the critical systems within the target time frame. We believe that the context in which NFC performs recovery is different from that of financial markets and institutions. Whereas the financial entities of which you spoke require "minute-by-minute" capability in their systems and recovery methods, "point-in-time" service provides us with effective system and recovery capability for core services while allowing us to avoid the extremely expensive solutions that the "minute-by-minute" approach to recovery would require.

However, the issue with the NFC's current disaster recovery process is that it assumes people can be contacted, and people have an ability to travel within specified time frames. The events of 9/11 and the resulting assessment and guidance of major advisory firms in this business area cast doubts upon the viability of the current approach. Therefore, we are looking at new approaches. I will provide additional information for the record on some of NFC's plans for increased security.

[The information follows:]

- Public Key Infrastructure (PKI)*.—In fiscal year 2002, NFC intends to deploy a PKI system for selected applications, allowing digital signatures for transactions and encrypted data transmission via the Internet. The infrastructure to verify PKI certificates is being deployed with secondary site “fail over” capabilities. In the event of a total equipment failure in New Orleans, the secondary site would provide authentication for users of certificates issued by the National Finance Center.
- Payroll and Financial Systems*.—In fiscal year 2003, the National Finance Center intends to perform a pilot test of data mirroring capabilities within the existing National Finance Center operated facilities in New Orleans, and to perform an analysis of alternatives for full mirroring capability to a secondary site. The planned analysis would examine the specific existing technical architecture and application design, and compare specific technical alternatives for mirroring the data to a secondary site. At that time, specific facility, equipment, and telecommunications requirements would be identified with cost estimates for each alternative.
- Payroll and Financial Systems*.—In fiscal year 2004, the National Finance Center has requested a minimum level of funding for the capital equipment required to establish a secondary site technically capable of providing minimal recovery for the critical portions of these systems within 24 hours.
- Thrift Savings Plan System*.—The Thrift Savings Plan System is undergoing a transition from the application designed by the National Finance Center to one designed by Materials and Communications, Inc. The new system’s current plan for recovery is the restoration of data from tapes warehoused at an offsite location. However, portions of the system are technically capable of mirroring data to a secondary site. The system owner, the Thrift Investment Board, has stated intentions to move to an environment, which would afford 24 hour per day, 365 days per year availability. Mirroring capabilities figures significantly in this concept.

*Funding and Resources*

The estimates for funding and resources to provide full secondary site capabilities are not known at this time. The total cost would be offset by the discontinuance of the current business continuance contracts for tape warehousing and recovery facilities. The plans outlined above are estimated to cost \$950,000 in fiscal year 2003 and \$2,800,000 in fiscal year 2004. The analysis of alternatives currently planned for fiscal year 2003 would provide more detailed levels of additional funding and resources. The key areas that must be addressed are secondary site facilities, personnel, equipment, and telecommunications.

USDA’s list of Departmental Priority Systems was established as part of the Department’s efforts to mitigate computer problems related to the Year 2000 computer date rollover. The criteria used to identify these systems are based on the economic repercussions, financial impact, and health and safety risks if these systems were to fail.

Agency	System
Farm Service Agency .....	102—Direct Deposit System SCOAP
Farm Service Agency .....	118—Conservation Reserve Program(CRP)(SCOAP)
Farm Service Agency .....	123—PA Payment Systems
Farm Service Agency .....	534—Gram Inventory Management System Phase 2
Farm Service Agency .....	540—Processed Commodity Inventory Mgmt. System
Farm Service Agency .....	717—Automated Price Support System (APSS)—# 2
Farm Service Agency .....	76—Check Writing System SCOAP
Farm Service Agency .....	77—Cash Receipts System SCOAP
Farm Service Agency .....	78—Automated Claims System (SGOAP) (ACS)
Farm Service Agency .....	80—Common Receivable System (SCOPPS)(CRS)
Farm Service Agency .....	86—Data Control System, SCOAP(DCS)
Farm Service Agency .....	88—Assignment/Joint Payment System, SCOAP
Risk Management Agency .....	Actuarial Filing System
Risk Management Agency .....	Data Acceptance System (DAS)—SUN
Risk Management Agency .....	Reinsurance Accounting System (RAS)—SUN
Food Safety and Inspection Service .....	Automated Import Information System (AIIS)
Food Safety and Inspection Service .....	Performance Based Inspection System (PBIS)
Food Safety and Inspection Service .....	Planned Compliance Program (PCP)
Food Safety and Inspection Service .....	Residue Violations Information System (RVIS)
Food and Nutrition Service .....	Agency Financial Management System(AFMS)
Food and Nutrition Service .....	Anti-Fraud Locator using EBT Retailer Transactions (ALERT)

Agency	System
Food and Nutrition Service .....	Coupon Requisition & Inventory Management System (CRIMS)
Food and Nutrition Service .....	Disqualified Recipient Subsystem (DRS)
Food and Nutrition Service .....	Food Stamp Program Integrated Information System (FSPIS)
Food and Nutrition Service .....	National Integrated Quality Control System (NIQCS)
Food and Nutrition Service .....	Regional Office Administrated Program (ROAP)
Food and Nutrition Service .....	Special Nutrition Program Integrated Information System (SNPIIS)
Food and Nutrition Service .....	Store Tracking, Authorization and Management Subsystem (STAMS)
Agricultural Marketing Service .....	Financial Information System
Agricultural Marketing Service .....	Market News Information System
Animal and Plant Health Inspection Service .....	Export Certification Program
Animal and Plant Health Inspection Service .....	Generic Database (GDB)
Animal and Plant Health Inspection Service .....	Headquarters WADS replaces AQI-Monitoring
Animal and Plant Health Inspection Service .....	Laboratory Information Management System
Animal and Plant Health Inspection Service .....	Licensing and Registration Information System
Forest Service .....	Fire & Aviation Management—F&AM
Natural Resources Conservation Service .....	CLIMSYS/CDBS
Natural Resources Conservation Service .....	SNOTEL
Natural Resources ConservationService .....	WSF
Rural Development .....	Automated Multi-Housing Accounting System
Rural Development .....	Dedicated Loan Origination and Servicing System
Rural Development .....	Federal Finance Bank Loan Accounting System
Rural Development .....	Guaranteed Loan Accounting System
Rural Development .....	Program Loan Accounting System
Rural Development .....	Rural Telephone Bank Loan Accounting System
Rural Development .....	Rural Utilities Loan Accounting System
OCFO/National Finance Center .....	Accounting Applications
OCFO/National Finance Center .....	Administrative Payments
OCFO/National Finance Center .....	Billings & Collections
OCFO/National Finance Center .....	Payroll/Personnel
OCFO/National Finance Center .....	Thrift Savings Plan

QUESTION SUBMITTED BY SENATOR ARLEN SPECTER

PROTECTING U.S. AGRICULTURE

*Question.* Secretary Veneman: Protecting the U.S. agricultural system is a shared responsibility between government and industry. How does USDA propose to ensure that warning, protection and response to potential threats are the result of coordinated efforts between government at all levels and the multiple entities in industry? What specific mechanisms exist or are being put in place to ensure that all parties are operating from common procedures and communication mechanisms during a crisis?

*Answer.* Over the last several years, USDA has worked to modernize its agricultural safeguarding system to address increased threats of both accidental and intentional pest and disease introductions. The events of September 11 have heightened the sense of urgency to these ongoing efforts. USDA has taken several measures to strengthen cooperative partnerships with State/local governments and industry, and to improve communications. Increased information sharing, both within the government and agricultural community, will be essential in ensuring a quick and effective response to a biosecurity threat. First, we have established an emergency management grants program to further the efforts of the National Animal Health Emergency Management System (NAHEMS), the State-Federal-industry effort to improve the United States' ability to deal successfully with animal health emergencies. The goal of the grant program is to increase the level of animal health emergency preparedness throughout the country. In fiscal year 2001, USDA awarded close to \$2 million to 31 States, 6 Tribal Nations, and 1 university. For fiscal year 2002, the USDA will use homeland security supplemental funds to distribute \$11 million in emergency management grants.

Second, we are requesting \$4 million in fiscal year 2003 to enhance the disease response component of our system by placing up to 35 emergency managers throughout the country to assist States with establishing animal health emergency standards, to participate in local and State exercises, and to assist with actual ani-

mal health emergencies. The placement of these managers will set up an infrastructure for a quick and effective response to disease outbreaks involving one or more States. We have established an Emergency Operations Center with advanced networking and monitoring capabilities in Riverdale, Maryland. We have scheduled several training courses throughout the fiscal year for State animal health emergency managers to provide tools and information to augment their emergency management plans.

In addition, USDA is using the findings of the National Association of State Departments of Agriculture (NASDA) Animal Health Safeguarding Review report to further cooperation with State, local, and university stakeholders. While the NASDA review found that we have been effective in detecting, controlling, and eradicating animal health threats, the escalating demand for services has strained the resources of USDA agencies that deal with animal health issues. In response to one of the review's recommendation for improved and expanded applied research and animal health diagnostic capabilities, USDA recently signed a memorandum of understanding (MOU) with the American Association of Veterinary Laboratory Diagnosticians (AAVLD) that, when implemented, should enhance the Department's ability to provide timely diagnostic services. The MOU permits USDA to certify States to perform diagnostic tests for certain foreign animal diseases and establish a formal network of accredited, State diagnostic laboratories. USDA is working with the AALVD to develop appropriate standards and an inspection system to ensure that State facilities meet our biosecurity requirements.

USDA is committed to ensuring that its Federal, State, and industry stakeholders are aware of and support the Department's efforts to protect U.S. agriculture. We realize that close coordination and information with our stakeholders is crucial. We will continue to strengthen our partnerships with the States, as well as the agricultural community, to protect the health and integrity of our food production systems.

#### SUBCOMMITTEE RECESS

Senator KOHL. Our next hearing will be on Thursday, March 14th at 10 o'clock in this room where we will hear testimony from sub-cabinet members of the Department of Agriculture on the state of the farm economy and the rural sector.

If there is no other business to come before the subcommittee, we stand recessed.

[Whereupon, at 12:30 p.m. Wednesday, February 27, the subcommittee was recessed, the reconvene subject to the call of the Chair.]

**AGRICULTURE, RURAL DEVELOPMENT, AND  
RELATED AGENCIES APPROPRIATIONS FOR  
FISCAL YEAR 2003**

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**THURSDAY, MARCH 14, 2002**

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

The subcommittee met at 10:02 a.m., in room SD-138, Dirksen Senate Office Building, Hon. Herb Kohl (chairman) presiding.

Present: Senators Kohl, Dorgan, Johnson, Murray, Cochran, Stevens, and Burns.

**DEPARTMENT OF AGRICULTURE**

**STATEMENTS OF:**

**KEITH COLLINS, CHIEF ECONOMIST**

**J.B. PENN, UNDER SECRETARY FOR FARM AND FOREIGN AGRICULTURE SERVICES**

**MARK E. REY, UNDER SECRETARY FOR NATURAL RESOURCES AND ENVIRONMENT**

**MICHAEL E. NERUDA, DEPUTY UNDER SECRETARY FOR RURAL DEVELOPMENT**

**JOSEPH J. JEN, UNDER SECRETARY FOR RESEARCH, EDUCATION AND ECONOMICS**

**OPENING STATEMENT OF SENATOR HERB KOHL**

Senator KOHL. This hearing will come to order. Today we welcome our guests from the Department of Agriculture, who will be providing an overview of the farm economy and rural sector, and an explanation of how the President's fiscal year 2003 budget applies to these subjects. We will hear today from USDA Chief Economist Keith Collins; J.B. Penn, Under Secretary for Farm and Foreign Agricultural Services; Mark Rey, Under Secretary for Natural Resources and the Environment; Mike Neruda, Deputy Under Secretary for Rural Development; and Joseph Jen, Under Secretary for Research, Education and Economics. Also joining us today is Mr. Dennis Kaplan from the Office of Budget and Program Analysis, and we welcome you all to this hearing.

Information on the subject of today's hearing is crucial to the work of this subcommittee. When I was first elected to the Senate in 1988, I created the Wisconsin Agricultural Advisory Committee, which is made up of more than 20 farm and rural economic experts from around my State of Wisconsin, to help identify the emerging issues and challenges facing Wisconsin farmers in rural communities.

You gentlemen here today have the experience, the staff and the resources to provide this subcommittee similarly valuable information on a national as well as an international scale. Your contribution is not only noted but very much appreciated.

I want to say at the outset that there are a number of proposals in the budget that I find troubling. Just to mention a few, I question the wisdom of a proposal that greatly reduces United States contributions to humanitarian food assistance around the world when now, more than ever, that world is looking to this country for leadership.

Also, I do not understand why the President would eliminate funding for programs designed to install flood prevention structures and practices, and instead adopt a policy that, while it will not protect your home from a flood, will nevertheless help you pick up the pieces after a flood.

And when an identified unmet need for this country is a shortage of housing for the rural poor, I do not understand why this budget, for the first time in 40 years, does not provide funding for construction of rural rental housing units.

Finally, I have to admit that the proposal to terminate the cereal product laboratory in Madison, Wisconsin, which was established in the 1930s, has caught my attention.

Still, gentlemen, we appreciate the testimony you have prepared and it will be made part of the record. Following statements by Senator Cochran, or any of my other colleagues when they arrive, we will turn to our witnesses for a summary of their testimony. I do ask you to make your summaries as brief as possible so that we will be able to ask questions during our limited time this morning.

Noting that Senator Cochran or any of my colleagues are not here at the moment, we will start with your testimony. First, we ask you, Mr. Collins, to give us your testimony.

#### STATEMENT OF KEITH COLLINS

Mr. COLLINS. Thank you very much, Mr. Chairman. I appreciate the opportunity to be invited to join this distinguished panel from USDA to kick off today's hearing with a brief overview of the state of the farm economy, which I believe to be improving slowly after bottoming out in 1999.

Overall demand for crop products is likely to be constrained as the global economic slowdown runs through the remainder of 2002. Recent data on the U.S. economy shows that the recession has not been as deep as once thought or predicted and recovery now appears to be underway. Even so, the U.S. economy is starting slow here at the beginning of 2002, but it will improve as the year unfolds, as low energy prices, low interest rates, the tax cut and the recently enacted stimulus package gradually increase consumer confidence.

Foreign economic growth is expected to be weak again this year with developed economies particularly fragile, particularly Japan and Argentina. The prospects are improving for the Middle East, for East Europe, parts of Asia, and we think in Mexico as well.

The value of the dollar unfortunately is expected to remain as high or higher than it was last year. In this environment of slow economic growth and a high value of the dollar, we still expect U.S. agricultural exports to increase to \$54.5 billion, and that's up from about \$53 billion last year. And we expect imports to remain unchanged, at about \$39 billion.

Farm cash receipts have gone up in each of the last 2 years, and they are forecast to rise again this year to \$204 billion; that would be \$16 billion higher than they were in 1999. I think this growth in revenue indicates the slow but steady improvement in the overall market fundamentals that I have expressed earlier. Livestock receipts are showing the most strength in the farm economy and our forecast will remain near last year's record high level.

The continuing decline of the Nation's cattle inventory and cautious expansion by hog producers resulted in a less than 1 percent increase in meat production last year and a similar increase is predicted this year. Consequently, livestock prices have been firm or rising, except for milk, where production is up sharply following the pretty high returns of last year. The poultry market has been slowly improving but I believe that prospects now are linked to resolution of the Russian ban on U.S. poultry.

United States crop receipts are forecast to remain well below the record high that was set back in 1997. They are pressured by large supplies in competing countries and by ample stocks. Nevertheless, by the end of this marketing season, global grain stocks are likely to be down nearly 10 percent from a year ago and that will be the lowest level since the mid-1990s. Grain prices, consequently, could move up pretty significantly if we were to have adverse weather that affects global crop production.

Unfortunately, stock levels for cotton and rice are likely to be at 15-year highs this year, which I think brings implications for the revenues for those crops. Despite the improvement in overall market revenue for agriculture as a whole, the prospects for cash farm income are going to depend on the disposition of the new Farm Bill. Assuming the Farm Bill and other assistance legislation, then net cash income for U.S. agriculture as a whole in 2002 will look very similar to the average of recent years.

Although dependent upon substantial government support, the overall financial condition of farming continues to be stable. In 2001 we saw a slightly larger decline in the number of farms in the U.S. than we had seen in recent years. However, the value of farm real estate rose 3 percent, and another increase is expected this year, keeping the farm debt to asset ratio at a pretty manageable level.

Reported loan delinquency and foreclosure rates at agricultural banks have been low and agricultural banks overall are in fairly sound financial condition. In addition to large government payments, off-farm income continues to help make farms avoid more serious financial problems. For example, just consider those farms who say that their principal occupation is farming. Those farms had an average household income of \$59,000 in the year 2000, compared with \$57,000 for the average income for all U.S. households.

Another factor demonstrating the importance of off-farm income is that only 12 percent of all farms had more than 80 percent of their household income come from farm businesses.

To conclude, while national farm conditions appear stable, a combination of low prices and adverse weather has contributed to some regional and some sector problems. In addition, production agriculture consists of a very diverse group of farms and ranches with varying degrees of financial success and needs. Today we have farms that struggle to keep their operation going while simultaneously we have others that are on the cutting edge of production and marketing technology, creating new busy opportunities for the farm businesses.

That concludes my statement, Mr. Chairman.  
[The statement follows:]

#### PREPARED STATEMENT OF KEITH COLLINS

Mr. Chairman and members of the Subcommittee, thank you for the invitation to discuss the economic situation in U.S. agriculture. The generally weak markets for major crops continues, fueled by the global economic slowdown, the high value of the dollar, and large global production. Despite the reduction in major crop prices over the last several years, the financial condition of the farm sector has remained stable due in part to large government payments. Other contributing factors have been a reluctance of producers to take on new debt, low interest rates, off-farm employment opportunities, and improved prices and returns for livestock. In addition, prices for energy-related farm inputs have dropped over the past year, helping to hold down farmers' production expenses.

Looking ahead, little improvement in major crop markets is expected over the next 12 months, unless global crop production moderates from recent high levels. However, the financial condition of the farm sector is expected to remain stable in 2002 supported by continued strength in livestock prices and returns, low interest rates, stable energy prices, and continued large government payments.

#### OUTLOOK FOR THE U.S. AND WORLD ECONOMIES

The outlook for the global economy is for a continuation of the current economic slowdown through 2002. The global economic slowdown is expected to constrain growth in demand for agricultural products, but will also help to stabilize farm production expenses in 2002. Prior to last year, the slowdown in the world economy reflected poor economic performance in Asian and Latin American countries. In contrast, a sharp downturn in the U.S. economy is a major contributor to the current global economic slowdown.

U.S. Gross Domestic Product (GDP) registered a strong increase of 5.7 percent during the second quarter of 2000 but then plunged sharply, declining by 1.3 percent in the third quarter of 2001. For all of 2001, U.S. GDP increased by 1.1 percent. Despite the sharp drop in growth and rising unemployment, consumer spending did not contract, helping to avoid an even deeper recession. The U.S. economy is forecast to register a second year of slow growth in 2002, with the rate of growth increasing to 1.6 percent and unemployment holding at about 6 percent. The rate of growth is expected to improve throughout the year, as low energy prices, low interest rates, and tax cuts gradually increase consumer confidence.

Foreign GDP growth in 2001 was a very slow 1.3 percent and is forecast to moderate further to 1.2 percent this year (Oxford Economics). Developed economies will be particularly weak, especially Japan and Argentina, but prospects are improving in the Middle East, and parts of Asia. In addition, Mexico's economy is forecast to grow by 1.4 percent in 2002 after contracting slightly last year.

#### OUTLOOK FOR U.S. AGRICULTURAL EXPORTS

The value of U.S. agricultural exports peaked at a record \$60 billion in fiscal year 1996. Over the next 3 years, the value of U.S. agricultural exports fell by nearly \$11 billion, reflecting increased foreign competition and a strong dollar. In fiscal year 2002, the value of U.S. agricultural exports is forecast to reach \$54.5 billion, up from nearly \$53 billion last year. The value of U.S. agricultural imports is forecast to remain unchanged at \$39 billion in fiscal year 2002.



The U.S. real agricultural trade-weighted exchange rate has appreciated by 30 percent relative to the currencies of countries that import U.S. agricultural products over the past 6 years, increasing the price importers must pay in terms of their own currency. And over this period, the U.S. dollar appreciated 40 percent relative to the currencies of U.S. agricultural competitors, serving as an incentive for foreign producers to maintain or even expand production. No major adjustment in the value of the dollar is anticipated in 2002. Despite the current U.S. economic slowdown and low interest rates, foreign capital continues to flow into the United States as investors continue to view the U. S. economy as providing the most lucrative and least risky investment opportunities.

Large foreign crop production for several consecutive years in a row has also contributed to the weakness in U.S. agricultural exports over the past several years. Since the early 1970s, world wheat and coarse grain production per hectare has varied considerably from year-to-year, after adjusting for trend, with yield up 1 year and followed by a decline the next year. These annual fluctuations in yield primarily reflect fluctuations in weather patterns around the world. There are two notable exceptions to this up-and-down pattern. The first notable exception is the 4-year period of 1984–87 when yields were quite consistent, stocks built up, and farm economic problems occurred. The second notable exception is the 6-year period of 1996–2001, when again yields have been very stable and rising.

#### OUTLOOK FOR FARM INCOME

After bottoming out in 1999 at \$188 billion, farm cash receipts reached \$202 billion in 2001. In 2002, farm cash receipts are forecast to reach \$204 billion, \$3 billion below the record set in 1997 of \$207 billion. Livestock receipts are forecast to hold steady in 2002 at near the record of \$106 billion set last year. Crop receipts are projected to rise \$2 billion in 2002 to \$98 billion, but remain well below the record of \$111 billion in 1997. Cash receipts for grains, soybeans, and cotton declined from a record \$57 billion in 1997 to \$40 billion during 1999–2001 but are projected to increase slightly to \$41.5 billion in 2002.

Despite improving cash receipts, prospects for net cash farm income in 2002 depend on enactment of additional financial assistance to producers either in a new Farm Bill or supplemental assistance legislation. If no legislation is enacted, net cash farm income would decline to under \$51 billion, down from the record of \$59.5 billion last year. However, if legislation is enacted that provides payments equal to the average of the payments that would likely be made under the House and Senate passed Farm Bills, net cash farm income would be in the range of \$56–57 billion, similar to the average of recent years. In 2002, farmers' total production expenses are forecast to increase by \$0.6 billion to a record \$200 billion. Repair, marketing, and labor costs are expected to increase in 2002, with these higher costs about offset by lower fertilizer and lime, fuel and oil, and interest expenses.

Net cash income, excluding government payments, measures the net income received from the marketplace. Income earned from the market has risen from \$34 billion in 1999 to \$38 billion in 2001 and projected to increase to over \$40 billion in 2002, reflecting a slow but steady improvement in market fundamentals.

Government payments have offset much of the decline in major crop cash receipts since 1998, helping to maintain producers' cash flow. Direct government payments to farmers dropped from the record of \$23 billion in 2000 to \$21 billion last year, compared with \$8 billion in 1997. In 2001, direct government payments included nearly \$4 billion in Production Flexibility Contract (PFC) payments, \$6 billion in loan deficiency payments and marketing loan gains, \$1.7 billion in conservation program payments, and over \$9 billion in emergency (crop and market loss) assistance.

For major field crops, such as wheat, rice, corn, sorghum, oats, barley, cotton and soybeans, government payments have been especially important in maintaining cash flow. Net cash farm income for major field crops averaged slightly under \$26 billion during 1999–2000 and is projected to fall below \$24 billion for crop year 2001, compared with the average of \$26 billion for the 1995–99 crops. Direct government payments were equal to one-third of net cash income for major field crops during 1995–99. For the 1999–2000 crops, direct government payments were equal to three-fourths of net cash income for major crops and account for about the same proportion of net cash income for the 2001 crop year.

#### OUTLOOK FOR FARM FINANCE

The overall financial condition of the farm sector continues to remain fairly strong. The value of U.S. farm real estate rose 3 percent during 2001, bringing the value of farm assets to \$1.22 trillion, 12 percent higher than at the end of 1998. Farm debt rose 4.8 percent in 2001, surpassing \$190 billion for the first time since

1984. As a result, the farm debt-to-asset ratio rose slightly in 2001 to 15.8 percent from 15.5 percent in 1999 and 2000, but continues to remain well below the level reached during periods mid 1980s farm financial crisis.

In 2002, the farm debt-to-asset ratio is expected to increase slightly to 16 percent, reflecting another year in which the value of farm assets rises by less than the increase in farm debt. The value of farm assets is expected to rise by about 1 percent in 2002, but could be higher depending on farm legislation, while farm debt is forecast to increase about 2 percent. The slight deterioration in the debt-to-asset ratio assumes continuation of current farm programs and may not occur if Congress enacts a new farm bill or provides ad hoc assistance to producers in 2002. Although farm debt has increased the past 2 years and expected to increase again in 2002, most farmers are not as heavily leveraged as a decade ago, face lower interest rates, and are generally in better financial health.

All major lenders to agriculture, including USDA, continue to experience very low levels of delinquencies, foreclosures, chargeoffs and loan restructurings. No agricultural bank failed in 2001 and only 5 failed during 1994–2000. In the mid 1980s, 60–70 agricultural banks were failing annually. Surveys find banks healthy, liquid and ready to make loans. Farmers are repaying loans—with the help of government payments—and are somewhat hesitant to take out new loans which shows prudent behavior on their part. However, bankers in a number of regions express pessimism about their borrowers financial positions.

In addition to record government payments, improved off-farm income opportunities for farm households have helped avoid more serious farm financial problems. In recent years, about 90 percent of the total income of the average farm household is derived from off-farm sources. Earnings of farm operator households from off-farm sources averaged an estimated \$60,000 in 2001, up from less than \$36,000 in 1992. Combining income from farm and off-farm sources, farm operators averaged over \$62,000 in total household income in 2001, about 9 percent higher than the average income of all U.S. households.

While national farm financial conditions appear secure, regional and sector problems persist. The combination of low prices and adverse weather in the Southeast, southern plains and elsewhere has contributed to regional pockets of farm financial stress. In addition, production agriculture consists of a diverse group of farms and ranches with varying degrees of financial success, which a single aggregate performance indicator such as net farm income cannot capture.

#### OUTLOOK FOR MAJOR CROP AND LIVESTOCK COMMODITIES

Major crop prices for the 2001/02 season continue to be pressured by large global production and ample stocks. Nevertheless, market fundamentals are slowly improving. At the end of this season, global grain stocks are projected to be down 8 percent from a year ago and the lowest since 1995/96. Thus, world grain prices could move up significantly in the coming year, if weather adversely affects global crop production.

In 2001, U.S. producers planted the lowest wheat acreage since 1973. Wheat prices this marketing year are forecast to average \$2.75–\$2.85 per bushel, up from last season's \$2.62. The increase in price reflects lower total supplies and declining world and U.S. carryover stocks. Total use is forecast to decrease by 168 million bushels over last year's nearly 2.4 billion bushels, as food use, feed use, and exports are all expected to decline. Wheat exports are projected to fall to 975 million bushels, down 86 million bushels from last season. A major factor contributing to lower U.S. exports this season is larger wheat production in importing countries. Wheat production in the major importing countries rose from 161 million tons last season to a projected 165 million tons in 2001/02. U.S. ending stocks are forecast to fall for the third consecutive year to 701 million bushels, which would be the lowest in 5 years.

Winter wheat seeded area for 2002 of 41 million acres was down fractionally from 1 year ago and the lowest since 1971. Lower plantings and reduced carryin stocks are expected to lead to another year of reduced supplies. Even so, farm prices may be about unchanged during the upcoming season because of increased competition for export markets. Wheat exports could fall to 900 million bushels in 2002, the lowest level in 30 years. Weather reduced wheat production in Canada and the European Union (EU) in 2001. Winter wheat acreage in the EU was up sharply last fall and assuming a return to normal weather, the United States would face increased competition from the EU and Canada in 2002/2003. However, moisture levels continue to remain well below normal in Canada.

The 2001/02 corn crop of 9.5 billion bushels was 4 percent below 1 year ago, as plantings dropped by nearly 4 million acres, primarily reflecting less than ideal

planting time weather. The average corn yield reached 138.2 bushels per acre in 2001, the second highest on record, as the weather was generally good throughout the growing season. The smaller crop more than offset larger beginning stocks, causing supplies of corn to drop from 11.6 billion bushels last season to 11.4 billion bushels in 2001/02. With total supplies down from 1 year ago, ending stocks are forecast to decrease by 303 million bushels to 1.6 billion bushels, the lowest level since 1997/98.

Total corn use this season is projected to reach a record 9.82 billion bushels, compared with last season's 9.74 billion bushels, reflecting expanding domestic use. Both feed use and food, seed and industrial use are expected to reach record levels. Corn used for alcohol production is expected to reach 690 million bushels, up 11 percent from a year earlier and up 74 percent from a decade ago. Increasing corn production in importing countries is expected to reduce corn exports by 10 million bushels from last season's 1,935 million bushels, even though excessive rains and flooding reduced Argentina's corn crop in 2001 and China's corn exports are forecast to decline because of the elimination of export subsidies following entry into the WTO. The farm price of corn for the 2001/02 marketing year is forecast to average \$1.85-\$2.05 per bushel, compared with last year's \$1.85 per bushel.

Lower natural gas prices will lower corn producers' fertilizer and irrigation costs in 2002. These lower costs are expected to lead to a slight increase corn plantings in 2002. However, total corn supplies could remain about unchanged from 1 year ago, assuming normal weather. U.S. corn exports are forecast to reach about 2 billion bushels in 2002/03, as expanding world demand offset the effects of a rebound in Argentina's corn crop and ample supplies of wheat for feeding. Another year of rising exports, an expected expansion of 30 percent in corn used for ethanol, and flat supplies could lead to some strengthening of market prospects for corn in 2002/03.

Soybean production was record-high in 2001, reaching nearly 2.9 billion bushels, up 5 percent from a year earlier. The production increase more than offset lower carryin stocks, causing total soybean supplies to increase by about 3 percent in 2001/02. Most of the increase in supplies is expected to go into higher total use. Domestic crush is forecast to exceed last year's record by 2 percent and U.S. soybean exports could eclipse last year's record of 1 billion bushels. Despite the increase in use, ending stocks are forecast to increase by 7 percent to 265 million bushels. Soybean prices for 2001/02 are projected to average \$4.05-\$4.45 per bushel, compared with last season's \$4.54.

The loan rate provisions of the next farm bill could influence soybean plantings in particular. Under the House-passed version of the farm bill, the soybean loan rate could be no higher than \$4.92 per bushel, compared with this season's \$5.26, whereas the Senate-passed version of the farm bill would reduce the soybean loan rate to \$5.19 and increase loan rates for competing crops. Either version of the farm bill would tend to dampen soybean plantings, compared with current law. The decline in soybean acreage this year could be muted by the timing of the farm bill, since producers may not have much time to evaluate the provisions of the new farm bill prior to spring planting. Assuming soybean plantings for 2002 are about unchanged from last year, U.S. soybean supplies would reach another record in 2002. In addition, large South American soybean inventories going into 2002/03 and further acreage and production expansion in 2003 will also keep soybeans prices under pressure next season.

China is a major market for U.S. oilseeds. Protein consumption in China has increased at above 10 percent per year since 1997, led by increases in oilseed crushing capacity, livestock production and shifts toward feeding more optimal rations. Growth in production of soybeans and other oilseeds has not kept pace, leading to strong gains in Chinese imports of U.S. oilseeds. There is considerable concern that China may use regulations on imports of biotech products to restrict imports of U.S. soybeans and corn. These regulations have led to some cancellations of U.S. corn and soybean export sales destined for China in recent weeks. At this point, it is unclear to what extent China regulations on biotech imports will result in long-term export losses and lower prices to U.S. producers.

Cotton production reached a record 20 million bales in 2001, up 17 percent from 1 year ago. The increase in production, combined with larger carryin stocks, caused total supplies to increase from 21 million bales in 2000/01 to 26 million bales this season. Despite the increase in total supply, U.S. cotton mill use is projected to decline from last season's 8.9 million bales to 7.3 million bales, as textile imports continue to grow with the strong dollar being a major factor. Excluding Mexico, the textile trade weighted value of the dollar has risen 30 percent since 1997. In addition, the slowdown in the U.S. economy has also hurt mill use. Even though domestic mill use is projected to decline, total use is expected to increase this season, as larg-

er supplies have made the U.S. more price competitive in world markets. Despite a projected increase in exports of 3.5 million bales, stocks of cotton at the end of the 2001/02 season are projected to reach a burdensome 8.5 million bales, a 16-year high. From August 2001 through January 2002, the farm price of cotton averaged 31.7 cents per pound, compared with last year's season average price of nearly 50 cents.

This season's lower price should reduce U.S. and foreign planted area in 2002. U.S. exports should be strong again in 2002/03. Even so, U.S. stocks are likely to remain large, greatly limiting the prospect for much of a rebound in U.S. cotton prices in 2002/03.

Rice production, in 2001, reached 213 million cwt., up 12 percent from the last year and surpassing the previous record of 206 million cwt. set in 1999. The strong increase in production caused total supplies at the beginning of the crop year to rise by 26 million cwt., up 11 percent from the previous year. Both domestic use and exports are projected to exceed year ago levels, with total use rising by over 10 million cwt., as increased supplies and lower prices have made U.S. rice more competitive in world markets. Total carryover stocks are projected to rise from 28.5 million cwt. last season to nearly 44 million cwt. at the end of the 2001/02 season, which would be the largest carryover in 15 years. The farm price of rice is forecast to average \$4.00–\$4.20 per cwt. this season, the lowest since 1986/87 and down from last season's \$5.61 per cwt.

Sugar production dropped below 8 million tons in 2001, down 8 percent from a year earlier. In order to reduce government inventories of sugar and prevent additional forfeitures, USDA announced Payment-in-Kind (PIK) Programs for the 2000 and 2001 crops under which producers could elect to divert a portion of their contracted acreage from production in exchange for in-kind payments in the form of CCC-owned sugar. At the end of the current marketing year, the CCC is projected to hold about 300,000 tons of sugar in inventory, down from nearly 800,000 tons at the end of last season. The PIK programs have reduced stocks and strengthened prices near term. Looking ahead over the next several years, import commitments under existing international trade agreements (including Mexico), the potential for over quota or second tier imports from Mexico, and trend growth in U.S. yields are likely to continue to pressure sugar prices, possibly again resulting in CCC loan forfeitures and stock accumulation.

In 2001, hog prices averaged \$46 per cwt. for the year, up 2 percent from a year earlier and up one-third from 2 years ago. Despite relatively favorable returns in recent years, production has not expanded as in the past. In 2001, the number of sows farrowing was below a year earlier in each quarter, except for a slight increase in September–November. In addition to a smaller number of sows farrowing in 2001, the average number of pigs per litter declined slightly for the first time since 1988 and for only the third time in the past 20 years. As a result, the 2001 pig crop was down 1.3 million head from 2000. However, higher U.S. imports of hogs and an increase in dressed weights caused pork production to increase by 1 percent in 2001.

Commercial pork production is forecast to be up slightly in 2002 due primarily to heavier slaughter weights. Hog prices are forecast to average \$42–\$45 per cwt. in 2002, but rising seasonal production could push hog prices to the upper \$30 range during the fourth quarter. U.S. pork exports are forecast to drop off somewhat from the brisk pace of 1 year ago. U.S. pork exports were up about 21 percent in 2001, reflecting increased consumer demand for pork in Japan because of Bovine Spongiform Encephalopathy (BSE) and other animal disease concerns.

In 2001, liquidation of the Nation's cattle herd finally led to reduced beef production. Beef cow slaughter rose sharply in 2001 and large numbers of heifers were moved into feedlots rather than retained for herd expansion, as the most severe winter since 1992/93 increased cow slaughter during the first quarter of 2001 and drought in many areas caused producers to reduce their herds. Despite large numbers of heifers moving into feedlots, the number of cattle placed on feed dropped 6 percent causing beef production to decline by 2.6 percent in 2001. Fed cattle prices averaged \$72.43 per cwt. in 2001, compared with \$69.65 the previous year. Fed cattle prices peaked in the first quarter with prices declining through the year as the effects of last year's winter weather dissipated and exports slowed. The economic slowdown and the September terrorist attacks further pressured prices along with rapidly rising slaughter weights in the fourth quarter.

Beef production in 2002 is expected to decline 2 percent from last year. Choice steer prices are expected to average \$72–\$77 per cwt. in 2002. The February 1 Cattle report indicated that the total number of heifers 500 pounds and over is fractionally below last year. This would imply that the number of heifers which will be available to be bred in late spring or early summer for calving next spring will be

about the same as last year. If the liquidation phase of the cattle cycle is to end, the majority of the herd retention will have to come out of calves born this year. These animals would be bred in 2003 for calving in 2004. If this occurs, it is likely that beef production will not expand before 2005. The major constraint to expansion appears to be availability of forage. Given dry conditions in many cattle areas, producers appear to be holding back on expansion until the forage base shows improvement.

Last year, U.S. beef exports dropped by 8 percent, as Japanese consumers reduced beef consumption because of concerns related to animal diseases. Prospects for recovery in U.S. beef exports in 2002 appear remote, as economic conditions in Japan, the strong dollar, and continued concerns about the safety of beef will likely prevent a rebound in sales to Japan.

Broiler prices are projected to average 57–61 cents per pound in 2002, compared with 59 cents per pound in 2001. In response to declining prices and returns, producers began reducing the rate of expansion in broiler production in 2000. Broiler production rose 2.5 percent in 2000 which followed a 7-percent increase in 1999. In 2001, broiler production increased by 2 percent and is forecast to increase by 2.8 percent in 2002.

Broiler exports continue to show considerable strength. In 2001, broiler exports reached 6.2 billion pounds, up 15 percent from a year earlier. Increased shipments to Russia accounted for most of the increase in U.S. broiler exports in 2001. In 2002, broiler exports are expected to total about 6.35 billion pounds, as the slowing world economy and the continuing strength of the dollar are expected to moderate the growth in broiler exports. This forecast assumes Russia does not ban U.S. exports of chicken and turkey meat because of concerns related to the use of antibiotics in U.S. broiler production and anti-microbial rinses in U.S. poultry processing plants. Since Russia accounted for 37 percent of U.S. broiler exports in 2001, such a ban would have a very negative effect on leg quarter prices and U.S. exports.

The largest annual drop in milk production since the mid 1980s caused milk prices to rise sharply in 2001. In 2001, the all-milk price averaged \$14.93 per cwt., up from \$12.40 in 2000 and surpassed only by the record of \$15.46 in 1998. The drop in milk production in 2001 reflected declining cow numbers and lower milk production per cow. After increasing in both 1999 and 2000, cow numbers reverted back to the much more typical downward trend of the past several decades in 2001. Milk production per cow in 2001 was adversely affected by stressful winter weather, higher than normal summer temperatures, below normal forage quality, and tight supplies of replacement heifers.

Increasing milk production at the end of last year caused milk prices to drop sharply and the Commodity Credit Corporation (CCC) to resume purchasing nonfat dry milk under the price support program. In calendar year 2001, 353 million pounds of nonfat dry milk were purchased under the price support program, compared with 558 million pounds the previous year. In addition, 141 million pounds of nonfat dry milk were exported under the Dairy Export Incentive Program (DEIP). At the end of 2001, the CCC held 776 million pounds of nonfat dry milk, less than 1 million pounds of butter, and about 4 million pounds of cheese in inventory.

Milk production is expected to grow by about 2.5 percent in 2002, assuming a return to more normal summer temperatures and some improvement in forage quality. In contrast, commercial dairy product demand is expected to increase by less than 2.5 percent in 2002, as softening economic conditions lead to less rapid growth in demand for dairy products than in recent years. With supplies rising faster than demand, the all-milk price is forecast to average \$12.85–\$13.45 per cwt. in 2002, and nonfat dry milk purchases under the price support program could continue to remain near last year's pace, unless the purchase price is lowered.

The outlook for horticultural crops is very uneven. As a group, cash receipts for horticultural crops are projected to be up in 2002 and the value of exports is forecast to reach a record \$11.3 billion in fiscal year 2002. However, farm prices for some horticultural crops, including apples, grapefruit, and pears are being adversely affected by large supplies.

#### CONCLUSION

Despite continued low returns in some commodity markets, a strong balance sheet, off-farm opportunities, lenders in good shape with ample loanable funds, and the prospect of new farm legislation with continued financial support, all suggest the farm sector is secure and in reasonably good shape as the planting period for the 2002/03 season approaches. A few key factors to watch in the coming months that will shape this outlook include:

- The pace of Chinese imports and exports and crop supplies in the major exporters.
  - Resolution of the U.S. farm bill debate, which will affect the amount of support provided to producers and could potentially affect relative loan rates and planting incentives.
  - Transparency of China's biotech regulations to be implemented beginning March 20.
  - Evolution of WTO implementation in China, particularly with respect to the relative incentives provided to grains and oilseed producers, which may affect domestic production of these crops.
  - South American crop developments in the months ahead.
  - The U.S. and global economies.
- Mr. Chairman, that completes my testimony and I would be pleased to respond to questions.

## Farm Economic Indicators

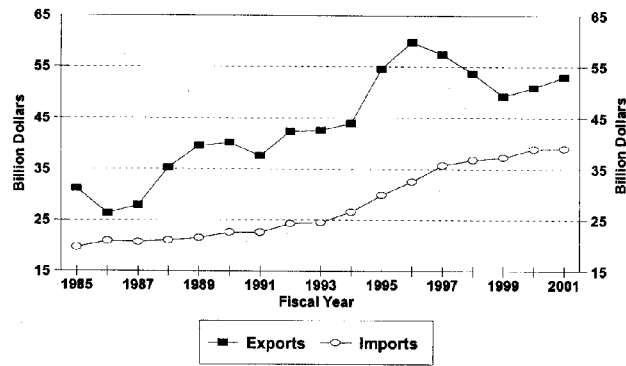
Commodity Prices	Unit	1997/98	1998/99	1999/00	2000/01	2001/02
Wheat	\$/bu	3.38	2.65	2.48	2.62	2.80
Corn	\$/bu	2.43	1.94	1.82	1.85	1.95
Soybeans	\$/bu	6.47	4.93	4.63	4.54	4.25
Rice	\$/cwt	9.70	8.89	5.93	5.61	4.10
Cotton	cents/lb	65.20	60.20	45.00	49.8	31.7 1/
		1998	1999	2000	2001	2002
Hogs	\$/cwt	34.72	34.00	44.70	45.81	43.50
Steers	\$/cwt	61.48	65.56	69.65	72.43	74.50
Broilers	cents/lb	63.00	58.10	56.20	59.10	59.0
Milk	\$/cwt	15.46	14.38	12.40	14.93	13.15
Gasoline 2/	\$/gallon	1.07	1.18	1.53	1.47	1.24
Diesel 2/	\$/gallon	1.04	1.12	1.48	1.40	1.20
Natural gas (wellhead) 2/	\$/per 1,000 cubic ft	1.95	2.17	3.73	4.13	1.86
Electricity 2/	\$/kwh	8.26	8.16	8.21	8.45	8.33
<b>Agricultural Trade (Billion \$)</b>	<b>FY 1997</b>	<b>FY 1998</b>	<b>FY 1999</b>	<b>FY 2000</b>	<b>FY 2001</b>	<b>FY 2002</b>
Total exports	57.4	53.7	49.2	50.8	52.8	54.5
Asia	23.9	19.7	18.5	19.7	20.1	21.0
Canada	6.6	7.0	7.0	7.5	8.0	8.5
Mexico	5.1	6.0	5.7	6.3	7.3	7.6
Total imports	35.7	36.8	37.3	38.9	39.0	40.0
<b>Farm Income (Billion \$)</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
Cash receipts	207.6	195.8	188.1	193.6	201.9	204.3
Govt payments	7.5	12.4	21.5	22.9	21.1	10.7 3/
Gross cash income	227.3	222.2	224.6	230.1	236.7	228.6 3/
Cash expenses	168.7	167.4	168.9	172.6	177.2	177.6
Net cash income	58.5	54.8	55.7	57.5	59.5	50.9 3/

1/ August through January average.

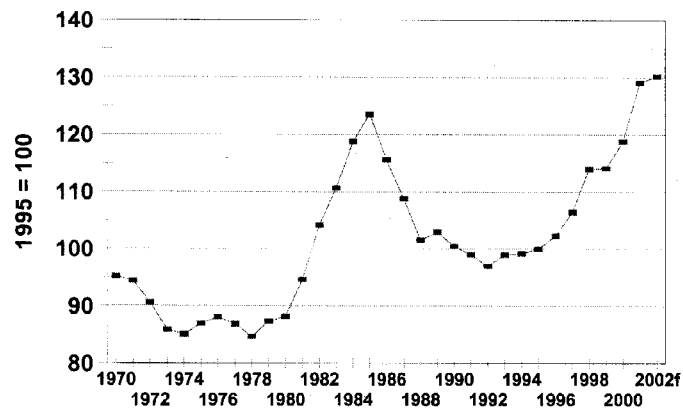
2/ Source: Energy Information Administration, Short Term Energy Outlook, February 2002.

3/ Excludes payments expected from enactment of a new Farm Bill or ad hoc assistance legislation.

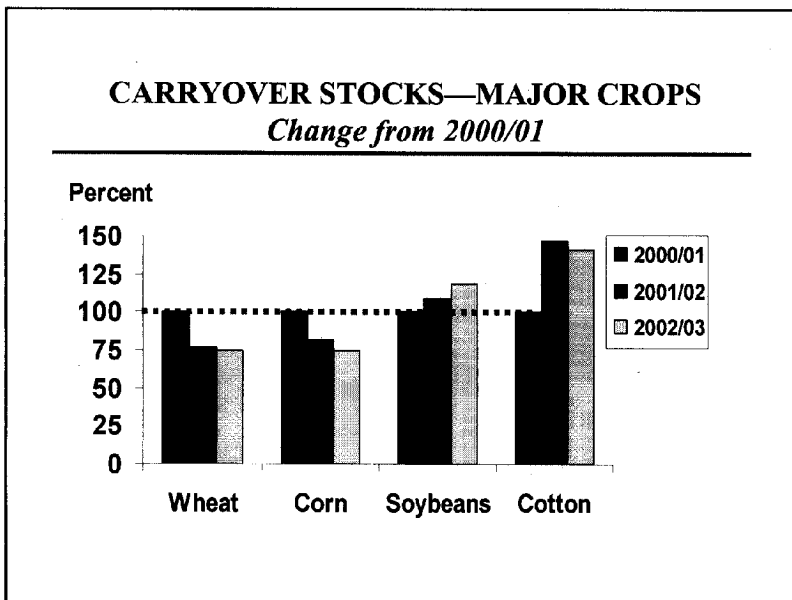
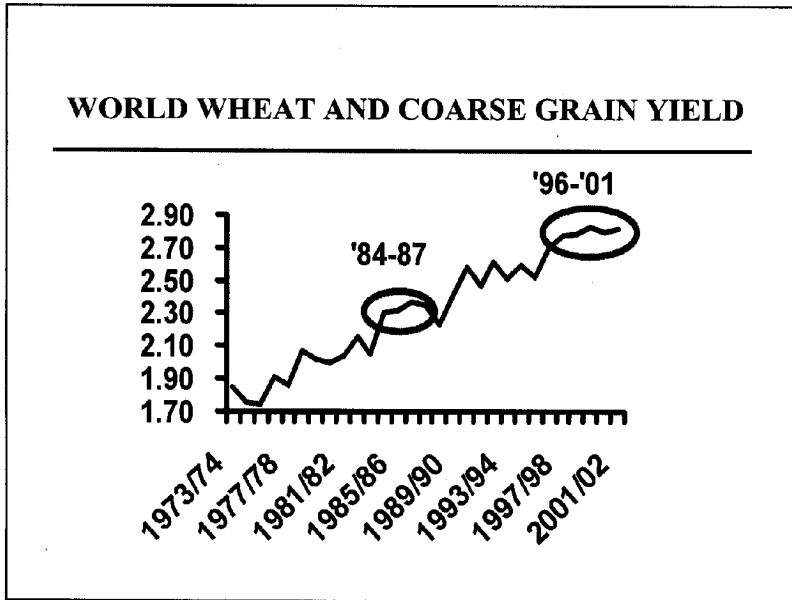
### Value of U.S Agricultural Imports and Exports



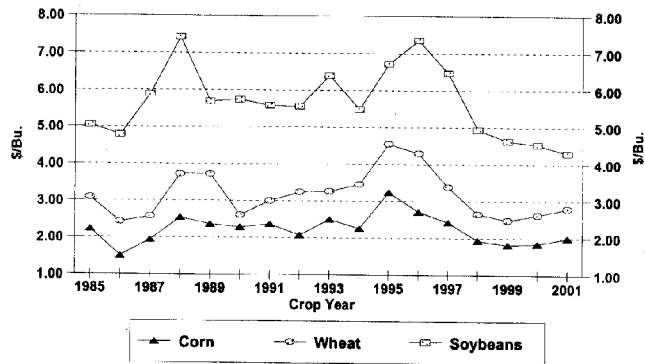
### REAL \$ EXCHANGE RATE *Weighted by U.S. Ag Exports*



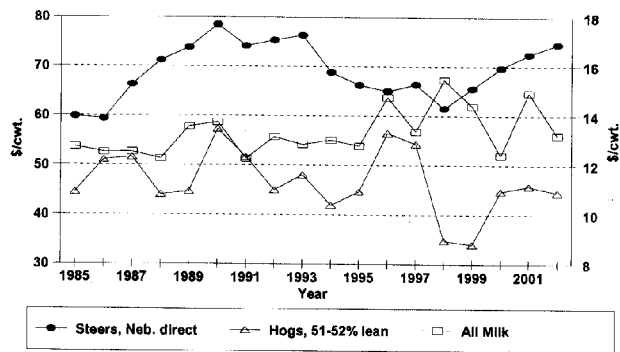


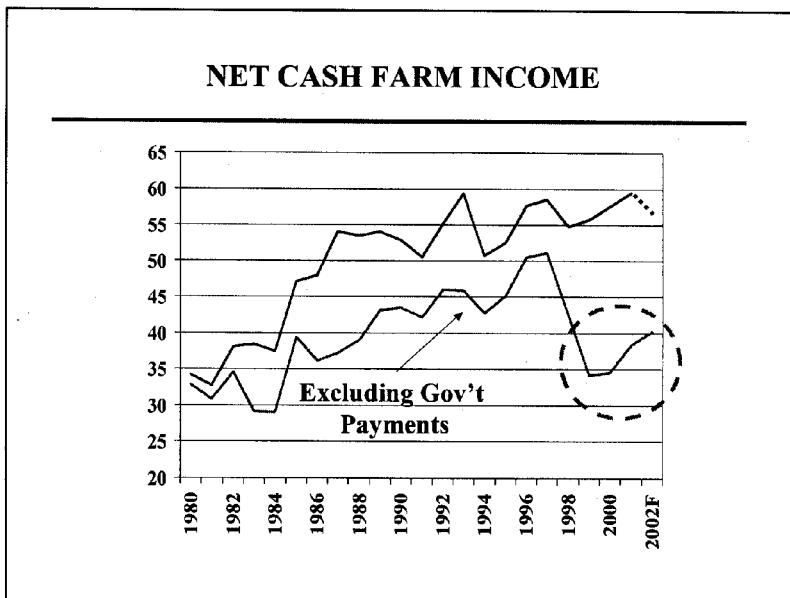
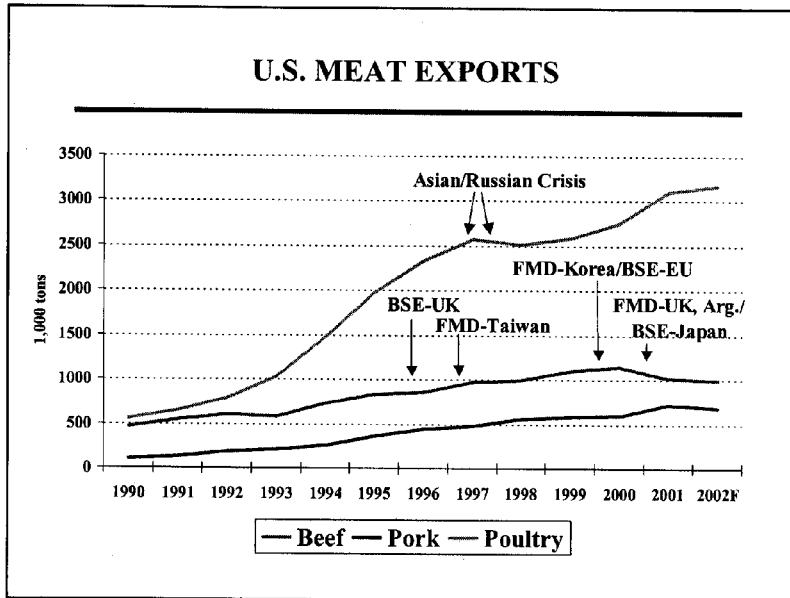


### Farm Prices for Major Crops



### Livestock Prices and All-Milk Price





Senator KOHL. We thank you, Mr. Collins. Before we move on to Mr. Penn, I would like to ask Senator Cochran whether he has a statement he would like to make.

Senator COCHRAN. Mr. Chairman, I appreciate that. I just want to join you in welcoming our panel of witnesses today. We appreciate your cooperation with our subcommittee in our efforts to review and understand the President's fiscal year 2003 budget proposals under your jurisdiction. I look forward to your comments, and our questions and answers that will follow.

Senator KOHL. Thank you, Senator Cochran. Senator Murray, do you have a statement?

Senator MURRAY. Thank you, Mr. Chairman, it is good to be here. Thank you for having this hearing. I do not have an opening statement. I look forward to my first full year on the subcommittee. Thank you.

Senator KOHL. Thank you, Senator Murray. Senator Johnson.

Senator JOHNSON. Thank you, Mr. Chairman. I have a statement that I will submit for the record so we can move ahead to the panel.

[The statement follows:]

PREPARED STATEMENT OF SENATOR TIM JOHNSON

Thank you Chairman Kohl and Senator Cochran, it is my pleasure to join you today in welcoming our many panelists to the subcommittee's hearing concerning the state of the farm economy and rural sector. I extend greetings to each of you and thank you all for appearing before this subcommittee.

We are all here because we care about the future of rural America and family farmers and ranchers. Americans are the envy of the world because we enjoy the most affordable and safest food, spending only 11 percent of our household income on groceries. Yet I am concerned that many of the advances we have been making will be lost under the proposed budget for USDA in fiscal year 2003. I find it disconcerting that USDA suggests the farm sector is secure and in reasonably good shape, yet in recent years, 90 percent of the total income of the average farm household comes from off-the-farm employment.

Today, South Dakota farmers receive on average approximately half the price for crops they pocketed in 1996. Additionally, many farmers and ranchers are paying more each year for critical inputs such as fuel and fertilizer. This situates farmers in a price-cost squeeze making it nearly impossible to earn a decent farm income that covers total production expenses. Overall, the President's budget for agriculture fails to provide the kind of financial bridge necessary to help America's farmers, ranchers, and rural communities cross the divide between recession and prosperity.

Notwithstanding that we are under significantly different budget constraints this year, I do not support the recommended decreases for vital rural development programs. The total rural development budget is proposed to be cut by \$3.5 billion, with significant reductions for water and waste water projects, housing assistance, and cooperative development in rural sectors of the country. This enormous funding blow to ongoing rural development efforts will affect virtually every county in the state of South Dakota alone. Rural development is a key ingredient in reigniting prosperity in many of our States, and I will work to restore funding for rural development programs where I can.

Furthermore, South Dakota State University (SDSU), a land grant institution that relies upon funds from the Cooperative State Research, Education, and Extension Service (CSREES) will also suffer from budget cuts. I am disappointed that SDSU and other land grant universities that provide such vital research and education outreach, have to endure a \$10 million cut in funding. SDSU and other land-grant universities are making a real difference with the funding they receive to maintain research, education, and extension activities. American farmers and ranchers rely upon the information made available by land grant universities, in order to maintain the reputation producing the safest food in the world.

Taking into account the new budget environment we find ourselves in today, I still cannot support the recommended cuts to the Agriculture Research Service (ARS) budget. It is through the research completed at ARS facilities across the country that ensure producers are armed with up to date and adequate information in order to improve production. Ongoing changes in today's global environment do not permit successful producers to be armed with anything but the most current infor-

mation and technological advances. Cuts to agricultural research are counter-productive and I will work in this subcommittee to restore some of this funding where I can.

I was pleased to see the President's budget including a small increase for the Resource Conservation and Development (RC&D) Program, which I consider vital to the 75 percent of the population that is served by the 368 RC&D councils nationwide. Yet, this increase does not allow for the Department to approve the many proposed councils throughout the country. In South Dakota alone, there are seven established councils with the hope to have each county involved in the effort to improve the quality of life and standard of living in rural communities.

Our work this year will not be easy. But I am confident that if we work together, this subcommittee can produce a responsible and effective budget for the important functions of the USDA, which will have a truly positive impact on the farm economy and rural sector. Thank you all for appearing before us today and I thank the Chairman and the committee for their time.

Senator KOHL. Thank you, Senator Johnson. Mr. Penn.

STATEMENT OF J.B. PENN

Dr. PENN. Thank you, Mr. Chairman. I appreciate the opportunity to appear before the committee this morning to discuss the budget and programs for fiscal year 2003 for the Farm and Foreign Agricultural Services mission area in the Department. I will be very brief.

As you know, the Farm and Foreign Agricultural Services mission area is at that heart of USDA efforts to assist American agriculture to respond to the challenges of the 21st century. Our mission area provides price and income supports, farm credit and capital assistance, risk management tools, conservation assistance, trade expansion and export programs, and together these provide a broad-based economic safety net for America's farmers and ranchers.

The 2003 budget proposals fully support this range of activities. The proposed budget reflects the \$73.5 billion agreed to for the new broad-based farm policies for 2002 through 2011. It fully funds the risk management and crop insurance activities. It supports export expansion, provides for a program level of over \$6 billion for the Department's international activities, and it provides for the delivery of the large and complex set of farm programs while improving the management and the delivery of those programs.

Our mission area is composed of three major agencies in the Department, and I would like to just say a very brief remark about each of those and their budgets.

Starting with the Farm Service Agency, which is our principal vehicle for delivering assistance directly to farmers, FSA will play a lead role in implementing the programs of the new Farm Bill and it continues to enhance its ability to provide first-rate service more efficiently to farmers and ranchers all across the country. The 2003 proposed level for FSA salaries and expenses supports about 5,800 Federal staff, 11,250 non-Federal county staff, and that's the same level as it was in the previous year.

Now there are some very significant workload implications that will arise out of the Farm Bill that's now being developed, but because of the provisions of that bill were unknown at the time we developed this budget and are still unknown at this time, we could not address the workload requirements associated with the new

Farm Bill. So our budget projections do not include any allowances for the increased workload because of that bill.

The workload, as I said, could be fairly considerable because the new Farm Bill could well include updating crop acreage basis and program yields, something that has not been done in many, many years. It could have, perhaps, new payment limit provisions, new conservation programs, new farm accounts. There could be a considerable number of program modifications and new programs that would add substantially to the work load.

Once we know what the provisions of that bill are, then we will complete our assessment of the resource requirements. We will work within the Administration, consulting with OMB and the other agencies, and we will determine how to proceed from that point.

I would also note that the FSA budget for 2003 supports nearly \$4 billion in farm loans, about a quarter of which would be direct loans and the rest guarantees. That level is just slightly below what is available for 2002. By law, a substantial portion of the direct loans will be reserved for assistance to beginning, limited resource, and socially disadvantaged farmers and ranchers.

Next I turn to the Risk Management Agency. The Federal crop insurance program is now one of the strongest parts of the safety net available to our Nation's agricultural producers. In 2001, the crop insurance program provided nearly \$37 billion in protection on over 211 million acres, which is approaching two-thirds of the cropland base in this country. The crop insurance program has seen a very significant shift in business in the past 2 years because the producers that use insurance are electing higher levels of coverage as a result of the premium subsidies that were provided in the Agricultural Risk Protection Act of 2000.

The 2003 budget requests an appropriation of such "sums as necessary" as mandatory spending for all costs associated with the program's Federal salaries and expenses. I would also note that the budget includes a proposal to cap the amount of underwriting gains the insurance companies may receive, and that proposal was based on the fact that since 1994, the insurance companies have received over \$2 billion in underwriting gains, while the Federal Government has paid about \$1 billion in excess losses.

Now, shifting to the international arena, I think one of the clearest facts before us is that our farmers and ranchers have the capacity to produce far, far more food and fiber than we need to meet the domestic market requirements. So if we are to have a thriving, profitable farm sector, then we have to have access to the customers and the markets that are outside our own boundaries. One of the major activities of the Foreign Agricultural Service is trying to help with that market promotion and market expansion.

The program includes a very ambitious trade agenda being pursued by the entire Administration, which would include multilateral trade negotiations under the auspices of the Doha agricultural round, regional negotiations such as the free trade area of the Americas, and bilateral trade agreements with several important countries, Chile and Singapore, perhaps to be completed this year.

In addition, the Foreign Agricultural Service conducts a very ambitious program of monitoring and enforcement of the existing

trade agreements. We try to make sure that people who enter into these agreements fully comply with the provisions that they have agreed to.

The budget for the Foreign Agricultural Service has a modest increase proposed of \$10 million, \$6 million of that being for absolutely mission critical IT and the rest being for various other programs, including the Cochran Fellowship Program, which will focus in the coming year on the areas of biotechnology and food safety.

Now I want to also mention in the international arena that the Administration conducted a review of U.S. foreign food assistance, as Chairman Kohl noted in his opening remarks. The President's budget reflects the results of that review in the proposal to increase Public Law 480, Titles I and II, to provide \$1.34 billion in assistance, which would amount to 3.7 million metric tons of food assistance. Along with the increase in Title II, there is a decrease for Section 416(b).

Overall, Mr. Chairman, we think this is a good budget. It is a very modest budget. It doesn't reflect any major changes, any major departures in policy from what has existed, and the increases that are requested are focused on the areas of most urgent need.

So with that, I will stop and I will be happy to respond to questions at the appropriate time.

[The statements follow:]

#### PREPARED STATEMENT OF J.B. PENN

Mr. Chairman and Members of the Committee, I am pleased to appear before you today to present the 2003 budget and program proposals for the Farm and Foreign Agricultural Services (FFAS) mission area of the Department of Agriculture (USDA). With me this morning are the Administrators of the three agencies within our mission area: James Little, Administrator of the Farm Service Agency; Ross Davidson, Jr., Administrator of the Risk Management Agency; and Ellen Terpstra, Administrator of the Foreign Agricultural Service. I am also accompanied by Mary Chambliss, the Department's Acting General Sales Manager, and Stephen Dewhurst, the Department's budget officer.

Statements by each of the Administrators providing details on the agencies' budget and program proposals for 2003 have already been submitted to the Committee. My statement will summarize those proposals, after which we will be pleased to respond to your questions.

Mr. Chairman, last year, the Department released a report on food and agricultural policy for the 21st century—Food and Agricultural Policy: Taking Stock for the New Century. The report assesses the current state of the American food and agricultural system and identifies the challenges and needs it will face in the new century. Based on those findings, the report sets forth a set of goals and principles that we believe should guide the development of policy, programs, and institutions that will affect the growth and vitality of the food and agricultural sector in the new century.

The programs and services of the FFAS mission area are at the heart of the Department's efforts to assist American agriculture respond to the challenges of the new century. Through the wide range of services provided by our agencies—price and income supports, farm credit assistance, risk management tools, conservation assistance, and trade expansion and export promotion programs—we provide the foundation for a broad-based safety net for our farmers and ranchers.

The 2003 budget proposals we are discussing today fully support these activities and ensure our continued efforts on behalf of America's agricultural producers. In particular, the budget supports the development of sound policies for the domestic commodity and income support, conservation, trade, and related programs in the new Farm Bill by providing an additional \$73.5 billion in mandatory funding over the 2002–2011 period. It fully funds our risk management and crop insurance activities. It supports the Administration's export expansion goals by providing a program level of over \$6 billion for the Department's international activities and programs.

Also, it provides for the continued delivery of a large and complex set of farm and related assistance programs, while improving management and the delivery of those programs.

#### FARM SERVICE AGENCY

The Farm Service Agency (FSA) is our frontline agency for delivering farm assistance and is the agency the majority of farmers and ranchers interact with most frequently. Producers come to FSA to participate in farm programs, including programs involving flexibility contract or other direct payments, commodity marketing assistance loans, loan deficiency payments, farm ownership and operating loans, disaster assistance, and conservation programs such as the Conservation Reserve Program (CRP). Because FSA will play a lead role in implementing provisions of the new Farm Bill, the budget places a priority on enhancing the ability of FSA to provide better service to our producers more efficiently.

#### FARM PROGRAM DELIVERY

Current conditions in the farm economy and the substantial level of assistance in new programs to be implemented will continue to reinforce the need to improve customer service efficiency in FSA and the other county-based conservation and rural development agencies. The substantial workload that FSA has faced over the past 3 or 4 years is expected to continue through 2003, as new Farm Bill programs are implemented.

The proposed 2003 program level for FSA salaries and expenses of \$1.3 billion will support a ceiling of about 5,800 Federal staff years and 11,250 non-Federal county staff years, unchanged from the 2001 levels and the current estimates for 2002. At the time the budget was developed, the workload implications of the new Farm Bill were unclear. We will continue to assess the provisions of the Bill as it is developed to estimate the workload implications.

The Administration also places high priority on management initiatives and investments in technology to deliver improved, more efficient services to rural customers by continuing to streamline and modernize the field offices and Service Centers. Although we have established a high number of consolidated Service Centers and have made major strides in replacing separate-agency, aging information technology systems with the Common Computing Environment and re-engineered business processes, additional steps are needed to realize the full benefits.

A key component in these efforts is the Geographic Information System (GIS) which will replace normal hard-copy paper maps and data files with an integrated digital system. The GIS will enable producers and the Service Center agencies to electronically share and process vital information on farm records, soils, and aerial photography in ways that can dramatically improve efficiency. The President's budget proposes \$28 million for this GIS effort as part of the \$56 million in appropriated funds under the Office of the Chief Information Officer for FSA's component of the Common Computing Environment. The Rural Development mission area and the Natural Resources Conservation Service (NRCS) will provide additional funding, as necessary, to support the modernization plan and Service Center initiative.

FSA also will work on modernizing its farm credit program servicing activities, and we will review Service Center office processes and structure to explore additional ways to provide services at lower cost.

The 2003 budget was prepared before the precise nature of a new Farm Bill was known, but it is anticipated that most of the programs FSA would be required to deliver in 2003 will be governed by the new legislation. FSA has been preparing for the challenges that a new bill could bring and is evaluating the administrative and workload issues of programmatic changes such as updating crop bases and other challenges looming for 2002, 2003, and beyond, along with opportunities for increased administrative efficiencies and streamlining.

#### COMMODITY CREDIT CORPORATION

Disaster and commodity price and income support programs administered by FSA are financed through the Commodity Credit Corporation (CCC). CCC also is the source of funding for a number of conservation programs administered by USDA, and it funds many of the export programs administered by the Foreign Agricultural Service. CCC borrows funds directly from the Treasury to finance those programs.

Changes over the last decade in commodity, disaster, and conservation programs have dramatically changed the level, mission, and variability of CCC outlays. CCC net outlays increased from \$10 billion in 1998 to a record of \$32 billion in 2000, and were \$22.1 billion in 2001.



CCC net outlays for 2003 are currently estimated at \$11.6 billion, down approximately \$5.8 billion from the 2002 estimated level of \$17.4 billion. These are current law baseline estimates and do not include a continuation of emergency assistance provided in supplemental appropriations acts in recent years. They also do not include program changes and new spending likely to be authorized in the Farm Bill. The budget does support increased spending for the Farm Bill at levels consistent with the 2002 Congressional Budget Resolution and, when this is taken into account, CCC net outlays in 2002 and 2003 will likely remain closer to the 2001 level.

The 2002 Agriculture Appropriations Act authorizes CCC to replenish its borrowing authority as needed from the Treasury, up to the amount of realized losses at the end of the preceding fiscal year. It is projected that, in 2002, CCC will draw about \$22 billion under that authority for 2001 losses. The appropriation to reimburse CCC for net realized losses that Congress provided for 2002 was a current, indefinite appropriation. This provided CCC with the flexibility to request funds as needed from the Treasury, up to the actual losses recorded for the most recent year. Without this current, indefinite appropriation, CCC would have been unable to replenish fully its borrowing authority at the beginning of 2002, and timely assistance to producers could have been jeopardized due to insufficient borrowing authority.

#### CONSERVATION PROGRAMS

Conservation program outlays will account for an estimated 10 percent of CCC expenditures in 2002. The 1996 Federal Agriculture Improvement and Reform Act authorized direct CCC funding for the CRP administered by FSA and several conservation programs administered by NRCS. It also authorized CRP through 2002 and set enrollment in the program at 36.4 million acres. The new Farm Bill is expected to substantially increase conservation program levels, including those funded by CCC.

At the end of 2003, about 34.9 million acres are projected to be enrolled in CRP. In 2001, no general signup was held but a 1-year extension was offered on expiring contracts. Also, 20,000 acres were enrolled in the Farmable Wetlands Pilot Project. A 1-year extension of CRP contracts has been announced for 2002 as well. About 600,000 acres are expected to be enrolled under the continuous, non-competitive CRP sign-up in 2002. In addition, about 200,000 acres are expected in the Farmable Wetlands Pilot Project. For 2003, new Farm Bill provisions will be in effect but, for purposes of the budget presentation, continuation of existing CRP authorities is assumed, which would allow for general, as well as continuous, CRP sign-ups to continue.

#### EMERGENCY CONSERVATION PROGRAM

In order to ensure timely emergency assistance to restore farmland damaged by natural disaster, the 2003 budget requests about \$49 million, reflecting the 10-year average, in appropriated funding for the Emergency Conservation Program. This will avoid the delay commonly faced in providing assistance when no advance funding is provided.

#### FARM LOAN PROGRAMS

FSA plays an important role in the safety net available to 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 2003, 70 percent of direct farm ownership loans are reserved for beginning farmers and about 35 percent are made at a reduced interest rate to limited resource borrowers, who may also be beginning farmers.

The 2003 budget includes funding for about \$700 million in direct loans and \$3 billion in guarantees. Although these levels are down slightly from 2002 totals, they do not reflect any change in policy. The reductions are due primarily to technical re-estimates of subsidy rates for the direct loan programs that have made those programs more expensive to operate. However, we believe the proposed loan levels will be sufficient to meet demand in 2003.

The 2003 budget also maintains funding of \$100 million for the Boll Weevil Eradication program and \$2 million for the Indian Land Acquisition program, the same levels that were provided in 2002. For emergency disaster loans, carryover funding from 2002 is expected to provide sufficient credit in 2003 to producers whose farming operations have been damaged by natural disasters.

## RISK MANAGEMENT AGENCY

The Federal crop insurance program represents one of the strongest safety net programs available to our Nation's agricultural producers. It reflects the principles set forth in the Department's report on food and agriculture in the 21st century by providing a safety net that is 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 2001, the crop insurance program provided nearly \$37 billion in protection on over 211 million acres, which is about 5 million acres more than were insured in 2000. However, the crop insurance program has seen a significant shift in business over the past 2 years—producers have chosen to buy-up to higher levels of coverage as a result of increased premium subsidies provided in the Agricultural Risk Protection Act of 2000 (ARPA). Although total acres insured have not increased dramatically, there has been a major shift in coverage. For example, participation at coverage levels of 75 percent or more has increased by more than 50 percent. The number of policies and acres and levels of liability and premiums all increased more than 40 percent for coverage levels of 70 percent and higher.

The 2003 budget requests an appropriation of "such sums as necessary" as mandatory spending for all costs associated with the program, except for Federal salaries and expenses. This level of funding will provide the necessary resources to meet program expenses at whatever level of coverage producers choose to purchase and can accommodate the effects on participation that might result from Farm Bill and other changes.

Our current projection of mandatory funding needs for the program reflects a modest decrease, from \$2.9 billion in 2002 to \$2.8 billion in 2003. This projection is based on USDA's latest estimates of planted acreage and expected market prices for the major agricultural crops, and assumes that producer participation remains essentially the same as it was in 2001.

The 2003 budget includes a proposal to cap the amount of underwriting gains the insurance companies may receive at 12.5 percent of their retained premium. This proposal is expected to reduce program costs by about \$115 million annually. Since 1994, insurance companies have received over \$2 billion in underwriting gains while the Federal Government has paid about \$1 billion in excess losses. As a group, the companies have not experienced a loss since the devastating Midwestern floods of 1993, when they posted a combined loss of \$82 million. In the last 8 years, they have recovered that loss nearly 25 times over.

For salaries and expenses of the Risk Management Agency, \$76 million in discretionary spending is proposed, an increase of \$1.3 million above the 2002 level of \$74.7 million.

## FOREIGN AGRICULTURAL SERVICE

Lowering trade barriers and opening new markets overseas are among the Administration's highest priorities for American agriculture. The basis for that commitment is established in our report on food and agricultural policy for the 21st century. As the report makes clear, trade is critical to the long-term health and prosperity of the American agricultural sector.

More than 96 percent of the world's population lives outside the United States, so it stands to reason that is where most future growth in global food consumption will occur. With agricultural production in this country far exceeding our needs and growing at a pace faster than the domestic market can absorb, it is vitally important that our farmers and ranchers have access to growing overseas markets.

The report on food and agricultural policy emphasizes that enhancing the competitiveness of U.S. agriculture in the world marketplace must be one of the primary objectives of our farm policy. It also sets forth a trade agenda for the 21st century and lays out a number of strategies for achieving that objective. One of the most important of those strategies is continuing the liberalization of global agricultural trade. America's farmers and ranchers stand to gain a great deal from further trade reform through increased access to markets overseas and a reduction in unfair competition in those markets.

The new round of multilateral trade negotiations is at the center of our trade liberalization efforts. Those negotiations received an important boost by the negotiating framework agreed to in Doha, Qatar last November. With that agreement as a foundation, the United States can now pursue our ambitious agenda for agricultural reform negotiations, including substantial reductions in tariffs and increased market access, elimination of export subsidies, reform of state trading enterprises, and tighter rules on trade-distorting domestic support. Doha was also important as both China and Taiwan were approved formally for accession to the World Trade

Organization (WTO), which furthers our pursuit of open markets and opens a wide range of new marketing opportunities for our producers and exporters.

We also are pursuing trade liberalization through both regional and bilateral negotiations. These include negotiations to establish a Free Trade Area of the Americas that will encompass virtually all of the Western Hemisphere, as well as bilateral negotiations aimed at establishing free trade agreements with Chile and Singapore. Another important element of our trade agenda is monitoring and enforcement of existing trade agreements. We are working diligently to ensure that our trading partners comply fully with the terms of those agreements and do not institute technical barriers to trade that run counter to their spirit.

Another strategy laid out in the report on 21st century agriculture is ensuring we have the proper tools needed to pursue our export expansion objectives in an increasingly competitive environment. At USDA, having the appropriate tools means having effective export promotion and market development programs, as well as the necessary infrastructure to implement them.

Our budget proposals for the Department's international programs and activities for 2003 are designed to ensure that we have the necessary resources to achieve our export expansion objectives, using the statutory authorities presently available to us. We recognize that, in the case of the export activities funded through mandatory spending, the pending Farm Bill may change the level of funding that will be available for both this year and 2003. Indeed, a portion of the additional funding for the Farm Bill included in the budget estimates is available for these programs.

#### FAS SALARIES AND EXPENSES

The Foreign Agricultural Service (FAS) is the Department's lead agency in implementing most of our international activities and plays an absolutely crucial role in our trade expansion efforts. For 2003, the budget provides \$140 million for FAS, an increase of \$9.4 million above the 2002 level. Included in the FAS request is much-needed funding to support an electronic-Government initiative that will upgrade the agency's information technology (IT) resources and capabilities, and modernize its business practices and operations. Over the last year, FAS has faced a series of computer-related crises that have threatened to cripple agency operations and communications. This is a particularly serious problem for an agency that has offices situated throughout the world and must work closely on a daily basis with many different agencies, such as the State Department and Office of the U.S. Trade Representative. FAS' modernization plans have been reviewed and approved by both the Department's Chief Information Officer and the Office of Management and Budget, and have been found to be consistent with USDA's long-term goals and strategies for business process and IT reform.

The budget also provides funding to develop a plan to establish a standardized information system for all U.S. foreign food aid programs that will be accessible via the Internet to administering agencies, vendors, and grantees. The system will facilitate the distribution of information on U.S. food aid activities and operations, as well as improve program administration and execution.

The FAS proposals also include increased funding of \$1 million for the Cochran Fellowship Program. This is a highly successful program that has provided training and helped to establish positive linkages with many agricultural officials throughout the world. The additional funding will expand programming in a number of important areas, including biotechnology, food safety, WTO accession requirements, and the quality and marketing of U.S. high value agricultural products.

#### EXPORT PROMOTION AND MARKET DEVELOPMENT PROGRAMS

Another key to having the proper trade expansion tools is to ensure adequate funding for the Department's export promotion and market development programs, which our budget proposals are designed to do. For the CCC export credit guarantee programs, the largest of our export programs, the budget includes a program level of \$4.2 billion. This is an increase of \$300 million above the projected 2002 level, reflecting continued very strong growth in the supplier credit guarantee program.

For the Foreign Market Development (Cooperator) Program, Market Access Program, and Quality Samples Program, the budget includes total funding of \$120 million, unchanged from this year's level. Both the House and Senate versions of the Farm Bill provide increased funding for both the Cooperator Program and MAP for both 2002 and 2003. As noted earlier, a portion of the additional funding for the Farm Bill included in the budget could be allocated to these activities.

The budget also includes an estimated program level of \$478 million for the Export Enhancement Program, the maximum level allowed under our WTO export

subsidy reduction commitments, and \$63 million for the Dairy Export Incentive Program, a slight increase over the current estimate for 2002.

#### FOREIGN FOOD ASSISTANCE

As the Committee is aware, the Administration has undertaken a review of U.S. foreign food assistance activities in order to reform and rationalize their implementation and to strengthen their effectiveness. Among the results of that review is the decision to reduce the number of programs through which assistance is provided and to redefine roles in order to eliminate overlap. As a result, USDA will continue to carry out government-to-government programs, while the Agency for International Development (AID) will assume responsibility for programs carried out in cooperation with private voluntary organizations, cooperatives, and the World Food Program. Another outcome is the decision to provide a more secure and predictable foundation for our overseas food aid activities by reducing their reliance on the year-to-year availability of surplus commodities. At the same time, these activities will largely be funded through discretionary sources, subject to Congressional review and approval, and with reduced reliance on mandatory CCC funding.

The results of the Administration's review are reflected in the 2003 budget and program proposals for U.S. foreign food aid activities. For Public Law 480 food assistance, a total program level of \$1.34 billion is provided, which is expected to support total commodity shipments of 3.7 million metric tons.

This includes a program level of \$160 million for Title I credit sales, which is expected to support approximately 700,000 metric tons of commodity assistance. For Title II donations, the budget provides a program level of \$1.18 billion, an increase of \$335 million above the 2002 enacted level. The proposed program level for Title II is expected to support 3 million metric tons of commodity assistance.

Consistent with the results of the food aid review, donations of commodities under section 416(b) authority that rely on the purchase of surplus commodities by CCC will not be continued in 2003. However, commodities that are acquired by CCC in the normal course of its domestic support operations will be available for donation through government-to-government agreements. Current CCC baseline estimates project a limited supply of surplus nonfat dry milk that could be made available for donation under section 416(b) authority in 2003.

Finally, the 2003 budget proposes a change in the funding mechanism for meeting the costs of U.S. cargo preference requirements under the foreign food assistance programs. The Administration is proposing no change in the current requirement that 75 percent of all U.S. food aid commodities be shipped on U.S. flag vessels when they are available at fair and reasonable rates. However, the budget does propose to eliminate the current arrangement under which the Maritime Administration reimburses the Public Law 480 programs or, in the case of section 416(b) and Food for Progress donations, CCC for one-third of the costs of complying with cargo preference requirements. This change will eliminate a duplicative financing system, reduce record-keeping, and lower administrative costs. It will also enhance program objectives by eliminating uncertainty near the end of the fiscal year regarding the timing and receipt of reimbursement payments.

The 2003 budget includes \$45 million in the Public Law 480 budget request to offset the elimination of Maritime Administration reimbursements, and a legislative proposal to implement the proposed change in financing will be transmitted to Congress in the near future.

This concludes my statement, Mr. Chairman. The agency administrators and I would now be pleased to answer any questions you and Members of the Committee might have.

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#### BIOGRAPHICAL SKETCH OF J.B. PENN

Dr. J.B. Penn was sworn in as under secretary for farm and foreign agricultural services by Agriculture Secretary Ann M. Veneman on May 25, 2001.

Before his appointment to USDA, Penn was Senior Vice President and Manager of Sparks Companies, Inc.'s Washington office. Prior to joining Sparks, he was President of Economic Perspectives, Inc. from 1981 to 1988.

Penn's government experience includes service as Deputy Administrator for Economics of the USDA's Economics and Statistics Service and as Senior Staff Economist for the President's Council of Economic Advisers.

A widely respected agricultural economist, Penn has also served on numerous missions and task forces, including two to Poland led by Nobel Laureate Norman E. Borlaug. He also was a member of Presidential Agricultural Task Forces sent to

Honduras in 1982 and Ecuador in 1984, as well as a similar Mission to Guatemala in 1987.

Penn received his BS in Agriculture from Arkansas State University in 1965. In 1967 he earned a MS in Agricultural Economics from Louisiana State University. He earned a PhD in Agricultural Economics from Purdue University in 1973.

Penn is a member of several professional organizations including the American Agricultural Economics Association; Bennett Agricultural Roundtable; Council on Food, Agriculture, and Resource Economics; and the Farm Foundation. In 1988 he became a founding member of the Foundation for the Development of Polish Agriculture.

Penn has authored or co-authored numerous journal articles, technical reports, research monographs, book chapters and popular reports. He co-authored *Agricultural and Food Policy* (fourth edition), which is widely used in U.S. universities. He has been a frequent speaker before industry groups and associations. He also has received numerous awards, the most recent being Distinguished Alumnus from the College of Agriculture at Purdue University.

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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 2003 budget for the Farm Service Agency (FSA).

The President's Budget for FSA and the Commodity Credit Corporation (CCC) provides for spending increases of \$73.5 billion over the baseline estimates for the fiscal year 2002–2011 period, consistent with the tenets of the congressional Budget Resolution for those fiscal years. About \$69 billion of this increase covers CCC-funded activities, including farm commodity and income support, conservation, and export and related programs. Although a year-by-year distribution of this increase cannot be accurately determined until a new farm bill is enacted, "placeholder" estimates are reflected in the Budget for both fiscal year 2002 and 2003. In contrast, our Salaries and Expenses budget does not reflect an increase, despite the fact that our administrative requirements are expected to increase significantly as we implement and administer the new bill. For planning purposes we are working diligently to forecast the workload impacts and related costs of the potential scenarios contained in the House- and Senate-passed bills. Once program provisions become clarified by a conference agreement, we will be able to provide definitive estimates of both start-up and ongoing administrative costs of the new act.

FSA will be impacted significantly by the commodity and conservation provisions of the new act. We are already engaged in preparing ourselves so we can hit the ground running and provide for prompt and efficient program delivery once the President signs the bill into law. For example, we are already examining a range of administrative and programmatic issues, including how we will update crop bases. We are also engaged in a number of other initiatives designed to improve the overall operation of the agency and better serve our customers no matter what the final shape of the new farm bill. I'd like to highlight a few of these areas.

*Technology*

Over the last several years the Department has made considerable progress in its ongoing effort to collocate agencies into one-stop Service Centers throughout the country. To realize the full benefit of the new office structure, improved information management, data sharing between the Service Center agencies, and retooling our processes are essential. Through collaboration and cooperation with our sister agencies—the Natural Resources Conservation Service, the Rural Development mission area, and the Risk Management Agency—we have made significant progress toward achieving this goal. Some examples include:

- FSA, on behalf of the county-based agencies, recently released software to State and county offices to implement the State and County Information Management System (SCIMS). This software, which merges legacy name and address data into the SCIMS intranet database, is an important first step in information sharing among Service Center agencies. It will eliminate the need for each agency to maintain its own customer identification system and will lead us toward an integrated, almost seamless, automated environment servicing all Service Center agencies. This is one of the critical elements toward putting the "E" in e-Government.
- FSA is working closely with the other county-based agencies to enable agricultural producers to access and file electronically all forms and selected records by June 20, 2002, in compliance with the mandates set forth in the Freedom to E-File Act. Through collaboration with the Office of the Chief Information Of-

ficer, the infrastructure has been put in place and a process is being developed to ensure that all major program benefits can be delivered electronically. This capability, coupled with other streamlining efforts and improvements, will further improve FSA's service delivery and customer satisfaction.

—Another key component of technology improvement is the Geographic Information System (GIS), which offers the potential to transform the way the Service Centers do business by replacing manual, hard-copy processes with an integrated digital system. When fully operational, GIS will provide a seamless database encompassing aerial photography, soil information, customer information, and farm records, and will enable us to eliminate the printing and storage of paper maps. Service Center agencies have been collaboratively investing in and implementing GIS and have begun the early phases of implementation. The system is now at a critical juncture in providing digital geospatial data and the tools to make practical use of the information collected. FSA's budgetary component includes \$27.8 million under the Department's Common Computing Environment account to accelerate progress on the GIS to help comply with the mandates of the Freedom to E-File Act and Government Paperwork Elimination Act. In addition, the President's Management Initiatives direct the Department to explore the use of CCC funding of private sector support for these initiatives. We will be working with the Department to determine how best to leverage our resources to achieve this mandate. Also, FSA is involved with the government-wide Quicksilver initiative called Geospatial One-Stop. The Department of Interior is the lead agency on this initiative, which will significantly enhance the implementation of e-Government by making geospatial data more accessible and usable. The Geospatial One-Stop builds upon existing capabilities to accelerate the development of the National Spatial Data Infrastructure, technology, policies, and standards that support "one-stop" access to the Federal Government's spatial data assets.

#### *Program Integrity*

Under the provisions of the Agricultural Risk Protection Act (ARPA), FSA is partnering with the Risk Management Agency (RMA) to enhance program integrity and compliance for RMA insurance products. While RMA is the lead for this effort, FSA has been working closely with RMA and during fiscal year 2001 trained approximately 2,500 local FSA personnel to assist RMA in obtaining evidence of program abuse and fraud. In addition, through the alliance established between FSA and RMA and in collaboration with insurance providers, more than \$15 million in improper insurance claim payments were recovered in fiscal year 2001. Efforts are also under way to reconcile data collected by our two agencies to ensure data consistency and compliance under provisions of ARPA.

#### *Program Outreach*

FSA is committed to reaching out to producer populations that have been under-served by our programs. Toward this end, the Secretary recently signed a cooperative agreement with the National Tribal Development Association to implement the National FSA American Indian Credit Outreach Initiative. As a 4-year pilot program in Montana, this program has doubled the number of Montana Indians accessing FSA farm loans and, through pre-loan education and counseling, has achieved a delinquency rate that is half the national average. In order to replicate this success nationwide, the expanded cooperative agreement outlines a 3-year phased approach to ensure orderly and cost-effective expansion of the initiative to all Federally recognized Indian tribes in the contiguous 48 States. We plan to bolster other outreach efforts, as well, to ensure that all under-served populations are served in all parts of the Nation.

#### *Recruitment*

To improve the diversity of our workforce, particularly in the field, FSA is taking a number of actions to improve recruitment efforts of minorities, especially Hispanics. These efforts are designed to remove barriers that often limit minorities' access to employment in FSA. We have established Regional Recruitment Teams that coordinate broad regional and agency-wide recruitment efforts to more effectively target minority applicants, particularly in the States and counties where most of our vacancies exist and/or our diversity is not representative of the local civilian population. These teams participate in recruitment fairs, conferences, and trade shows to pool a region's vacancies so that we have multiple occupations and vacancies to discuss with potential applicants. FSA is also increasing its mentoring programs with schools and organizations, particularly schools with large minority populations, where we sponsor career planning workshops. In addition, we are adopting an on-line application system that will make it easier to apply for agency vacancies.

## BUDGET REQUESTS

Turning now to the specifics of the 2003 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 CCC, a government corporation for which FSA provides operating personnel. Commodity support operations, handled primarily through loans, payment programs, and some limited purchase programs, currently include corn, barley, oats, grain sorghum, wheat and wheat products, soybeans, minor oilseed crops, cotton (upland and extra long staple), rice, tobacco, milk and milk products, peanuts, and sugar.

CCC is also the source of funding for the Conservation Reserve Program (CRP) administered by FSA, as well as many of the conservation programs administered by the Natural Resources Conservation Service. In addition, CCC funds many of the export programs administered by the Foreign Agricultural Service. When authorized by the Secretary or through legislation, CCC also finances various disaster assistance programs.

*Program Outlays*

The 2003 budget estimates largely reflect supply and demand assumptions for the 2002 crop, based on October 2001 data. CCC net expenditures for fiscal year 2003 are estimated at \$11.6 billion, down \$5.8 billion from a level of \$17.4 billion in fiscal year 2002, and continuing the downward trend from CCC's record high of \$32.3 billion in fiscal year 2000.

The net decrease in projected fiscal year 2003 CCC expenditures primarily reflects the expiration of \$10 billion in 2001 emergency and market loss assistance authorized by the Agricultural Risk Protection Act, the 2001 Agriculture Appropriations Act, and two fiscal year 2001 supplemental appropriations. In fiscal year 2002, about \$260 million in carryover market loss assistance payments have already been made. However, no such assistance payments are reflected in the Budget for fiscal year 2003. Other components include decreases of about \$2.3 billion in loan deficiency payments and nearly \$313 million in Section 416 ocean transportation, partially offset by increases of \$20 million in production flexibility contract payments and \$43 million in non-insured crop assistance payments.

*Reimbursement for Realized Losses*

The fiscal year 2002 Appropriations Act authorizes CCC to replenish its borrowing authority as needed from Treasury, up to the amount of realized losses recorded in CCC's financial statements at the end of the preceding fiscal year. Under this authority, we are projecting that in fiscal year 2002 CCC will draw approximately \$22.1 billion for fiscal year 2001 losses.

*Conservation Reserve Program*

The Conservation Reserve Program (CRP), administered by FSA, is 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. This assistance is accomplished through the conversion of highly erodible and other environmentally sensitive acreage from the production of agricultural commodities to a long-term resource-conserving cover. CRP participants enter into contracts for periods of 10 to 15 years in exchange for annual rental payments, along with cost-share and technical assistance for installing approved conservation practices. The authorizing legislation currently allows enrollment of up to 36.4 million acres. The program is administered through general signups, normally held annually through a competitive bid process, and an ongoing continuous signup for selected high-impact practices such as riparian buffers and filter strips.

In fiscal year 2001, no general CRP signup was held, but a 1-year extension was offered for contracts expiring during the fiscal year. In addition, about 20,000 acres were enrolled in the Farmable Wetlands Pilot Project. For fiscal year 2002, again, no general signup is expected due to the uncertainty of a new farm bill and its pending implementation date. However, a 1-year extension opportunity was announced in January for the 1.7 million acres under contracts expiring this fiscal year. About 600,000 new acres are expected to be enrolled under continuous signup, including acres under the Conservation Reserve Enhancement Program (CREP), and about 200,000 acres are anticipated under the Farmable Wetlands Pilot Project. The fiscal

year 2003 Budget assumes a general signup of about 1.8 million acres as well as enrollment of another 800,000 acres under continuous signup and the CREP.

In fiscal year 2002, CCC will pay approximately \$1.68 billion for rental costs and about \$120 million for sharing the cost of establishing permanent cover on the enrolled acreage. The bulk of the rental payments, covering acres enrolled in regular signups, was issued early in the fiscal year. For fiscal year 2003, the budget projects CCC costs of approximately \$1.86 billion, consisting of \$1.73 billion for rental payments on previously enrolled and extended acres, and \$126 million for cost-share assistance.

#### FARM LOAN PROGRAMS

The loan programs funded through the Agricultural Credit Insurance Fund provide a variety of loans and loan guarantees to farm families that would otherwise be unable to obtain the credit they need to continue their farming operations.

The fiscal year 2003 Budget proposes a total program level of about \$3.8 billion, a decrease of \$89 million from fiscal year 2002. Of this total, \$3 billion is requested for guaranteed loans, offered in cooperation with private lenders, to serve a larger proportion of borrowers through these programs.

For direct farm ownership loans we are requesting a loan level of \$100 million, a decrease of \$47 million from the fiscal year 2002 appropriated level. The proposed program level would enable FSA to extend credit to about 1,000 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 about 35 percent are made at a reduced interest rate to limited resource borrowers, who may also be beginning farmers. For direct farm operating loans we are requesting a program level of \$600 million, \$11 million under the fiscal year 2002 appropriated level, to provide nearly 14,500 loans to family farmers.

For guaranteed farm ownership loans in fiscal year 2003, we are requesting a loan level of \$1 billion, the same as fiscal year 2002. This program level will provide approximately 4,500 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 2003 program level of \$2 billion, a decrease of \$6 million from 2002. This level will enable about 16,500 producers to finance 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.

In addition, our budget proposes to continue the current program levels of \$2 million for Indian tribal land acquisition loans and \$100 million for boll weevil eradication loans. For emergency disaster loans, carryover funding from 2002 is expected to provide sufficient credit to producers whose farming operations have been damaged by natural disasters.

#### OTHER APPROPRIATED PROGRAMS

##### *State Mediation Grants*

State Mediation Grants assist States in developing programs to deal with disputes involving a variety of agricultural issues—distressed farm loans, wetland determinations, conservation compliance, pesticides, and others. Operated primarily by State universities or departments of agriculture, the program provides neutral mediators to assist producers, primarily small farmers, in resolving disputes before they culminate in litigation or bankruptcy.

States with certified mediation programs may request grants of up to 70 percent of the cost of operating their programs. The fiscal year 2003 Budget requests \$4 million, an increase of \$507 thousand, to extend the program to 32 States. So far in fiscal year 2002, 28 States have received mediation grants.

##### *Emergency Conservation Program*

To restore farmland damaged by natural disasters and return it to productive agricultural use, the fiscal year 2003 Budget requests \$48.7 million for the Emergency Conservation Program (ECP). As of March 1, \$11.5 million has been allocated in fiscal year 2002 to share the cost of repairing damage caused by drought, floods, tornadoes, and other disasters across the country. With more than half of this fiscal year remaining and the hurricane season still ahead, most, if not all, of the available funding is likely to be allocated by the end of the year. An fiscal year 2003 appropriation would ensure timely emergency assistance to producers.



*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. The fiscal year 2003 appropriation request of \$100 thousand, together with unobligated carryover funds expected to be available at the end of fiscal year 2002, would cover a higher than normal—but not catastrophic—level of claims. While the usage of this program has been low in recent years, 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 programs are funded by a consolidated Salaries and Expenses account. The account is comprised of direct appropriations, transfers from program loan accounts under credit reform procedures, user fees, and advances and reimbursements from various sources.

The fiscal year 2003 Budget requests \$1.34 billion from appropriated sources, including credit reform transfers covering subsidies. Included in the request is \$86 million to cover GSA rental payments; the accruing cost of retirement for current employees covered by the Civil Service Retirement System; and the accruing cost of post-retirement health benefits for current employees. These items were previously funded outside of FSA's appropriations on either a departmentwide or a governmentwide basis. The Explanatory Notes provided to the Committee show comparable levels for these items in fiscal year 2001 and 2002.

The Salaries and Expenses budget reflects a net increase of \$49 million in fiscal year 2003, primarily for pay-related costs, including the cost of maintaining permanent county office staff-years that were supported in 2002 with funds carried forward from 2001.

As I mentioned previously, with divergent versions of the farm bill pending at the time of the budget's development, our estimates do not provide for any costs specifically associated with implementing or administering the new legislation. In the absence of farm bill workload assumptions, the Budget shows straightlined employment levels of 5,806 Federal and 11,251 non-Federal county staff-years, which reflect the workload of recent years when significant supplemental assistance has been provided. However, new program requirements under the new farm bill are likely to call for significant resources to implement and administer. Once the new program provisions are in place, we will provide updated estimates of fiscal year 2003 staffing requirements and related costs.

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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 BIOGRAPHICAL SKETCH OF JAMES R. LITTLE

James R. Little is the Administrator of USDA's Farm Service Agency (FSA). As Administrator, Mr. Little is responsible for the administration of farm commodity and conservation programs, farm loan programs, and certain disaster and Federal crop insurance programs. Many FSA programs are financed and carried out through the facilities of the Commodity Credit Corporation (CCC), a wholly-owned Government corporation with a \$30 billion line of credit with the U.S. Treasury. Mr. Little also serves as the Executive Vice President of CCC. Previously, Mr. Little served as Treasurer and Controller of CCC. Prior to his most recent appointment, Mr. Little was FSA's Acting Administrator.

Mr. Little has spent his entire professional career with USDA. Prior to serving in his current position, he was Associate Chief Financial Officer for Financial Operations. In this capacity, he provided oversight to USDA's overall financial operations, with an emphasis on ensuring that USDA's mission agencies complied with United States Government accounting standards and regulations involving assets valued at nearly \$120 billion. Mr. Little is a Certified Government Financial Manager.

Mr. Little began his professional career with USDA at the grass roots level serving as a staff accountant with the former Rural Electrification Administration, now a part of the Rural Development mission area. He worked his way up through the ranks, holding leadership positions in the Federal Crop Insurance Corporation, now the Risk Management Agency, and the former Agricultural Stabilization and Conservation Service, now FSA. With more than 31 years of total Federal service, Mr.

Little has extensive financial, management, and program experience, particularly with USDA's county-based agencies.

Mr. Little, a native of Charlotte, North Carolina, has a Bachelor of Science degree from the Virginia Polytechnic Institute in Blacksburg, Virginia. He and his wife Bonnie are the parents of one daughter.

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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 testify in support of the President's fiscal year 2003 budget for the Risk Management Agency (RMA). RMA is in its second year of delivering an innovative \$8.2 billion risk management reform package under the Agricultural Risk Protection Act of 2000 (ARPA). Title I of that law contained a 5-year initiative to strengthen the safety net for agricultural producers by providing greater access to more affordable risk management tools, better protection from production and income loss, and improved efficiency and integrity of the Federal crop insurance program.

RMA is implementing ARPA in a timely and farmer-friendly way, contracting for and reviewing new products, promoting risk management strategies, and reinsuring nearly 1.3 million policies on over 211 million acres. In 2001 alone, RMA provided hard hit farmers approximately \$36.7 billion of protection and paid them over \$2.4 billion in losses.

The crop insurance program has seen a significant shift in business over the past 2 years—producers have chosen to buy-up to higher levels of coverage as a result of increased premium subsidies provided in ARPA. While total acres insured did not increase dramatically, total acres coverage levels jumped more than 50 percent to levels of 75 percent and higher. The number of policies, acres, liability, and premium all increased more than 40 percent for coverage levels of 70 percent and higher.

Our current projection for 2003 shows a modest decrease in participation. This projection is based on USDA's latest estimates of planted acreage and expected market prices for the major agricultural crops, and assumes that producer participation remains essentially the same as it was in 2001. It is difficult to project how the program may grow as it expands to include new crops, more innovative policy options, and changes in the willingness of producers to participate in the program. However, there are already many new products and policy options that are being considered for approval by the Federal Crop Insurance Corporation (FCIC) Board of Directors. In addition, we have numerous activities underway to encourage participation, especially in underserved areas. In all likelihood this means that the program will continue to grow well into the future.

Today, I would like to focus on and highlight our recent progress in helping producers manage their agricultural risk. I will also address areas of concerns and their solutions, and discuss a legislative proposal that targets reinsured company profits.

RECENT ACCOMPLISHMENTS

*Livestock Insurance Plans.*—On November 15, 2001, the FCIC Board of Directors approved two livestock pilot programs—Livestock Gross Margin (LGM) and Livestock Risk Protection (LRP)—as authorized by ARPA. The pilot programs, which will begin in 2002, will protect Iowa swine producers from lower hog prices. Until ARPA, federally-backed insurance plans providing livestock protection were prohibited by law. If successful, these types of livestock insurance programs will provide livestock producers with risk management tools for reducing their price risks. Livestock products represent about one-half of the total farm cash receipts.

The LRP sales are scheduled to begin in April 2002. The LGM insurance product is scheduled for sale in July 2002 for the August 1, 2002–January 31, 2003 insurance period. Both products will be available from private insurance agents. The length of the pilot programs will be determined by farmer participation and the financial performance of the programs.

*Education and Outreach.*—RMA has implemented several initiatives to increase awareness and service to small and limited resource farmers and ranchers and other under served groups and areas. In 2001, RMA hosted the first national outreach conference titled: Survival Strategies for Small and Limited Resource Farmers and Ranchers. Over 300 professionals representing 45 States, 22 universities, and three foreign countries convened at this conference to share ideas and develop strategies to benefit the underserved communities. In addition, RMA entered into several cooperative agreements with community-based organizations and universities to ad-

dress the specific needs of underserved communities. RMA now has partnership agreements with 12 State departments of agriculture to provide customized risk management educational opportunities to producers in their States. RMA supplements these activities with additional risk management training in high schools, community colleges, and other forums.

Educational activities also targeted Future Farmers of America (FFA), youth, and included production of publications, CD's, and an interactive simulation-based educational experience via the Internet. In total, 838 educational and outreach activities were conducted by RMA attracting more than 35,000 participants.

Because many producers in underserved States grow crops or raise commodities that may not currently be insurable, RMA announced a cost-share initiative in 11 targeted States to encourage use of the Adjusted Gross Revenue (AGR) insurance product. Under the program, RMA shared in 50 percent of a producer's AGR premium cost. In addition, RMA paid the entire administrative fee for all eligible policies.

About \$2 million annually is earmarked to provide risk management educational opportunities to specialty crop producers using many of the same avenues used in addressing underserved States. As a result, in 2001, more than 130 partnerships were formed to reach specialty crop growers. An additional \$5 million was provided to the Cooperative State Research, Education, and Extension Service (CSREES) for a competitive grants program to promote risk management educational opportunities.

*Program Compliance and Integrity.*—ARPA provided \$23 million over 5 years to enhance program integrity and compliance. In fiscal year 2001, RMA spent approximately \$2.25 million providing 2,500 FSA county office personnel 28 hours of classroom training. This basic training enabled local FSA personnel to assist RMA in obtaining useful evidence of program abuse and fraud.

By working proactively with insurance providers and FSA, the alliance prevented more than \$15 million in improper claims payments in 2001—more than double RMA's average annual recovery. In addition, the alliance allowed RMA, through criminal, civil and administrative actions, to recover about \$29 million—approximately four times RMA's average recovery rate.

At the same time the training initiative was launched, RMA began a project to apply research and technology to crop insurance data. This process, known as data mining, identifies potential problems and targets reviews that will determine whether fraud, waste, or abuse exist. A combination of the initial data mining efforts and the new alliance enabled RMA to increase the number of cases reviewed from an average of about 200 cases per year in 2000 to 700 cases per year in 2001 and the number of policies reviewed from about 2,000 in 2000 to 10,000 in 2001.

*Research and Development.*—During fiscal year 2001, nearly 30 contracts and partnership agreements, worth almost \$19 million, were awarded to further program goals for expansion of new and improvement of existing crop programs and risk management strategies. Examples include contracts/agreements awarded to: review RMA's rating methodologies; review quality loss adjustment procedures to reflect local quality; evaluate the impact of the Federal crop insurance program on planted cotton acreage; and conduct feasibility studies on items such as multi-year coverage, wild salmon, and pasture and rangeland pilot programs.

In addition, the FCIC Board of Directors considered 15 private product submissions, and authorized three new risk management products—the two livestock programs mentioned earlier, and the Nutrient Best Management Practices Pilot.

*Dairy Options Pilot Program.*—The Dairy Options Pilot Program (DOPP) was expanded to include 300 counties. DOPP is an innovative cost-sharing program for dairy producers that encourages the use of milk price risk management tools. Program expansion, higher milk prices, and extensive outreach resulted in a dramatic increase in participation. During Round III in 2001, producers purchased a total of 2,788 put options. By comparison, a total of 1,847 put options were purchased collectively in Round I in 1999 and Round II in 2000. An interactive distance learning program for DOPP is available for eligible producers over the Internet.

#### OBSTACLES/SOLUTIONS

To address concerns expressed about the "slow" implementation of many sections of ARPA, RMA has done the following:

—*Initiated the ARPA Tracking System.*—Implementing the first year of ARPA was very difficult due, in part, to changes in program development requirements. The Act requires research and development of new risk management programs through partnerships and contracts. Initially, the Agency was not fully prepared to take on such a tremendous task. Also, since RMA does not

have contract authority, it relied heavily on other government sources. Knowing the exact status of so many documents and tracing such large amounts of funds required RMA to develop the ARPA Tracking System. The tracking system records the various stages of contract development and approval, resulting in a more organized and productive process.

—*Set quarterly funding goals.*—In an effort to expend ARPA funds more efficiently and effectively, RMA has established quarterly obligation goals. RMA intends to have at least 80 percent of all fiscal year 2002 ARPA money either obligated or committed by the end of the June, 2002. This will eliminate the unnecessary flood of activity at year end that sometimes leads to poor use of resources.

—*Expanded the training effort.*—In order to give RMA employees the knowledge and skills necessary to properly implement ARPA, a comprehensive training program was established to provide a series of contracting courses. RMA employees who would be responsible for administering contracts and developing cooperative agreements and partnerships received between 100 and 200 hours of classroom training on topics such as project management, negotiating skills, basic contracting and contract administration, task order writing, preparing performance based statements of work, and source selection.

For years, RMA employees have received very little program training. For fiscal year 2002, a comprehensive needs assessment was completed, identifying program, contracting, and leadership skills needed to improve job performance. Based on this needs assessment, priorities were established, and approximately \$500,000 has been set aside for this training. The total budget for RMA group and individual training is \$1.2 million in fiscal year 2002.

#### ADMINISTRATIVE AND OPERATING (A&O) EXPENSES

Discretionary account expenses are estimated to increase by \$1.3 million from the fiscal year 2002 appropriated level of \$74.8 million to \$76.1 million for fiscal year 2003. This net increase includes an additional \$1.4 million for pay costs, which includes \$531,000 for annualization of the fiscal year 2002 payraise and \$901,000 for the anticipated fiscal year 2003 pay raise; an increase of \$3.3 million for a government-wide proposal regarding employee pension and annuitant health benefits; a \$2.1 million increase which represents a transfer from the Department's central rent account for rental payments to the General Services Administration (GSA); and a decrease of \$5.5 million for one-time costs and activities relating to ARPA implementation that would occur in fiscal year 2002 only.

#### FCIC FUND

The fiscal year 2003 budget proposes that "such sums as may be necessary" be appropriated to the FCIC Fund. This would ensure that the program is fully funded to meet producers needs and not tied to a specific level of participation. Nonetheless, an estimate has been made of the funding needs for a projected level of participation. As discussed earlier, this estimate is based on USDA's latest projections of planted acreage and expected market prices, and shows a modest decline in overall funding needs, from \$2.9 billion in fiscal year 2002 to \$2.8 billion in fiscal year 2003.

This estimate includes: (1) the premium subsidy the Government provides, which is 100 percent for catastrophic coverage and ranges from 38 to 67 percent for buy-up coverage, (2) the reimbursement of delivery expenses incurred by private insurance companies, which is limited to 24.5 percent of premium for buy-up coverage, and (3) the Government's portion of the difference between indemnities and premium income, which reflects any underwriting gains or losses received by the companies, as well as any excess losses paid by the Government.

The fiscal year 2003 budget estimate also reflects a proposal to cap underwriting gains received by the private insurance companies that deliver the crop insurance program to 12.5 percent of retained premium. Over the past decade the crop insurance program has nearly quadrupled in size, in large part, because of the generous government subsidies. The private insurance companies have benefitted from the growth in business, much of which has been due to producers shifting to higher levels of coverage rather than an increase in the number of producers who participate in the program. Since 1994, they have received about \$2 billion in underwriting gains, at the same time, the government has paid out nearly \$1 billion in excess losses. This proposal, to limit underwriting gains, is expected to save about \$115.1 million annually.

The fiscal year 2003 budget assumes \$68 million to fund ARPA initiatives. The \$68 million includes funds for: improving program compliance and integrity (\$3.5 million), research and development (\$35 million), pilot programs for livestock and

wild salmon (\$16 million), education and risk management assistance (\$10 million), and policy consideration and implementation (\$3.5 million).

#### CONCLUSION

Congress first authorized Federal crop insurance in the 1930s along with other initiatives to help agriculture recover from the combined effects of the Great Depression and the Dust Bowl. FCIC was created in 1938 to carry out the program and, initially, was started as an experiment. Crop insurance activities were mostly limited to major crops in the main producing areas.

Within the past decade, covered acres have increased from 80 million to over 200 million, from one insurance product to dozens, from a few crops to approximately 120. The program has nearly quadrupled in size. In 2000 and 2001, insurers quickly and efficiently paid out in excess of \$5.1 billion to cover losses of farmers.

RMA has also dramatically changed the way in which we bring new products to market, conduct outreach, and provide oversight. ARPA has improved the program's ability to be a broad and effective means for producers to manage their production risk.

RMA has responded deliberately and methodically to this challenge, and we have implemented the new provisions in a timely and farmer-friendly way. We are committed to providing producers with effective crop insurance coverage at an affordable price. Additionally, RMA will target excessive profits while still providing an incentive for reinsured companies to participate in the program. Crop Insurance is one of the tools of a farm safety net that can best help farmers deal with the changing nature of agriculture in the 21st century.

We appreciate your on-going support as we continue to transform our Agency and our programs to better serve the risk management needs of the American farmer.

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#### BIOGRAPHICAL SKETCH OF ROSS J. DAVIDSON, JR.

Ross J. Davidson, Jr., was named Administrator of USDA's Risk Management Agency by Agriculture Secretary Ann M. Veneman on February 6, 2002.

The Administrator of RMA leads the agency that provides risk management protection to America's farmers through a sound crop insurance program and other risk management tools. RMA's administrator also serves as Manager of the Federal Crop Insurance Corporation.

Most recently, Davidson was vice president-industry affairs and vice president-corporate finance for United Services Automobile Association (USAA) from 1988-2001. Prior to joining USAA, Davidson worked for Tesoro Petroleum Corporation as its Assistant Treasurer.

Davidson has more than 25 years of experience in enterprise risk management, corporate finance, treasury, investment and related public policy matters in insurance and energy. He has published articles in professional journals and has been a frequent advisor, commentator and innovator on natural disaster and risk management public policy.

Davidson received a Bachelor's degree in Economics from Brigham Young University in 1974, and a Master's degree in Business Administration there in 1976.

Davidson has been a member of several professional organizations including the American Risk and Insurance Association, Financial Executives International, and the Association of Finance Professionals. He is a past president of the BYU Marriott School of Management Alumni Board and is on the steering committee of the Marriott School of Management Insurance and Financial Services Institute. He also served on the Managing Catastrophe Risks Advisory Board of the Wharton School, University of Pennsylvania.

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#### PREPARED STATEMENT OF 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 2003.

The FAS mission remains constant: we are committed to expanding export opportunities for U.S. agricultural, fish, and forest products, and to helping alleviate world hunger and food insecurity. Given today's management challenges, these goals must be accomplished through better public/private sector collaboration, strategic planning, greater use of technology, and resource management.

United States agricultural exports rebounded to \$52.8 billion in fiscal year 2001, an increase of \$2 billion over 2000. FAS expects this trend to continue in fiscal year 2002, with agricultural exports forecast to reach \$54.5 billion. Two-thirds of the increase forecast for 2002 is expected in Asia, despite slower economic growth there. Export prospects for 2002 are improved over the previous year for several commodities including corn, wheat, and horticultural products.

#### FAS PROGRAM ACTIVITIES

To support our goal of expanding export opportunities for U.S. agricultural, fish, and forest products, we continue to use our long-standing export programs vigorously. For example, the export credit guarantee programs facilitated sales of more than \$3.2 billion in U.S. agricultural products last year. The GSM-102 program helped U.S. exporters register sales of nearly \$770 million in the Caribbean, Central and South American regions, a doubling in sales from the previous year. The GSM-103 program helped U.S. exporters sell over \$14 million worth of wheat to Jordan and over \$21 million worth of wheat to Tunisia. U.S. exporters continue to discover the benefits of the Supplier Credit Guarantee Program. We issued nearly \$226 million in credit guarantees under this program in 2001.

With the aid of the Dairy Export Incentive Program (DEIP), U.S. exporters sold more than 58,000 tons of dairy products in fiscal year 2001. The Commodity Credit Corporation awarded about \$8 million in bonuses to help U.S. dairy exporters meet prevailing world prices and develop foreign markets, primarily in Asia and Latin America. As in recent years, market conditions did not warrant large-scale use of the Export Enhancement Program. However, sales of frozen poultry were facilitated by bonuses of nearly \$7 million which supported more than 11,000 tons of exported product.

FAS continues to stress the importance of market development. In 2001, we allocated \$90 million to 65 U.S. trade organizations, State regional groups, and cooperatives for export promotion activities under the Market Access Program (MAP), and approved marketing plans totaling \$33.5 million for 24 trade organizations under the Foreign Market Development (FMD) program.

FAS introduced 854 Cochran Fellows from 82 countries to U.S. products and policies in 2001—the largest number of participants in the program's history. These Fellows met with U.S. agribusiness; attended trade shows, policy and food safety seminars; and received technical training related to market development. The Cochran Fellowship Program provides USDA with a unique opportunity to educate foreign governments and private sectors not only about U.S. products, but also about U.S. regulations and policies on critical issues such as food safety and biotechnology.

On the trade policy front, USDA works to open, expand, and maintain markets for U.S. agriculture. FAS was a key player in the successful launch of negotiations in November 2001 to further liberalize global agricultural trade under the World Trade Organization (WTO). The Doha Development Agenda includes an ambitious agenda and schedule for agricultural trade reform that will be critical if we are to achieve our goals of opening markets, eliminating export subsidies, and reducing trade-distorting domestic support around the world.

We also worked bilaterally to create and maintain market opportunities for U.S. exporters. FAS worked to defend U.S. corn growers against charges of dumping and subsidization brought by a Canadian corn growers association. We worked with Brazilian officials to lift barriers to U.S. wheat exports. We closely monitored access for U.S. beef to ensure that South Korea fully complied with the WTO ruling that allowed full access for beef imports to that market. FAS worked with the American Crop Protection Association and the U.S. fresh fruit industry to meet import requirements on Taiwan, maintaining a \$200-million market for U.S. fruit.

To support both our export mission and our food security mission, we have used food aid to move commodities from the United States to needy people around the world. We also collaborated with a diverse group of U.S. institutions in research partnerships with 51 countries. These research and exchange activities promoted the safe and appropriate development and application of products from biotechnology, as well as other areas such as food safety, improved nutritive value of crops, environmental sustainability, and pest and disease resistance of crops and livestock.

In fiscal year 2001, FAS programmed more than 4.4 million metric tons in food aid to help feed millions of hungry people in more than 70 countries around the world. Under the authority of section 416(b) of the Agricultural Act of 1949, as amended (Section 416), the Commodity Credit Corporation (CCC) donated approximately \$650 million worth of commodities in fiscal year 2001. We used 480,000 tons of those commodities as part of our pilot Global Food for Education (GFE) Initiative,

a program to provide school feeding and pre-school nutrition projects in developing countries. Concessional sales under Public Law 480, Title I, totaled over 750,000 metric tons valued at an estimated \$105 million to seven countries. Another 450,000 tons of various U.S. commodities were donated to about 18 countries under the Food for Progress program, with Title I-funded Food for Progress donations accounting for over two-thirds of this tonnage.

In addition to our food aid activities, FAS continues to serve as the coordinator for the U.S. Government's food security committee. Last November, at the Food and Agriculture Organization's conference, USDA affirmed the U.S. commitment to assist in ending world hunger. Secretary Veneman also urged countries to support the development of products from biotechnology to help feed the world's growing population.

#### PRIORITIES FOR 2002 AND 2003

Faced with continued growth in our agricultural productivity, a strong U.S. dollar and continued aggressive spending on market promotion by our competitors, we must redouble our efforts to improve the outlook for U.S. agricultural exports. For this year, we plan to continue to:

- Pinpoint constraints to exports of U.S. agricultural, fish, and forest products;
- Work to remove trade barriers and trade-distorting practices;
- Represent U.S. agricultural interests by strongly advocating U.S. policies in the international community;
- Help producers, processors, and exporters to strengthen their export knowledge and skills;
- Ensure that the U.S. farm, forest and fishery sectors have timely and complete intelligence about emerging market opportunities;
- Inform foreign buyers about the superior quality and reliable quantities of agricultural products offered by U.S. producers, and educate them about how to locate U.S. products;
- Use our export credit guarantee programs to reach new customers for U.S. agriculture;
- Use USDA export assistance programs such as the Foreign Market Development Program and the Market Access Program effectively to pursue export opportunities; and
- Work with emerging markets and developing countries to promote economic development to help meet the international commitment to reduce hunger.

I would like to discuss our top priorities for fiscal years 2002 and 2003. Last September, Secretary Veneman released a report that identifies critical needs for U.S. agricultural policy for the new century. The report, titled "Food and Agricultural Policy: Taking Stock for the New Century," states, "Enhancing the competitiveness of U.S. food and agriculture in the global marketplace should be one of the primary objectives of our farm policy." To achieve this goal, we will focus on several strategies.

#### CONTINUING THE LIBERALIZATION OF TRADE IN AGRICULTURE

At the top of our list is moving forward in the multilateral trade negotiations on agriculture under the WTO. With the launch of the Doha Agenda last November, the United States has taken a leading role in the WTO negotiations underway in Geneva.

The Doha declaration is an important step forward for U.S. agriculture, calling for the new negotiations to be concluded by January 1, 2005. The comprehensive negotiations over the next 3 years will be centered on expanding market access, reducing export subsidies, and reducing trade-distorting domestic support. The WTO multilateral negotiations are the best place to address needed reforms in world agricultural trade because it is only in the WTO that we have broad disciplines on market access, subsidies, and technical measures. The mandate also guards against creating new loopholes in the rules that could be used to disguise trade-distorting measures.

Trade capacity building is also a high priority. If we are to achieve success in the negotiating process, we must engage the developing world in the creation and implementation of appropriate trading rules and guidelines. This will take time, but it will be worth the investment. These countries represent our future growth markets. If we are to realize our goal of liberalizing trade through multinational bodies such as the WTO, we must address the concerns of developing countries, which make up the majority of WTO members. Without the support of developing countries, there will be no new multilateral round.

We also will continue to work with the countries that would like to join the WTO. Although increasing the number of members in the WTO is a high priority, we will continue to insist that these accessions be made on commercially viable terms that provide trade and investment opportunities for U.S. agriculture. And when membership in the WTO is achieved, we must continue to monitor aggressively those countries' compliance with their commitments. We must ensure that acceding countries implement trade policies and regulations that are fully consistent with WTO rules and obligations.

For example, after many years of negotiations, China and Taiwan joined the WTO in December and January, respectively. As part of the WTO membership process, both countries reached agreements with the United States that, when fully implemented, will bring great benefits to our farmers and ranchers. However, in order to realize these gains, we must be vigilant to ensure that China and Taiwan live up to their WTO commitments and maintain open markets. We are expanding our staff resources to monitor this compliance. A priority of FAS this year will be the negotiating of a WTO accession agreement with Russia.

Another important area of work for FAS is the negotiation to establish the Free Trade Area of the Americas (FTAA). The FTAA is intended to be a comprehensive free trade agreement between the 34 democracies in the Western Hemisphere. Negotiations began in 1998 and are expected to conclude by 2005. By concluding the FTAA, the U.S. will gain liberalized access to a region of 675 million people with a combined consumer buying power of \$1.5 trillion (excluding our NAFTA partners).

We also are actively participating in the Asia Pacific Economic Cooperation (APEC) forum. We expect APEC to serve a key role in promoting continued trade liberalization within the region and in the WTO, and we will be working through the APEC food system to realize this goal. Just last month, USDA organized a meeting for high-level government officials of the 21-member economies of APEC to discuss biotech issues. The meeting was an opportunity for officials to discuss recent breakthroughs in biotech research, consumer awareness of biotech issues, capacity building for developing countries in biotechnology, and issues being addressed by international organizations such as Codex Alimentarius.

Another priority is how we deal with the issues surrounding products produced through biotechnology. The increasing number of countries around the world that are issuing regulations relating to products of biotechnology present a particular challenge, both for our infrastructure and for our food and agricultural exports. I could go on at length to describe our efforts at USDA to try to stay on top of the issue and to ensure that government actions on labeling and product approval in China, the European Union, and elsewhere, do not lead to trade restrictive policies that reduce market access for U.S. commodities.

This issue will continue to be a dominant one for U.S. agriculture in the immediate years ahead, whether in the WTO or in our bilateral relationships with customer and competitor nations alike. That is why we have said that, when it comes to biotechnology, our focus will be on making sure that biotech approval regimes, wherever they exist, are transparent, timely, predictable, and science-based.

#### ENSURING WE HAVE THE PROPER TOOLS

We also continue to work on improving the way we carry out our market development programs. When FAS implemented its Unified Export Strategy (UES), our goal was to streamline the planning and application process for exporters who apply to participate in our market development programs. The UES encourages our strategic partners to formulate market-specific strategies for developing or expanding export markets. This approach facilitates a more effective use of FAS' full arsenal of market development programs.

This effort grew out of our strategic planning process that integrates all the marketing, credit, and trade policy tools that we have available to maximize the market for agricultural products. This process lets us review the competition and all FAS-sponsored efforts in a given market to determine whether we have the optimal mix of programs and funding, given that market's potential as a buyer of U.S. agricultural products. It also allows us to step back and review our efforts regionally as well as globally.

Let me give you a few examples of how exporters can increase their effectiveness by combining programs. The American Sheep Industry Association (ASI) used the Quality Samples Program (QSP), the FMD program, and its own industry funds to develop a market for U.S. wool in Italy. The Association used the QSP to send U.S. wool samples to potential buyers in Italy, and followed up with an FMD-funded trade mission. Prior to these efforts, U.S. wool was relatively unknown in Italy, and sales to that market were irregular and small. Italy is one of the world's most im-



portant markets for wool, and ASI's strategy and use of market development programs allowed the organization to make significant sales to major buyers in that market.

U.S. Wheat Associates used a similar combination of programs to help introduce U.S. wheat to millers in Burma. Through a combination of QSP and FMD, U.S. Wheat provided technical assistance to show the millers how U.S. wheat compares to wheat from Australia. As a result of the efforts, several mills, which had never before bought U.S. wheat, purchased 16 containers of dark northern spring wheat and five containers of soft white wheat, with plans for additional purchases.

We will continue to encourage U.S. exporters to develop and refine their marketing strategies, look to new market opportunities, and fully use all the FAS tools at their disposal.

#### FOCUSING OUR MARKETING STRATEGY

To help exporters in this effort, FAS continues to refine its own global marketing strategy to target those markets that offer the most growth opportunity. We must protect our hard-won gains in mature markets, and at the same time, set aggressive but achievable growth targets in those markets that offer the most potential.

Our global marketing strategy is also instrumental in our ongoing review of our overseas office locations and staffing. We must fully utilize our staffing in FAS overseas offices to ensure that we are positioned to take advantage of the market opportunities created by our market access initiatives as well as new opportunities offered by emerging growth markets.

#### BUDGET REQUEST

Mr. Chairman, we appreciate the support provided by the Committee in the fiscal year 2002 appropriation for FAS. The increased funding enabled FAS to substantially bolster our overseas market intelligence capabilities and maintain an increased overseas presence in Ukraine and Balkans. In addition to funding fiscal year 2002 pay cost increases, FAS was able to add new staff to enhance our technical trade resolution capabilities.

Mr. Chairman, our fiscal year 2003 budget proposes a funding level of \$139.8 million for FAS and 985 staff years. This represents an increase of \$9.4 million over fiscal year 2002, with staffing levels unchanged. Although previous budgets addressed resource requirements arising from growing workload demand, the fiscal year 2003 budget primarily focuses on funding for much-needed improvements in the agency's infrastructure to ensure effective implementation of our programs. Key to infrastructure improvement is the FAS electronic government (e-Gov) initiative.

The budget includes an increase of \$6 million to support a comprehensive e-Gov initiative designed to modernize FAS business practices and operations and, thereby, ensure compliance with statutory requirements for electronic business transactions and record keeping. The Administration, Congress, and Department have mandated transition to an e-Gov model of operation, incorporating high-speed communication with customers, real-time collaboration across Federal agencies and with private-sector partners, and heavier reliance on automated processes for knowledge management. The Government Paperwork Elimination Act (GPEA) requires all Federal agencies to provide individuals or entities the option to submit information or transact business electronically, and to maintain records electronically, when practicable, by October 2003. These two requirements have created a requirement for continual improvement in use of electronic technologies in serving FAS' clientele. To become and remain e-Gov and GPEA compliant will require ongoing investments in three primary categories: bandwidth, modification of business practices, and software and hardware as follows:

##### *Expansion of telecommunications bandwidth*

FAS operates in 93 cities overseas, almost all of which are connected to Washington electronically via government-operated telecommunications lines operated by the Department of State (DOS) Diplomatic Telecommunications Service (DTS). The current average bandwidth of 12.2 kilobit per second (kbps) was specified in a 1995 agreement with DOS and was intended for the low-bandwidth demands of electronic mail of the pre-Internet era.

Recognizing the profound impact this narrow bandwidth has on work performance in the new, Internet-oriented work environment, DOS is upgrading worldwide DTS to a minimum of 64 kbps by the end of 2002. This upgrade, while essential and unavoidable, is costly. At current rates, FAS use of the DTS at the new minimum line speed would increase annual costs by approximately \$3.0 million.

As a less costly alternative to the DTS, FAS proposes to lease bandwidth from commercial providers of telecommunications bandwidth where it is available, reliable, feasible, and secure. Certain high-risk posts (e.g., Russia and China) as well as posts with no private Internet providers (e.g., Burma and Syria) will continue to be served solely by the DTS. This approach will result in a cost for minimum 64 kbps Internet access and Washington-to-field telecommunications of approximately \$2.049 million per year.

*Support for recurring hardware and software upgrades and replacement*

The FAS e-Gov initiative includes \$2.0 million to establish a recurring replacement cycle for mission-critical hardware and software. Chronic under-funding of hardware and software for the past several years has resulted in postponement of routine replacement of basic infrastructure. The bill for this neglect has come due. The requested funding addresses a number of problems, any of which could cripple the Agency including:

- Elimination of single point of failure in the FAS computer network.
- Replacement of backup of files and databases currently operating on obsolete technology.
- Replacement of several Internet web servers, large database servers, and our main communications (e-mail) server that are operating at full capacity and will be at the end of their useful life cycles in 2003.

This initiative also upgrades and modernizes FAS' remote sensing imagery and geographic information systems analysis capability, its economic analysis capability, its ability to communicate these findings, and its ability to enable the remote sensing unit to participate effectively in e-government.

*E-Gov related process re-engineering, training, and software development*

Many of the customer-oriented business processes, including application for dairy import licenses, administration of export credit guarantees, and reporting of export sales, use business processes last updated in the 1970s and in some cases dating back to the 1950s. These functions are now performed using office automation and database management software and hardware that cannot meet the requirements of e-Gov or the GPEA.

This initiative provides for moving the Agency to a knowledge management footing, in which information collected and analyzed by Agency staff is indexed and clustered, and thereby made retrievable with minimal effort by program managers and senior policy makers. Current paper-based systems must be analyzed and re-engineered, however, as merely converting an old business process from paper to electronic documents would serve only to automate existing gross inefficiencies. The funding requested for re-engineering business processes will fund outside analysis of what the Agency should improve and provide a roadmap for concrete action. Funding for procuring commercial, off-the-shelf software and for software development will be used to implement the re-engineered processes.

The FAS e-Gov initiative includes \$2.0 million for process re-engineering projects with the objective of moving manual processes to on-line, web-enabled system. Examples include:

- paper-based food aid program development procedures;
- paper-based ocean transportation and commodity shipment systems; and
- paper-based import license application and registration system.

Moving to an e-Gov environment affords FAS and the public it serves an opportunity to realize a highly efficient and cost-effective interaction. The successful transition is dependent not only on realization of needed funding in fiscal year 2003, but also on sustained funding levels in future years.

The budget also proposes an increase of \$250,000 to develop a plan to establish a standardized information system for all U.S. foreign food aid programs that will be accessible via the Internet to administering agencies, vendors, and grantees. The system will facilitate the distribution of information on U.S. food aid activities and operations, as well as improve program administration and execution. FAS will work to develop this system with the Farm Service Agency, the U.S. Agency for International Development (USAID), and the Maritime Administration.

Our fiscal year 2003 request includes an increase of \$1.0 million for the Cochran Fellowship Program and a total appropriated level of \$5.0 million. This increase will support 150 additional participants in the program and help to achieve the agency's goal of providing training to 1,000 participants annually. The additional programming will focus on several important topics, including biotechnology, food safety, World Trade Organization (WTO) accession requirements, and the quality and marketing of U.S. high value agricultural products.

The budget includes \$2.086 million to fund projected pay cost increases in fiscal year 2003. Absorption of these costs in fiscal year 2003 would primarily come from reductions in agency personnel levels and would have a devastating effect on FAS efforts to address declining levels in the U.S. share of world agricultural exports.

For fiscal year 2003, the budget proposes a total of \$4.4 million to cover the costs of items previously paid from central accounts within USDA or on a government-wide basis, including GSA rental payments and civil service retirement and retiree health benefits. The 2003 Explanatory Notes provided to the Committee include information on the comparable levels for these items in fiscal years 2001 and 2002.

#### EXPORT PROGRAMS

Mr. Chairman, the export promotion, food assistance, and foreign market development programs administered by FAS are key to expanding global market opportunities for U.S. agricultural producers.

*Export Credit Guarantee Programs.*—The budget includes a projected overall program level of \$4.2 billion for export credit guarantees in fiscal year 2002. As in previous years, the budget estimates reflect actual levels of sales expected to be registered under the programs rather than authorized program levels. Of the total program level, \$3.4 billion will be made available under the GSM-102 program and \$57 million will be made available under the GSM-103 program. For supplier credit guarantees, the budget includes an estimated program level of \$750 million, an increase of \$299 million from the fiscal year 2002 current estimate. This increase reflects rapid growth in the level of sales registrations in fiscal year 2001 and the expectation of strong program growth in fiscal years 2002 and 2003. For facility financing guarantees, the budget includes an estimated program level of \$60 million, unchanged from the current estimate.

*Foreign Market Development.*—The fiscal year 2003 Commodity Credit Corporation (CCC) program and budget estimates include \$27.5 million for the Foreign Market Development (Cooperator) Program, unchanged from last year. The CCC estimates also include \$2.5 million in funding from CCC for the Quality Samples Program. Under this program, samples of U.S. agricultural products are provided to foreign importers in order to promote a better understanding and appreciation of their high quality. The Quality Samples Program is carried out through commodity organizations and agricultural trade associations.

*Market Access Program (MAP).*—The CCC estimates provide funding for MAP in fiscal year 2003 at \$90.0 million, unchanged from fiscal year 2002.

*Export Enhancement Program (EEP).*—World supply and demand conditions have limited EEP programming in recent years; however, the fiscal year 2003 budget does include a program level of \$478.0 million for the EEP, the maximum level permitted under the export subsidy reduction commitments of the Uruguay Round Agreement on Agriculture.

*Dairy Export Incentive Program (DEIP).*—The budget assumes a DEIP program level of \$63 million for fiscal year 2003, slightly above the fiscal year 2002 estimate of \$61 million.

The Uruguay Round subsidy reduction commitments for dairy products are now fully phased in. For those products announced under annual DEIP allocations, the CCC baseline assumes programming at the Uruguay Round maximum quantity limits. The estimated program level for DEIP is an estimate of the level of subsidy funding needed to facilitate export sales at the quantity limits. The program level may increase or decrease from the projected level depending upon the relationship between U.S. and world market prices during the course of the programming year.

#### FOREIGN FOOD ASSISTANCE

The Administration recently completed a management review of all U.S. foreign food assistance activities in order to rationalize and reform their administration and to strengthen their effectiveness. The results of the Administration's review are reflected in the 2003 budget and program proposals.

*Public Law 480.*—For fiscal year 2003, the budget includes a total program level for all titles of Public Law 480 food assistance activities of \$1.34 billion, which is expected to provide approximately 3.7 million metric tons of commodity assistance. For Title I, the budget provides for a program level of \$160 million, which will support approximately 700,000 metric tons of commodity assistance.

For Title II donations, the budget provides a program level of \$1.18 billion, an increase of \$335 million above the fiscal year 2002 enacted level and \$146 million above the current estimate for 2002, which has been increased as a result of funding provided through emergency supplemental appropriations and funding carried over from prior years. The proposed Title II program level is expected to support 3.0 mil-

lion metric tons of commodity donations. As in recent budget submissions, no specific level of funding is requested for Title III grants; however, current authorities provide that up to 15 percent of the funds of any title of Public Law 480 may be transferred to carry out any other title.

In accordance with the results of the Administration's food aid review, Food for Progress programming in 2003 will be limited to government-to-government programs funded through Public Law 480 Title I. CCC-funded Food for Progress programs that traditionally have been carried out through private voluntary organizations and cooperatives will not be funded as those types of programs will be the exclusive responsibility of USAID.

Donations of commodities under section 416(b) authority that rely on the purchase of surplus commodities by CCC will not be continued in 2003. However, commodities that are acquired by CCC in the normal course of its domestic support operations will be available for donation through government-to-government agreements. For 2003, current CCC baseline estimates project the availability of a limited supply of surplus nonfat dry milk that could be made available for programming under section 416(b) authority.

The 2003 budget includes \$45 million in the Public Law 480 budget request to offset the proposed elimination of Maritime Administration reimbursements. This increase is associated with a proposed change in the financing mechanism for the costs of meeting U.S. cargo preference requirements under the foreign food assistance programs. The budget proposes to eliminate Maritime Administration reimbursements and fund the full costs of cargo preference through the food aid programs themselves. This will eliminate a duplicative financing system and reduce record keeping, although the Maritime Administration will continue to assist FAS and USAID in ensuring compliance with cargo preference requirements.

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

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#### BIOGRAPHICAL SKETCH OF A. ELLEN TERPSTRA

A. Ellen Terpstra was sworn in as Administrator for the Foreign Agricultural Service on March 1, 2002. She oversees various programs that foster exports of American agricultural, fish, and forest products. FAS works on international trade agreements and negotiations; coordinates USDA's role in international food aid programs; reports on international agricultural production and trade; administers export assistance programs; and provides linkages to worldwide resources and technologies that can benefit U.S. agriculture.

Before her appointment to USDA, Terpstra was president and chief executive officer of the USA Rice Federation from 1998 to 2002. Before joining the Rice Federation, she was president of the U.S. Apple Association for 7 years.

Terpstra's government experience has focused on international food and trade policy. She served as trade negotiator and policy coordinator for the Office of the U.S. Trade Representative and an agricultural policy analyst with the Congressional Research Service. She also has been a consultant to the Food and Agriculture Organization of the United Nations in Rome, Italy, and has served on several national agricultural advisory committees.

Terpstra received her bachelor of science degree from Georgetown University's School of Foreign Service.

Senator KOHL. Thank you, Dr. Penn. We turn now to Mr. Mark Rey, who is the Under Secretary for Natural Resources and the Environment.

#### STATEMENT OF MARK REY

Mr. REY. Mr. Chairman and members of the subcommittee, I am pleased to appear before you today to present the fiscal year 2003 budget and program proposals for the Natural Resources Conservation Service.

The President often reminds us that every day is Earth Day when you work on the land, and from my perspective it is clear that the men and women of the Natural Resources Conservation Service out in the field are making a tremendous difference to ensure that farmers and ranchers have the resources and expertise

they need to care for natural resources and respond to emerging environmental challenges. This happens through the Natural Resources Conservation Service and specifically through conservation technical assistance.

We know that farmers and ranchers are receiving exemplary service from NRCS's field staff. In fact, NRCS has one of the highest ratings for customer satisfaction among all government and private sector organizations. Last year, NRCS participated in the American Customer Satisfaction Index, which surveyed customers of NRCS conservation technical assistance. The ACSI is administered by the University of Michigan Business School. It is the only uniform cross-industry/government measure of customer satisfaction which allows benchmarking between the two sectors.

The NRCS results were the highest for any USDA agency participating in the 2001 survey and it has been described as comparable to private sector companies such as Mercedes Benz and Ritz Carlton. We are proud of the outstanding service that we are providing customers through conservation technical assistance. Our customers have come to expect excellent service from the agency, and it will be a future challenge to continue to ensure the funding and resource support for our staff are sufficient to help them meet the expectations of farmers and ranchers.

Turning to the Resource Conservation and Development program, or RC&D, because of the support of this subcommittee, the Secretary was able to announce the selection of 20 new RC&D areas earlier this year, bringing the total number of authorized areas to 368. On a national scale, non-Federal Government agencies including State, local and tribal governments, as well as private and not-for-profit organizations, are playing important roles in conservation policy. The RC&D program have been extremely successful in leveraging and matching resources among these organizations. We continue to receive excellent applications deserving of USDA recognition and we want to maintain and enhance this very popular program.

Turning now to our water resources related programs. We know that emergency needs for watersheds resulting from natural disasters have been averaging \$110 million per year. However, in the past, rather than planning for this need, we have historically relied on emergency supplemental appropriations to react to stricken communities, often months after the disaster. The Administration's budget proposes \$111,389,000 for emergency watershed protection, which will allow us to respond to disasters and protect homeland security.

In conclusion, the programs presented to this subcommittee for funding are essential to the policy objectives proposed in our overall agriculture conservation policy framework. In a sense, it really comes down to three principles that we hold dear.

First, we want to provide support for the cadre of trained and skilled professionals out on the land working with farmers and ranchers every day through conservation operations. Second, we want to provide that workforce and the workforce of State and local government cooperators with the very best data, technical tools and training through conservation operations. And finally, we want to continue to foster collaboration and partnerships with other organi-

zations through conservation operations and the resource conservation and development program. If we act on these three principles, I think we will be well positioned to meet emerging conservation challenges for the future and to help farmers and ranchers realize their goals for the land they work.

I thank the subcommittee for the opportunity to appear and will be happy to respond to your questions.

[The statements follow:]

PREPARED STATEMENT OF MARK E. REY

Mr. Chairman and Members of the Committee, I am pleased to appear before you today to present the fiscal year 2003 budget and program proposals for the Natural Resources Conservation Service (NRCS) of the Department of Agriculture (USDA). I thank Members of the Subcommittee for the opportunity to appear, and I would like to express gratitude to the Chairman and members of this body for the support of additional funding for fiscal year 2002.

Mr. Chairman, the President often reminds us that everyday is Earth Day when you work the land. From my perspective as Under Secretary for Natural Resources and Environment, it is clear that the men and women of NRCS out in the field are making a tremendous difference to ensure that farmers and ranchers have the resources and expertise they need to care for natural resources and respond to emerging challenges.

In September, the Secretary released Food and Agriculture Policy: Taking Stock for the New Century. Conservation clearly has a central place in that document, and the Administration's agriculture policy as a whole. Our conservation policy for agriculture is founded upon the following seven principles:

- Sustain past environmental gains
- Accommodate new and emerging environmental concerns
- Design and adopt a portfolio approach to conservation policies
- Reaffirm market-oriented policies
- Ensure compatibility of conservation and trade policies
- Coordinate conservation and farm policies
- Recognize the importance of collaboration

Mr. Chairman, what we have put forward is a look at total agriculture policy, and how it interrelates with real issues on farms and ranches across the country and throughout the Nation's food delivery system. And I would submit that our success in these areas really depends upon what happens in this Subcommittee, because everything we do relates back to Conservation Operations—the fundamental investment in conservation assistance to farmers and ranchers.

CONSERVATION OPERATIONS PROGRAM

The success of USDA's entire conservation effort depends upon the availability of practical scientific and technological information that is used by field employees who carry out a host of Federal, State, and local programs. NRCS develops and transfers applied technologies through the Field Office Technical Guide (FOTG), including technical manuals, handbooks, and technical references. Collectively, NRCS provides science-based solutions for the work carried out on the Nation's farms and ranches.

We know that farmers and ranchers are receiving exemplary service from NRCS field staff. In fact, NRCS has one of the highest ratings for customer satisfaction among all government and private-sector organizations. Last year, NRCS participated in the American Customer Satisfaction Index (ACSI), which surveyed customers of NRCS conservation technical assistance. The ACSI is administered by the University of Michigan Business School. It is the only uniform, cross-industry/government measure of customer satisfaction, which allows benchmarking between the two sectors. The NRCS results were the highest for any USDA agency participating in the 2001 survey, and has been described as comparable to private sector companies such as Mercedes-Benz and Ritz-Carlton.

We are proud of the outstanding service that we are providing customers. Our customers have come to expect excellent service from the agency, and it will be a future challenge to continue to ensure that funding and resource support for our staff are sufficient to help them meet the expectations of farmers and ranchers. Conservation Operations means the continued availability of nationwide cooperative soil survey information, climate and precipitation data and forecasting, and the National Resources Inventory (NRI). These technical tools ensure that we first have accurate baseline information regarding the natural resources, and also trends and changes

over time. Our work in this area is tantamount to our success in multi-agency efforts, including our work with the Environmental Protection Agency on clean water issues relating to non-point source pollution livestock waste. Our resource information and science-based technology are absolutely essential to sound decision-making. Also, NRCS offers farmers and ranchers the voluntary assistance they need to meet emerging challenges. Overall, the Conservation Operations program is the keystone to meeting locally-led conservation policy objectives, by providing sound scientific data and common sense solutions for farmers and ranchers.

#### RESOURCE CONSERVATION AND DEVELOPMENT

Mr. Chairman, because of the support of this Subcommittee, the Secretary was able to announce the selection of 20 new RC&D areas earlier this year, bringing the total number of authorized areas to 368. On a national scale, non-Federal government agencies, including State, local, and Tribal governments, as well as private and not-for profit organizations are playing important roles in conservation policy. The RC&D program has been extremely successful in leveraging and matching resources between these organizations. These organizations come together at the local level to identify community needs and collaborate on a voluntary basis. The RC&D program is a model for the kind of collaboration and partnership effort that our Food and Agriculture Policy document describes. It provides an excellent return for a limited Federal investment and we appreciate the continued support of this Committee.

#### WATERSHED AND FLOOD PREVENTION OPERATIONS

The President's budget for fiscal year 2003 proposes to eliminate Watershed Surveys and Planning, Watershed and Flood Prevention Operations, and the Watershed Rehabilitation Program. The budget requests funding for Emergency Watershed Protection (EWP) to provide assistance to local communities when disasters occur.

The NRCS Emergency Watershed Protection (EWP) Program is a recovery program targeted to communities—as opposed to individuals—by relieving imminent hazards to life and property caused by floods, fires, windstorms, droughts and other natural occurrences. NRCS provides technical assistance and pays as much as 75 percent of the cost for emergency repairs, such as removing debris from a stream. We also purchase easements from willing landowners in flood prone areas to prevent future crop losses.

As our Farm Policy document points out, water and agriculture are inextricably linked. From looking at recent fiscal years, we know that emergency needs for watersheds resulting from natural disasters averages about \$110 million per year. However, rather than prepare for this need, we have historically relied upon emergency supplemental appropriations to react to stricken communities, often months after the disaster occurred. Therefore, for 2003, we are requesting \$111 million in appropriated EWP funding which would better equip the Federal Government to respond more quickly to disasters and protect homeland security.

#### SUMMARY

In conclusion, the programs presented to this Subcommittee for funding are absolutely essential to the policy objectives proposed in our overall agriculture conservation policy framework. It really comes down to the following three points:

- Support the cadre of trained and skilled professionals out on the land, working with farmers and ranchers everyday through Conservation Operations.
- Provide that workforce and the workforce of State and local government co-operators with the very best data, technical tools, and training through Conservation Operations.
- Continue to foster collaboration and partnerships with other organizations through Conservation Operations and RC&D.

I thank the Subcommittee for the opportunity to appear and would be happy to respond to any questions Members might have.

#### BIOGRAPHICAL SKETCH OF MARK E. REY

Mark E. Rey was sworn in as the under secretary for natural resources and environment by Agriculture Secretary Ann M. Veneman on October 2, 2001.

In that position, he oversees the U.S. Department of Agriculture's Forest Service and Natural Resources Conservation Service.

Since January 1995, Rey served as a staff member with the U.S. Senate Committee on Energy and Natural Resources. He was the lead staff person for the com-

mittee's work on national forest policy and Forest Service administration. He was directly involved in virtually all of the forestry and conservation legislation considered during the past several sessions of Congress, with principal responsibility for a number of public lands bills during this period. In addition, he worked on the Herger/Feinstein Quincy Library Act of 1998 and the Secure Rural Schools and Community Self-Determination Act of 2000. This latter law is considered to have been the most extensive public forestry legislation passed by Congress in 20 years.

From 1992-94 Rey served as Vice President, Forest Resources for the American Forest and Paper Association. He served as Executive Director for the American Forest Resource Alliance from 1989-92. He served as Vice President, public forestry programs for the National Forest Products Association from 1984-89. From 1976-84 he served in several positions for the American Paper Institute/National Forest Products Association, a consortium of national trade associations. From 1974-75 he worked as a staff assistant for the U.S. Department of the Interior's Bureau of Land Management in Billings, Mont., and Washington, D.C.

Rey is a native of Canton, Ohio. He holds a Bachelor of Science degree in wildlife management; a Bachelor of Science degree in forestry, and a Master of Science degree in natural resources policy and administration, all from the University of Michigan in Ann Arbor.

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PREPARED STATEMENT OF PEARLIE S. REED, CHIEF, NATURAL RESOURCES  
CONSERVATION SERVICE

Thank you for the opportunity to appear before you today to discuss our fiscal year 2003 budget request. Conservation is important to me. I've devoted most of my adult life and my career to helping people get conservation on the land. I want to thank the Committee for their support for conservation over the years, and especially last year during the fiscal year 2002 appropriations process. The terrorist threat and the weakening global economy forced all levels of government to make hard choices to balance many competing needs. Your concern for conservation of the Nation's priceless resource base means healthier land and cleaner water for people now and a more secure future for future generations of Americans.

The farmers and ranchers who are the managers and caretakers of the Nation's agricultural lands want to be good stewards of soil and water. They want to protect the environment in which they and their neighbors live; they want to hand on to the next generation a land as productive and healthy as the one they received from the last generation. But they need help to be the good stewards they want to be.

For the help they need, producers and other land users rely on NRCS. They know they can expect good service from NRCS; they value the usefulness, accessibility and clarity of our advice and information; and they appreciate the courtesy and professionalism of NRCS employees. Just how highly they rate NRCS's service was revealed by a recent survey conducted by the University of Michigan using the American Customer Satisfaction Index. A sample of those who received conservation technical assistance last year gave NRCS a score of 81 out of a possible 100 points. This is 10 points higher than the average for private sector services and 12 points higher than the average index of Federal Government services. Users of conservation technical assistance gave NRCS a trust index of 90 out of a possible 100 points.

I hope that we will be able to work with you this year to continue your funding support for conservation in fiscal year 2003, and especially to maintain the funding level needed to ensure that the conservation delivery system that this Nation has built over the past 65 years can continue to help local people care for the land.

DISCRETIONARY FUNDING

*Conservation Operations*

The President's fiscal year 2003 budget request for Conservation Operations proposes an increase of \$118.19 million. The increase includes transfers from the Office of Personnel Management and USDA's Departmental Administration account that are part of the President's government-wide management initiative for agencies to pay the full cost of certain employee benefits. The explanatory notes provided to the Committee provide information on the comparable levels for these items in fiscal year 2001 and fiscal year 2002.

The Conservation Operations account funds the basic activities that make effective conservation of soil and water possible. It funds the assistance NRCS provides to conservation districts, enabling people at the local level to assess their needs, consider their options, and develop area-wide plans to conserve and use their resources. Conservation operations support the site-specific technical assistance NRCS provides to individual landowners to help them develop plans that are tailored to their



individual economic goals, management capabilities, and resource conditions. It also includes developing the technical standards and technical guides that are used by everyone managing soil and water—individuals, local and state agencies and other Federal agencies. And it includes our Soil Survey and Snow Survey Programs and other natural resources inventories, which provide the basic information about soil and water resources that is needed to use these resources wisely. This basic inventory work contributes to homeland security as well as to the long-term sustainability of the Nation's natural resource base.

In fiscal year 2001, technical assistance supported by Conservation Operations funds, enabled landusers to treat 9.6 million acres of cropland and 11.3 million acres of grazing land to the resource management system level (sustainable management). On 3.5 million acres of cropland that had been eroding at severely damaging rates, NRCS technical assistance enabled farmers to reduce erosion to the tolerable rate or less, thus preserving the productive capacity of the soil. Overall, NRCS provided planning assistance on more than 31.4 million acres of land in all uses and application assistance on more than 28.6 million acres.

In fiscal year 2001, NRCS continued to assist producers to respond to the public's concerns about water quality, concerns that are continuing to result in the enactment of increasingly more stringent regulations addressing water quality at local, State, and Federal levels. We provided assistance to apply conservation systems to address water quality concerns on 14 million acres. Practices that were applied to help protect water quality included: 5.4 million acres of nutrient management; 1.2 million acres where irrigation water management was improved, and 524,343 acres of buffer practices. All of these activities were supported by Conservation Operations. In some cases, funds from other Federal programs or State or local sources were utilized in combination with Conservation Operations.

Adequate funding for Conservation Operations in 2003 will enable NRCS to maintain our level of assistance to the basic needs of producers all across the country. It will also enable us to increase our attention to critical resource concerns, such as animal feeding operations and grazing lands.

Operators of animal feeding operations need increased assistance in order to respond to the public's growing concern that such operations pose a threat to the environment. NRCS has invested in technology development and training to ensure that agency and partner field staff are prepared to provide the help AFO operators need. Ensuring that assistance is available to all AFO operators who need it will be a major challenge—as many as 270,000 AFOs may need assistance. The President's budget provides Conservation Technical Assistance funds to increase AFO assistance, to the extent practicable.

Another serious concern continues to be the health of private rangeland and pastureland. The Nation's 630 million acres of non-Federal grazing lands are vital to the quality of the Nation's environment and the strength of its economy. In fiscal year 2001, NRCS provided technical assistance to land users on more than 18 million acres of private grazing land. Improved grazing land health on these lands will benefit society as well as the landowners. Healthy grazing lands mean reduced erosion, improved air quality, reduced potential for flooding, improved fisheries and aquatic systems, and healthy riparian areas. The plant cover on grazing lands can reduce the impacts of drought and sequesters millions of tons of carbon. The 2003 budget continues this important work.

#### *Resource Conservation and Development*

The President's budget also includes an increase for the Resource Conservation and Development Program. Through the RC&D program, NRCS works in partnership with local volunteers organized as Resource Conservation and Development Councils representing multi-county areas. Each council consists of public and private sector sponsors and other local organizations that represent a diverse cross-section of community interests. These local councils play a vital role in improving the quality of life and standard of living in rural communities across the Nation. NRCS provides a coordinator and an office for each council. Currently a total of 368 RC&D areas serve more than 81 percent of the Nation's counties and more than 75 percent of the population. We have received applications from an additional 21 areas, and at least 10 other areas are forming across the Nation. The President's budget proposes funding of \$52.031 million for fiscal year 2003 which would enable continued support of the 368 authorized areas.

For every dollar appropriated by Congress, the RC&D Councils provide an average of \$14 from other sources to carry out projects they have identified as critical to helping their communities socially and economically. RC&D reporting data for fiscal year 2001 indicate that councils and their partners created 514 new businesses, helped expand 1,830 businesses, and financially assisted 1,099 businesses. An esti-

mated 7,494 jobs were created through area projects. Efforts to improve natural resources resulted in improvement of 878,343 acres of wildlife habitat, improvement of 224,871 acres of lakes, and 5,038 miles of streams. Educational projects helped 283,249 people develop new skills. RC&D projects helped 778,350 economically or socially disadvantaged people.

*Watershed Planning and Operations and Emergency Watershed Protection*

The President's budget for fiscal year 2003 proposes to eliminate Watershed Surveys and Planning, Watershed and Flood Prevention Operations, and the Watershed Rehabilitation Program. The budget requests funding for Emergency Watershed Protection (EWP) to provide assistance to local communities when disasters occur. EWP helps communities reduce imminent hazards to life and property caused by flood, fires, windstorms, and other natural occurrences. Through EWP, NRCS provides technical and financial assistance for immediate cleanup and subsequent rebuilding of damaged areas and for restoration of stream corridors, wetlands, and riparian areas. Emergency work includes establishing quick-growing vegetation on denuded land, steeply sloping land, and eroding banks; opening dangerously restricted channels; repairing diversions and levees; and purchasing flood plain easements. Under EWP, NRCS also provides assistance in urban planning and site selection to the Federal Emergency Management Agency when FEMA is relocating communities out of the flood plain.

NRCS emergency watershed protection efforts have traditionally been dependent upon Congressional emergency supplemental appropriations enacted after an event has occurred. Over the past 10 years, these appropriations have averaged \$110 million annually. The President's budget for fiscal year 2003 proposes to ensure more timely and effective response by providing an appropriation of \$111.389 million so that assistance can be on the way as soon as a disaster occurs.

COMMODITY CREDIT CORPORATION FUNDED CONSERVATION PROGRAMS

*Environmental Quality Incentives Program*

EQIP provides producers and landowners with incentives to implement long-term, comprehensive conservation farm plans. The final 2003 level for EQIP will be set when the new farm bill is passed. For planning purposes, the President's budget for 10 year funding for Farm Bill programs assumes a \$1 billion level for EQIP in fiscal year 2003.

Demand for EQIP has historically exceeded the available funding. In fiscal year 2001, for example, total EQIP funding was \$199.9 million, whereas the funds requested totaled an estimated \$359.4 million. Of the 47,461 applications for program assistance received in fiscal year 2001, only about 37 percent (17,684 applications) could be funded. The total unfunded backlog of EQIP applications is more than \$1 billion.

Two examples where EQIP technical and financial assistance is especially important are protecting the quality of water in the Colorado River and helping livestock producers protect the environment. The Nation still needs to reduce salt loading to the Colorado River by an additional 0.86 million tons per year to meet treaty obligations. Producers are willing to help achieve that goal, but they need technical assistance from NRCS to design and implement practical and effective conservation measures; and they need financial assistance. The current backlog of EQIP applications for salinity control measures reflects almost \$150 million in financial assistance.

The technical and financial assistance provided to operators of animal feeding operations through EQIP is an important supplement to the basic technical assistance provided through Conservation Operations. Because many comprehensive nutrient management plans include complex structures that are expensive to install and maintain, some producers simply can't implement them without financial assistance. The President's 2003 budget will provide for financial and technical assistance under EQIP for AFO-related concerns in fiscal year 2003.

*Agricultural Management Assistance*

This program, which was first implemented in fiscal year 2001, provides technical and cost-share assistance in 15 States where participation in the Federal Crop Insurance program has historically been low. In fiscal year 2001, NRCS administered \$8.3 million to provide assistance in improving water management, including irrigation water management; planting trees for windbreaks or water quality; and mitigating risk through diversification or resource conservation. The President's budget for fiscal year 2003 assumes continued funding at the authorized level of \$10 million in total for the program.

*Closing—Partnership for Conservation*

Mr. Chairman, as you know, conservation of the resources on the Nation's private land is a voluntary partnership effort that relies on many individuals, groups, and governmental entities working together to achieve common goals. The foundation of this effort is the traditional partnership between NRCS, local conservation districts, and State conservation agencies. Conservation districts are units of State or tribal government that are responsible for setting priorities and developing conservation programs for their area. They are operated by boards of locally elected officials who serve without salary. NRCS provides assistance on private lands through the districts. NRCS and State and local employees in a field office work as a team, using the same case files and technical tools. District employees administer local and State conservation programs and help NRCS specialists in delivering Federal programs in the district. NRCS specialists provide assistance to achieve local priorities, deliver Federal programs, and help deliver State and local programs.

The most important members of this conservation partnership are the people who own the land and make the decisions about its use.

NRCS's role is to provide the infrastructure—the foundation of science and technology that is essential to using natural resources productively while protecting their quality and an effective delivery system to make that knowledge available to those who need it in forms that are useful to them.

Conservation doesn't just happen. It takes all of us, including Congress, working together to make it happen. This concludes my statement. I will be glad to answer any questions.

Senator KOHL. We thank you, Mr. Rey. And now we turn to Mr. Mike Neruda, who is Deputy Under Secretary for Rural Development.

## STATEMENT OF MICHAEL E. NERUDA

Mr. NERUDA. Thank you, Chairman Kohl; thank you, Senator Cochran, members of the subcommittee. It is a real pleasure to be here today to present to you the President's fiscal year 2003 budget request for the Rural Development mission area at USDA.

I will, with the permission of the Chairman and the Subcommittee, abbreviate my remarks and have the full remarks for the record.

The Rural Development mission area consists of three agencies, the Rural Business Cooperative Service, the Rural Housing Service, and the Rural Utilities Service. The mission area also administers the rural portion of the empowerment zones and enterprise communities initiative, and financially assists the National Rural Development Partnership, a nationwide network of rural development leaders and officials. Rural Development, as you can see, is responsible for a remarkably wide variety of programs to help improve the quality of life for rural Americans.

I will go now into the budget. Mr. Chairman, the President's commitment to improving conditions in rural America is reflected in this budget request for fiscal year 2003. The Rural Development budget totals \$2.6 billion in budget authority. Budget authority at that level will support \$11.6 billion in direct loans, loan guarantees, grants, and technical assistance, and pay administrative expenses. This level of support is consistent with the program levels achieved in recent years, although it is below the current appropriated estimate of \$14.3 billion that is available for 2002.

Implementation of new and more accurate cash flow models incorporating recent program experience and new economic assumptions resulted in changes in program subsidy rates for fiscal year 2003. The impacts of these new subsidy rates on individual program levels varies, but the net effect is a lower total practical level

that can be supported with the same level of budget authority. However, our 2003 budget does not require an across the board reduction.

I would like to point out that the development and incorporation of these cash flow models resulted just last week in Rural Development receiving its first unqualified audit opinion on its financial statements since 1993. This is a significant achievement and reflects the commitment and support of this subcommittee.

I will now focus on specific requests.

The Rural Utilities Service. This Administration believes that enhanced communications infrastructure is essential for rural communities to be able to compete effectively for jobs and income generating opportunity. For that reason, this budget continues the effort to support broadband transmission and local dial-up Internet service by providing \$80 million in loans and \$2 million in grants.

The fiscal year 2003 budget reflects the administration's commitment to a fully privatized Rural Telephone Bank that does not require Federal funds to finance the loans it makes. The bank was established in 1972 to provide a supplemental source of credit to help establish rural telephone companies. This has proved to be remarkably successful, and efforts have been underway since 1996 to privatize the bank.

I would also like to point out that the request for electric program loans is maintained at the fiscal year 2001 appropriated program level of over \$2.6 billion. This subcommittee generously provided over \$4 billion in loan funds for fiscal year 2002. This increase for fiscal year 2002 will go a long way toward reducing the backlog of electric loan demands, so our 2003 request is returned to the 2001 program level.

Rural Business-Cooperative Services (RBS). One key to creating economic opportunity in rural areas is the development of new business and employment opportunities. However, many rural areas do not have sufficient access to the capital needed to sustain local businesses and generate new rural growth.

RBS programs, particularly what we call B&I loan guarantee program, supplement the efforts of local lending institutions in providing capital to stimulate job creation and economic expansion. RBS also provides research and technical assistance to assist in the identification and creation of new business structures that can support innovative capital formation and utilization in rural America.

Included in the rural cooperative development grant request is \$2 million for cooperative research agreements for cooperative energy alternatives. A comprehensive program for research is needed to determine how the cooperative foreign business can be adopted to increasing domestic fuel supplies, both traditional and alternative, while increasing economic returns to the farmers. This program will be carried out through cooperative research at the national office and through cooperative research agreements with universities and appropriate nonprofit program organizations.

The Rural Housing Service. The budget request for the programs administered by the Rural Housing Service totals \$5.2 billion in program level. This commitment will improve housing conditions in rural areas, and in particular, improve home ownership opportunities.

We are proposing a multi-family housing request of \$60 million for direct loans, \$100 million for guaranteed loans, \$53 million for farm labor housing loans and grants, and \$712 million for rental assistance.

This request represents a refocusing of attention on multi-family housing, with the \$60 million loan program directed solely to repair and rehabilitation of existing projects. Rural housing has an existing multi-family housing portfolio of \$12 billion that includes over 17,600 projects. Many of these projects are 20 years old or older and face rehabilitation needs. Rural Development is taking a critical overall look at the multi-family housing new construction program to ensure that it is maintained on a proper course to provide maximum benefits for rural America. Our budget request also includes \$2 million for an independent study to identify alternative ways to fund new construction in a more cost efficient manner.

The budget includes a total of \$712 million in rental assistance payments, a slight increase over the current level. These payments are used to reduce the rent in rural rental housing projects to no more than 30 percent of the income of very-low income occupants, typically female heads of household with annual incomes averaging under \$8,000.

The request for community facilities funding totals \$250 million for direct loans, \$210 million for guaranteed loans, and \$17 million for grants. Community facility programs finance rural health facilities, child care facilities, fire and safety facilities, jails, education facilities, and almost any other type of essential community facility needed in rural America.

As you can see, Mr. Chairman, we have a wide range of projects within our mission area. Again, I thank you for allowing me to testify and of course will take any questions at the end.

[The statements follow:]

PREPARED STATEMENT OF MICHAEL E. NERUDA

Mr. Chairman, Members of the Committee, it is a pleasure to present to you the President's fiscal year 2003 Budget request for the Rural Development Mission Area of USDA.

The Rural Development mission area consists of three agencies, the Rural Business-Cooperative Service (RBS), the Rural Housing Service (RHS), and the Rural Utilities Service (RUS). These agencies are responsible for delivering programs authorized by the Consolidated Farm and Rural Development Act, the Farm Security Act of 1985, the Rural Electrification Administration Act of 1936, the Cooperative Marketing Act of 1926, the Agricultural Marketing Act of 1946, the Housing Act of 1949, and the Rural Economic Development Act of 1990, as amended. The mission area also administers the rural portion of the Empowerment Zones and Enterprise Communities (EZ/EC) Initiative, and assists the National Rural Development Partnership, a nationwide network of rural development leaders and officials. This listing of responsibilities is suggestive of the remarkably wide variety of programs in Rural Development's purview, to help improve the quality of life for rural Americans.

Rural Development assists rural individuals, communities, and businesses obtain the financial and technical assistance needed to address their diverse and unique situations. This financial and technical assistance may come solely from Rural Development or be combined with assistance from one of the numerous public and private organizations involved in the development of rural communities. Rural Development agencies deliver over 40 different loan, loan guarantee, and grant programs in the areas of business development, cooperative development housing, community facilities, water supply, waste disposal, electric power, and telecommunications, including distance learning and telemedicine. Rural Development staff also provides technical assistance to rural families and community leaders to ensure success of

those projects it has financed. In addition to their loan-making responsibilities, Rural Development staff are also responsible for the servicing and collection of a loan portfolio that exceeds \$83 billion.

Rural Development's large portfolio displays one dimension of the successes of the program funding this Committee has provided. However, numbers do not reveal the human side of these successes. Later, in testimony from the agencies, you will hear clearly how the program funding the Committee provides dramatically improves the lives of rural Americans. These success stories are remarkable.

#### RURAL DEVELOPMENT BUDGET REQUEST

Mr. Chairman, the President's commitment to improving conditions in rural America is reflected in this budget request for fiscal year 2003. The Rural Development budget request totals \$2.6 billion in budget authority. Budget authority at that level will support \$11.6 billion in direct loans, loan guarantees, grants and technical assistance, and pay administrative expenses. This level of support is consistent with the program levels achieved in recent years, although it is below the appropriated estimate of \$14.3 billion that is available for 2002. Implementation of new, more accurate cash flow models that incorporate recent program experience and new economic assumptions resulted in changes in program subsidy rates for fiscal year 2003. The impact of these new rates on individual program levels varies from program to program—some increasing and some decreasing—but the net effect is a lower total program level that can be supported with the same amount of budget authority. However, our 2003 Budget does not reflect an across the board reduction. Rather, we are requesting increases in certain programs and reductions in others, as will be described later. I will now discuss the requests for specific programs.

#### RURAL UTILITIES SERVICE

The Rural Utilities Service (RUS) provides financing for electric, telecommunications, and water and waste disposal services that are essential for economic development in rural areas. The RUS program request totals \$4.8 billion, which is comprised of \$2.6 billion for electric loan programs, \$495 million for rural telecommunication loans, \$50 million for Distance Learning and Telemedicine loans, \$25 million for Distance Learning and Telemedicine grants, \$80 million in loans and \$2 million in grants to support broadband transmission and local dial-up Internet service, \$889 million for direct and guaranteed Water and Waste Disposal loans, \$587 million for Water and Waste Disposal Grants, and \$3.5 million for Solid Waste Management Grants.

Electric program funding will benefit about 3.4 million consumers from systems improvement, through upgrading almost 220 rural electric systems. Approximately 60,000 jobs will be created as a result of facilities constructed with electric program funds. Almost 133,000 new subscribers will receive telecommunications service, over 495,000 existing subscribers will receive improved service, and about 11,385 jobs will be generated as a result of facilities constructed with Telecommunications funds. Under the Distance Learning and Telemedicine programs, approximately 140 schools will receive distance-learning facilities and 55 health care providers will receive telemedicine facilities. Over 38,000 jobs will be generated as a result of facilities constructed with Water and Waste disposal program funds, as 540 rural water systems and about 275 rural waste systems are developed or expanded in compliance with the Safe Drinking Water Act and Federal and State environmental standards.

The fiscal year 2003 budget reflects the Administration's commitment to a fully privatized RTB that does not require Federal funds to finance the loans it makes. The Rural Telephone Bank (RTB) was established in 1972 to provide a supplemental source of credit to help establish rural telephone companies. This has proved to be remarkably successful, and efforts have been underway to privatize the bank. In 1996, the RTB began repurchasing Class "A" stock from the Federal government, thereby beginning the process of transformation from a Federally funded organization to a fully privatized banking institution. A privatized bank would be able to expand and tailor its lending practices beyond current limitations imposed as a government lender.

#### RURAL BUSINESS-COOPERATIVE SERVICES

One key to creating economic opportunity in rural areas is the development of new business and employment opportunities. However, many rural areas do not have sufficient access to the capital needed to sustain local businesses and generate new rural growth. Agricultural producers may not have a mechanism or information to utilize the equity available in farmland for other business purposes. Such equity

could be leveraged into other activities, providing capital infusions into capital starved areas. Rural Business-Cooperative Services (RBS) programs, particularly the Business and Industry (B&I) loan guarantee program, supplement the efforts of local lending institutions in providing capital to stimulate job creation and economic expansion. RBS also provides research and technical assistance to assist in the identification and creation of new business structures that could support innovative capital formation and utilization in rural America.

The RBS budget request for fiscal year 2003 totals about \$844 million in RBS loan and grant assistance, the bulk of which represents \$733 million in B&I loan guarantees. This level of funding for the B&I program alone will create or save over 20,400 jobs in rural America. \$44 million is requested for the Rural Business Enterprise Grant program, \$3 million for the Rural Business Opportunity Grant program, \$40 million for the Intermediary Relending Program, almost \$15 million for Rural Economic Development loans, and \$9 million for Rural Cooperative Development Grants. In total, the budget for RBS programs is expected to create or save over 89,300 rural jobs.

Included in the Rural Cooperative Development Grant request is \$2 million for cooperative research agreements for cooperative energy alternatives. A comprehensive program of research is needed to determine how the cooperative form of business can be adopted to increasing domestic fuel supplies, both traditional and alternative, while increasing economic returns to farmers. The program will be carried out through cooperative research at the National Office and through cooperative research agreements with universities and appropriate nonprofit program organizations.

#### RURAL HOUSING SERVICE

The budget request for the programs administered by the Rural Housing Service (RHS) totals \$5.2 billion. This commitment will improve housing conditions in rural areas, and, in particular, improve homeownership opportunities. The request for single family direct and guaranteed homeownership loans totals \$3.7 billion, which will assist 46,000 households who are unable to obtain credit elsewhere to purchase a home of their own. This level of construction activity will stimulate almost 34,000 jobs in rural areas. The RHS request also includes \$35 million for housing repair loans and almost \$32 million for housing repair grants, which will be used to improve 12,000 existing single family houses, mostly occupied by low income elderly residents.

We are proposing a multi-family housing request of \$60 million for direct loans, \$100 million for guaranteed loans, \$36 million for farm labor housing loans \$17 million for farm labor housing grants, and \$712 million in rental assistance. This request represents a refocusing of attention on multi-family housing, with the \$60 million loan program directed solely to repair and rehabilitation of existing projects. RHS has an existing multi-family housing portfolio of \$12 billion that includes over 17,600 projects. Many of these projects are 20 years old or older, and face rehabilitation needs. Rural Development is taking a critical overall look at the multi-family housing new construction program to ensure that it is maintained on a proper course, to provide maximum benefits for rural America. Our budget request includes \$2 million to fund an independent study to discover alternatives to fund new construction in a more cost efficient manner. Given the needs for repair/rehabilitation of existing projects, and the requested study of alternatives for new construction, RHS is proposing to defer making direct loans for new construction under the section 515 Rural Rental Housing program. However, direct loans would continue to be made for new construction under the Farm Labor Housing program. Further, funding for new construction would continue to be available under the Section 538 Guaranteed Loan program.

This budget provides an increase in the farm labor housing program to \$53 million, which will address pressing needs for farm worker housing across the country. This program provides housing to the poorest housed workers of any sector in the economy, and supports agriculture's need for dependable labor to harvest the abundance produced by rural farms.

The budget includes \$706 million for Section 521 Rural Rental Assistance payments, a slight increase over the current level. These payments are used to reduce the rent in rural rental housing projects to no more than 30 percent of the income of very low-income occupants (typically female heads of households, with annual incomes averaging under \$8,000). Currently, almost a quarter of a million households are receiving such assistance. The 2003 Budget provides for the renewal of expiring 5-year contracts for more than 42,000 of the units occupied by these households.

The request for community facilities funding totals \$250 million for direct loans, \$210 million for guaranteed loans, and \$17 million for grants. Community facilities programs finance rural health facilities, childcare facilities, fire and safety facilities, jails, education facilities, and almost any other type of essential community facility needed in rural America. These funds will support 4,000 beds in new or improved elder care facilities, 180 new or improved health care facilities, 170 new or improved fire and rescue facilities, 50 new or improved child care centers, and 70 new or improved schools.

#### ADMINISTRATIVE EXPENSES

These requested program levels provide ambitious targets for accomplishments, for which this Committee will be proud. However, delivering these programs to the remote, isolated, and low income areas of rural America requires administrative expenses sufficient to the task. With an outstanding loan portfolio exceeding \$83 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.

For 2003, the budget proposes a total of \$685 million for Rural Development S&E. Within this fiscal year 2003 request, there is a total of \$56 million to cover the costs of items previously paid from central accounts within USDA or on a government wide basis, including GSA rental payments, Federal Employees Compensation Act and Civil Service retirement and retiree health benefits. The Explanatory Notes provided to the Committee provide information on the comparable levels for these items in fiscal year 2001 and fiscal year 2002.

Our request includes support for initiatives such as the multi-family housing study mentioned earlier and maintaining the commitment to modernizing financial systems, along with assuming new mission area responsibilities for employee retirement costs and GSA leases. It also includes funding for new equipment to support state-of-the-art technologies utilized in our Centralized Servicing Center (to enhance servicing of single family housing borrowers), support for reviewing large and complex electric and telecommunications infrastructure loans, and increased funding for training. Rural Development is very appreciative of the funding provided in the fiscal year 2002 appropriation for automated financial systems development, which allowed Rural Development to continue to support the development of systems for guaranteed loans, multi-family housing loans, Rural Utilities Service systems modernization, and the Program Funds Control System. This funding allows Rural Development to address long delayed automated systems development needs. The funding we are requesting for 2003 will allow us to continue several projects that require multi-year funding.

Mr. Chairman, Members of the Committee, this concludes my formal statement. We would be glad to answer any questions you may have. Thank you for the opportunity to appear before you to discuss the Rural Development budget request.

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#### BIOGRAPHICAL SKETCH OF MICHAEL E. NERUDA

Michael E. Neruda was appointed by Secretary Ann M. Veneman to be the Deputy Under Secretary for Rural Development.

As Deputy Under Secretary, Mr. Neruda oversees the USDA Rural Development Mission Area, which consists of three agencies; \$14 billion annual funding authority for loans, grants, and technical assistance to rural residents, communities, and businesses; and an \$80 billion portfolio of existing loans to collect. Rural Development has over 7,000 employees located across the United States and in Puerto Rico, the Virgin Islands, and the Western Pacific Trust territories. Mr. Neruda is the direct supervisor for the three Agency heads and the 47 politically appointed State Directors. In addition to his responsibilities within Rural Development, Mr. Neruda serves as the chair of the National Food and Agricultural Council (NFAC). The NFAC is an interagency council that includes members from all USDA agencies that maintain a presence at the State and local level, and serves as the primary forum for coordinating USDA programs at the State and local level.

Prior to his current appointment, Mr. Neruda served as Confidential Assistant to Secretary Veneman. He represented USDA at the President's Management Council prior to the confirmation of the Deputy Secretary and advised the Secretary on the implementation of President Bush's management agenda and other broad organizational issues impacting the Department.

Mr. Neruda has extensive experience working on agricultural issues, in both the Legislative and Executive branches. Prior to his current appointments at USDA in



the Bush Administration, he was Staff Director of the Subcommittee on General Farm Commodities, Resource Conservation and Credit, Committee on Agriculture, U. S. House of Representatives. In this position he was a key adviser to the House Agricultural Committee on issues related to farm commodities, trade, conservation, and credit. Mr. Neruda has also served on the staff of several Members of Congress, including Representative Fred Grandy and Senator Roger Jepsen, both of Iowa, and Senator Ed Zorinsky of Nebraska.

Mr. Neruda served in the Administration of President George H.W. Bush at USDA as the Executive Assistant to Agriculture Secretary Edward Madigan. In that position he codirected a comprehensive USDA/OMB Field Structure Review, which resulted in a proposal for a nationwide restructuring of USDA client services. He also served as the Acting Deputy Assistant Secretary for Administration and later managed the Risk Management Agency's network of regional service offices.

Mr. Neruda is a Captain in the Navy Reserve and was recalled to active duty for OPERATION DESERT STORM. He received the Bronze Star for his service in the Persian Gulf. After the war he was chosen to return to the USA with General Schwarzkopf to manage all aspects of the General's participation in public events.

Mr. Neruda was reared on the family farm near Dorchester, Nebraska, and holds a M.A. in Public Administration from the University of Oklahoma as well as a B.S. in General Agriculture from the University of Nebraska-Lincoln. He is the father of two children who currently attend Stanford University.

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PREPARED STATEMENT OF HILDA GAY LEGG, ADMINISTRATOR, RURAL UTILITIES SERVICE

Mr. Chairman, Members of the Subcommittee, thank you for the opportunity to present the President's fiscal year 2003 budget for the Rural Utilities Service (RUS). We appreciate the work and support you and the other members of this subcommittee have provided for a strong, dependable infrastructure in the rural United States.

Safe, dependable, affordable, modern utility infrastructure is an investment in economic competitiveness and serves as a fundamental building block of economic development. Technology, regulatory, and market structure changes, combined with an aging utility infrastructure are occurring in the electric, telecommunications, and water sectors. Without the help of USDA through the RUS programs, to replace and enhance the utility infrastructure of Rural America the residents of rural communities will have a more difficult time sharing in the Nation's basic quality of life. Eighty percent of the Nation's landmass continues to be rural, encompassing 25 percent of the population. As we face a challenged economy, this infrastructure investment is vital to spurring economic growth, creating jobs and improving the quality of life in Rural America.

The nearly \$38 billion RUS loan portfolio includes investments in approximately 7,900 small community and rural water and waste disposal systems, and 2,000 electric and telecommunications systems serving rural America. The partnership RUS has with local communities, cooperatives, businesses and citizens is the key to the success of these programs.

A BUDGET THAT LEADS

The President's proposed budget will enable RUS to respond to the demand in rural America to meet the needs brought on by the rapidly changing markets and technologies. Rural America, if it is to be a part of today's fast changing economic landscape, must have the ability to meet changing needs. The ability of borrowers to respond quickly to changing conditions is a key to the public-private partnership between RUS and its borrowers. RUS continues to streamline policies, offer borrowers more flexibility in financing, while ensuring safe, reliable modern utility service to rural Americans.

ELECTRIC PROGRAM

The RUS Electric Program budget proposes \$11 million in budget authority to support a program level of \$2.6 billion. These amounts include: \$6.9 million in budget authority for a hardship program level of \$121.1 million, \$4.0 million in budget authority for a municipal rate program level of \$100 million, a \$700 million funding level for Treasury rate loans and a \$1.6 billion funding level for guaranteed loans through the Federal Financing Bank, which do not require any budget authority, and \$80,000 in budget authority for a \$100 million loan guarantee program for private sector loan guarantees.

An example of how our rural electric borrowers can improve the economic potential and quality of life in rural communities is the Hawkeye Tri-County Electric Cooperative (Hawkeye Tri-County). Hawkeye Tri-County of Cresco provides electric service to 6,100 consumers using 2,100 miles of distribution line in Howard, Winneshiek, and Chickasaw counties in northeast Iowa. Recently, RUS awarded Hawkeye Tri-County a \$4,245,000 loan to connect 130 consumers, construct 23 miles of distribution line and make other necessary system improvements.

Hawkeye Tri-County supports the economic development efforts of area communities by awarding loans through its economic development revolving loan fund. The loans made available through this fund come in part from grants awarded to Hawkeye Tri-County by several different sources including the USDA Rural Economic Development Loan and Grant (REDLG) Program. For every dollar Hawkeye Tri-County invests in a project, \$6 are received through these programs. Over the past 2 years Hawkeye Tri-County has funded over \$1 million in local projects through this revolving fund. This includes funding for:

The Dairy Education and Applied Research Laboratory in Calmar—a unique, state-of-the-art dairy facility was built on the campus of a local community college with the help of a \$240,000 grant from Hawkeye Tri-County. The cooperative also supplied one mile of three-phase line to serve the facility and offered rebates on energy efficient lighting.

The Decorah Business Park and the Industrial Park in Lime Springs—The cooperative provided over \$550,000 in low-interest loans to two local industrial parks in order to build infrastructure to support additional businesses locating to the area.

#### WATER AND ENVIRONMENTAL PROGRAMS

This budget seeks \$587 million in budget authority for Water and Waste Disposal (WWD) grants; \$3.5 million in budget authority for solid waste management grants; and \$92 million in budget authority to support \$814 million in WWD direct loans and \$75 million in guaranteed loans. This level of support is expected to improve the quality of life and health of an estimated 1.6 million Americans in needy communities each year by providing access to clean, safe drinking water. In addition, new or improved waste disposal facilities would be provided to an estimated 300,000 people living in rural areas.

The Water and Waste Disposal program has been very successful since its inception over 60 years ago. A total of over \$26 billion in financial assistance has been provided, about 70 percent of that in the form of loans; approximately 45 percent of the total has been provided during the past 10 years. Needs for water and waste disposal systems are still significant and are likely to grow as a result of expanding population in rural areas, changes to water quality standards, drought conditions, and similar factors. The application backlog for assistance continues to total about \$3 billion each year. Over the last 3 years RUS has assisted 902 borrowers in moving up to commercial credit in accordance with its graduation requirement. As a result of this effort, nearly \$2.8 billion in loans were paid off.

Our budget request will allow third-party service providers such as rural water circuit riders and waste water technicians to make over 76,000 water and wastewater system contacts to communities needing technical assistance and, through a clearinghouse effort, take more than 10,000 telephone calls and an estimated 20,000 electronic bulletin board and web site contacts. As a result of strong WWD technical assistance efforts, both from staff and third-party service providers/contractors, loan delinquency and loan losses will remain low. Currently, less than 1 percent of approximately 7,900 borrowers are delinquent. Since the inception of the water and waste disposal program, only 0.1 percent of the amount loaned has been written off.

As an example of the work we do, RUS recently assisted residents of the Zuni, New Mexico to develop their own safe and dependable supply of drinking water. The area served has a low-income level, and the water system was badly in need of repairs and improvements. Many of the 1,842 residential, 24 commercial and 83 institutional customers were having to buy and haul drinking water, and often had to contend with low pressure due to distribution system and water supply problems. The system failed to meet 8 out of 10 applicable water quality standards. When construction is finished, the residents will have access to clean, safe, and reliable drinking water, coming from a modern, well equipped and managed system.

#### INVESTING WHERE RESOURCES ARE MOST LIMITED

The agency is working to improve outreach, participation, and delivery where rural resources are most challenged. This goal addresses the heart of our mission. We combine our technical and financial resources to reach out and assist those communities, tribes and other groups with limited resources. The RUS outreach efforts

have touched the vast expanse of our country—from rural Alaskan Villages to Colonias along the U.S.-Mexico border, communities in the Mississippi Delta, and the great needs of Native Americans. The end result is a stronger economy and a stronger America.

Since the earliest days of rural electrification, RUS has focused special attention on tribal communities. One of our earliest electric borrowers was the Navajo Nation. Five out of the seven tribally owned telephone companies are RUS borrowers. RUS investments in utilities in Alaska provide service to some of the most remote native Alaskan villages.

RUS investments in drinking water and wastewater projects serving tribal and rural Alaskan communities have increased by nearly 400 percent since fiscal year 1993, and continue to grow. RUS is dedicated to helping unserved and under-served communities. Nearly \$16 million was earmarked in fiscal year 2002 to benefit Native Americans. For fiscal year 2003, the President's proposed budget earmarks \$24 million for Native Americans, of which \$16.0 million is to be used for water and waste disposal grants. Additionally, we are intensifying coordination of funds with the Indian Health Service and State and other Federal agencies.

#### MODERN TELECOMMUNICATIONS IN RURAL AMERICA

The building and delivery of advanced telecommunications networks is having a profound effect on our Nation's economy, its strength, and its growth. High-speed telecommunications services can literally solve many of the challenges facing rural residents—its students, the elderly and rural businesses. Children growing up on our farms and in our small towns can have access to the best education our Nation can provide. Rural citizens, particularly the elderly, will not suffer from inadequate health care that diminishes the quality or length of their lives. And rural economies will prosper and grow with new markets only a computer screen away. Rural economies today are so much more than just farm-based economies. In fact, seven out of eight rural counties are now dominated by varying combinations of manufacturing, service-oriented and other non-farming activities. Today's advanced technologies will allow rural communities to become platforms of opportunity for new businesses to compete locally, nationally, and globally and the funding we are seeking in the 2003 budget request will help us continue to meet the "new communications-needs" of rural America.

#### TREASURY RATE, GUARANTEED, AND HARDSHIP LOANS

Since 1995—when RUS implemented Congress' visionary policy requiring all RUS-financed facilities be "broadband capable"—every telephone line constructed with RUS financing is capable of providing advanced services using digital and fiber technologies. This loan program targets the most rural communities, populations that are less than 5,000 people.

This year's budget includes \$75 million in 5 percent interest hardship loans, \$300 million in Treasury rate loans and \$120 million in loan guarantee authority for the telecommunications programs. This amount of assistance will cost only \$1.4 million in budget authority, most of which is needed to support the targeting of hardship loans to the poorest, neediest, and highest cost to serve areas.

This budget also reflects the Administration's commitment to privatizing the Rural Telephone Bank and therefore does not request budget authority to support lending for 2003. Today, the bank operates as a supplemental lender to entities eligible to borrow funds from the RUS program. A privatized bank would be able to expand or tailor its lending practices beyond its current limitations imposed as a governmental lender, as well as use its substantial loan portfolio and cash reserves to extend favorable credit terms to smaller, rural companies. Privatization, therefore, should be pursued in a prudent, thoughtful manner, one consistent with the bank's enabling legislation thereby allowing it to continue as a private lender helping to meet the growing capital demands of the rural telecommunications industry.

#### BROADBAND LOANS AND GRANTS

We also propose to continue the special program of loans and grants to facilitate the deployment of broadband service in rural areas. This program was established on a pilot basis in 2001 and received funding for 2002. For 2003, RUS is requesting \$80 million in Treasury rate loans and \$2 million in grants.

Broadband service not only provides critically needed economic stimuli for rural communities through e-commerce initiatives and by enticing new businesses, it creates a new "workforce" of students educated through distance learning programs with the skills necessary to compete globally.

An important element of this program is that it enables RUS to fund broadband investment in the next level of rural America, towns with populations up to 20,000 inhabitants. These towns are typically caught in the middle—too small to attract private capital and too large to qualify for incentive-based programs.

#### DISTANCE LEARNING AND TELEMEDICINE LOANS AND GRANTS

The Distance learning and Telemedicine program continues its charge to improve educational and health care delivery in rural America. The terms “distance learning” and “telemedicine” are becoming synonyms for “opportunity and hope.” Telemedicine projects are providing new and improved health care services beginning with patient diagnosis, through surgical procedures, and post-operative treatment. New advancements are being made in the telepharmaceutical and telepsychiatry arenas providing health care options never before available to many medically under-served areas. Distance learning projects continue to provide funding for computers and Internet hookups in schools and libraries. The realm of study options available to rural students through distance learning technologies literally brings the world to their doorstep. The value of these services to rural parents, teachers, doctors and patients is immeasurable. Building on advanced telecommunications platforms, distance learning and telemedicine technologies are not only improving the quality of life in rural areas, but they are also making direct contributions to promoting e-commerce in rural areas by introducing the skills needed for a high-tech workforce and promoting sound health care practices, like preventative care initiatives.

For 2003, RUS is requesting \$25 million in grants for this program, and \$50 million in Treasury rate loans. Since its inception, more than 90 percent of this program's benefits has come from grant funding. Experience indicates that rural health care clinics, and especially educational providers, simply cannot afford loans to implement their projects. The \$50 million in loans is expected to be sufficient to meet the demand from larger, consortium-based entities with the necessary resources to collateralize a loan.

#### THREE PROGRAM AREAS, WORKING TOGETHER

These three program areas, telecommunications, electric, water and environmental, all weave together for the fabric of infrastructure foundation in rural communities. They each fit, tongue and groove, with the rural business and rural housing programs that make up the rest of the Rural Development mission area. Each one being equally important to the economic and structural health of a community. This budget provides for sound, responsible, economic growth through investment in our rural communities.

Every RUS Administrator before me has faced unique challenges in delivering “common” services—telephone, electricity, and water and waste disposal—to hard working rural Americans. People that got up before it was light, worked until well after dark, and fed a growing Nation. Today's information age poses its own unique challenges and I look forward to working with private and public sectors, and of course Congress, to meet those challenges.

#### BIOGRAPHICAL SKETCH OF HILDA GAY LEGG

Hilda Gay Legg serves as the 15 Administrator of the Rural Utilities Service. She was appointed by President George W. Bush and confirmed by a unanimous vote of the U.S. Senate September 27, 2001. As Administrator of the Rural Utilities Service (RUS), Ms. Legg administers to the infrastructure needs of rural America through loan and grant funds totaling over \$6 billion for Water and Environment Programs, Rural Telecommunications Programs and Rural Electrification Programs.

Ms. Legg comes to this Administration, from The Center for Rural Development in Somerset, Kentucky, where she served seven years as Executive Director and CEO. She was responsible for the overall management of the state of the art facility as well as program development and outreach. The Center is a national model for economic development in rural areas in such projects as education, workforce training, telecommunications, arts and culture, environment, tourism and other economic development programs geared toward the “total community development” concept. Through the Center's advanced technology and operating capacity access, new opportunities have been provided to rural Kentucky business, industry, and research leaders from domestic as well as international sources.

In 1990, Ms. Legg was appointed by President George Bush as Alternate Federal Co-Chairman for the Appalachian Regional Commission in Washington, D.C. Her

primary responsibility was to represent and promote the economic policies for the region's 21 million people, and assist in the management of a \$190 million budget aimed at job creation, building infrastructure, education and work force training and numerous research programs relative to rural economic development.

During the late 1980's, Ms. Legg became Director of Admissions and faculty member at Lindsey Wilson College in Columbia, Kentucky. From 1985 to 1987, she was the Field Representative in the Bowling Green office of U.S. Senator Mitch McConnell.

Ms. Legg served in the Reagan Administration at the U. S. Department of Education. She started her professional career as a teacher in the Adair County Schools and is certified both as a secondary administrator and counselor. She remains active in education issues by serving as Vice Chair, Alice Lloyd College Board of Trustees, and Campbellsville University's Advisory Board.

She is a graduate of Campbellsville University and received her master's degree at Western Kentucky University. She finished the Senior Executive Program at Harvard University's John F. Kennedy School of Government in 1992.

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PREPARED STATEMENT OF JAMES C. ALSOP, ACTING ADMINISTRATOR, RURAL HOUSING SERVICE

Mr. Chairman and members of the Committee, thank you for this opportunity to testify on the Rural Housing Service's fiscal year 2003 Budget Proposal.

The Rural Housing Service (RHS) assists rural America in a variety of ways. Our loan and grant programs promote healthy rural communities by helping to provide decent and affordable housing as well as essential community services, such as fire protection, health care centers, and child care centers. Through partnerships with the private, public, and nonprofit sectors, RHS provides financial and technical assistance to low-income families and rural communities. RHS helps those who do not have effective access to credit because of the isolated nature or small scale of rural markets. We also provide credit to low-income families and communities that otherwise could not afford mortgage or other debt service payments.

With the \$5.2 billion program funding in the proposed fiscal year 2003 budget, RHS will provide assistance to about 48,000 households for single family housing homeownership, repair and rehabilitate nearly 6,000 rural rental housing units, and provide rental assistance to more than 42,000 very-low-income occupants of RHS funded rural rental units. Additionally, it will support more than 170 new or improved health care facilities, more than 150 new or improved fire and rescue facilities, and about 50 new or improved child care facilities. It also will create or preserve more than 30,000 jobs in rural America.

In today's economic uncertainties, RHS programs ensure that the majority of rural America's most vulnerable members, including low-income elderly, children, farmworkers, and Native Americans, do not suffer severe financial hardship. Let me show you how we plan to continue to do that under the Agency's fiscal year 2003 budget proposal.

RHS HOMEOWNERSHIP PROGRAMS REACH THE UNDERSERVED

For more than 50 years, RHS' Section 502 direct loan homeownership program has successfully worked to improve the overall quality and affordability of the Nation's rural housing stock. Our customers are happy with their homes. According to a recent Economic Research Service (ERS) report titled Meeting the Housing Needs of Rura/Residents, 90 percent of recent Section 502 direct loan borrowers think that their current home is better than their last one. These same satisfied customers are people whom the private market has difficulty serving. Ninety percent say that without assistance from us it would have taken them more than 2 years to purchase a comparable home, and 44 percent believe they could not have purchased a home without the Section 502 direct loan program. Twenty-nine percent of RHS borrowers are members of minority groups as compared to 15 percent of all recent low-income homeowners, and 32 percent of our customers are female single parents, as compared to 12 percent of all recent low-income homeowners. In addition, 15 percent of Section 502 households have at least one member with a disability. Almost three-quarters of the borrowers surveyed were first-time homeowners.

In the fall of 2001, a Hidalgo County, Texas family of six moved into their new home thanks to the combined efforts of a number of organizations. Hidalgo County contains many areas, known as Colonias, which may lack electricity, water and sewer and garbage service. RHS provided a Section 502 Direct Loan for \$50,000 to finance the first new home in this area. A community based nonprofit organization built the house while several other organizations contributed by providing loans,

grants, technical services and in-kind gifts. Due to the success of this combined effort a number of other new homes were built in the area.

The 2003 budget includes \$957 million in Section 502 Direct Loans as well as \$35 million in direct loans and \$32 million in grants for the Section 504 Very-Low Income Repair Program. These funds will enable about 23,000 low-income rural Americans to become homeowners or to improve their substandard homes. An additional \$2.75 billion in Section 502 Guaranteed Loans will help nearly 34,000 low- and moderate-income rural households become homeowners. For rural Americans with very-low, low, and moderate incomes, the Section 502 direct and guaranteed loan programs continue to be the most effective housing programs available. Based on the estimates used by the National Association of Home Builders, the 2003 budget request for these programs will help create nearly 30,000 jobs through the construction of new homes.

The 2003 budget also includes \$34 million for the Self-Help Housing Technical Assistance Grants program. By allowing families to earn "sweat equity" by helping to build their own homes, the Self-Help program makes housing affordable for many hard-working, very-low-income families, who otherwise would never be able to own their own homes. About half of the program's participants are members of minority groups and a significant portion is farmworkers. The program requirements are tough: participants must contribute 65 percent of the labor towards construction of their homes. Because owning a home is so important to them, these families are willing to work at their regular jobs and then put in as much as 35 hours a week, building their houses. We anticipate that the 2003 budget request will allow RHS to award technical assistance grants enabling more than 1,500 families to build their own homes.

In Riverton, Wyoming, a single mother with three daughters built a home for her family. She joined three other families learning to work together to supply 65 percent of the labor needed to build their homes. Under Housing Partners, Inc., the four families learned to pour concrete, frame houses, and finish the interiors. Each home was financed with a \$54,000 Section 502 loan from RHS. The loan amount was kept low because the homeowners contributed their "sweat equity" to the cost of their homes. Typically, sweat equity adds about 20 percent to the value of a home.

#### RHS PARTNERS WITH PRIVATE AND NONPROFIT ORGANIZATIONS TO INCREASE HOMEOWNERSHIP OPPORTUNITIES

Homeownership can have a tremendous impact on families' lives and on the strength of rural communities. However, RHS cannot address this issue alone. We must work with partners. Leveraging has become an integral part of how we do business. RHS is collaborating with a number of private and public partners to meet the housing needs of low-income families and individuals. For example, the Rural Home Loan Partnership (RHLP) has grown into an important delivery method for providing homeownership opportunities throughout rural America.

RHS originally established the RHLP as a pilot project initiated with the Federal Home Loan Bank System (FHLB) and the Rural Local Initiatives Support Corporation. Now, RHS has expanded the RHLP to include other partners. In the RHLP, a local nonprofit or community development corporation partners with a local lender and RHS to provide homeownership education and single-family mortgages to very-low- and low-income rural residents. In fiscal year 2001, the RHLP produced 1,666 new homeowners using \$105 million in RHS funds and \$32.8 million from other lenders and grantors. For every dollar RHS invests in affordable housing, an RHLP partner contributes another 31 cents. The first year's success began with 10 local partnerships; the pilot has expanded each year to its current level of 267 partners.

Last year, an RHLP partnership between Hibernia National Bank and RHS funded 142 loans in rural Louisiana, with the bank's 20 percent of the financing totaling \$2 million. With the Federal Home Loan Board (FHLB) in Dallas, Hibernia provides down payment and closing cost assistance, thus enabling more families to qualify for loans and to afford better homes. In rural St. Martinville, LA, RHS and Hibernia teamed up to finance homes in the first new subdivision in the town in 25 years. Providing this much-needed low-income housing not only helps individuals, but also spurs the local economy.

#### RHS RENTAL PROGRAMS SERVE THE MOST VULNERABLE RURAL AMERICANS

Although RHS housing programs have been successful, many rural residents still live in substandard housing. According to the Housing Assistance Council's recent report titled *The State of the Nation's Rural Housing*, more than one million rural renter households are "worst case needs" households, as defined by the Department

of Housing and Urban Development. These are households that have incomes below 50 percent of the area median household income, are extremely cost-burdened or inadequately housed, and receive no Federal housing assistance. Of those rural renters with worst case needs, 62 percent pay 70 percent or more of their income for housing.

Together, the RHS Section 515 Rural Rental Housing program and the Section 521 Rental Assistance (RA) program provide decent, safe, and affordable housing to those families who need it the most. The Section 515 program provides loans at an interest rate of 1 percent for building affordable housing, while the Rental Assistance program reduces rents for tenants to pay no more than 30 percent of their income.

The average annual income of our Section 515 tenants is just under \$8,000. Fifty-two percent of our 469,000 tenant householders are elderly, 16 percent have a handicap or disability, 28 percent are members of minority groups, and 73 percent are women. In fiscal year 2001, RHS provided \$50 million to build more than 1,500 apartments and another \$54 million to rehabilitate 5,500 apartments for our Section 515 tenants. The fiscal year 2003 budget request of \$60 million for the Section 515 housing will provide much-needed repairs or rehabilitation to 5,900 units. No funding is included for Section 515 Direct Loans for new construction. However, the budget includes \$100 million in Section 538 Guaranteed Loans that may be used for new construction. In addition, it includes \$36 million in loans and \$17 million in grants for Farm Labor Housing projects most of which will be new construction.

The \$706 million in fiscal year 2003 funding requested for the Section 521 Rental Assistance (RA) program is essential in ensuring the integrity and financial stability of our Section 515 and Section 514/516 Farm Labor Housing loan and grant programs. The percentage of our RA budget devoted to ensuring that tenants currently receiving RA continue to receive those benefits increases each year as the cumulative effect of the program grows. In 2003, well over 93 percent of our RA budget will be used to ensure that more than 42,000 RA contracts are renewed and that the people living in these units can remain in affordable housing. The remainder of the RA funding will be used to keep rent affordable when repair and rehabilitation are needed for existing units.

RHS maintains a multi-family housing portfolio of existing projects that provide housing for over 450,000 very-low and low-income families nationwide. Over half of these families receive rental assistance payments. It is becoming more difficult for RHS to meet the needs of the existing aging portfolio and to fund new rental units for very low-income families currently living in substandard housing. Accordingly, \$2 million is included in the fiscal year 2003 budget to provide for an evaluation of the program by an independent entity. This evaluation would examine budgetary funding practices, financing mechanisms, and program administration procedures to determine if there is a more cost-efficient manner to deliver MFH programs and provide quality affordable housing to rural residents most in need.

#### RHS PROVIDES ESSENTIAL FACILITIES TO DISTRESSED RURAL COMMUNITIES

Along with decent and affordable housing, many communities also lack essential community facilities such as educational buildings, fire, rescue, and public safety facilities, child care centers, and health care facilities. This shortage not only impacts the quality of life for community residents but also makes it more difficult for communities to attract and retain businesses. Our Community Facilities (CF) direct and guaranteed loan and grant programs provide funding for these essential facilities.

The fiscal year 2003 budget includes \$477 million for the Community Facilities program, \$250 million for Direct Loans, \$210 million for Loan Guarantees and \$17 million for grants. This level of funding allow us to continue our commitment to educational facilities, which are especially important in preparing rural children and adults to compete in the global economy. In fiscal year 2001, we assisted 145 communities by investing \$81.9 million in buildings to house public schools, charter schools, libraries, museums, colleges, vocational schools, and educational facilities for the disabled. We also helped finance the purchase of computers and other technological equipment. Public safety is an often neglected need in rural communities. In fiscal year 2001, we invested \$81.6 million in 473 facilities, including communications centers, police, fire and rescue stations, civil defense buildings, and related vehicles and equipment.

Childcare is especially important in rural areas. A staggering 24 percent of rural America's children live in poverty. Without adequate child care facilities, many rural parents face a tough choice: go to work to increase their family's income, but worry about whether their children are safe and well cared for, or live in poverty in order to stay home to take good care of their children. The high-quality childcare centers

financed by the Community Facilities program allow parents to go to work with peace of mind.

Ringgold County Child Care Center in Mount Ayr, Iowa, is a good example of how our Community Facilities (CF) program helps communities provide essential services. Funding was provided by a number of sources in addition to RHS. These included a Community Development Block Grant, the local school district, and various charitable and local sources. The center serves over 150 children, with separate areas for children in different age groups, ranging from infants to pre-schoolers.

I have discussed the funding for the major RHS programs. Now, let me take a moment to show you how the budget will help some of our most vulnerable rural citizens: the elderly, farmworkers, and Native Americans.

#### RHS PROVIDES RURAL AMERICA'S ELDERLY WITH SAFE, AFFORDABLE HOUSING AND ESSENTIAL COMMUNITY FACILITIES

For elderly rural people who want to remain in the homes they own, we provide the Section 504 very-low income loan and grant programs. These programs make substandard homes safe and decent by financing such things as indoor plumbing, electric heating and cooling systems, safe wiring, roof and floor repair, and the installation of features to accommodate disabilities. In fiscal year 2001, \$61 million in loan and grant money was used to repair about 11,500 homes under the Section 504 program. The President's 2003 Budget includes \$31.5 million for the Section 504 grant program, which serves very low-income seniors, and \$35 million for the Section 504 loan program in which about half of the beneficiaries are elderly. With this money, RHS can help make nearly 12,000 substandard homes safe and decent.

The RHS Community Facilities program finances a range of service centers for elderly people, including nursing homes, boarding care facilities, assisted care, adult day care, and intergenerational care centers that serve both elderly people and children at the same time. Since its inception in 1974, the Community Facilities program has invested \$767 million in facilities that directly benefit seniors and millions more in health care services that serve both seniors and the general population.

#### RHS PROGRAMS SERVE AMERICA'S FARMWORKERS

Although the housing needs of the elderly are severe, the most poorly housed groups in America are farm workers and Native Americans. Farmworkers enable America to maintain its agriculture production levels and compete in world markets, yet they are the lowest-paid group of workers in the Nation. While their labor ensures food security through the successful production and distribution of our Nation's agricultural crops, farmworkers live in substandard housing, sometimes without basic sanitary facilities, safe heating and cooking equipment, and a supply of clean water.

RHS provides housing to farmworkers primarily through two programs: the Mutual Self-Help program, which I have already described, and the Section 514/516 Farm Labor Housing program, which is the only national source of farm labor housing construction funds. Participants in either of these programs must be permanent residents or U.S. citizens. Tenants in our farm labor housing must earn a substantial portion of their income through farm work. Eighty-nine percent of tenants in RHS-financed farm labor housing are minorities, primarily Latino and African-American.

The fiscal year 2003 budget request of nearly \$53 million for the Farm Labor Housing program will enable us to finance construction of more than 1,000 new units as well as address our anticipated need to rehabilitate and repair about 1,200 existing units. This funding will be highly leveraged because RHS partners with other public and private funding organizations in the vast majority of its complexes.

In addition to providing farmworkers with housing, RHS provides them with essential community facilities, such as child care and health care centers. The CF program has been successful also in meeting the needs of migrant farmworkers—a transient population difficult to serve. In conjunction with the Department of Health and Human Services, we have funded a number of migrant health care clinics and migrant Head Start centers.

#### NATIVE AMERICANS BENEFIT FROM RHS ASSISTANCE

Native Americans suffer greatly from inadequate housing, and lack of access to basic community and health services. RHS continues its extensive outreach to Native Americans by working to overcome barriers to lending on trust land and by providing grant funds whenever possible.

RHS has worked hard to increase its investments, which benefit Native Americans. The Section 504 housing repair loan and grant programs are often the first



RHS programs to be used on a reservation. Section 504 loans are especially easy to use because if the loan is less than \$2,500, no real estate security is needed. Thus, the problem of lending on trust land is avoided. We also have financed numerous Section 515 multi-family housing complexes serving Native Americans across the Nation. We typically provide about 10 percent of our Housing Preservation Grant funds to organizations that serve Native Americans. Through small Section 525 Technical Assistance Grants to nonprofit organizations, we fund credit counseling and homebuyer education to Native Americans to help them qualify for RHS single family housing loans and become successful homeowners.

Native American communities, especially those on reservations, have many needs beyond housing—needs for medical centers, libraries, community centers, childcare centers, Head Start facilities, and fire stations and trucks. The Community Facilities program provides loans and grants to help meet all these needs. In addition, the fiscal year 2003 budget proposal earmarks \$4 million in Community Facilities assistance for tribal colleges. Many of these colleges need major repairs and renovations to existing buildings, facilities to house new programs, and computers and other equipment. This earmark enables us to assist the tribal colleges in their efforts to provide students with the education needed for success in their lives.

In South Dakota, Si Tanka College, an associate degree school run by the Cheyenne River Sioux Tribe, received a Community Facility (CF) direct loan and a guaranteed CF loan totaling more than \$6 million enabling them to purchase a fully accredited university. The purchased college, Huron University, was a small private institution struggling to survive with declining enrollment and funding. The purchase enhances both colleges financially as well as in expanded curriculum. Huron will add a Native American curriculum and Si Tanka will be able to offer 4-year degree programs. The courses will be taught via Internet technology to students on the reservation who are unable to travel the 200 miles to the Huron campus. Huron University is a significant part of the local economy, so the community also benefits from the merger.

#### RHS SUPPORTS RURAL AMERICA AND LOCAL COMMUNITY NEEDS

The USDA Centralized Service Center (CSC) in St. Louis, Missouri, provides all written and oral communication to customers in either English or Spanish to better serve the needs of these customers. At the CSC, RHS has used aggressive recruitment and retention initiatives in order to create a workforce, which is 11 percent bilingual and can supply these services. The CSC also works closely with the National Industries for the Blind and provides monthly mortgage statements in Braille for self-sufficient blind customers. National TDD phone service is available from CSC as well as e-mail customer responses for customers with hearing disabilities. Employees with disabilities, over 10 percent of the CSC employee population, are provided special equipment to enhance their productivity and ability to serve customers.

RHS's commitment to helping people become self-sufficient is also evident in their ongoing Welfare-to-Work initiative. CSC has worked with the St. Louis Transitional Hope House and the American Red Cross to employ former welfare recipients. Twenty-six employees referred through this effort started out as worker trainees. Eighteen have since been promoted into permanent loan processor positions. New worker trainees are provided with mentors and may later become mentors themselves as they become proficient in the work environment. One employee who started in the Welfare-to-Work program is now enrolled in college, pursuing an accounting degree. Another has obtained RHS financing and is now a proud single-parent homeowner.

The CSC has received several individual and Government agency awards for its initiatives. These include awards from the Council for Employment of Individuals with Disabilities, the Hispanic Employment Council, and the Black Employment Council.

I hope I have illustrated for you the many ways that RHS programs improve life in rural areas. We have great opportunities to assist rural people and their communities in becoming self-sufficient. I have mentioned only a few examples of how RHS makes a difference in the lives of so many rural Americans.

Mr. Chairman and members of the Committee, with your continued support, RHS looks forward to improving the quality of life in rural America by helping to build competitive, active rural communities through our community facilities and housing programs.

## BIOGRAPHICAL SKETCH OF JAMES C. ALSOP

James C. Alsop began his career with the U.S. Department of Agriculture on June 10, 1968, as an Extension Agent with the Cooperative Extension Service in Suffolk, Virginia. In 1972, Mr. Alsop joined the Farmers Home Administration in Tappahannock, Virginia. Mr. Alsop held the following positions in Virginia: Assistant County Supervisor, County Supervisor, Community Programs Specialist, and District Director. In 1979, Mr. Alsop became a Community Programs Specialist in the National Office in Washington, D.C. At the National Office, he has held the positions of Direct Loan Processing Branch Chief, Acting Deputy Assistant Administrator for Community and Business Programs, Executive Assistant to the Administrator, Rural Business-Cooperative Service, and Deputy Administrator for Community Programs, Rural Housing Service. He is currently serving as the Acting Administrator for the Rural Housing Service.

Mr. Alsop graduated from Virginia State College with a Bachelor of Science Degree in Animal Science. Mr. Alsop has completed the USDA Senior Executive Service Candidate Development Program and received the certificate of executive qualification. He has been selected as a member of the Senior Executive Service. He has attended numerous executive training seminars, including the Leadership for a Democratic Society at the Federal Executive Institute in Charlottesville, Virginia. He has received numerous outstanding merit awards for outstanding job performance. In June of 1997, Mr. Alsop was the team leader of the Community Facilities Basic Training Group that received one of the highest awards presented by the Secretary of Agriculture for superior service. This honor award for excellence was presented to the group for contributing to Rural Development program delivery by initiating improvements in customer service. He served on the National Reorganization Negotiating Team in 1994, developing procedures for the placement of Rural Development employees nationwide during the USDA reorganization. He served as a management representative for Rural Housing Service on the Rural Development Partnership Council.

As the Deputy Administrator for Community Programs, he was responsible for administering the Community Facilities direct, guaranteed, and grant programs nationwide. There are 47 Rural Development State Offices that include at least one person per office responsible for implementing the Community Facilities program. Mr. Alsop managed a national program that received supportable loan and grant allocations totaling \$499 million during fiscal year 2002. The outstanding Community Facilities portfolio consists of 4,771 loans or grants totaling \$2,011,536,240. Community Programs has a current portfolio of 98.4 percent.

Mr. Alsop has been serving as the Acting Administrator for the Rural Housing Service since January 22, 2001. He is responsible for providing guidance to Single Family Housing, Multi-Family Housing, Community Programs, Program Support Staff, and the Centralized Servicing Center in St. Louis, Missouri. There are 747 full-time equivalents designated under the National Office Rural Housing Service Administrator's Office. Rural Housing Service has an appropriation of \$5.8 billion for fiscal year 2002. The outstanding portfolio, including direct and guaranteed loans and grants, is in excess of \$50 billion.

Mr. Alsop is married and has two sons and two granddaughters. The Alsops reside in Sterling, Virginia.

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PREPARED STATEMENT OF JOHN ROSSO, ADMINISTRATOR, RURAL BUSINESS  
COOPERATIVE SERVICE

Mr. Chairman and members of the Subcommittee, I am pleased to appear before you today to present the Administration's fiscal year 2003 Budget for the Rural Business-Cooperative Service (RBS).

Mr. Chairman, the programs and services of RBS, in partnership with other public and private sectors, continue to improve the economic climate of rural areas through the creation or preservation of sustainable business opportunities and jobs in rural America. RBS continues to target its resources to farmers, ranchers, and to the under-served rural areas and populations. RBS programs fall into two broad categories, loan and grant programs to assist rural businesses, and programs of assistance to farmers, ranchers, and other rural residents organized on a cooperative basis.

The programs of RBS help close the gap in opportunity for these under-served rural areas and populations, bringing them closer to sharing fully in the nation's economic growth. The \$844 million requested in this budget for RBS programs will assist in creating or saving about 89,300 jobs and providing financial assistance to more than 3,900 businesses.

Continued emphasis will be given to financial assistance for projects located in the Rural Empowerment Zone/Enterprise Communities/Rural Economic Area Partnerships ((EZ/EC/REAP), the Mississippi Delta, and Native American communities. In addition, priority will be given to projects that support the Administration/Departmental objectives on value-added agricultural and alternative energy, including bio-energy development in rural areas.

#### BUSINESS AND INDUSTRY GUARANTEED LOAN PROGRAM

For the Business and Industry (B&I) Program, the fiscal year 2003 budget includes \$29.0 million in budget authority to support \$733 million in Guaranteed Loans. This is a slight increase in budget authority compared to last year. The guaranteed fee is limited to a maximum of 2 percent of the guaranteed portion of the loan based on current regulation. A regulation change is pending to allow the Agency to either charge a higher guaranteed fee, consider an annual fee, or a combination of the two. This regulation, if implemented by the beginning of the fiscal year, would give the Agency flexibility to offset some of the increasing subsidy and would allow for a larger supportable loan level for the same budget authority. Based on recent history and current economic conditions, the demand for this program will continue to be strong.

We estimate that the funding requested for 2003 would create or save about 20,400 jobs of an agricultural commodity raised by the individual farmer stockholders. This program allows lenders to better meet the needs of rural businesses. Through the lender's reduced exposure on guaranteed loans, they are able to meet the needs of more businesses at rates and terms the businesses can afford. B & I Guaranteed loans may be used by this individual farmers to purchase cooperative stock in a start-up cooperative established for value-added processing. Further, within the total funding for the program, \$18 million in B & I loans is earmarked for projects in EZ/EC and REAP areas.

To illustrate how this program has improved the economic climate in an underserved area of rural America, I would like to share a success story in support of the President's Energy Policy. In July 2001, RBS issued a Business and Industry loan guarantee, totaling \$12,500,000, to Sterns Bank N.A. of St. Cloud, Minnesota, to assist Quad Country Corn Processors Cooperative of Galva, Iowa. This loan guarantee will be used to replace the interim financing of costs for developing, constructing and equipping an 18-million gallon per year ethanol facility. The startup cooperative is owned by 415 farmers who contributed \$8.5 million in equity capital this is being used towards the development of the \$22 million plant. This plant that will use nearly seven million bushels of corn to produce 18 million gallons of ethanol per year, along with 120,000 tons of by-product for livestock feed. The Quad Country Corn Processors Cooperative is expected to create 16 jobs at the ethanol plant, and will open new markets for our farmers, and help to meet the growing demand for alternative energy sources. In addition, 20 jobs are projected to be created at separate facilities owned and operated by separate companies that will take the carbon dioxide by-product from the ethanol plant and refine, liquefy, and make it into dry ice.

#### INTERMEDIARY RELENDING PROGRAM

The fiscal year 2003 Budget also includes \$19.3 million in budget authority to support \$40 million in loans under the Intermediary Relending Program (IRP). The initial investment of this proposed level of funding will create or save an estimated 9,000 jobs, but because these funds, over the 30-year loan term, are re-loaned three or four times by the intermediary, we estimate that over 30,600 jobs will eventually be created or saved. Within the total program level, \$5.7 million will be earmarked for EZ/EC/REAP areas, \$3.6 million for Native Americans and \$7.1 million for Mississippi Delta projects.

Participation by other private credit funding sources is encouraged in the IRP program, since this program requires the intermediary to provide, at a minimum, 25 percent in matching funds. The demand for this program continues to be strong. To illustrate the benefits IRP provides to rural America, I would like to share with you a success story from Owego, N.Y.

For example, \$18,326 was initially awarded to the Tioga County Local Development Corporation was initially awarded an \$18,326 grant in June 2000, and a second grant totaling \$82,000 was made in April 2001 from. Tioga County has been designated as a REAP zone because of the loss of several major businesses and the job and economic activity that they provide. An IRP loan was made in April 2000, a \$300,000 IRP loan was made in the amount of \$300,000 to the Tioga County Small Business Revolving Loan Fund, which they relent to local entrepreneurs, and

relent, through the Tioga County Small Business Revolving Loan Fund, to local entrepreneurs. It is projected that approximately 11 businesses will be provided the opportunity to replace some of the jobs and economic activity that has been lost. As a result of this relending activity, it is projected that 18 jobs will be created or saved.

#### RURAL BUSINESS ENTERPRISE GRANT PROGRAM

For the Rural Business Enterprise Grant (RBEG) Program, the fiscal year 2003 Budget includes almost \$44 million. We anticipate that this level of funding will create or save over 35,100 jobs. The demand for this program continues to be strong. The purpose of this program is to assist small and emerging businesses. It is estimated that each dollar of investment through the RBEG Program generates another \$2.40 in private capital. Among the many eligible grant purposes under this program is the establishment of a revolving loan fund by the grantee to support small and emerging business development in rural areas. Within the total program level, \$7.0 million will be earmarked for EZ/EC/REAP areas, \$3.0 million for Native Americans, and \$1.0 million for the Mississippi Delta Region.

For example, in 1999, a \$194,000 RBEG was awarded to the Village of Winchester in Winchester, Ohio of Adams County, Ohio to assist the Adams Agri-Business Enterprise Center support local small agriculture related businesses. Adams County is located in the Appalachia Region and is suffering from persistent poverty and out-migration, as unemployment rates have always been high. The grant was used to provide approximately half the \$400,000 construction cost of a value-added agribusiness incubator. Construction of the project was completed in October 2001. One of the first tenants in the building was the Farm Fresh Growers which is projected to jointly market their value-added fruit and vegetable products. This project is expected to assist at least 4 businesses, create 5 jobs, and save 10 jobs.

Another example is a project located in Quincy, FL. In June of 2001, a \$99,999 RBEG was awarded to the North Florida Educational Development Corporation (NFEDC) for the Quincy Packinghouse Wellsprings Initiative. The grant funds will be used to renovate and equip an abandoned feed mill. It will be leased to the Big Bend Growers Cooperative, Inc. comprised of small and disadvantaged minority farmers. The cooperative's members will gain access to markets they do not have individually as growers. Approximately 15 farmers will be assisted and 12-15 new jobs will be created.

#### RURAL ECONOMIC DEVELOPMENT LOAN PROGRAM

The fiscal year 2003 Budget includes almost \$15 million in Rural Economic Development Loans. This program represents a unique partnership, since it directly involves the rural electric and telecommunications borrowers in community and economic development projects. It provides zero interest loans to intermediaries who invest the funds locally. In fiscal year 2001, each dollar invested through these programs attracted an estimated \$6.31 in other capital.

#### RURAL BUSINESS OPPORTUNITY GRANT PROGRAM

The fiscal year 2003 budget includes \$3 million for Rural Business Opportunity Grants (RBOG) to provide much-needed technical assistance and capacity building in rural areas. This level of funding includes \$1.0 million for Native Americans and \$1.0 million for Mississippi Delta Region Projects. The demand for this program continues to grow. Many rural areas need to develop economic and community development strategies that will attract private investment capital and Federal and State assistance. Also, the vast majority of rural communities are served by part-time officials who do not have the time or necessary training to compete with large communities for funding that may be available to them. The funds requested under this program will aid in providing that invaluable assistance to allow communities as they take their first step toward overcoming these impediments.

To illustrate, \$67,000 in grant assistance was provided under the RBOG program to the Adopt a Farm Family project, located in Sikeston, MO. The funds were used to conduct a feasibility study to determine if a sunoil and/or soyoil processing facility would be feasible in the area. If determined to be feasible, it is possible that a processing facility could be established. Such a facility would create new jobs and generate additional income for rural households in an area that has very high unemployment and persistent poverty.

## RURAL COOPERATIVE DEVELOPMENT GRANT PROGRAM

Another source of assistance to developing cooperatives is the funding of new and existing cooperative centers through the Rural Cooperative Development Grant Program. This partnership with institutions of higher learning and nonprofit associations permitted us to fund 20 centers for a total of \$4.5 million in fiscal year 2001.

## COOPERATIVE PROGRAMS

The functions of our cooperative programs are authorized under both the Cooperative Marketing Act of 1926 and the Agricultural Marketing Act of 1946. Our programs of research, technical assistance, education/information, statistics and assistance in starting new cooperatives are designed to establish viable business entities that help individual farm operators and other rural residents retain access to markets and sources of supplies and services in a sector that is becoming rapidly vertically coordinated and industrialized. Cooperatives are a means for rural people who are typically structurally weak compared to level the playing field with to their buyers and suppliers, to be allowing for them to be treated more fairly in the marketplace.

Since 1926, USDA has worked as a partner to farmer cooperatives, helping interested groups of agricultural producers form new cooperatives and working with existing cooperatives to improve their efficiency and expand the scope of services to members. These functions are now carried out primarily within the Rural Development mission area by the CS program. Our National Office and State office staff who specializes in research, technical assistance, statistics and educational/informational activities, carries out the work. It is also augmented by State Rural Development Offices that are identifying cooperative development specialists on their staffs to assist in starting and servicing the needs of new cooperatives. Our efforts are aided by partnerships with universities, State departments of agriculture, and nonprofit associations through various program activities aimed at strengthening rural people's ability to use mutual self help efforts to earn a decent living, and to enhance their quality of life.

Cooperative Services conducts studies, alone or in conjunction with other Federal or State institutions, to provide farmers with information on economic, financial, organizational, legal and social aspects of cooperative activity. Technical advice assists farmer cooperatives in the development and operation of viable organizations to better serve the Nation's family farmers. Educational assistance provides farmers and other rural residents with a proper understanding, use and application of the cooperative tool. A major initiative by RBS has been to encourage the staffing of Cooperative Development Specialists in each State Office. These individuals provide a more local source of expertise in guiding the development of new cooperative businesses and helping to determine their feasibility. To date, approximately 25 staff members in our State offices have this responsibility either solely or on a collateral basis. We are confident they will become a more important source of assistance to emerging business as they gain more expertise.

An example of our technical assistance work is provided by the Great Plains Buffalo Cooperative (GPBP) project. RBS staff worked with the steering committee of this group since March 2001 and helped them conduct two feasibility analysis. Based on these studies, GPBC is moving forward to form a cooperative that will purchase an existing processing facility and an adjacent feedlot. The cooperatives will then process and market member owned buffalo products. Approximately 100 producers from an 8-State area in the Western U.S. will be involved in this cooperative effort.

## APPROPRIATE TECHNOLOGY TRANSFER FOR RURAL AREAS

The Appropriate Technology Transfer for Rural Areas (ATTRA) program offers producers and agribusiness advisors information on use of the best sustainable production practices. Encouragement of such practices lessens dependence on agricultural chemicals and is more environmentally friendly. The ATTRA program handled over 20,000 requests this past year and continues to be a source of information throughout the country through its 800 number and the use of the Internet.

## CONCLUSION

Mr. Chairman, this concludes my formal statement on the fiscal year 2003 Budget. I would be happy to respond to any questions the Subcommittee may have regarding the Rural Business Cooperative Service programs of the Rural Development mission area.

## BIOGRAPHICAL SKETCH OF JOHN ROSSO

As Administrator of the U.S. Department of Agriculture (USDA) Rural Business-Cooperative Service (RBS), John Rosso oversees a variety of programs and services that promote a dynamic business environment in rural America, and encompasses many varied cooperative developments and value-added endeavors for farmer producers.

In fiscal year 2001, RBS, Business Programs, provided a total of \$1.2 billion of financial assistance resulting in over 100,000 jobs being created/saved, and 4,889 businesses were assisted in rural America. In fiscal year 2001 RBS, Cooperative Services, through the Rural Cooperative Development Grant Program, provided 20 recipients in 20 States with a total of \$4.8 million, which assisted nearly 100 existing or new cooperative businesses. The Cooperative Services Program also administered the prototype Value Added Development Grant (VADG) Program, reviewing over 600 applications and awarding \$20 million to 62 applicants.

John Rosso has acted in several capacities in prior years at the Department of Energy and the Department of Housing and Urban Development, and is now serving under his third President. Prior to coming to Washington D.C. to serve in a national capacity, he was elected as the Presiding Officer/Majority Leader of the Suffolk County Legislature, New York, where he served as an elected official for several terms.

Before retiring from the private sector and entering government service, John Rosso was President and Chief Executive Officer for over 20 years of varied private companies owned and operated by him. John Rosso was heavily involved in commercial and residential development, petroleum distribution, General Insurance, retail sales and franchising.

John Rosso is a native of Brooklyn, New York, growing up on the eastern end of Long Island where he was also active in civic affairs as President of the School Board, the local Hospital, Chamber of Commerce, and Secretary of the Northeastern Regional Fuel Dealers Association. He is married and the father of two adult children, and has been portrayed by his former constituents as a dedicated "family man."

Senator KOHL. We thank you very much, Mr. Neruda, and now turn to Dr. Joseph Jen, who is Under Secretary for Research, Education and Economics. Dr. Jen.

## STATEMENT OF JOSEPH J. JEN

Dr. JEN. Thank you, Mr. Chairman, members of the subcommittee. It is my pleasure to appear before you for the first time to discuss the fiscal year 2003 budget for the Research, Education and Economics mission area. The administrators of the four agencies are in the audience and each of them has submitted written testimony for the record.

Given today's tight budget constraints driven significantly by the need to shore up our homeland security and current economic conditions, the REE budget that we are discussing reflects a recognition of the crucial role of REE research, education, economics and statistical programs in solving the problems facing our Nation's agriculture and food system.

We appreciate the support received from Congress in our appropriations for fiscal year 2002. The President's fiscal year 2003 budget proposes \$2.3 billion for the four REE agencies. For more than 100 years, science has been the foundation of American agriculture. During the past century, research investment and scientific advances have fueled the tremendous rate of productive growth in the American agriculture sector. American public investment in agricultural research is a major reason the percentage of household income we spend on food has dropped from 20.5 percent in 1950 to 10.2 percent in the year 2000.

However, without continued gains in agricultural science, the United States cannot continue to provide affordable, safe and nutritious food to American consumers and the world population. Without continued scientific progress, we also cannot continue to compete effectively in global marketplace, nor can we develop practices that mitigate the effects of agriculture on the environment.

The remarkable success enjoyed by our agricultural food systems and the resultant benefit that have inured to the Nation depend heavily on our having a reservoir of basic fundamental scientific knowledge. Applied mission-oriented research and technology development then draw on this knowledge reservoir to address pressing problems faced by the agriculture sector and society. If we are to continue the successes of the past, we must continue to support basic research, to replenish the basic fundamental knowledge reservoir, as well as applied mission-oriented research. USDA is committed to achieve a balanced research portfolio to do just that.

The fiscal year 2003 budget proposes increases to \$240 million for the National Research Initiative, a program authorized in 1991 legislation at \$500 million annually. Competitive programs such as the NRI open to all research communities provide the most effective mechanism for attracting the best minds in the Nation to conduct research in agriculture and food systems. The NRI program not only provides funds for basic fundamental research such as plant, animal, microbial and food genomics, but also it is proposing to increase funding in research on exotic and emerging plant and animal diseases, such as wheat scab and karnel bunt in the west, and Pierce's disease in California.

The President's budget also reflects an increase in the ARS budget for biobased products and bioenergy research, the research focused on solving multiple national problems through finding new uses and new markets for valued added agricultural products such as modern fuels, which will improve our Nation's energy security.

On the education side, the President's budget provides an increase of \$2.7 million for three higher education programs in the CSREES. One of them is an international program for land grant institutions.

Statistical and economic analysis also will see increases in the President's budget proposal to conduct the agricultural resource management survey known as ARMS. The survey is jointly sponsored by NASS and the ERS. Data from ARMS forms the foundation of research analysis, making it possible to answer key questions from Congress, Administration officers, USDA, and other decision makers about the differential impact of alternative policies and programs across the farm sector.

Lastly, REE is working cooperatively with many other Federal agencies to stretch the research dollar. For example, we are working with NSF on plant genome research, and with DOD and DOE on biobased products and energy. We were asked by OSTP recently to lead a cooperative effort in domestic and animal genome research, involving NIH, NSF, DOD, OSTP, and various agencies within USDA.

With continued investment in agricultural research, we will be ready to meet both future problems and take advantage of new op-

portunity presented by cutting edge science and technology. Thank you.

[The statements follow:]

PREPARED STATEMENT OF DR. JOSEPH J. JEN

Mr. Chairman, Members of the Committee, it is my pleasure to appear before you for the first time to discuss the fiscal year 2003 budgets for the Research, Education, and Economics (REE) mission area agencies. I am accompanied by the Administrators of the four mission area agencies: Dr. Edward Knipling, Acting Administrator of the Agricultural Research Service (ARS); Dr. Colien Hefferan, Administrator of the Cooperative State Research, Education, and Extension Service (CSREES); Dr. Susan Offutt, Administrator of the Economic Research Service (ERS); and Mr. Ronald Bosecker, Administrator of the National Agricultural Statistics Service (NASS). Also present is Steve Dewhurst, Director of the Office of Budget and Program Analysis of the Department of Agriculture (USDA). Each Administrator has submitted written testimony for the record.

Given today's tight budget constraints driven significantly by the need to shore up our homeland security and current economic conditions, the REE budget that we are discussing reflects a recognition of the critical role of REE's research, education, economics and statistics programs in solving the problems facing our Nation's agricultural and food system. We appreciate the support received from Congress in our appropriations for fiscal year 2002. The President's fiscal year 2003 budget proposes \$2.3 billion for the four REE agencies. The overall funding for the four agencies represents a balanced budget portfolio supporting the mission area's programs.

REE's four agencies have a proud history over many decades of finding solutions to the challenges confronting farmers, ranchers and consumers involved in agriculture, resulting in a high return on the Federal investment to our Nation; a Nation that enjoys a plentiful, affordable, and safe food supply. For more than 100 years, science has been the foundation of American agriculture. During the past century, research investments and scientific advances, largely in the public sector, have fueled the tremendous rate of productivity growth in the American agricultural sector. In 1862, when Congress established the Department of Agriculture, one farmer fed five people. In 1940, one farmer fed 19 people. Today one American farmer feeds 129 people. America's public investment in agricultural research is the reason why the percentage of household income we spend on food has dropped from 20.5 percent in 1950 to 10.2 percent in 2000.

The historical success of agricultural research reflects the importance of science, technology, economics, and statistical information for the U.S. agricultural sector and the larger society. Without continued gains in agricultural science, the United States cannot continue to provide affordable, safe, and nutritious food to American consumers and the world population. Without continued scientific progress we also cannot continue to compete effectively in the global marketplace nor can we develop practices that mitigate the effects of agriculture on the environment. Agricultural research and analysis are essential to ensuring America's food and agricultural system remains productive and that our Nation's food supply remains the safest, most wholesome, and most plentiful in the world.

The remarkable success enjoyed by the agricultural sector and the food system and the benefits that have accrued to the Nation depend heavily on having a reservoir of basic fundamental scientific knowledge. That reservoir is filled through basic fundamental research. Applied mission-oriented research and technology development then draw on that knowledge reservoir to address pressing problems faced by the agricultural sector and society. If we are to continue the success of the past, we must continue to replenish the basic fundamental knowledge reservoir.

As indicated in USDA's latest policy book, *Food and Agricultural Policy: Taking Stock for the New Century*, the Department is committed to achieving a balanced agricultural research portfolio including an appropriate blend of basic fundamental research and applied mission-oriented research. The proposed REE budget provides such a balance with increases in research focusing on basic fundamental science to replenish the knowledge reservoir and increases in applied mission-oriented research that draws on the knowledge in the reservoir to develop solutions to pressing problems in agriculture. For example, the National Research Initiative (NRI) is USDA's premiere competitive research program administered by CSREES. The budget proposes to double the funding available to \$240 million for the NRI, a program authorized in 1991 legislation at \$500 million annually. Competitive programs, such as the NRI, open to all the research community, provide the most effective mechanism for attracting the best minds in the Nation to basic fundamental



research in agriculture and food system. The research supported by the NRI principally contributes to the basic fundamental knowledge reservoir, which provides the basic knowledge for future applied research, education, and extension programs.

Agricultural genome research is a more specific example of basic fundamental research receiving an increase in the President's budget. We are only at the dawn of the age of biotechnology, although its promises are well established. The science is solid and the potential to help producers reduce inputs and increase yields is clear. Just around the corner, functional foods or food products with beneficial health properties will emerge. However, harvesting the promise of this powerful technology depends on having a fundamental understanding of the genetic make-up of plants, animals, and microbes. The sequencing of genomes and identifying and mapping genes that influence resistance, reproduction, nutrition, and other economically important traits are all part of this new science, collaterally called genomics or biotechnology. In collaboration with other Federal agencies, USDA is currently participating in, and supporting, the National Plant Genome Initiative and the Microbe Project. We have also been asked to lead in the coordination of research activities related to domestic animal genomes. Increases in ARS's agricultural genome budget and in CSREES's National Research Initiative (NRI) will strengthen both agencies' programs and, therefore, expand our basic knowledge of genomics, moving us closer to harnessing the potential of biotechnology.

The President's budget also proposes increases in applied mission-oriented research to tackle today's problems and cultivate tomorrow's opportunities in agriculture. Exotic and emerging plant and animal diseases and pests pose severe problems throughout the United States and need immediate attention. For example, citrus canker threatens Florida's citrus industry and Pierce's disease threatens California vineyards. In addition, the recent outbreak of foot-and-mouth disease in the United Kingdom and destruction of huge numbers of animals resulted in immense economic losses due to domestic and international trade embargoes. The President's budget includes an increase of \$13 million in the ARS program to meet short-term needs, such as the development of new methods to rapidly and accurately detect and identify pathogens, as well as research to pursue long-term solutions for integrated control strategies.

In closely related research, the President's budget also provides for an increase in the ARS budget of \$5 million to fund animal and plant research in support of biosecurity. Because of its size, complexity, and integration U.S. agriculture is uniquely vulnerable to highly infectious diseases and pests, particularly foreign diseases not endemic to the United States. Disease outbreaks from malicious introduction of pathogens could have profound impacts on the national infrastructure, the domestic economy, and export markets. The proposed increase would support cutting-edge research to develop simple and rapid diagnostic tests for use by field staffs to identify the causes of disease outbreaks and to prevent their spread.

The President's budget also reflects an increase in applied, mission-oriented research to develop and promote biobased products and bioenergy. This research focuses on solving multiple national problems through finding new uses and markets for agricultural products. Recent events have contributed to a renewed emphasis on expanding the use of biobased industrial products, including biofuels, to improve our Nation's energy security, our balance of payments, our environment, and our rural economy. The call for action is an Administration initiative and part of the President's National Energy Policy. The requested funds would support research to improve the quality and quantity of agricultural biomass feedstock for the production of energy and biobased products, using both conventional and molecular technologies.

Increases in the budget supporting the research component of REE are complemented with increases in education, a second critical function of REE. U.S. agriculture has entered an era characterized by global competitiveness, food distribution inequities, environmental concerns, and promising technologies. Grappling with these issues requires a reliable supply of highly qualified scientists and other skilled professionals working to advance the frontiers of knowledge and technology in agriculture and food systems. Scientific and professional human capital is one of the most crucial variables affecting the future of our food and agriculture system. The shortage of qualified scientists, engineers, managers, and technical specialists threatens our entire food and agricultural sector. The President's budget provides an increase of \$1.7 million for two higher education programs, Institution Challenge Grants to enhance institutional capacity and Graduate Fellowship Grants for the development of expertise. The budget also proposes funds for a program to incorporate an international component into teaching, research, and extension programs at land-grant institutions.

Statistics and economic analysis also receive increases in the President's budget proposal for REE. Comprehensive agricultural statistics and an understanding of agricultural markets and the evolving farm sector are critical ingredients for crafting informed farm policy and maintaining our competitive position in the global economy. A core source of information for gaining this understanding is derived from the Agricultural Resource Management Survey, known as ARMS, jointly sponsored by the National Agricultural Statistics Service (NASS) and the Economic Research Service (ERS). Conducted annually, ARMS is the primary source of information about the financial condition, production practices, use of resources, and household economic well-being of America's farmers. Data from ARMS form the foundation of research and analyses, making it possible to answer key questions from Congress, Administration officials, USDA and other decision-makers about the differential impact of alternative policies and programs across the farm sector. This REE initiative proposes a major reengineering of ARMS so that we can continue to provide high quality information that accurately portrays the economic conditions and the rapidly changing structure of the farm sector.

As Secretary Veneman stated in the book *Food and Agricultural Policy: Taking Stock for the New Century*, "Every aspect of our food and agricultural system is fed with new knowledge, through research and development, data collection and information dissemination." This science base depends upon how effectively the various Federal research partners collaborate with each other. The challenges in our food and fiber system today are complex and can not only benefit from, but often require, collaboration with other USDA agencies and Federal departments to be effectively addressed. We must partner with institutions with complementary strengths and perspectives, if we are to effectively meet issues of common concern and responsibility.

REE is making that collaboration happen. In January of this year, ARS and the Animal and Plant Health Inspection Service (APHIS) signed a Memorandum of Understanding to strengthen their working relationship in which ARS carries out research to support APHIS's programs. CSREES consults with APHIS, FSIS, and other agencies to develop requests for proposals (RFPs) in their competitive programs that are responsive to emerging issues and high priorities of the Department. ERS has initiated a process for systematically consulting with each of the USDA mission areas to facilitate ERS's responsiveness to the needs of the regulatory and action agencies in the Department. NASS is providing the Risk Management Agency statistics needed to administer their insurance programs. Beyond USDA, our agencies are working with the National Aeronautics and Space Administration on precision agriculture, with the National Science Foundation on plant genome research, with Department of Energy (DOE) on microbial genome research and with the Department of Defense and DOE on biobased products and bioenergy. We are also collaborating with the Food and Drug Administration and the Centers for Disease Control and Prevention on food safety, with the Office of the U.S. Trade Representative on trade negotiations, and with the Environmental Protection Agency (EPA) on implementation of the Food Quality Protection Act of 1996.

In our association with these Federal departments and with the White House's Office of Science and Technology Policy, REE is enhancing understanding across the government and research community that the research conducted and supported by USDA is of high quality and is an important component of the government-wide research and technology agenda. REE research agencies have much to contribute to and gain from participation in the broader research and development agenda of the Federal Government. Our genomics research is world-class. ERS's analysis and NASS's statistics make critical contributions to sound policy, trade, and regulatory decisions. The more the USDA research and development, analysis and statistics programs are integrated in the Federal research and development effort, the stronger both the USDA and broader Federal program will be. Such participation will also benefit U.S. agriculture by attracting the broader scientific community to the issues of concern to the agricultural and food systems.

The discussion above highlights many of the high priority REE initiatives in the budget. Fuller discussion can be found in the agencies' Explanatory Notes. I would now like to turn briefly to the budgets of the four REE agencies.

*Agricultural Research Service.*—The Agricultural Research Service fiscal year 2003 budget requests over \$1 billion in ongoing research, information programs and related activities in a wide range of high priority areas. Within the total, the budget proposes increases dedicated toward high priority programs, several which I previously described. Offsetting most of these increases, the budget proposes redirection of about \$104 million in current programs to fund those higher priority program initiatives of national and regional importance. As the principal intramural biological and physical science research agency in the Department, ARS continues to play a

critical role for the Department and the larger agricultural community in conducting both basic fundamental and applied mission-oriented research. Results from ARS's basic fundamental research provide the foundation for applied and developmental research carried out by ARS and many academic institutions and private industry. ARS's applied research and technology development also meet the research needs of other USDA agencies.

The ARS budget also reflects the impact of increased world trade on our farm sector. Global trade and travel generate economic benefits but increase the risk of introducing invasive species that can adversely affect food and fiber production and lessen agricultural productivity. The ARS budget provides an increase of \$2.7 million to support research focused on the exclusion of potential new invasive species with quicker detection and more effective eradication methods. It will also facilitate the development of more efficient long-term management of established known invasive species.

Agriculture is also vulnerable to changes in climate. Rising temperatures, changing amounts of precipitation, increased variability in weather, and increases in the frequency and intensity of extreme weather events like drought and floods are predicted to accompany the intensification of the greenhouse effect. While vulnerable to these environmental changes, agriculture offers significant opportunities to mitigate the increase in greenhouse gases in the atmosphere. An increase of \$6.5 million in the President's budget for climate change will support research providing information on balancing carbon storage and agricultural productivity in different agricultural systems across the Nation.

The National Agricultural Library (NAL), one of four national libraries, serves as a national resource for information on agriculture and related sciences. The proposed increase will enhance NAL's information technologies, increase the volume and quality of information services, reduce the cost of information and services, and develop specialized collections. This will include the first steps towards developing a National Digital Library for Agriculture in partnership with the land-grant universities, to improve NAL's world-wide customers' access to key digital agricultural information. NAL will also continue to work in concert with land-grant universities, Federal agencies, nonprofit organizations, and others partners through the Agriculture Network Information Center (AgNIC).

To fulfill its mission, ARS must modernize its antiquated research facilities. The fiscal year 2003 ARS budget proposes \$17 million for facility modernization or restoration efforts at four locations. Included is over \$7 million for the National Agricultural Library to address major facility deficiencies and \$3 million for the U.S. National Arboretum to complete the remaining phases of the greenhouse complex renovation and the Hickey Run stream restoration. Needed repairs due to tornado damage and continued restoration of facilities at the Henry A. Wallace Beltsville Agricultural Research Center would be funded with an increase of \$4.2 million. A \$2 million increase is provided for continued modernization of facilities at the Plum Island Animal Disease Center in Greenport, New York. The emergency supplemental appropriations for fiscal year 2002 have provided a total of \$73 million for the Plum Island facility and for the Ames, Iowa animal disease research complex.

*Cooperative State Research, Education, and Extension Service.*—The President's 2003 budget provides over \$1 billion for the Cooperative State Research, Education, and Extension Service. In providing critical funding to 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 its stakeholders. Within the discretionary budget, the funding levels for the six formula programs remain the same as the fiscal year 2002 appropriations.

In addition to the increases in the NRI and higher education programs described above, the CSREES budget includes increases to enhance the agency's capacity to serve its grantees through developing a new electronic grants application and reporting system and continuing the design and development of the Research, Education, and Economics Information System.

The Government Paperwork Elimination Act (GPEA) mandates that electronic submission, maintenance or dissemination of information be available as a substitute for paper by October 21, 2003. As a grant-making agency with responsibility for administering many programs, GPEA has significant implications for the management of CSREES programs. The CSREES budget provides \$2.25 million for e-Government to develop new systems, as well as to modify existing systems, to meet the requirement of GPEA. The funds will facilitate CSREES adopting electronic capabilities in virtually all aspects of its granting program.

*Economic Research Service.*—The Economic Research Service is provided \$82 million in the President's fiscal year 2003 budget. As the Department's principal intra-

mural economics and social science research agency, ERS conducts research and analysis on the efficiency, efficacy, and equity aspects of issues related to agriculture, food safety and human nutrition, the environment, and rural development.

Complementary to an ARS increase in invasive species research, an ERS increase of invasive species of crop pests and livestock diseases within the context of increasingly global agricultural markets. A major focus will be to assess the role of the public sector in reducing economic risks to U.S. agriculture from invasive species while preserving economic gains from international trade and travel.

The ERS budget also provides \$2.7 million for its component of the joint ERS/NASS initiative to improve the Agricultural Resource Management Survey, as described above.

*National Agricultural Statistics Service.*—The National Agricultural Statistics Service budget request for fiscal year 2003 is \$149 million. This includes an increase of \$4.6 million for the NASS component of the joint ERS/NASS ARMS initiative. NASS's comprehensive, reliable, and timely data are critical for policy decisions and to keep agricultural markets stable and ensure a level playing field for all users of agricultural statistics. In addition to the ARMS initiative described above, the President's budget provides increases in several other critical areas of the NASS program.

The Census of Agriculture provides comprehensive data on the agricultural economy, with national, State and county level detail. The program increase of \$15.5 million reflects the cyclical nature of this statistical activity associated with conducting the Census of Agriculture. The increase in fiscal year 2003, the peak year in the 5-year cycle, will be used to support an array of activities associated with collecting, processing, and analyzing records for roughly 3 million farmers surveyed in the 2002 Census of Agriculture. The funds will also be used for new equipment and software to effectively process, retrieve and view scanned questionnaires.

The Government Paperwork Elimination Act mandate of electronic dissemination and reporting of data has major implications for a statistical agency such as NASS. GPEA requires the acquisition and use of information technology, including alternative information technologies that provide for electronic submission, maintenance, or disclosure of information as a substitute for paper. An increase of \$3 million in the NASS fiscal year 2003 budget will allow NASS to build a data base infrastructure to support more than 100 different surveys each year. By 2006, most NASS self-administered surveys will be available electronically and information for the 2007 Census of Agriculture will be electronically collected. It represents a major change in how NASS does business, one that we can meet with adequate funding.

The events of September 11, 2001 heightened already high concerns about cyber-security in the Federal government. Billions of dollars in global commodity trade depend on NASS statistics, making computer security essential to protect the accuracy of its statistics and premature access. The budget proposes an increase of \$700,000 to enhance NASS cyber-security and architecture systems to ensure that confidential respondent information is safeguarded and the integrity of the survey data is maintained.

#### SUMMARY

In summary, I want to reiterate that, given an overall tight budget, the REE agencies' budgets present a balanced profile, reflecting a commitment to replenishing our reservoir of basic fundamental science and at the same time supporting applied mission-oriented research addressing immediate problems. The budget also provides new funding in education to ensure the Nation has a strong cadre of professionals and in statistics and economic analysis to promote informed decision making for all parties involved in the food and agriculture system. It also reflects an understanding that research, education, and economics programs are essential for solving not only the problems American agriculture and our producers face today, but also to address the emerging problems of tomorrow and expand opportunities for consumers. With continued investment, we will be ready to meet those future problems and take advantage of new opportunities presented by cutting-edge science and technology. Thank you. I welcome your questions.

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#### BIOGRAPHICAL SKETCH OF DR. JOSEPH J. JEN

Joseph Jen was sworn in as the under secretary for research, education, and economics by Agriculture Secretary Ann. M. Veneman on July 17, 2001.

He will oversee four agencies of the U.S. Department of Agriculture: the Agricultural Research Service, the Cooperative State Research, Education, and Extension

Service, the Economic Research Service, and the National Agricultural Statistics Service.

Jen is a widely recognized agricultural scientist and educator, with experience in both the public and private sectors. Since 1992, Jen has served as the dean of the College of Agriculture at California Polytechnic State University in San Luis Obispo. In this capacity, Jen oversaw eleven departments with 3,500 students, 250 faculty and staff, and a budget in excess of \$30 million.

From 1986 to 1992, Jen was division chairman of the University of Georgia's Division of Food Science and Technology in Athens, Georgia. He served as director of research at the Campbell Institute of Research and Technology for the Campbell Soup Company from 1980 to 1986. He was an associate professor at the Department of Food Science and Human Nutrition at Michigan State University from 1979 to 1980.

Jen was a food science and biochemistry professor at Clemson University from 1969-1979. From 1975 to 1976, he served as a research food technologist at the Horticultural Research Institute for the U.S. Department of Agriculture's Agricultural Research Service in Beltsville, Maryland.

As a Dean, Jen has earned the reputation as a successful administrator who has established several innovative cooperative agreements and proposals with private industry.

Jen received his B.S. degree in agricultural chemistry from National Taiwan University in 1960. He earned a M.S. degree in food science from Washington State University in 1964 and a Ph.D degree in comparative biochemistry from the University of California at Berkeley in 1969. He also received an MBA degree from Southern Illinois University in 1986.

Jen was elected as a Fellow of the Institute of Food Technologists in 1992 and received the Distinguished Educator Award from the National Association of Colleges and Teachers of Agriculture in 1999. In 2000, he was appointed by the White House Office of Science and Technology Policy to be a U.S. delegate in the U.S.-Japan Millennium Study.

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PREPARED STATEMENT OF DR. EDWARD B. KNIPLING, ACTING ADMINISTRATOR,  
AGRICULTURAL RESEARCH SERVICE

Mr. Chairman, and members of the Subcommittee, I appreciate this opportunity to present the Agricultural Research Service's (ARS) budget recommendations for fiscal year 2003. The President's fiscal year 2003 budget request for ARS is \$1,014,086,000. This represents an overall increase of \$34,622,000 over the fiscal year 2002 appropriation level of \$979,464,000. This net increase is attributable to both additions and reductions, including: GSA rent and pension/annuitant health benefit transfers, \$45,448,000; pay and operating cost increases, \$35,603,000; program increases, \$58,057,000; and program decreases, \$104,486,000. The net change in research program dollars, excluding the GSA rent and benefits transfers, is a reduction of \$10,826,000. The fiscal year 2003 budget also proposes \$16,580,000 for the ARS Buildings and Facilities account.

PROPOSED PROGRAM INCREASES

The fiscal year 2003 President's budget includes \$58,057,000 in program increases for the following initiatives:

*Emerging, Reemerging, and Exotic Diseases of Plants and Animals (\$13,357,000).*—Emerging diseases are caused by previously unidentified pathogens or new manifestations of "old" diseases. Reemerging diseases occur after long quiescent periods or upon the introduction of a new pathogen into a native plant/animal population in a new geographical area. The globalization of trade, increased international travel of people and movement of goods, changing weather patterns, genetic shifts in pathogen populations, and changes in crop management practices all provide opportunities for the emergence or reemergence and spread of plant and animal diseases.

Recent outbreaks of the highly virulent Newcastle disease of poultry in Australia and Mexico, and foot-and-mouth disease in Great Britain have required the destruction of hundreds of thousands of animals which has resulted in immense economic losses. The newly emerging disease in swine known as porcine respiratory disease complex is the most economically important disease currently facing the U.S. swine industry. Emerging plant diseases include citrus canker which threatens Florida's \$8.5 billion citrus industry.

ARS will use the proposed increase to develop sensitive diagnostic tests and vaccines to control foot-and-mouth disease and Newcastle disease. Prevention and con-

tol strategies will be developed for porcine respiratory disease complex, bovine spongiform encephalopathy, and Marek's disease (in chickens). Research will also be conducted on emerging and exotic plant diseases to minimize or prevent their establishment in the U.S.

*Agricultural Genomes (\$6,900,000).*—The Nation's agricultural system today faces formidable challenges including new pests and pathogens from water and soil pollution, environmental regulations, and the extinction or inaccessibility of genetic resources. Genomics and biotechnology are critically important for maintaining and enhancing the production, quality, and safety of plant- and animal-based food products.

With the proposed increase, ARS will identify the genes that influence disease resistance, reproduction, nutrition, and other economically important production traits in livestock and poultry. Research will identify the genes in Texas cattle fever tick that contribute to acaricide resistance and host function for babesiosis. In addition, research will support genomic sequencing work on maize, legumes, microbes, and insects.

*Biotechnology Risk Assessment (\$3,600,000).*—The National Academy of Sciences has identified several areas that need further study, such as, the characteristics of genetically engineered crops and the long term ecological impacts of these crops; the effects of genetically modified organisms on non-target organisms; and the gene spread from crops to surrounding vegetation. ARS will use the proposed increase to: determine the rates of gene flow, including transgenes, from crops to nearby vegetation; develop and test novel strategies to prevent pest populations from becoming resistant to plant incorporated protectants; and identify and develop gene technology that will limit transgene activity to specific tissues.

*Invasive Species (\$2,700,000).*—Invasive insects, weeds, and other pests cost the Nation well over \$100 billion each year. Weeds, including leafy spurge, melaleuca, salt cedar, water hyacinth, purple loosestrife, and jointed goat grass, currently infest at least 100 million acres in the United States. They reduce crop yields by approximately 12 percent and forage yields by 20 percent. Arthropods (insects and mites), such as the glassy-winged sharpshooter, silverleaf whitefly, Asian longhorned beetle, pink hibiscus mealybug, Russian wheat aphid, and Chinese soybean aphid, destroy 13 percent of crop production each year.

With the proposed increase, ARS will perform research to develop attractants and biological control technologies for managing invasive insects/weeds. Research will also be conducted on the relationship of major invasive insects and their natural enemies.

*Agricultural Genetic Resources (\$4,000,000).*—Present support of the germplasm program is inadequate to prevent the risk of extinction and loss of genetic diversity. With the availability of new genomic tools, genetic diversity is extremely valuable for improving production. ARS will use the proposed increase to collect, identify, characterize, and maintain germplasm in centralized gene banks. ARS will also encourage germplasm exchange and distribute research quantities of healthy, pure, and adequately characterized germplasm.

*Biosecurity Research (\$5,000,000).*—The General Accounting Office (GAO) has reported that certain countries are developing biological warfare agents directed at animal and plant agriculture. The GAO indicates that U.S. agriculture is a potential target. Disease outbreaks from a malicious introduction of pathogens could have profound impacts on the national infrastructure, the domestic economy, and export markets. Disease pathogens that could be used to debilitate U.S. agriculture include highly infectious viruses, bacteria, nematodes, fungi, and insects that attack major commodities, such as cattle, swine, poultry, cereals, vegetables, and fruits.

With the proposed increase, ARS will develop more rapid and sensitive onsite pathogen detection and identification tests for animal pathogens. Also, ARS will develop a genomic analytic sequencing capability which will assist in determining threatening diseases'/pathogens' geographic origin and potential for spread.

*Managing Wastes to Enhance Air and Water Quality (\$5,000,000).*—The management of waste has become increasingly important because of its far-reaching impacts. Properly managed it can be used to improve soil properties, as a nutrient source for crops, and for alternative uses, such as energy production. Improperly used, the waste from 280,000 animal feeding operations around the country pose a threat to soil, water, and air quality, and human and animal health.

With the proposed increase, ARS will continue to develop cost effective technologies and management practices which enable producers to capture the value of manure and other byproducts without degrading environmental quality or posing a threat to human and animal health.

*Biobased Products/Bioenergy from Agricultural Commodities (\$9,000,000).*—Widely fluctuating energy prices and depressed agricultural commodity prices have con-

tributed to a renewed emphasis on expanding the use of biobased industrial products (including fuels) to improve the Nation's energy security, balance of payments, environment, and rural economy. By expanding the development of biobased products and bioenergy, increased demand will be created for agricultural commodities to strengthen farm product prices and raise farm income; new opportunities will be provided for business development and employment growth in rural America; dependence on imported oil will be reduced and U.S. security enhanced; and environmental quality will be improved by reducing air pollution and greenhouse gas emissions.

With the proposed increase, ARS will improve the quality and quantity of agricultural biomass feedstock for production of energy and biobased products. The conversion of agricultural materials and wastes to biofuels will be improved. In addition, technologies will be developed to produce biobased products from agricultural commodities and byproducts.

*Global Climate Change (\$6,500,000).*—Climate change encompasses global and regional changes in the Earth's atmospheric, hydrological, and biological systems. Agriculture is vulnerable to these environmental changes.

The objective of ARS' global change research is to develop the information and tools necessary for agriculture to mitigate or adapt to climate change. ARS has research programs on carbon cycle/storage, trace gases (methane and nitrous oxide), agricultural ecosystem impacts, and weather/water cycle changes.

ARS will use the proposed increase to develop climate change mitigation technologies and practices for the agricultural sector. Research will include land use and land management impacts on carbon sequestration; measurement, verification, and modeling of carbon storage; and assessing and managing risks to agricultural production and water supplies from weather variability.

*Agricultural Information Services (\$2,000,000).*—ARS will use the proposed increase to begin implementation of the digital library initiatives recommended by the 2001 Interagency Panel for Assessment of the National Agricultural Library. These initiatives will provide improved access to electronic resources, delivery of digital information to USDA customers, and archiving of USDA digital publications. The development of information technology to manage and deliver information will also be continued.

#### PROPOSED PROGRAM DECREASES

The President's budget for fiscal year 2003 addresses a number of national needs and Administration priorities. Two issues of major concern to the President and the American people are national defense and domestic security. In this regard, the Department of Agriculture and ARS, along with most other Federal departments and agencies, have been asked to reduce or freeze spending, and assume a flat or slow rate of growth to accommodate the war effort and homeland defense—central responsibilities of this Government. Furthermore, as a result of additional emergency spending in fiscal year 2002 and the economic downturn, the Office of Management and Budget (OMB) and the Congressional Budget Office (CBO) both project deficit spending this year and in fiscal year 2003, requiring government wide fiscal belt-tightening and the imposition of budget constraints to curtail spending.

Within this context, the President's budget proposes decreases in selected programs in ARS. The program decreases recommended in the budget amount to \$104,486,000. Eighty-six percent of this reduction (\$89,486,000) is derived from Congressionally-designated funding appropriated in fiscal years 2001 and 2002. While these projects are considered to be important, they are less critical at a time when resources are needed for higher priority programs and therefore, reduce the amount of funding available for these priorities within overall budget ceilings. Other reductions in ongoing base programs totaling \$15,000,000 result primarily from location and laboratory closures and consolidations as recommended by the "Strategic Planning Task Force." As you may recall, the Task Force was established under the 1996 Farm Bill to review all currently operating research facilities constructed, or planned to be constructed, with Federal funds. Consistent with specific recommendations made in this report, the ARS budget requests a number of location and laboratory closures and consolidations as follows: the closure of two research locations/worksites, the Irrigated Desert Research Laboratory, Brawley, California and the New England Plant, Soil and Water Laboratory, Orono, Maine since similar work is done elsewhere; and the closure of the honey bee research laboratories located at Baton Rouge, Louisiana; Beltsville, Maryland; and Tucson, Arizona. A portion of these honey bee programs will be consolidated with the honey bee laboratory at Weslaco, Texas. The Soft Wheat Quality Research Laboratory, Wooster, Ohio is proposed to be closed. The Cereal Quality evaluation functions carried out at the

Cereal Crops Research Laboratories at Fargo, North Dakota and Madison, Wisconsin are to be closed and a portion of this effort is to be redirected to Manhattan, Kansas where work on wheat quality will be housed. The Avian Disease and Oncology Laboratory, East Lansing, Michigan is to be closed with a significant portion of these programs transferred to Athens, Georgia and Beltsville, Maryland. This move will consolidate poultry disease research in Athens. The Processed Foods Laboratory, Albany, California is also proposed for closure since major food companies are capable of conducting this type of research. In addition, the Crop Improvement Utilization program at the Western Regional Research Center is being reduced in scope.

#### PROPOSED PAY COSTS

In addition to these program initiatives, the budget provides funding to cover costs associated with pay raises effective in fiscal years 2002 and 2003. These increases, \$35,369,000, are critically needed to avoid Agency wide erosion of base resources. The absorption of these costs reduces the number of critical support staff and scientists needed to conduct viable programs, and reduces funds available for laboratory equipment and supplies essential to the programs. The Agency's budget also includes an increase of \$234,000 to reimburse the Department of Labor for administering the Federal Employees Compensation Act (FECA) Program.

#### PROPOSED TRANSFERS

In addition to the proposed increases (\$93.7 million) mentioned above, the ARS budget includes two transfers to directly pay for Agency obligations currently handled by other Federal agencies. One is the transfer of \$42,641,000 to ARS to fund employee pension and annuitant health benefits now administered by the Office of Personnel Management. The second transfer is to finance the direct funding of payments to the General Services Administration for ARS occupied rental space, totaling \$2,807,000. These costs are currently paid through the Department's Central Account.

#### PROPOSED INCREASES FOR BUILDINGS AND FACILITIES

The fiscal year 2003 budget is proposing an increase of \$16,580,000 for ARS' buildings and facilities. Many of the Agency's laboratories were constructed half a century ago and are in immediate need of major repair, renovation, or modernization. In order to attract and retain top scientists, solve the Nation's most critical agricultural problems, and address the research needs of the 21st century, ARS must have modern, up-to-date laboratories and facilities. Funding is proposed for the following projects:

*Henry A. Wallace Beltsville Agricultural Research Center, Beltsville, Maryland (\$4,180,000).*—The Beltsville Agricultural Research Center is the largest agricultural research center in the world in terms of program scope and concentration of scientists. It is world renowned for the quality of its research, its contributions to agriculture, and its prominent scientists. On September 24, 2001, the Beltsville Center sustained significant damage to its facilities and equipment from a tornado. ARS will use the proposed fiscal year 2003 increase to continue restoration of the Center's facilities.

*Plum Island Animal Disease Center, Greenport, New York (\$2,000,000).*—Plum Island is the only site in the United States where research can be carried out on highly contagious animal diseases, such as foot-and-mouth disease. The Center is also used by the Animal and

Plant Health Inspection Service (APHIS), which performs diagnostic work on foreign animal diseases that are an ongoing threat to U.S. livestock. In 1989, ARS and APHIS began to develop a long range plan for the modernization of their facilities at Plum Island. As part of the ongoing modernization program, ARS is requesting \$2 million for miscellaneous small projects/contingencies to support the modernization.

*Abraham Lincoln National Agricultural Library, Beltsville, Maryland (\$7,400,000).*—The National Agricultural Library is one of four national libraries and the largest agricultural library in the world. The library houses a collection of more than 3.2 million items in 50 different languages. It serves as a national resource for information on agriculture and related services. Constructed in 1968, NAL's building requires major renovation. In fiscal year 1998, ARS received funds for renovation of the Library's first floor. Renovation of other floors and systems have taken place since then. In fiscal year 2003, ARS is requesting \$7.4 million to continue addressing the major facility deficiencies.



*U.S. National Arboretum, Washington, D.C. (\$3,000,000).*—The National Arboretum was created by an Act of Congress in 1927 as a center for research and education in the plant sciences. Since 1959, the Arboretum has also been open to the public as a display and show area for ornamental plant materials, as well as continuing to function as a center for research and education. Many of the Arboretum's major building systems (i.e., heating, ventilating, air conditioning, and electrical) and infrastructure (i.e., paving, fences, and steam and water lines) have either reached or surpassed their useful life expectancy. As part of the ongoing modernization of the Arboretum, ARS is requesting in fiscal year 2003, \$3 million for renovation of the greenhouse complex and for planning, design, and construction of the Hickey Run stream restoration which drains onto the Arboretum's grounds.

Mr. Chairman, this concludes my statement. I will be glad to answer any questions the Committee may have.

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#### BIOGRAPHICAL SKETCH OF EDWARD B. KNIPLING

Dr. Knipling is a native of Texas, but grew up primarily in the Washington, D.C. area. He earned his B.S. in 1961 in forestry from Virginia Tech University. He received his M.A. in 1963 and Ph.D. in 1966 in plant physiology from Duke University.

Dr. Knipling served in the U.S. Army 1966–68, conducting research on remote sensing of the environment. He began his career with the U.S. Department of Agriculture, Agricultural Research Service (ARS) in 1968 as a research plant physiologist in Gainesville, Florida. He has also served as Area Director for ARS in Stoneville, Mississippi (1975–78), and in Fresno, California (1978–82), and Associate Deputy Administrator, National Program Staff, Beltsville, Maryland (1982–88). Dr. Knipling served as Director of the Beltsville Agricultural Research Center, Beltsville, Maryland (1988–89) and served as Deputy Administrator of the National Program Staff, Beltsville, Maryland, until October 1996. Dr. Knipling served as Acting Administrator for ARS from October 1996 to November 1997. Dr. Knipling was appointed Associate Administrator of ARS in December 1997. Dr. Knipling has been serving as Acting Administrator since December 2001.

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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 2003 budget for the Cooperative State Research, Education, and Extension Service (CSREES), one of four agencies in the Research, Education, and Economics (REE) mission area of the United States Department of Agriculture (USDA).

The CSREES fiscal year 2003 budget proposal is just over \$1 billion. CSREES works in partnership with the land-grant university system, other colleges and universities, and public and private research and education organizations, in concert with the Secretary of Agriculture and the intent of Congress, to initiate and develop agricultural research, extension, and higher education programs. This partnership has a breadth of expertise that is ready to deliver solutions to problems facing U.S. agriculture today.

The broad portfolio of CSREES programs has supported scientific discovery from idea to application. Formula funds have leveraged dollars from other sources, provided the start-up funds needed for an investigator to establish a research program and build the capacity to compete successfully in a competitive program, and allowed for a rapid response to emerging problems. Competitively funded research from the National Research Initiative (NRI) has supported individual investigators undertaking basic research aimed at generating new knowledge. Research results are applied to real life problems through the Cooperative Extension System's outreach efforts. All of these efforts are undertaken in an environment that prepares students to meet the ongoing needs of agriculture, the environment, individuals and communities.

CSREES continues to provide new opportunities for discoveries and advances in knowledge through our competitive programs such as the NRI and Integrated Programs. Funding for agricultural research, particularly that pursued at university campuses, has dramatically lagged behind funding for other disciplines. The fiscal year 2003 proposed increase of \$120 million in the NRI will begin to reverse agriculture's loss of intellectual capital in the U.S., and is a significant step in reaching the authorized level of \$500 million. In particular, to support current high priority programs we will provide larger, more effective awards, and new targeted emphasis

will be placed on critical areas. Increased partnerships with other Federal agencies on research topics of mutual interest will be possible. For example, we will be able to increase working relationships with the Environmental Protection Agency, National Aeronautics and Space Administration, and Department of Energy on air quality/global change issues. More funds will be available to strengthen agricultural research at small and mid-sized institutions and in States that are less successful in the competitive grants arena. Innovative multidisciplinary research training will be provided for agriculture's future scientists in emerging areas such as agricultural biotechnology, agricultural bioinformatics and functional foods. The quality of agricultural science will increase as more of the best and brightest scientists from all areas of the U.S., and all institutions, submit proposals to the NRI.

The increased funding for the NRI is expected to have significant impact that:

- Responds to emerging and re-emerging diseases of plants and animals with detection and early identification of disease agents accidentally or intentionally introduced and has an emphasis on the transfer of detection technology to the field. In addressing these issues, focus will be on management strategies for surveillance, intervention, prevention and control of agricultural disease and pest threats;
- Maintains leadership in agricultural genomics to assure the availability of new and improved agricultural products that are economically viable and produced with less environmental impact. Studies will be conducted to expand genetic maps and tools for under-funded plant, animal and microbe species to develop new products, as well as, plants and animals resistant to pests, diseases and environmental stresses. Studies also will be conducted to discover new vaccines, alternatives to antibiotics, and new industrial catalysts and enzymes;
- Develops more effective human nutrition programs for the discovery, development and appropriate use of functional foods that provide health benefits beyond basic nutrition. Also creates programs for research on food choice and effective nutritional interventions that improve the quality of diets in the U.S. and decrease the risk of chronic diseases;
- Provides solutions to managerial challenges faced by small and mid-sized farms through systems research that identifies innovative practices and managerial capabilities most appropriate for the size, scale, and type of operation. This includes understanding the best methods for translating new technologies into applications; and
- Improves air quality through understanding key agricultural processes and management practices that adversely impact air quality, and through development of appropriate mitigation strategies.

A provision of the fiscal year 2002 Agriculture Appropriations Act prohibits USDA from administering a 2002 competition for the Initiative for Future Agriculture and Food Systems (IFAFS) program and the Administration's fiscal year 2003 budget continues the prohibition in 2003. When Congress permitted implementation of this competitive program in fiscal years 2000 and 2001, it fulfilled a valuable role in supporting integrated research, education, and extension activities that met the needs of the agricultural community.

Sustained support through our formula programs is assisting the land-grant university system in providing leadership, research, information, and education to meet the challenges facing communities. The mix of challenges varies from one region to another and from one community to another with close links between the concerns of rural and urban communities. Some rural and urban communities struggle together with rapid growth, congestion, and environmental degradation, while others contend with increasing unemployment, out migration and loss of vital businesses and services. There is a growing need for the preservation of farmland and open spaces in rural areas. Many communities lack the capacity to deal with these challenges or to grasp alternative opportunities. The land-grant universities are receiving a growing number of requests to help people and communities understand the causes of their problems and to develop and evaluate alternative solutions. Formula funding helps the land-grant universities in their efforts to discover new knowledge that builds community capacity, entrepreneurial capacity, and personal capacity to create a more sustainable future.

CSREES continues to expand diversity and opportunity with activities under 1890 formula and educational programs, and 1994 and Hispanic-Serving Institutions educational programs. Funding for our 1890 formula programs provides a stable level of support for implementation of research and extension programming. This proven path of research and extension program development rapidly delivers new technologies, of all kinds, into the hands of our citizens, helping them solve problems important to their lives.

The higher education programs respond to the development of human capacity and the need for a highly trained cadre of quality scientists, engineers, managers, and technical specialists in the food and fiber system. The fiscal year 2003 budget provides a \$1.7 million increase in CSREES higher education programs for the Food and Agricultural Sciences National Needs Graduate Fellowship and Challenge Grants Programs. The International Science and Education Grants Program will incorporate substantive international activities into teaching, research, and extension programs related to food systems, agriculture and natural resources at U.S. land-grant and other campuses. This program also will provide important and unique support to Tribal Colleges, the Historically Black Land-Grant Colleges and Universities and the 1862 Land-Grant Universities as they pilot important new approaches to globalizing their programs.

CSREES is committed to improving the management of resources through the development of a new electronic grants application and reporting system and continuing the design and development of the Research, Education, and Economics Information System (REEIS). The fiscal year 2003 budget proposes increases of \$2.3 million and \$0.7 million, respectively for these efforts. Currently, CSREES receives approximately 6,000 proposals annually resulting in about 2,000 grants and cooperative agreements annually. These numbers are expected to grow with anticipated increased funding. We are committed to streamlining the process through participation in the development of a common Federal electronic application and reporting system. We are developing rapidly 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 also are developing the REEIS as a platform to link some 40 different databases and serve as a single source of information on issues related to accountability, strategic planning, and performance assessment. CSREES also is examining how it can leverage its partnership with the land-grant university system to result in better access of research, education, and extension information products useful to the Nation as a whole. This concept, which has been termed e-Extension, could significantly extend the ability of these universities and the Department to provide synthesized and meaningful information to the public.

Within this fiscal year 2003 request, there is a total of \$5.6 million to cover the costs of items previously paid from central accounts within USDA or on a government wide basis, including GSA rental payments, and Civil Service retirement and retiree health benefits. The Explanatory Notes provided to the Committee details information on the comparable levels for these items in fiscal year 2001 and fiscal year 2002.

CSREES, in collaboration with university and other partners, nationwide, continually meets the many challenges facing the food and fiber system. The programs administered by the agency reflect the commitment of the Administration to further strengthen the problem-solving capacity of Federally-supported agricultural research, extension, and higher education programs. In addition, we continue to enhance our responsiveness and flexibility in addressing critical agricultural issues.

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#### BIOGRAPHICAL SKETCH OF COLIEN HEFFERAN

Dr. Hefferan became Administrator of Cooperative State Research, Education, and Extension Service (CSREES) on October 7, 2000.

She joined the U.S. Department of Agriculture (USDA) in 1979 as an economist with the Family Economics Research Group, Agricultural Research Service. She transferred to the Cooperative State Research Service in 1988, where she served as Deputy Administrator for Natural Resources, Food and Social Sciences. With the establishment of CSREES, Dr. Hefferan was named the Deputy Administrator for Competitive Research Grants and Awards Management. In August 1995, she moved to the Office of the Administrator serving as either the Acting Administrator or the Associate Administrator of the Agency until 2000.

Prior to joining USDA, she served on the faculty at the Pennsylvania State University, as an adjunct faculty member at the University of Maryland, and as a research fellow at the Australian National University in Canberra. She has authored more than 60 research articles and chapters, edited several books on economic issues and trends influencing families and consumers, and spoken widely on issues related to advance agricultural research and education. In 2000, she was honored with a Presidential Rank Award as a Distinguished Federal Executive.

Hefferan has a Ph.D. and M.S. Degree from the University of Illinois, and a B.S. Degree from the University of Arizona.

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 2003 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 2003 is \$82 million, a net increase of \$14.8 million from the 2002 appropriation. The net increase consists of five parts: a \$2.7 million increase to fund the Economic Research Service's share of reengineering the Agricultural Resource Management Survey; a \$2 million increase for an initiative on the effects of invasive pests and diseases on the global competitiveness of U.S. agriculture; a \$1.4 million increase for pay costs; a \$2.8 million increase for employee pension and annuitant health benefits; and a \$5.9 million increase which represents a transfer from the Department's central rent account for rental payments to GSA.

ERS CONTRIBUTIONS TO MISSION AREA GOALS

ERS shares five general goals with its fellow agencies in the Research, Education, and Economics (REE) mission area: (1) a highly competitive agricultural production system, (2) a safe and secure food supply, (3) a healthy and well nourished population, (4) harmony between agriculture and the environment, and (5) enhanced economic opportunity and quality of life for all Americans. These goals are fully consistent with the U.S. Department of Agriculture mission.

*Goal 1: The U.S. agricultural production system is highly competitive in the global economy.*

ERS helps the U.S. food and agriculture sector effectively adapt to changing market structure in rapidly globalizing, consumer-driven markets by analyzing the linkages between domestic and global food and commodity markets and the implications of alternative domestic and international policies on competitiveness. ERS economists analyze factors that drive change in the structure and performance of domestic and global food and agriculture markets; provide economic assessments of structural change and competition in the agricultural sector, including markets for food consumed at and away from home; analyze how global environmental change, international trade agreements, and foreign trade restrictions affect U.S. agricultural production, exports, imports, and income; and provide economic analyses that determine how fundamental commodity market relationships are adjusting to changing trade, domestic policy, and structural conditions. Policy makers and the food and agriculture industry benefit from research contained in reports such as *Agriculture in Brazil and Argentina: Developments and Prospects for Major Field Crops* (November 2001) that analyze driving forces in global markets, in this case the factors underlying Brazil and Argentina's growing export market share.

ERS will continue to work closely with the World Agricultural Outlook Board and USDA agencies to provide short- and long-term projections of U.S. and world agricultural production, consumption, and trade. Through our *Agricultural Outlook* magazine, we have highlighted policy issues and the resulting impacts on commodity, land, and other markets, as well as timely analyses of commodity-related topics such as traceability, water supply issues, and the intersection of farm policy with WTO commitments. In addition, ERS has worked closely with the World Agricultural Outlook Board and other USDA agencies in developing a "commodity centers of excellence" initiative that would provide "one-stop shopping" for key USDA data. In 2002, we are making our commodity outlook reports more relevant by improving their timeliness and quality and increasing the frequency for selected commodities. We will be focusing this year on the development of better data measures, through collaboration with industry and others, to provide our users with the most relevant data and analysis possible.

ERS will expand research on how dynamics of consumer demand, notably growing consumption and trade in high value products, are shaping global markets. ERS researchers undertook a comprehensive assessment of the demand-side dynamics of global food and agricultural markets resulting in the report published in May 2001, *The Changing Structure of Global Food Consumption and Trade*, which highlighted

how higher incomes, urbanization, other demographic shifts, improved transportation, and consumer perceptions regarding quality and safety are changing global food consumption patterns. An enhanced analytic understanding of these fundamental market relationships has improved the analytical base for USDA's foreign market analysis and projections activity.

In addition, ERS will continue to work closely with the Foreign Agricultural Service and the Office of the U.S. Trade Representative to ensure that negotiations launched in Doha under the auspices of the World Trade Organization and regional trade agreements are successful and advantageous for U.S. agriculture. Research will target options and prospects for further liberalization in global markets, building on recent ERS findings such as empirical evidence that tariffs on food and agricultural products constitute the most significant barrier to increased market access for U.S. products. The ERS report released in May 2001, *Agricultural Policy Reform in the WTO—The Road Ahead*, provided a comprehensive assessment of alternatives to further liberalization in global agricultural markets negotiating proposals.

ERS will also continue to conduct and build upon research designed to significantly improve understanding among decision makers of the changing structure in the agricultural sector (for example, the implications for producers of the increasing replacement of open markets by contractual arrangements and vertical integration). The ERS report, *U.S. Fresh Fruit and Vegetable Marketing: Emerging Trade Practices, Trends, and Issues*, published in January 2001, demonstrates the expertise that ERS has built in explaining and analyzing critical changes in vertical relationships in the food system, and the implications for producers and others throughout the supply chain. The report, *Concentration and Technology in Agricultural Input Industries*, published on the web-site in March 2001, examines consolidation in the agricultural biotechnology industry. This report examines the causes and consequences of consolidation and sheds light on the question of how consolidation affects competition and market efficiency in the industry. The 2001 *Family Farm Report—Structural and Financial Characteristics of U.S. Farms*, along with associated shorter brochures, briefings, and articles, documents the ongoing changes in farms' structure, financial performance, and business relationships in response to consumer demands, competitive pressures, and changing opportunities for farm families.

ERS analyses can help guide and evaluate resource allocation and management of public sector agricultural research—a key to maintaining increases in productivity that underlie a strong competitive position for U.S. farmers. ERS economists track and seek to understand the determinants of public and private spending on agricultural research and development; evaluate the returns from those expenditures; and consider the most effective roles for public and private sector research entities. To address the relationship between public and private sector research, ERS produced in 2001 the report, *Public Sector Plant Breeding in a Privatizing World*. This report indicates how public sector plant breeding yields societal benefits that private sector efforts may not. Benefits include greater information sharing and development of plant varieties that are under-researched by the private sector. The USDA Advisory Committee on Agricultural Biotechnology drew extensively on the major insights from the ERS report in writing their August 2001 report, *The Future of Public Plant Breeding Programs: Principles and Roles for the 21st Century*.

#### AGRICULTURAL RESOURCE MANAGEMENT SURVEY

The request for an increase of \$2,700,000 in fiscal year 2003 is necessary to fund the Economic Research Service's share of reengineering the Agricultural Resource Management Survey (ARMS). ARMS is undertaken annually by ERS in cooperation with the National Agricultural Statistics Service, which conducts the survey. ARMS is the primary source of information about the financial condition, production practices, use of resources, and economic well-being of America's farmers. Data obtained from the ARMS survey are the foundation for the body of research that has led to the recognition on the part of decision-makers of the diversity of the farm sector and the differential impact of alternative policies and programs across the farm sector and among farm families. The reengineering activities supported by this initiative will expand the capability of the ARMS survey to achieve its desired outcome, improve the quality and content of the survey's data and research outputs, and lay the groundwork for a more efficient data collection process. In addition, larger sample sizes will broaden the survey's ability to inform decision-making by giving decision-makers a better understanding of the potential impacts of national farm policy alternatives for individual States and for different types of farms within those States.

Based substantially on ARMS data, ERS provides regular analysis of the financial status of the farm sector and of farm households. In addition to informing Federal and State and local policy-makers about the viability of the farm sector and farm households, ERS income estimates provide official input into U.S. economic estimates disseminated by the Department of Commerce (DOC) and the Council of Economic Advisors. Further, ERS has used the ARMS data to elevate the debate over the viability of the farm sector from reliance on an aggregate measure of net farm income to micro-level analysis of business performance. Data from the Agricultural Resource Management Survey were used to compare returns earned by farm businesses with the returns earned by nonfarm businesses. Results show that the median rate of return for nonfarm businesses exceeds farm businesses by approximately three percentage points, but that large farms are four percentage points higher than nonfarm proprietorships. This work also showed that the net worth of households with nonfarm businesses largely coincides with the net worth of all households with farm businesses. In the case of large farm businesses, household wealth is greater than the wealth of households with nonfarm businesses.

*Goal 2: The food production system is safe and secure.*

ERS focuses on improving the efficiency and effectiveness of public food safety policies and programs by analyzing the benefits of safer food and the costs of food safety policies; studying industry economic incentives to adopt food safety innovations and provide safer foods; and assessing consumer demand for safer foods and the roles of consumer information, attitudes, and behaviors regarding food safety. This research helps government officials design more efficient and cost-effective approaches to promoting food safety. For example, ERS works closely with various USDA agencies and the Centers for Disease Control and Prevention (CDC) on risk assessment and pathogen reduction efforts, including analyzing the benefits and costs of implementing the Hazard Analysis and Critical Control Points (HACCP) rule. In early fiscal year 2002, ERS began to assess results of the first post-HAACP survey of meat and poultry slaughter and processing plants, designed to understand how HAACP has affected firms' costs and investments in food safety control technologies. The survey was funded in part with support from USDA's Food Safety and Inspection Service (FSIS).

The ERS research program provides widely cited quantitative estimates of the benefits of safer food, such as reducing direct medical costs and indirect costs associated with productivity losses from foodborne illnesses caused by several major microbial pathogens. ERS received increased funding for work under Goal 2 in fiscal year 1999 and fiscal year 2000. Using this funding ERS administered a competitive process through which grants were awarded to major research universities. The projects, for which results are expected in 2002, are applying state-of-the-art valuation and survey methodologies to measure consumers' willingness to pay for reductions in food safety risks from microbial pathogens in foods. This information will be used to improve understanding and quantitative estimates of societal benefits of food safety programs and policies.

Understanding how food prices are determined is increasingly important in responding to domestic and international market events and opportunities that promote the security of the U.S. food supply. As the farm share of the food dollar declines, accurate retail price forecasts depend more heavily on understanding the marketing system beyond the farmgate. ERS systematically examines the factors that help set retail prices, including an assessment of the roles of the transportation, processing, manufacturing, wholesaling and retailing sectors; the impact of imports and exports; and linkages to the total economy.

*Goal 3: The Nation's population is healthy and well-nourished.*

ERS helps identify efficient and effective public policies that promote consumers' access to a wide variety of high-quality foods at affordable prices. ERS economists analyze factors affecting dietary changes as well as trends in America's eating habits; assess impacts of nutrition assessments and the implications for the individual, society, and agriculture; and provide economic evaluations of food and nutrition assistance programs. A Congressionally mandated study conducted by ERS examined the effects of tiered meal reimbursement rates for family child care homes participating in the Child and Adult Care Food Program (CACFP). The study found that the family child care homes component of the CACFP became substantially more targeted towards low-income children, and that the number and nutritional quality of meals and snacks in the homes with the lower reimbursement rates was maintained after tiering was introduced. Congress also directed ERS to assess the impacts of cost-containment practices that State WIC agencies often implement to reduce the costs of providing WIC foods. In 2001, ERS released Assessment of WIC

Cost-Containment Practices: An Interim Report to Congress, which presents results from the first year of the study, including details on cost-containment practices, on the selection of six States for case studies, and on planned data collection efforts and subsequent analysis.

Analyses of nutrition education efforts consider what kinds of information motivate changes in consumer behavior, the food costs of healthy diets, the influence of food assistance programs on nutrition, the effects of demographic shifts on dietary choices, and the implications of food consumption patterns and dietary choices for the structure of the food system. In 2001, ERS released the study, *Overweight Children: Is Parental Nutrition Knowledge a Factor?*, which found that greater parental nutrition knowledge is associated with lower prevalence of overweight children. The finding is important because health authorities consider obesity in children and adolescents to be a vexing and difficult condition to treat, and understanding the role of parental knowledge may be critical to success of weight control efforts.

Through the Food Assistance and Nutrition Research Program (FANRP), ERS will continue to conduct studies and evaluations of the Nation's food assistance programs. FANRP research is designed to meet the critical needs of USDA, Congress, program managers, policy officials, USDA program clients, the research community, and the public at large in relation to the design and effectiveness of food assistance programs, diet quality, and nutrition education. FANRP research is conducted through internal research at ERS and through a portfolio of external research. Through partnerships with other agencies and organizations, FANRP is enhancing national surveys by adding a food assistance dimension. FANRP's long-term research themes are dietary and nutritional outcomes, food program targeting and delivery, and program dynamics and administration.

*Goal 4: Agriculture and the Environment are in Harmony.*

In this area, ERS research and analytical efforts in cooperation with the Natural Resource Conservation Service (NRCS) support development of Federal farm, conservation, environmental, and rural policies and programs. Such efforts promote long-term sustainability goals, improved agricultural competitiveness, and economic growth. This effort requires analyses of the profitability and environmental impacts of alternative production management systems in addition to the cost-effectiveness and equity impacts of public sector conservation policies and programs. ERS analysts focus on evaluating the benefits and costs of alternative agricultural and environmental policies and programs in order to assess the relationship between improvements in environmental quality and increases in agricultural competitiveness.

In fiscal year 2001, ERS released a comprehensive study on conservation and environmental policy in agriculture, *Agri-environmental Policy at the Crossroads*, outlining the environmental gains due to past policy and the issues and trade-offs that would arise in designing a program for environmental payments in agriculture. This report has served as an important reference for parties evaluating conservation policies for the next Farm Bill. ERS is continuing to work with NRCS to provide a combination of economic, farm structural, and geographic information to inform ongoing decision-making about the design of USDA conservation programs and Federal water quality regulations pertaining to animal waste and non-point pollution.

In 2001, ERS published the report *Confined Animal Production and Manure Nutrients*, comparing estimates of manure nutrient production by large confined animal feeding operations against the capacity of nearby cropland and pastureland to assimilate nutrients. The results indicate that in areas where many animals are concentrated, traditional methods of proper manure management may be particularly difficult and costly because of inadequate amounts of nearby land for spreading manure at agronomic rates. ERS is currently estimating the costs of meeting proposed animal waste regulations through land management at the farm, regional, and national levels. ERS research is also contributing to an assessment of EPA regulatory proposals to implement the Total Maximum Daily Load (TMDL) provisions of the Clean Water Act, which will cover nonpoint source pollution from agriculture.

In its publication, *US Organic Farming Emerges in the 1990s: Adoption of Certified Systems*, ERS has developed a new set of statistical indicators to monitor organic farming, one of the fastest growing segments of U.S. agriculture, as it responds to new regulatory and other conditions.

ERS also is a research leader in developing integrated assessments of the agriculture sector linking bio-physical and economic modeling to simulate the economic effects of climate change and the economic opportunities for climate change mitigation strategies in U.S. agriculture. The agency research was an input in the Cabinet review of climate change issues in Spring 2001.

## INVASIVE PESTS AND DISEASES

The request for an increase of \$2,000,000 is to initiate an ongoing program of work to examine the economic issues of invasive pests and diseases of crops and livestock within the context of increasingly global agricultural markets. The results of this initiative will provide information that can be used to help guide resource allocation for efforts to exclude and control invasive species. A major portion of this work will be to assess cost effective means of the public sector in reducing economic risks to U.S. agriculture from invasive species while preserving economic gains from trade and travel. Two research components to address these issues include: the economic effects of invasive species on crop and livestock production, commodity markets, trade, and regional economies, and the benefits and costs of alternative policies and programs to protect against the introduction of and/or to eradicate those species.

*Goal 5: Enhanced economic opportunity and quality of life for rural Americans.*

The ERS contribution to this goal is based on analysis that identifies how investment, technology, employment opportunities and job training, Federal policies, and demographic trends affect rural America's capacity to prosper in the global marketplace. ERS economists analyze rural financial markets and how the availability of credit (particularly Federal credit) and public spending, taxes, and regulations influence rural economic development. ERS analysts explore changing population and migration patterns for small towns and local areas and their implications for the growth and prosperity of local communities, labor markets, industries, and families. With the release of early results from the 2000 U.S. Census, for example, ERS is studying the rapid growth of Hispanics in rural areas and their role in affecting social and economic change in their local communities.

ERS studies the determinants and evolution of trends in rural employment, earnings, education and skill levels, and the quality of rural jobs. Efforts focus on ways to increase the adaptability of rural workers to local and national economic change and assessments of rural development strategies to facilitate this adaptability. An ERS report published in October 2001, *Displaced Workers*, studies rural and urban workers displaced by economic restructuring or technological advances, and assesses whether Federal programs to assist and protect these workers evenly serve residents of both rural and urban areas. In addition, ERS is studying the effectiveness of education as a rural development strategy, analyzing the relationships between education and economic outcomes for the individual worker and the rural community.

ERS 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, and the Federal assistance programs that serve them. ERS leads a national research effort to study the rural implications of welfare reform. A series of papers published in the fall 2001 issue of the ERS periodical, *Rural America*, helps inform the policy debate over reauthorization of the Personal Responsibility and Work Opportunity Act of 1996. Other studies are investigating the effects of the Earned Income Tax Credit on the poverty, employment, and welfare status of rural people.

ERS researchers are also examining Federal credit and tax policies to assess their impact on farm families and the intergenerational transfer of farm assets. Researchers are assessing the impacts of structural and policy changes on the costs and availability of electric, telecommunications, and financial services in rural America. ERS research has highlighted the role that Federal tax policy plays in farm profitability. *Effects of Federal Tax Policy on Agriculture*, released in April 2001, analyzed the then-current Federal tax code, determining how farming was affected by the full range of marginal income tax rates, deductions, and credits. The report also considered the effect that the social security tax, the estate and gift tax, and various proposals to change farmer tax burdens might have on farming, farmland values, and the structure of the agricultural sector.

ERS has developed and widely disseminated a new farm typology that goes beyond the traditional classification of farms by sales class alone to a grouping that is much more reflective of operators' expectations from farming, stage in their life cycle, and dependence on agriculture for household income. Continued applications of the typology are bringing new understanding about the diversity of the U.S. farm community, factors that can enhance success among small and minority-owned farms, and the implications for the different types of farms of alternative approaches to provide safety nets for farm households and protect rural communities.



## CUSTOMERS, PARTNERS, AND STAKEHOLDERS

The ultimate beneficiaries of ERS's program are the American people whose well-being is improved by informed public and private decisionmaking leading to more effective resource allocation. ERS shapes its program and products principally to serve key decision makers who routinely make or influence public policy and program decisions. This clientele includes White House and USDA policy officials and program administrators/managers; the U.S. Congress; other Federal agencies and State and local government officials; and domestic and international environmental, consumer, and other public organizations, including farm and industry groups interested in public policy issues.

ERS depends heavily on working relationships with other organizations and individuals to accomplish its mission. Key partners include: the National Agricultural Statistics Service for primary data collection; universities for research collaboration; the media as disseminators of ERS analyses; and other government agencies and departments for data information and services.

## CLOSING REMARKS

I appreciate the support that this Committee has given ERS in the past and look forward to continue working with you and your staff to ensure that ERS makes the most effective and appropriate use of the public resources.

## BIOGRAPHICAL SKETCH OF SUSAN E. OFFUTT

Susan E. Offutt became Administrator of the U.S. Department of Agriculture's Economic Research Service on January 21, 1996. The Economic Research Service is an agency that provides economic and other social science information and analysis for public and private decisions on agriculture, food, natural resources, and rural America. Prior to becoming Administrator of ERS, Susan was the Executive Director of the National Academy of Sciences Board on Agriculture, which conducts studies on a range of topics in agricultural science. Before taking over at the Board in January 1992, Susan was chief of the agriculture, ranch at the Office of Management and Budget in the Executive Office of the U.S. President. Susan served as assistant professor from 1982 to 1987 at the University of Illinois, where she taught econometrics and public policy in the agricultural economics department. She is currently President-elect of the American Agricultural Economics Association and an editor of the Review of Agricultural Economics. Susan received a B.S. degree from Allegheny College (1976) and a M.S. (1980) and Ph.D. (1982) from Cornell University.

## PREPARED STATEMENT OF R. RONALD BOSECKER, ADMINISTRATOR, NATIONAL AGRICULTURAL STATISTICS SERVICE

Mr. Chairman and members of the Committee, I appreciate the opportunity to submit a statement for this Committee's consideration in support of the fiscal year 2003 budget request for the National Agricultural Statistics Service (NASS). This Agency now conducts the census of agriculture which was begun in 1840, and the agricultural statistics program created in 1842. Both programs support the basic mission of NASS to provide timely, accurate, and useful statistics in service to U.S. agriculture.

As American farms and ranches have progressed to making greater use of agricultural science and technology, the need for more detailed information has increased. The periodic surveys and censuses conducted by NASS contribute significantly to the overall information base for policy makers, agricultural producers, handlers, processors, wholesalers, retailers, and ultimately, consumers. Voids in relevant, timely, accurate data contribute to wasteful inefficiencies throughout the entire production and marketing system.

Official data collected by NASS are used for a variety of purposes. Absence or shortage of these data may result in a segment of agriculture having to operate with insufficient information; therefore, NASS strives to continuously produce relevant and timely reports, while at the same time reviewing priorities in order to consider emerging data needs. Potential outbreaks of animal and plant diseases, like the international outbreak of Foot-and-Mouth Disease (FMD), underscore the importance of America's food safety and supply. NASS's small area estimation program and the census of agriculture provide the foundation of data necessary to minimize the damage that would result from the spreading of potentially devastating diseases throughout the Nation. These data quickly and easily identify areas for heightened monitoring and in the worst case, aid in establishing logical boundaries for contain-

ment of the disease. Additionally, other food safety and environmental concerns have meant that vital data series are needed to accurately measure the chemicals used by the food and fiber industry. The globalization of agricultural commodity markets also increases the demand for relevant, accurate, timely, and impartial statistical information to assist those who sell U.S. agricultural commodities worldwide.

The crop, livestock, and other related statistics are provided by NASS throughout the year, in cooperation with each State Department of Agriculture. This 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. The addition of the census of agriculture has strengthened NASS's partnership with its State co-operators. This joint State-Federal program helps meet State and national data needs while minimizing overall costs by consolidating both staff and resources, eliminating duplication of effort, and reducing the reporting burden on the Nation's farm and ranch operators. The success of this partnership was demonstrated when NASS, through its State-Federal cooperation, completed the 1997 Census of Agriculture in less time than previous censuses, increased the total response, and, through the use of a toll-free number, responded better to questions from farmers and ranchers completing the census questionnaires. NASS's 46 field offices, which cover all 50 States (New England States are combined) and Puerto Rico, provide statistical information that serves national, State, and local data needs.

NASS statistics contribute to providing fair markets where buyers and sellers alike have access to the same official statistics. This prevents markets from being unduly influenced by "inside" information which might unfairly affect market prices for the gain of an individual market participant. Empirical evidence indicates that an increase in information improves the efficiency of commodity markets. Information on the competitiveness of our Nation's agricultural industry will become increasingly important as producers rely more on the world market for their income.

Through new technology, the products produced in the United States are changing rapidly as producers continue to become more efficient. This also means that the agricultural statistics program must be dynamic and able to respond to the demand for coverage of newly emerging products and changing industries. For example, during 2001, NASS issued the U.S. Hog Breeding Structure report. This new report documented changes in the makeup of the breeding herd by size of operation and the increasing efficiency of the breeding herds. NASS also issued a new report titled U.S. Cattle Supplies and Disposition. This report provided information on current cattle supply and disposition numbers, and trends which have implications for future cattle supplies.

Not only are NASS statistical reports important to assess the current supply of and demand for agricultural commodities, but they are also extremely valuable to producers, agribusinesses, farm organizations, commodity groups, economists, public officials, and others who use the data for decision making. Statistical data are used in decisions affecting agricultural policy, foreign trade, infrastructure, environmental programs, research, rural development, and many other activities.

All reports issued by NASS's Agricultural Statistics Board are made available to the public at previously announced release times to ensure that everyone is given equal access to the information. NASS has been a leader among Federal agencies in providing electronic access to information. All of NASS's national statistical reports and data products, including graphics, are available on the Internet, as well as in printed form. Customers are able to electronically subscribe to NASS reports by clicking on the appropriate release. A summary of NASS and other USDA statistical data are produced annually in USDA's Agricultural Statistics, available on the Internet through the NASS Home Page, on CD-ROM disc, or in hard copy. All of NASS's 46 field offices have Home Pages on the Internet, which provide access to special statistical reports and information on current local commodity conditions and production.

Beginning in fiscal year 1997, NASS received funding to conduct the Census of Agriculture on a 5-year cycle. The transfer of the responsibility for the census of agriculture to USDA streamlines Federal agricultural data collection activities and has improved the efficiency, timeliness, and quality of the census data. Data collection for the 2002 Census of Agriculture will occur during fiscal year 2003.

Statistical research is conducted to improve methods and techniques used in collecting and processing agricultural data. This research is directed toward providing higher quality census and survey data with less burden to respondents, producing more accurate and timely statistics for data users, and increasing the efficiency of the entire process. For example, NASS has been a leader in the research and development of satellite imagery to improve agricultural statistics. NASS recently provided the public a valuable new and detailed Cropland Data Layer for six major

crop producing States. The NASS statistical research program strives to improve methods and techniques for obtaining agricultural statistics with an acceptable level of accuracy. The growing diversity and specialization of the Nation's farm operations have greatly complicated procedures for producing accurate agricultural statistics. Development of new sampling and survey methodology; data collection using mail, face-to-face interviewing, computer assisted telephoning, and recently Internet contacts; as well as computer intensive processing technology enable NASS to keep pace with an increasingly complex agricultural industry. Considerable new research has been directed at improving the 2002 Census of Agriculture, including the use of optical scanning and Intelligent Character Recognition systems. NASS is also making advancements in Electronic Data Reporting, with the goal of giving the Nation's farmers and ranchers the opportunity to electronically respond to the 2007 Census of Agriculture.

Major Activities of the National Agricultural Statistics Service (NASS) The primary activity of NASS is to provide reliable data for decision making 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 weather, pests, and other factors have on crop production. Many crop surveys are supplemented by actual field observations in which various plant counts and measurements are made. Administrative data from other State and USDA agencies, as well as data on imports and exports, are thoroughly analyzed and utilized as appropriate. NASS prepares estimates for over 120 crops and 45 livestock items which are published annually in over 400 separate reports.

The census of agriculture provides national, State, and county data for the United States on the agricultural economy every 5 years, including: number of farms, land use, production expenses, farm product values, value of land and buildings, farm size and characteristics of farm operators, market value of agricultural production sold, acreage of major crops, inventory of livestock and poultry, and farm irrigation practices. The census of agriculture is the only source for this information on a local level which is extremely important to the agricultural community. Detailed information at the county level helps agricultural organizations, suppliers, handlers, processors, and wholesalers and retailers better plan their operations. Important demographic information supplied by the census of agriculture also provides a very valuable data base for developing public policy for rural areas.

Approximately 60 percent of NASS's staff are located in the 46 field offices; 24 of these offices are collocated with State Departments of Agriculture or land-grant universities. NASS's State Statistical Offices issue approximately 9,000 different reports each year and maintain Internet Home Pages to electronically provide their State information to the public.

NASS has developed a broad environmental statistics program under the Department's water quality and food safety programs. Until 1991, there was a complete void in the availability of reliable pesticide usage data. Therefore, 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 selected States. EPA uses the State and national level actual survey chemical data, rather than worst case scenarios, in the quantitative usage analysis for a chemical product's risk assessment. Beginning in fiscal year 1997, NASS also began survey programs to acquire more information on Integrated Pest Management (IPM), additional farm pesticide uses, and post-harvest application of pesticides and other chemicals applied to commodities after leaving the farm. These programs have resulted in significant new chemical use data, which are important additions to the data base. Surveys conducted in cooperation with the Economic Research Service also collect detailed economic and farming practice information to analyze the productivity and the profitability of different levels of chemical use. American farms and ranches manage 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 and other Federal, State, and private agencies or 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 157 special surveys in fiscal year 2001 covering a wide range of issues such as farm injury, nursery and horticulture, farm finance, fruits and nuts, vegetables, and cropping practices.

NASS provides technical assistance and training to improve agricultural survey programs in other countries in cooperation with other Government agencies on a cost-reimbursable basis. NASS's international programs focus on developing and emerging market countries in Asia, Africa, Central and South America, and Eastern Europe. Accurate information is essential for the orderly marketing of farm products. NASS works directly with countries by assisting in the application of modern statistical methodology, including sample survey techniques. This past year, NASS provided assistance to China, Ecuador, Ethiopia, Honduras, Kazakhstan, Mexico, Nicaragua, Oman, Philippines, Russia, South Africa, and Ukraine. In addition, NASS conducted training programs in the U.S. for 180 visitors representing 19 countries. These assistance and training activities promote better quality data and improved access to data from other countries.

NASS annually seeks input on improvements and priorities from the public through: displays at major commodity meetings, data user meetings with representatives from agribusinesses and commodity groups, special briefings for agricultural leaders during the release of major reports, and through numerous individual contacts, especially those made at the grass roots level through NASS's 46 field offices. As a result of these activities, the Agency has made adjustments to its agricultural statistics program, published reports, and electronic access capabilities to better meet the statistical needs of customers and stakeholders.

#### FISCAL YEAR 2003 PLANS

The fiscal year 2003 budget request is for \$149,069,000. This is a net increase of \$35,283,000 from the fiscal year 2002 appropriation.

The fiscal year 2003 request includes increases for cyclical activities associated with the Census of Agriculture program (\$15,501,000); continued improvements to computer security to assure the integrity of market sensitive data prior to official release (\$700,000); a joint project with the Economic Research Service to reengineer the Agricultural Resources Management Survey and significantly strengthen the reliability of the data (\$4,625,000); improvement in the statistical integrity and standardization of the data collection and processing activities of the Locality Based Agricultural County Estimates/Small Area estimation program (\$1,000,000); development of an infrastructure that integrates paper and e-Government data dissemination and electronic data reporting (\$3,000,000); and funding for increased pay costs, employee pension and annuitant health benefits, GSA rental payment, and Federal Employees' Compensation Act (FECA) program (\$10,457,000).

A net increase of \$16,941,000 and 117 staff-years for the census of agriculture. The Census of Agriculture budget request is for \$42,291,000. This includes a program and pay cost increase of \$16,941,000 and 117 staff-years for activities associated with the 2002 Census of Agriculture. The funding increase is necessary for a number of significant data collection activities occurring in fiscal year 2003. This is the fourth and peak year in a five-year funding cycle for the 2002 Census. Preparations include completion of the labeling and ZIP-code sorting operations for roughly three million mail packages; mailing and follow-up data collection activities; and processing and analysis of all Census of Agriculture records. The Computer Assisted Telephone Interview network and data validation systems to assist census respondents who utilize the toll-free information telephone lines will be brought online from a test environment. Training programs and instructional guidelines will be communicated to the NASS State offices, Puerto Rico and the outlying areas of Northern Marianas, U.S. Virgin Islands, American Samoa, and Guam. NASS will also purchase and install new equipment and implement the software needed to effectively process, retrieve, and view scanned questionnaire images. NASS will contract with the Commerce Department's National Processing Center for functions not supported by NASS's infrastructure. This will serve to minimize costs and provide faster, more efficient processing of the large census work loads. Later in fiscal year 2003, the Agency will devote resources to tabulating and disseminating data products in both electronic and paper media.

An increase of \$4,625,000 and 35 staff years are requested to fund reengineering efforts for the Agricultural Resources Management Survey (ARMS) program.

An increase of \$4.625 million will support the NASS share of the joint effort with the Economic Research Service to improve the ARMS program, generating more dependable and statistically defensible results and making results available through web-based dissemination. This national survey of farms provides data and analysis to characterize the economic conditions and rapidly changing structure of the agri-

culture sector. As the principal source of data, ARMS makes it possible to answer key questions about differential impacts of alternative policies and programs across the farm sector.

An increase of \$700,000 and one staff year are requested for continued enhancements to the NASS computer security architecture and systems.

Protection from cybersecurity threats is a top priority throughout the information technology community. Computer security is of even more critical importance to NASS because its mission of providing timely, accurate, and useful statistical information on the agricultural economy is based on confidential information collected from farmers, ranchers, and agribusinesses. Billions of dollars in global commodity trade depend on statistics that NASS must ensure are protected so that the data are not obtained prematurely or modified in any way. In addition, accelerated e-Government strategies promote the critical need for advancements in the protection of reported information. In the absence of new security measures, NASS's development of Internet-based data collection procedures to reduce reporting burden on farmers and ranchers, improve respondent ease-of-use, and boost survey participation will substantially increase the Agency's exposure to outside computer intrusions.

An increase of \$1,000,000 and 7 staff years to develop an annual integrated Locality Based Agricultural County Estimates/Small Area estimation program.

Local area statistics are one of the most requested NASS data sets, and are widely used by private industry, Federal, State and local governments and universities. Data requests vary from a simple inquiry for county acreage, yield, and production statistics, to the comprehensive integrated data request for acreage, economic, demographic, and environmental data relating to a single or multiple county area, watershed, congressional district, or other special small areas. With the merger of the Census of Agriculture and the current statistics programs of NASS, there are new possibilities for combining census demographic and economic data with traditional county estimates data and environmental data sets. Thus, this initiative allows us to explore alternate ways of combining the Census of Agriculture with comprehensive annual county estimates data sets of the current statistics program. This linking of data sets can be combined with other environmental program data sets to produce comprehensive data sets for a new Small Area Estimation Program. Funding of this initiative also enables the addition of three major crop producing States to the popular NASS Cropland Data Layer program.

An increase of \$3,000,000 and 10 staff years for e-Government data dissemination and electronic reporting.

This initiative will allow NASS to initiate actions and activities to address the Government Paperwork Elimination Act (GPEA) mandate that requires Federal agencies, by October 21, 2003, to allow individuals the option to submit information or transact with NASS electronically. NASS will begin building an infrastructure that integrates paper and web instruments. This integration will promote standardization, data handling efficiencies, and data security and provide 24 hour a day access, improving convenience to respondents.

This concludes my statement, Mr. Chairman. Thank you for the opportunity to submit this for the record.

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#### BIOGRAPHICAL SKETCH OF R. RONALD BOSECKER

Raymond R. (Ron) Bosecker grew up on a small farm in southern Illinois where he gained firsthand experience with hogs, cattle, corn, soybeans, wheat, hay, and farm upkeep. He graduated from Southern Illinois University (SIU) with a Bachelor of Science degree in Agricultural Economics in 1966 and received Master of Science degrees from Ohio State University in Agricultural Economics (1968) and Statistics (1972).

Mr. Bosecker began his career with the National Agricultural Statistics Service as a student trainee in the Illinois State Statistical Office. Upon graduation from SIU, he moved to the Ohio State Statistical Office, where he served as a commodity statistician. In June 1972, Mr. Bosecker transferred to Washington, D.C. where he served as a mathematical statistician in several units, including Remote Sensing, Nonsampling Errors, Sampling Studies, Area Frame, and Statistical Methodology. In 1981, Mr. Bosecker became the Deputy State Statistician of the California State Statistical Office. In 1985, he returned to headquarters as Chief of Methods Staff, Statistics Division, and later became Chief of the Survey Sampling Branch, Research Division.

In June 1992, he was appointed Director of the Research Division. As Director of NASS research, he was responsible for the NASS remote sensing program and the

national area sampling frame, as well as developing new methodology for data collection, data analysis, and presentation of data. In this role, he coordinated statistical research with universities, other statistical agencies, and a wide variety of data users inside and outside of USDA. He was reassigned in April 1999 as Acting Deputy Administrator for Field Operations. This position has responsibility for 45 State Statistical Offices utilizing 60 percent of NASS resources. He was selected as Administrator in December 1999.

He has participated internationally in the Business Survey Frames Roundtable and provided agricultural statistics program assistance in Tunisia, Haiti, Bolivia, and Argentina. He sits on the Statistics Canada Advisory Committee on Agricultural Statistics and is a member of the U.S. Interagency Council on Statistical Methodology.

Senator KOHL. Thank you very much, Dr. Jen. And before we commence our round of questions, I would ask Senator Burns if he has any comments.

Senator BURNS. No, Mr. Chairman, thank you.

#### U.S. CONTRIBUTION TO WORLD FOOD ASSISTANCE

Senator KOHL. Thank you very much. Secretary Penn, the President's budget request for fiscal year 2003 includes a welcome increase in the Public Law 480 Title II program, Food for Peace. However, it does not continue surplus purchases of commodities for donations per Section 416(b) in fiscal year 2003. As a result, despite the increase in appropriations for food assistance, total donations are going to decrease. Therefore, your budget is misleading if it is meant to imply that the U.S. plans to maintain its role as a leader in world food assistance. In fact, that role of leadership will be diminishing.

While the Bush Administration gets high marks for the successful deployment of food aid in the Afghan theater, which may well have prevented a human crisis in that region during this winter, there remains much to be done around the globe. Africa remains among those Nations most in need of food assistance, and even countries in our own hemisphere are not immune to chronic hunger. Combating world hunger is a challenge that needs a global response, and should not be tied primarily to foreign policy objectives in a given region.

So, Dr. Penn, can you tell us the average value of U.S. donations under 416(b) and Public Law 480 for humanitarian food donations over the past 3 or 4 years, and how that average compares to the total program level for food assistance in this President's budget?

Dr. PENN. Well, thank you, Mr. Chairman. Let me just say something initially about the international food system. These programs have a long history. As you know, Public Law 480 was enacted in 1954, and these programs have served a wide variety of objectives over time. They have met humanitarian objectives, foreign policy objectives, market development, support for our farmers.

A whole host of objectives has been attempted with these programs, and the number of programs has increased over time, and the funding mechanisms have increased. So this Administration upon taking office saw a food assistance effort that I think could be characterized as being somewhat in disarray, and it immediately formed a task force led by the Office of Management and Budget and the National Security Council, involving the Agency for International Development, USDA, State Department, Treasury and others, all of the agencies that have some role with these pro-

grams, to try to sort out the food assistance efforts and to see if we could reduce some of the duplication, if we could reduce the number of programs, if we could streamline the assistance, with the overall goal of trying to provide as much assistance as we possibly can to those people around the world who are malnourished.

With that objective in mind, all of the programs were assessed and the decision was taken to shift most of the focus to the Public Law 480 program and to reduce the focus on the 416(b) program. There is an increase in funding for Public Law 480 that is something on the order of \$335 million for fiscal year 2003, and there is a reduction in 416(b) from what it has been in the past down to only \$50 million for 2003.

The budget numbers, as you know, get a little complex because of the supplemental. After September 11, there was \$95 million made available for Afghanistan, which shows up in the numbers, so comparing on that basis you are correct in assuming there is an overall reduction. But nonetheless, we think that with the program changes that have been implemented, we will be able to feed almost the same number of people, if not the same number of people, in the coming fiscal year as we did in the past.

Senator KOHL. Dr. Penn, what has the removal of these commodities from U.S. supplies over the past several years had on our farm income? Would not a change in the Administration's decision to stop purchasing surplus commodities have a positive effect on farm prices?

Dr. PENN. I don't think there will be any change in farm income. We are just shifting the funding source from purchasing and donating commodities under Section 416(b); now the commodities will be purchased and donated under Public Law 480, Title II. So the benefits to the American farmer should be the same, because we are purchasing the commodities from the domestic marketplace and we should get the same price impact regardless of the funding source within the budget.

Senator KOHL. All right. It is true that CCC stocks of commodities reduced in recent years. However, some remain, such as more than 800 million pounds of non-fat dry milk, which could be used for donations. And beyond the totals of CCC-owned commodities, there are still surplus stocks that continue to have a depressing effect on farm prices and the rural economy. Can you provide us with estimates of surplus commodities, CCC-owned or otherwise, that could be used for donations for humanitarian food assistance?

Dr. PENN. Yes, Mr. Chairman, I think I can shed some light there. These international food assistance programs have been very closely connected to the farm support programs over the years. In fact as I said earlier, one of the main objectives of these programs at times in the past has been surplus disposal, which enabled us to provide for good use some of the excess supplies we had of farm commodities.

At one time the domestic farm programs were structured such that the Department of Agriculture actually took ownership of various commodities. We were operating a price support program such that if the market price didn't reach a certain level then the farmers forfeited their commodities to USDA under the loan program. So we had huge stockpiles of grain, oil seeds, milk powder, sugar,

other commodities. Well, beginning in the mid-1980s, those programs started to be restructured and reformed, and by the time we got to 1996, most of those kind of loans and price support programs were gone. We now offer what's called a marketing loan program.

And the result of that is that we give farmers payments of the difference between the loan rate and the market price, rather than actually take ownership of their commodities. So the end result is that today, USDA rarely takes ownership of or has in its own storehouses any surplus commodities.

You correctly mentioned nonfat milk powder, and I can update your numbers a little bit. I was just told this morning that we now have 950 million pounds of nonfat dry milk that is owned by the Commodity Credit Corporation and is available for utilization in some way.

The only other commodity that we have is sugar, and we have a relatively small amount, something over 200,000 tons. We're moving to put that back into the marketplace as soon as we possibly can.

So today, when we are talking about programming commodities, the way the program works is that rather than going and physically taking stocks from USDA warehouses, the Secretary of Agriculture determines that certain commodities are in a surplus condition, and then we're able to go into the marketplace and buy those commodities and make them available. So in terms of commodities we own, we have a lot of nonfat dry milk powder, and we would certainly like to program more of that. We are looking for every possible opportunity to move that product into the international feeding programs and to move what little we can into the domestic feeding programs.

Senator KOHL. The question I asked was not just CCC-owned surplus, but an estimate with respect to all surplus commodities. I might ask, Mr. Collins, if you would wish to make a comment.

Mr. COLLINS. I would only echo what Dr. Penn said, that it is possible to come up with estimates of overall surpluses irrespective of whether they are owned by the government or not. In fact, we do that through an interagency process to determine programs for Public Law 480 when we make commodities available. When we make commodities available under Public Law 480, we can't make them available if they will shorten the domestic market. So we do an analysis periodically to look at the overall availability of commodities that we use under Public Law 480.

Of course there are other commodities where we don't do such analysis that you might argue would be surplus, like cotton right now. But it would be possible to come up with some rough estimate, but it is not easy, because there is no simple definition of when something is in surplus and when it is not, there is no off-on switch for that. It is judgmental about what the effect would be on the domestic market.

Senator KOHL. I thank you. Dr. Penn, has the Administration evaluated how other countries may respond to our cutback in food donations? Is it not possible that without continuing strong U.S. leadership, donations worldwide will also go down and that the gains made in recent years to control world hunger may be reversed? I am assuming that you do not dispute the assumption that



I am making, that the United States' level of food donations worldwide under the President's budget is to go down.

Dr. PENN. Mr. Chairman, there are levels and there are numbers of people to be fed. Let me say about U.S. leadership, I full well agree with you that the United States has been the leader in providing food. In fact, we provide about half of all the food aid provided in the world. And one of the key questions in the interagency task force evaluation of the foreign food assistance program was, what is the appropriate share of total world food donations that the United States should be making. Is it a third or is it half? And the question is, how do we get other countries to step up to the plate and to provide more of the food assistance that's needed? Even though we are providing a large amount, even though it's half of the total, it's still in some cases far short of what's needed to improve the nutrition of all the people in need.

Our assessment is, Chairman Kohl, that we're not losing leadership in being the greatest provider of food assistance, that we still have the moral authority to say to other countries that they should be doing more. And we think that, as I said earlier, even though the amount in the budget may be a little less because of the program changes and reductions, we think we will be able to feed close to the same number of people that we were feeding last year, even though the resources are somewhat less.

#### CCC COMMODITY INVENTORIES

Senator KOHL. All right. Dr. Penn, in regard to the current CCC surplus of nonfat dry milk, will you work hard to include that supply in humanitarian food shipments this year?

Dr. PENN. We certainly will. And as I said, this is a little bit of a sore point with us in that sugar and milk are the only two surplus commodities that we hold. We have been working the sugar surplus, the sugar stocks down from something approaching 900 million tons to something on the order of a couple hundred million tons, and we would like to do the same with nonfat dry milk.

As I said, we have about 950 million pounds of nonfat dry milk in storage. Let me just put that in perspective for you. In the United States, in our entire market, we only use 750 million pounds in a year, so we have an ample amount of nonfat dry milk. The problem is finding opportunities to put it in the international feeding programs. When you provide the milk powder, typically you need something to go with it. First of all you need clean water and then usually you need some other nutrient product to mix it with. There is a limited opportunity for being able to do that, but I can assure you that at every possible opportunity, we will be using nonfat dry milk.

Senator KOHL. I thank you very much. Senator Cochran.

#### TIMING OF NEW FARM BILL

Senator COCHRAN. Mr. Chairman, thank you. Dr. Penn, as you know, we are in conference with the House of Representatives on a new Farm Bill, and a question has arisen about how important is it for us to complete action in a timely fashion in terms of giving the Administration an opportunity to then implement the provisions of the new Farm Bill, particularly as they may relate to cur-

rent crop year activities. So I ask you, what is the date, if you can tell us, by which the new Farm Bill would have to be completed or passed for the Department to implement it for this crop year?

Dr. PENN. Well, Senator Cochran, I'm reluctant to give a specific date, as you can well imagine, but you have raised a very important consideration for us. This is a very complex situation, in that today we're administering the last year of the FAIR Act. So at the very moment that the House and Senate are in conference on a new Farm Bill which might be applicable to this year's crops, we're actually administering a farm bill for this year.

Since the House completed action on its bill last October, we started going through title by title, provision by provision, to ascertain our workload requirements and what the difficulty is going to be to implement that. We also looked at the Senate bill, and now we're just eagerly awaiting the results of the conference committee to see what the final provisions will be.

But I can tell you that it can't be much longer, just as a practical matter. As you well know, there are provisions in the bills, for example, that might require an updating of the acreage bases or an updating of program yields. We haven't done that for many years. That's going to require the development of new software, and it's going to require gathering a lot of new information—a lot of information from farmers themselves—and we're going to have to develop all of that.

And if the farmers are given an option of whether to update or not, then we're going to have to provide them with what their current situation is, we're going to have to show them what the updating would be, and then we're going to have to spend time with them in the county offices helping them decide what would be in their best interest. The staff, especially the people in the field offices, tell us it's going to take a long time for the farmers to come in and sit down and work through all this. We think that something on the order of 4 months would be required to do that alone.

So, we can't wait very much longer as a practical matter and do the first-class job we want to do in implementing the Farm Bill for the 2002 crops.

Senator COCHRAN. I appreciate your understanding of the pressure that has been building on the Congress to act quickly so it would be possible for some farmers to have the benefits of the new Farm Bill, but I think you have given us kind of a dose of reality here that we need to take to heart.

The work that you are doing in analyzing the options in advance is to be applauded. I appreciate knowing that. I think we are encouraged that the Department is moving ahead to prepare for whatever the likely eventualities are in connection with the new Farm Bill, and I congratulate you for that.

#### FARM LOAN PROGRAMS

We are hearing from farmers in our State that some are unable to obtain commitments from lending agencies and bankers who are making loans for putting the crops in the ground this year because of the outlook in terms of prices. Prices are so low that many lenders are just not willing to make a loan because farmers cannot

show that they will earn a profit and be able to repay the loan or break even.

In that connection, we have these loan programs that direct loan and guaranteed loan programs, that are administered by the Department of Agriculture. Have there been any new estimates made as to what the demand is going to be for these loans, and do we have enough in the budget request to cover the demand that may be made on the Department from eligible farmers who can prove that they cannot get financing and who might be eligible for these government subsidized or guaranteed loans? Do you think the budget can accommodate the new demand that might be anticipated?

Dr. PENN. We've looked at that pretty carefully, Senator Cochran, and as you correctly state, the demand for the direct operating loans that are offered by the Department is stronger this year than it has been in the past couple of years. That is probably because of the continuation of relatively low prices. We have assessed the resources that we have available, and we believe that we have sufficient resources to meet the demand. As you know, there is some flexibility in the complex of farm loan programs such that as you move through the year, some of the monies can be moved from one program to another program depending on need. We think that by utilizing that flexibility, we will have adequate resources for the year.

Senator COCHRAN. You mentioned in your statement that opening new markets overseas and lowering trade barriers is most important. And I agree with you that trade is critically important for agriculture producers to prosper, and I congratulate the Department for its aggressive effort in that regard. In that connection, I am seriously concerned with the actions of Russia with respect to poultry imports from the United States. What is the Department doing to help solve this problem?

Dr. PENN. Senator Cochran, I am as exasperated with this situation as you are and I can tell you that we have mounted an all-out effort to see if we can't get this Russian ban lifted immediately. This is a very major market for U.S. poultry, as you suggest. It's a market that is approaching \$700 million annually. About half of all of the U.S. poultry exports go to the Russian market, and so we are very concerned about the actions.

We think the actions of the Russians are arbitrary, we think that there is no basis whatsoever in terms of science or in terms of real concern about food safety, about the safety of our production. And we're somewhat perplexed as to the motivation, especially given that the Russians have indicated they want to join the World Trade Organization, given that we have a new improved relationship nationally with Russia. So we are very perplexed as to why they are doing that, but I can assure you that we are taking every action that we possibly can.

The U.S. ambassador in Moscow has been regularly presenting our case. We have a team of specialists from the USDA there now trying to respond to any technical questions that the Russians might have. Ambassador Zellick has been in contact with his counterpart expressing our strong displeasure in this action.

Secretary Veneman yesterday spoke to the Russian ambassador here and expressed our dismay in the strongest possible terms, and has scheduled a telephone conversation with the Russian minister of agriculture, who is also a deputy prime minister, to do the same thing. We are trying to keep this at a very high level and not let it get bogged down in technical talks which can drag out over a long period of time, because we don't think there is any merit in the claims that the Russians have made.

So, I think we are doing everything that we possibly can at this point to apply all of the pressure that would be needed to get this resolved quickly.

Senator COCHRAN. I appreciate your explanation and I think you are on the right track. I hope we can succeed in our efforts to reverse their decision, because it is putting a large segment of our economy in jeopardy and it is very serious.

I saw in the newspaper this morning a report that symptoms in some farm animals in Kansas have been noted that are similar to foot-and-mouth disease symptoms. Is this something the Department is aware of, and are we doing anything to investigate this and use money that may be available to the Department for the animal health research programs and efforts to combat animal-borne diseases or threats to our country?

Dr. PENN. Senator, let me make a general comment about the incident you mentioned, and then I would defer to my colleague, Dr. Jen, about the research aspect.

Yes, we're very much aware of that. This country has been most fortunate in that we have not had an outbreak of foot-and-mouth disease in many years, since the late 1920s, I think, and we have had no outbreak of BSE or any of the other major livestock diseases that have occurred in other parts of the world.

We have systems in place of course, to try to avoid ever getting outbreaks. We have strengthened all of those. The experience of last year with foot-and-mouth disease in Europe, with the BSE outbreak in Europe, has made us all the more aware that we need to do more. And Secretary Veneman has been very diligent in making sure that all of our agencies have reexamined the situation and are doing our dead level best at monitoring and surveillance.

We did check out the incident that was reported in Kansas City; it caused quite a bit of turmoil in the livestock market yesterday. It was a false alarm and we're very pleased about that, but we are constantly monitoring these situations. Anytime there is any discussion about the possibility of an infected animal, it is immediately tested, and we're doing everything that is humanly possible to try to protect the integrity of the food system. This is extremely important to the economy.

#### TERRORISM RESPONSE FUNDING

Senator COCHRAN. Before Dr. Jen proceeds to comment on the research aspect, when the Secretary was here, we asked the question about whether there had been a final decision made about how to use the money that has been appropriated in the emergency supplemental in response to the terrorism attacks and other homeland security needs. And the response was that they would get back to us, that they had not really completed a review of all the agencies

input that they had gotten Department-wide on this subject. Has this now been completed, or do you know how much is going to be allocated for research and other activities?

Dr. PENN. I do know that after the Secretary's appearance here, that she and Deputy Secretary Moseley began discussing this. I don't know what the disposition of that is, but I'm almost certain that the allocations have been made. I just can't tell you what they are.

Senator COCHRAN. Thank you. Dr. Jen?

Dr. JEN. Thank you, Senator. I will also confirm what Under Secretary Penn said, regarding the Kansas City incident yesterday, we have—the preliminary results. A sample went to Plum Island Research and Diagnostic Lab for testing. The preliminary test was negative. We have to do confirmatory testing, which is underway.

Chances are it's going to be negative as well. This is a routine type of testing that we have been doing for years, since 1929, and we have had a number of false alarms throughout the years, so we are not doing anything extraordinary at this time.

In terms of the research side of it, we are doing two kinds of research to try to eliminate these kinds of animal diseases, invasive diseases and things like that. One is rapid detection, developing a much quicker way of detecting the results rather than having to wait for incubation of 3 to 4 days. We are doing that using a DNA type of technology.

The second part is to try to find ways of prevention. This is also oriented towards genomics, investigating whether or not there are ways either through vaccine inoculations of animals or by changing the genomic makeup of the animals, so they can never catch foot-and-mouth disease.

Senator COCHRAN. One suggestion that I heard just this last week from a veterinary medicine school dean from Mississippi State University was an idea that we need to be more aggressive not just in the United States but around the world, and have programs that would involve scientists who actually go to other countries and help deal with problems that are developing there that could end up in the United States and threaten the health of our animal population or be in the nature of food-borne illnesses that we could more effectively stop at the point of origin. What is your reaction to that?

Dr. JEN. You are absolutely correct. In fact, when the United Kingdom had the breakout of disease, USDA had quite a number of scientists in the UK, on the one hand trying to help them deal with the disease breakout, but on the other hand, actually learning a lot on how to deal with such breakouts. So things like that are going on at all times.

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

Senator KOHL. Thank you, Senator Cochran. Senator Murray.

Senator MURRAY. Thank you very much, Mr. Chairman, and thank you to all the witnesses. Dr. Penn, let me start with you. You and Secretary Veneman have made trade an important part of this Administration's farm policy. I appreciate that, and I have been a big proponent of increasing funding for the Market Access Program because I think it is really a critical tool that helps our farmers, our businesses, and our cooperatives. I wanted to com-

ment that I hope that the Administration in the negotiations with the Farm Bill really helps us with some active support in raising the amount to \$200 million as quickly as possible, hopefully in 2003.

Dr. PENN. We are very supportive of that.

#### NAP PAYMENTS

Senator MURRAY. Mr. Secretary, my State's farmers are hurting. I know that is common to many agricultural States, but this has been a very difficult time for us. I was pleased to hear Mr. Collins talk about the improving employment numbers, but I have to tell you, in my State we have, over 8 percent unemployment. We have the second highest level in the Nation behind Oregon, and our agricultural industry has been hurting for some time. We have especially been hit by drought and several storms, and a lot of my farmers are calling me to find out when they can expect assistance under the non-insured assistance program. Mr. Secretary, can you tell me when those NAP funds are going to get to our farmers?

Dr. PENN. It's my understanding, Senator, that all of the rules and regulations have been promulgated now and that the checks should start being issued very shortly, if they haven't been already.

Senator MURRAY. The checks are in the mail.

Dr. PENN. I didn't say that, you notice, but I thought it. That is my understanding, and Mr. Jim Little, who is the Administrator of the Farm Service Agency, is in the audience.

Senator MURRAY. He is listening to you say they are in the mail.

Dr. PENN. Yes, he is, and I hope he's nodding. I can't see him back there.

Senator MURRAY. We do want to encourage you to get those moving, and we do need those checks.

Dr. PENN. We are working very hard on that.

#### FARM SERVICE AGENCY STAFFING LEVELS

Senator MURRAY. I want to ask you about the Farm Service Agency's staffing levels. In your testimony you said the President's budget supports a ceiling of about 5,800 Federal staff years and 11,250 non-Federal staff years within the Farm Service Agency. Washington State's allocation in that budget is 134 full-time employees and 22 to 24 temporary employees. That frankly doesn't feel like a very fair allocation to us in Washington State. Our counties are very large geographically. No offense to the midwest or east coast, but we tend to draw our counties bigger in Washington State and in the west. That means that our county offices have to cover a very large area.

On top of that, we jumped right into consolidation of a lot of our county offices, so many of our offices are now covering an extremely large geographic area.

And in addition to that, Washington State, by a lot of standards, is the third most diverse agricultural State in the entire country. So that means that these employees who cover a very large area have to cover very different crops as well, and we are very short handed.

Could you help me look into this and see if there are some changes that we can make so we can better reflect the actual work-

load of those folks that are in some of these difficult and challenging areas?

Dr. PENN. I will certainly do that. And let me just comment generally that we are in a little bit of a crunch here, as you can appreciate. The overall thrust has been to reduce the staff in the Farm Service Agency going back for 10 years or more. That agency has reduced the number of permanent people from something over 22,000 down to the present 17,057 in about 10 years. The idea was that we can provide the same service or even better service to our farmer customers by doing it smarter, by consolidating where that makes sense, by adopting new technologies, certainly computerizing wherever we can. We've done that, and I think that most people who look at the overall performance of the Farm Service Agency over the years think that it's a real success story, that it has done more with less.

And then I would point out that in the last 4 years, the workload of that agency has increased tremendously with the supplemental assistance that has been provided by the Congress. In 1998, 1999, 2000, and again last year, there were supplemental assistance packages on the order of \$5.5 to \$7.5 billion. A lot of those had new programs, like for apples and other nontraditional crops, which required the development of software and gathering of information, which brought about a substantial increase in workload.

Now I'm not here crying, but I am just pointing out that we are trying to do a lot more with a declining resource base. We have a lot of new initiatives underway, especially in adopting new technology and developing service centers, working with our colleagues in Rural Development and the Natural Resources Conservation Service. We are trying to use common data bases where we can, and a common computing environment where we can.

Senator MURRAY. Well, some of our people don't even have those computers.

Dr. PENN. I understand. We're—

Senator MURRAY. I just think the system is unfair at this point and we are asking many of our folks to serve much more diverse areas, to help out more folks, and that is not working out for any of us.

Dr. PENN. We will look into that. The allocation among States is a very key question. We were on the House side yesterday, and Mr. Little had the same request from another State, so we are really trying to juggle, but we will look into it.

Senator MURRAY. I would like to work with you.

Dr. PENN. We will try to make as fair an allocation as we possibly can to get the job done, because as I said in my opening statement, FSA is the front line with respect to our interaction with farmers, and we want to make that as positive as we possibly can.

#### CONSERVATION RESERVE ENHANCEMENT PROGRAM

Senator MURRAY. Very good.

Well, I saved my best question for last, and I want to address this to you, Secretary Penn, as well as to Mr. Rey. I want to raise an issue that is really of absolute critical importance in the State of Washington, to the future of our farmers, and also salmon restoration efforts.

In 1998, the U.S. Department of Agriculture and the Washington State Conservation Commission signed an agreement to administer the Conservation Reserve Enhancement Program in Washington State, which is really my State's primary tool for getting certainty under the Endangered Species Act to our farmers and ranchers.

Unfortunately, the USDA is taking the position now that CREP funds cannot be used on lands that are subject to State land use laws and local ordinances. That decision has had serious and dramatic impacts in my home State, and is particularly troublesome and problematic because it came as a complete surprise, to our Federal, State and local officials, as well as our farm community.

Mr. Secretary, I'm not going to go into the details of salmon recovery in Washington State. You know, I think, and so does Mr. Rey, the tremendous difficulties we have negotiating on natural resource issues. They are very difficult and contentious.

If USDA's position stands, it is going to kill years of work and progress, and I simply want to ask both of you today for your commitment to work with me and other Members of Congress, the State of Washington and all of our constituents, to resolve this problem. Can I just get both of your commitment to work with me on this issue?

Dr. PENN. Well, you certainly have my commitment. I'm not familiar with all of the details, I do know a bit about the CREP, but you have my commitment, we will work with you.

Senator MURRAY. The problem is that CREP is now saying funds cannot be used on lands subject to State land use laws and local ordinances, and that is going to kill this program.

Dr. PENN. I understand that. We will work with you.

Senator MURRAY. Mr. Rey.

Mr. REY. This is the first time I have heard of it, but working together, we can resolve this difference.

Senator MURRAY. I would like both of you to work with me and others to solve this problem. Thank you.

Senator KOHL. Senator Burns.

#### AGRICULTURAL MARKETING

Senator BURNS. You didn't even notice me over here, did you, I was so quiet.

With all the talk about rural development, if you just give us \$5.00 grain, 75-cent cotton, you guys could go away, we would not need much out there.

I want to just go down a couple lines of what I am thinking, and it probably has nothing to do here, but I can tell you where we have some real problems. Number one, we need more staff. Senator Murray hit it right on the head. You think they are computerized, so give us more computers. They don't give them out in Montana, and so we have a real shortage this way.

But I have to ask, does the Department of Agriculture ever look into these marketing things on how we market our commodities off of these farms? Right now we have a situation in the cattle business where you have tighter areas of concentration and if you look at the sheep business, it's worse. When you have one company, one firm that controls over 65 percent of the kill and 65 percent of the imports that come into this country, do we ever take a look at those



folks and see how we could do it better? Because it seems to me the problem, there ain't nothing wrong on the farm except the price.

And I don't see anybody in this Department of Agriculture yet taking a look at marketing structures, both in grain—and we spent a lot of time in the new Farm Bill trying to reach a deal with packer concentration, but we have not looked at the grain marketing structure in this country for a long long time. And I'm just to wit's end on how we can increase income, because that is our problem. All other problems go away.

And I know I have some questions for you about these kinds of problems but I am not going to go into those today, because those are sort of parochial and we want to get to the end where the Chairman wants to go, and to take a look at appropriations as well. But I am telling you, we have to focus on different things down there other than just building a bureaucracy that sometimes, and I know their dedication, but by gosh, I will tell you one thing, delivering is something else. But I think we have to start looking at how we market these commodities and the income coming back to the farm.

And it is just one of those things, but I cannot see, I do not see the Department of Agriculture going up to Justice saying, we have a situation out here that is pretty antitrust. I called this guy, I called a guy down there in Colorado and said I have a thousand lambs, what is the market on fat lambs today, and he said they would weigh 120 pounds. He told me what the price was. I said, I will ship them on Monday morning. He said well, I ain't buying them. He is the only buyer there.

That is our problem, and we are not looking into those kind of situations in the Department of Agriculture. And it does not make any difference what administration it is, it does not make any difference. But that is where we are getting hammered, folks, and I will pass the plate after this sermon, but I have a few questions and I will direct them to you directly. Thank you, Mr. Chairman.

Senator KOHL. Thank you very much, Senator Burns. Senator Dorgan.

Senator DORGAN. Mr. Chairman, I agree with Senator Burns, but let me ask some questions about some specific issues. The points he raised are very important points. In every direction the family farmer looks, there is a monopoly. If they want to move their grain to markets, you face one or two railroads. They tell you what the price is and if you do not like it, tough luck. When you sell it, you sell it to a grain trader, who is selling it into a highly concentrated market. In every direction they are facing near monopoly, and Senator Burns is right about that, and we have to do something about that.

First of all, let me say there are some encouraging things in this budget, the priorities like WIC, the Food Stamps, food safety, food inspection, I think there are some encouraging things that have been recommended and I appreciate that.

Let me ask about the areas where I think we also needed to do better. One, the Rural Telephone Bank program, I think has been a very important tool for rural America, and the Administration has eliminated that for the second year, I believe, in the budget.

Can you tell us what the basis is for recommending the elimination of that program?

Mr. NERUDA. Senator, I think I can take that question. There is a strong belief that the bank should be privatized and starting back in 1996, an effort was started to do that, and this is just a continuation of that process, supported by our board of directors on the bank board, and we think this is the way to go with this program.

Senator DORGAN. You think the investment is necessary for rural America, you just think it ought not be a public investment, it ought to be a private investment?

Mr. NERUDA. Right, on this particular program, yes, sir.

Senator DORGAN. Well, we have disagreement about that, as you know. I don't believe Congress agrees with you, and I certainly do not.

Let me ask a couple questions about the \$53 million cut of Congressionally-dedicated projects from the ARS account. Of particular concern to me are the cuts for the National Wheat and Barley Scab Initiative and the National Sclerotinia Initiative, which is of great importance to sunflowers and other commodities. We have had very substantial success with these investments. In North Dakota, for example, our farmers have lost financially about \$2.6 billion to scab disease, and the investment that we have made in this research has been very productive, I might say. Can you tell me your vision for this sort of thing? I understand you might have just zeroed it off because the Congress said it wanted it, but you do not think it is unworthy to have this kind of investment in scab research, do you?

Dr. JEN. Senator, I will try to answer that question. I think there are so many research programs USDA is carrying out. The Administration, I think for years, has favored a competitive grant program over specific projects. But from the program point of view and my Agency's point of view, I think all the programs, all the research, is worthwhile. We just don't have enough money to do it.

Specific to your point, those programs that you are talking about are absolutely worthwhile doing. It's just in the budget process, the Administration had to choose some. I want to also say that some of them are covered in the request for increase in National Research Initiative so these programs can be done on a competitive basis and probably done even better.

Senator DORGAN. Well, is there a basis for suggesting that something can be done better with respect to scab research? In other words, are you suggesting that what has been done has not been done in the most effective way?

Dr. JEN. No, sir. I think what has been done has been done very very well. It's just that it is the Administration's belief that if a research program is open to all the research community to compete, we can have the best minds of the country to work on those programs.

Senator DORGAN. As you know with respect to scab research, we had a consortium throughout the country that was doing work on that, and they had great great success, and it pains me to see a recommendation of reduced funding for that. Is this just a lower

priority and cannot be fully funded with the amount of money that is available?

Dr. JEN. No, sir, I didn't say that. I didn't say it was a low priority. I believe that many of these researchers will submit proposals through our competitive program and carry it out. The group of people that you talked about, came to see me some time ago, and we realized the importance of the research project. I think there will be some way that those will be carried out.

Lastly, I would want to say on my Agency's behalf that I think the other four agencies doing the research within the mission area have always very diligently carried out whatever the final budget provisions that the Congress has appropriated are, and we will do so again.

Senator DORGAN. But, let me just pursue that a bit more, because the Congress, we say here is the way we would like to do this, and by all accounts it has been highly effective, and I am now talking about the consortium dealing with scab research, but by all accounts it has been effective. And what you are saying is let us reduce funding, even though you are not suggesting that what has been done is ineffective?

I thought I heard you suggest the reason that you threw out the ear marks \$53 million for plant science research at ARS is that we did not have enough money.

Dr. JEN. That is not what I said either. I said we didn't have enough money to do all the research and we are being put in a situation to really make choices supporting the many different programs that we have.

Senator DORGAN. Well, if we do not continue the scab research at a robust level, and others that we have had underway with a consortium of many universities, that have yielded enormous successes, including the seed variety called Alsen, how will it be done another way, or will we just discontinue that research? I think I heard you say it will somehow be done in some other way. How will that happen?

Dr. JEN. Well, one of the ways that it can possibly happen is the researchers that are doing it will submit proposals in the competitive grant programs, and they will receive fundings through that process to continue the research.

Senator DORGAN. Although I appreciate the answer, I would observe that I think that when you have something that works quite well, something that the Congress, Republicans and Democrats from a number of States have said let us invest in this, and the result of that investment has been quite extraordinary, I do not think it is wise to not fully support the program. That is something that the Congress will decide upon, but let me ask one additional question.

#### INTERNATIONAL FOOD ASSISTANCE

The budget request with respect to the annual purchases of \$500 to \$700 million in commodities under the CCC and Food for Progress programs, the budget asks for an increase in Food for Peace programs of \$350 million. This increase of course comes at the expense of some other things, one of which I just discussed. I think international food aid is very important, and I think the \$350

million is significant and important. But the commodities that were made available previously under the CCC and the Food for Progress program are also important, and I wonder if you can tell me the rationale for ending the annual purchase of the commodities under those two programs. The PBO stated, this claim will actually bring down the U.S. provision from 5 million tons to no more than 3.5 million tons, and I wonder if you could just give me your evaluation of that.

Dr. PENN. Senator, I explained a little earlier the rationale that went into the evaluation of the whole foreign food systems sector. As you note, the decisions were taken to modify the overall effort somewhat, to try to reduce the number of programs that are utilized to distribute funding among the various sources and to shift responsibilities between USDA and USAID.

I don't think there's any change in the commodity mix that has been programmed under the food assistance programs, I think that is going to continue to be the same. It in large part depends on the dietary habits of the receiving countries and the kind of foods that they want and can utilize. So I don't think there is any change in the commodity distribution at this stage at all.

Senator DORGAN. I understand Senator Kohl asked you a similar question. I was at another committee and missed that, so let me submit a question for you.

Dr. PENN. We will be happy to respond.

Senator DORGAN. Mr. Chairman, that is all I have.

Senator KOHL. Thank you, Senator Dorgan. Senator Stevens.

Senator STEVENS. Thank you, Mr. Chairman.

Secretary Neruda, in most areas of America that you all are familiar with, the cost per kilowatt hour is about 8 to 9 cents. In Alaska, our rural communities pay as much as 45 cents per kilowatt hour, 500 percent above what the rest of the country pays. To improve energy efficiency for rural power generation, the Senate at my request added \$30 million to the Rural Development Administration's budget. And I was little alarmed to hear that the General Counsel's office indicated there may be a problem because of a legal technicality, even though the funds were used in the previous years under the same authorization.

When I became Solicitor General Counsel at Interior, the General Counsel of Defense then, Mr. Deere, told me the story of President Roosevelt. During World War II, he got a resolution from Congress forbidding the United States from giving or selling military supplies to our allies to get around it he developed the lend-lease concept. The Secretary of the Navy told him that his general counsel indicated the lend lease program technically violated the resolution, and he was not sure he had the authority to proceed. Mr. Deere told me that the President told the Secretary of the Navy to go back to the Department, go through his legal department, and as soon as he found a lawyer that understood the problem and said that the technicality did not exist, he was the new General Counsel.

I hope that does not have to happen to your general counsel. Can you tell me what that status is of this appropriation? Will you release the funds? The construction needs to be started, and if that

money is not released almost immediately, it will not be available for this summer in construction season in Alaska.

Mr. NERUDA. Senator, I certainly appreciate the concern regarding Alaskan kilowatt hour cost, and I also understand that technicality issues when we work with our general counsel, having worked on a number of issues recently on technicalities. But I am pleased to report that our Office of General Counsel has worked out the problems on that issue and I have directed our budget office to transfer those.

Senator STEVENS. That is good news. He may have his job for a little while.

Mr. NERUDA. As will I.

Senator STEVENS. In the broadband grant program, again, I requested the Senate to increase funds for a public facilities program for areas of extremely high unemployment. This was the first time authorization to use a portion of those funds to deploy high-speed Internet. Most people do not know, many places in my State do not even have roads. You work with people who sit on dirt roads, and we work with people without any roads. And we work with people who do not even have dial up access, let alone high speed access.

I know your people are working diligently on the regulations for that program, but again, the regulations and the process are holding up the distribution of that money. Can you tell us when those rules might be finalized so that money could be released to carry out that program?

Mr. NERUDA. Yes, sir, Senator. Because of some language changes from last year when we divided up many issues trying to get that money out, we have been able to effectuate that change so that it can now go to a State agency, and that will allow this to proceed. And if I could work with your staff to continue with this process, I think we can come to a good conclusion on that.

Senator STEVENS. Dr. Penn, we authorized a program of salmon crop insurance and as you know, the salmon industry is in a period of real deep crisis. As a matter of fact, I do not think most people realize, but very soon if we are not careful, Americans will be buying only Chilean salmon, Chinese whitefish, and all our fishermen and boats will be stranded on the shore because we just cannot meet the costs of their production.

Those imports also are coming in from Norway. The salmon insurance program is critical to allow our people to come through periods of shortage of the natural supply as farmers face. The farm insurance program has worked very well for farmers. I do not know any reason why it will not work for salmon fishermen. When they have a crisis periodically of loss of supply caused by natural causes, predators in the sea, or whatever it might be, then they really have to start over again, and they cannot compete with foreign producers if they have to absorb the cost of such natural losses which would be borne in the farm community by the insurance program. I hope that you are going to be able to get that program running. Could you give us a report on it?

Dr. PENN. Yes, sir, I can. The Risk Management Agency staff and the staff at the University of Alaska-Fairbanks have explored this problem to some considerable degree, I understand—the problem of trying to develop an actuarially sound insurance program for

wild salmon. And the staff, I know, have been in contact with your staff, keeping them apprised of the problems. Unfortunately, the inherent nature of wild salmon just doesn't lend itself very well to an insurance program, and I don't think we are going to be able to develop an insurance program that we can offer in an actuarially sound manner the way that we have actuarially sound programs for crops and other livestock.

However, in the course of doing this evaluation, we did discover some of the problems that your industry faces, and I think we have identified some possible marketing opportunities that we could develop with you. We do have some money remaining in that project, I am told, so we would be more than happy to try to work out some way to utilize those funds to explore some of the problems that have been identified and see if we can help with boosting prices and help the overall problem with the industry.

Senator STEVENS. I am sad to hear that. I am reminded of the time I went to the Commodity Exchange in Chicago to talk about the problem of not having futures in fish, and they reported back it was not possible. They now have futures in foreign imports of fish, but they do not have any futures on fresh fish. I really think that the ingenuity of your Department and of our economic system ought to be able to face up to that. Should we face the problem that because of the futures and the financing and the disasters, that the fresh food market will go away, and we will be entirely dependent upon frozen farm-raised fish?

I think your people have a duty in that to help us find some solutions for this industry. And it is not just Alaska, it is New England, California, the Gulf. Half of the people in my State that have any income derive a substantial portion of that income from fishing and we face the grave possibility of seeing by the end of this decade, the fishing industry disappear from North America.

Now if it does, very frankly, your Department is going to bear the responsibility, in my opinion, because you have always just ignored fish as being a food. It is fresh fish that we should market—I am going to try to get the Secretary to help us call a national conference on fish. We ought to absorb the fresh food market of the world using the best fish in the world, and that is naturally harvested fish.

Believe me, New England is dead, the Gulf is ready to die, Alaska is hanging around just by a thread, except for one fishery, the natural pollock. The pollock is healthy and will continue to be brought into our markets. But again, that is a tough one.

But as I say that, let me also add that we now have a surplus of canned pink salmon because of the enormous influx of fish from Chile. And I apologize for taking too long, Mr. Chairman, but this is very serious to me. Just as an aside, I hope you notice that the imports from Chile, 43 percent of the yearly imports came in during the time when the fresh salmon hit the market last summer. Now if that is not dumping, I do not know what is. And not one of your people noticed that at all, not one.

And we now have an overhang on the market for this year of the canned, pink salmon that is already there. You are purchasing some of it for the school lunch program, but what about this international feeding program? Could we buy some of that salmon to

ship out in the international feeding program? If it stays, the price of pinks will be so low that that market will collapse this year also.

So I would urge you, I am not asking for your commitment, I would urge you to consider adding the surplus canned pink salmon to the international feeding program if at all possible. By the way, it is primarily in the State of Washington and Alaska that are suffering jointly on that one.

Secretary Rey, I have a problem also in your area. What is the status of the efforts to get the OMB to release the money for the fire program? Mr. Chairman, Senator Cochran, understand this. South central Alaska, running about 245 miles from Homer to Wasilla, have suffered bark beetle kill. We tried under the last Administration to get authority to cut down those trees or at least treat them and were not able to do that. About 60 percent of that forest in the area is owned by the Federal Government.

We are told this will be one of the worst drought years in history. If a fire starts in that area with the northerly wind that comes up that spit, up the inlet, we will see the possible destruction of the entire south central Alaska, and that is really a very serious thing. I have tried to get us prepared for it, but somehow no one seems to understand the urgency. Can you tell me, Mr. Rey, if there is any chance at all of getting that money released?

Mr. REY. We are in the middle of discussions now with OMB and with your staff, and with the House Appropriations Committee staff, and I believe within the next couple days we will reach a conclusion on the release of at least a significant portion of that money.

Senator STEVENS. We have lost 35,000 acres already from a fire last year that we were lucky that it was stopped. It was stopped because it was on State land and the State moved in immediately with the help of the Forest Service, I might add, and we appreciate that, and they stopped that fire after it had destroyed 35,000 acres. We are talking about what, 2.5 million acres, 60 percent of it on Federal land.

Mr. REY. Right. It's on both the Chugach National Forest and the Kenai Wildlife Refuge. And one of the challenges that we face is that the magnitude of the infestation and die-back, as well as the limited markets available for the quality of the product that would result, makes it very difficult to do anything economic. We have focused a lot of attention in trying to reduce fuel hazard risks in the areas of wildland along the East Side Road going up from Homer.

Senator STEVENS. I know they are concentrating on wildlife, but I would point out to you, 50 percent of the population of Alaska stands in the path of that fire.

Mr. REY. That's right.

Senator STEVENS. And what helped stop that fire last year was a sudden rain. The good Lord helped us. If that starts and it funnels up that inlet, it will be a barren wasteland. I have never seen an area like this, and I do not understand that people will not let us go in and selectively cut at least fire breaks in there. Do you know there is not a fire break in the way of that fire? Not one.

Mr. REY. I have been to the area and I have seen that. My fire review sheets indicate that situation truly exists.

Senator STEVENS. Take a look. Again, I belabored this somewhat, Mr. Chairman, and I thank you for the time. Thank you, gentlemen. I would urge you to help us. We have the highest rate of unemployment—no, I guess we are not the highest now, very interestingly, because so many people left last year. They are not on our rolls anymore, they are down in California or somewhere where you can live on unemployment compensation, because you cannot live in Alaska on unemployment compensation. Thank you very much, Mr. Chairman.

Senator KOHL. Thank you very much, Senator Stevens.

#### DAIRY OPTIONS PILOT PROGRAM

Dr. Penn, Dr. Collins, the Dairy Options Pilot Program is about to expire. This affects dairy farmers in my State as well as other States, who need a reliable risk management tool to avoid the financial problems associated with widespread distress pertaining to production and price.

Gentlemen, could you describe your thoughts on how well the program has functioned, if it should be extended, expanded, or if it should be modified?

Dr. PENN. Mr. Chairman, let me respond initially and then Dr. Collins can respond as well. In the point of view of the Risk Management Agency, the dairy options pilot program has generated a considerable amount of interest, it has brought attention to the fact that the dairy industry can really use risk management tools, and we think in that regard, in helping producers manage their risks, that it has been a fair success. The use of that program has grown enormously from the first round in 1999, when it was available in 38 counties in 7 States, and there were a relatively small number of options that were involved. In the last round, I'm told it is now in 275 counties in 39 States, a large number of producers have been trained in the use of these options and a large number are now using these options.

We plan to do a formal evaluation of the program after this year, but based on the anecdotal evidence and the limited observations that we have, the program is working as intended, the program seems to be working well, and I would surmise that it will probably be extended to be made into a permanent program available to a much larger area, because I think it is one of the few that has shown real promise.

Senator KOHL. Thank you very much. Mr. Collins.

Mr. COLLINS. I agree with Dr. Penn that it would be helpful if dairy producers had more risk management tools available to them. Traditionally, about 85 percent or 90 percent of all the milk in the United States is marketed through cooperatives and the producers have not really been interested in price risk very often. In general, there haven't been many tools available, but one of the things that the dairy options program has done is helped increase the volume of contracts in dairy products, and so I think that has helped producers. It gives them an opportunity to use options markets even apart from the DOP program itself.

I think the other thing is, the DOP program over its life, which is I guess now 3 or 4 years old, has trained something on the order of 5,000 or 6,000 dairy producers on the use of options markets. We



have about 200,000 dairy producers in the Nation, so that's not a huge percentage, but it's beginning to penetrate that industry. And of course, when one producer gets trained, they talk to other producers, they are leaders in their community, and by word of mouth, that's affecting other producers beyond the 5,000 or 6,000 that have been trained. So I think I would look at the Dairy Options Pilot program as an educational benefit, and I'm awaiting this analysis that Dr. Penn's folks are doing, to see if they come up with more than that, but it strikes me as primarily an educational program and I view that as probably worth continuing at some scale.

I would point out that there have been other developments in the sector for mitigating price and revenue risks. For example, the Federal Crop Insurance Corporation has approved two pilot programs for revenue and price risk coverage for hogs. These are pilots, the first time there has been any insurance using price for hog producers, and it's not unthinkable that somewhere down the road, someone will be suggesting that the Federal Crop Insurance Corporation include some products for milk or dairy products, so I think that we're taking steps in that direction even apart from the Dairy Options Pilot Program.

Senator KOHL. Thank you very much, Mr. Collins. Senator Cochran, do you have anything further?

#### ADDITIONAL COMMITTEE QUESTIONS

Senator COCHRAN. Mr. Chairman, I do have some more questions, but I will submit them for the record. I thank the panel. They were very helpful to us this morning in addressing and discussing some of the concerns that we have, I appreciate their response to the questions that we have and hopefully they can provide answers in an expeditious way.

Senator KOHL. Thank you, Senator Cochran.

I do have one or two more questions I will submit for the record.

I have also been asked by Senator Byrd to submit three questions for the record on his behalf. One is on current drought conditions, one is on the elimination of flood prevention operations funding, and the third is in regard to rural community water supply in Berkley County, West Virginia.

[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 HERB KOHL

##### INTERNATIONAL HUMANITARIAN FOOD ASSISTANCE

*Question.* Secretary Penn, as I stated in the March 14, 2002 hearing with you the United States is a leader in the area of international humanitarian food assistance. In recent years, your authorities under 416(b) have been used to supplement food donations provided through the Public Law 480 programs. While I commended you on the increase in the Public Law 480 Title II program, this budget does not continue surplus purchases of commodities for donations through section 416(b) in fiscal year 2003.

I am sure you have seen some concerns issued in various media reports regarding the proposed decrease in food aid as a result of this budget and the possible impact to farmers and this country's long efforts to reduce hunger in the world. In the hearing, you made a reference that the assistance will almost be the same amount. Additionally, you stated that the United States contributes approximately 50 percent of

all world aid and the Administration was looking to other Nations to increase their participation.

What is the Administration's belief regarding this country's proper share and I assume from your comments it will be under the 50 percent mark you had mentioned previously and can you tell us the historical value (last 10 years) of U.S. donations under 416(b) and Public Law 480 in comparison with the combined total in the President's request for this budget.

Answer. In recent years, the United States share of global food donations has increased to over 60 percent, which is up from about 40 percent in 1995 (based on estimates from the Food Aid Convention). Although we do not have a specific target for the appropriate share of U.S. food aid, it is clear that other countries should be encouraged to increase their commitment toward meeting global food needs.

[Regarding the historical value of United States donations, the information follows:]

#### FOOD AID PROGRAMMING—COMMODITY COSTS—FISCAL YEAR 1992–2003

[In dollars]

Fiscal year	Public Law 480 title I <sup>1</sup>	Public Law 480 title II	Public Law 480 title III	Section 416(b)	Food for Progress <sup>2</sup>	Total
1992 .....	374,240.6	482,254.2	239,995.1	308,107.4	126,805.8	1,531,403.1
1993 .....	332,800.0	509,149.5	231,736.0	364,944.2	923,432.1	2,362,061.8
1994 .....	217,800.0	578,411.0	174,994.9	90,483.2	113,228.8	1,174,917.9
1995 .....	171,703.1	457,687.5	82,552.0	7,487.0	172,970.1	892,399.7
1996 .....	218,985.9	503,606.9	39,273.9	.....	107,682.9	869,549.6
1997 .....	152,708.6	413,090.5	28,101.2	.....	79,064.2	672,964.5
1998 .....	164,399.3	474,556.2	21,335.2	.....	126,713.3	787,004.0
1999 .....	420,367.2	496,336.1	13,698.8	869,030.1	306,859.6	2,106,291.8
2000 .....	156,751.9	470,526.9	.....	501,503.1	150,990.1	1,279,771.9
2001 .....	105,200.0	438,675.0	.....	629,989.6	107,110.8	1,280,975.4
2002 <sup>3</sup> .....	108,400.0	500,574.8	.....	303,346.0	109,257.9	1,021,578.7
2003 <sup>4</sup> .....	106,676.0	555,000.0	.....	49,600.0	25,000.0	736,276.0

<sup>1</sup> Public Law 480 Title I column includes concessional sales portion of Title I, and not Title I-funded Food for Progress.

<sup>2</sup> Food for Progress column includes Title I-funded and CCC-funded Food for Progress.

<sup>3</sup> Fiscal Year 2002 values represent estimates as of 4/10/02. Fiscal year 2002 Title II includes the commodity cost portion of carry-over (\$94.1 million) and supplemental funding (\$95 million) enacted in response to the September attacks.

<sup>4</sup> Fiscal year 2003 values are estimates submitted with fiscal year 2003 President's Budget Section 416(b) estimate is for non-fat dry milk (from CCC inventory).

**Question.** Does the Administration support the Global Food for Education program and do you intend to carry it out in fiscal year 2002 and 2003?

Answer. In fiscal year 2002, USDA is continuing to implement the Global Food for Education Initiative (GFEI) pilot program. We did not include funds in the Administration's fiscal year 2003 budget request pending the results of an evaluation of the GFEI pilot. A decision on whether to continue GFEI will depend to a considerable extent on the findings of the evaluation.

**Question.** Will you please provide this Committee a copy of the Administration's multi-agency review of food aid programs including who participated, the specific policy decisions that resulted from that review, and the rationale for those decisions?

Answer. The review was conducted jointly by the U.S. Department of Agriculture, U.S. Agency for International Development, Department of State, Department of Treasury, National Security Council, Office of Management and Budget, and Office of the U.S. Trade Representative.

[A summary of the conclusions of the food aid review follows:]

#### BUSH ADMINISTRATION FOOD AID REVIEW SUMMARY OF CONCLUSIONS

##### Background

Many conditions affecting overseas food aid have changed since the last Executive Branch, review of U.S. food aid programs in the 1970s. The Bush Administration first described the need for a review of food aid programs in the President's Blueprint for New Beginnings in February 2001. It expanded on this need and the plan for a review in the President's Management Agenda in August 2001.

From August to December 2001, the Administration held a series of meetings to review U.S. foreign food aid programs. All relevant U.S. Government agencies and offices participated in the review, including the U.S. Department of Agriculture (USDA), U.S. Agency for International Development (USAID), Department of State, Department of Treasury, Office of Management and Budget, and Office of the U.S.

Trade Representative. Staff of the National Security Council chaired the review. Although not directly part of the review, non-governmental organizations informed the work of U.S. government agencies and offices by initiating informal meetings during the period of the review.

The purpose of the review was to examine existing food aid programs with the objective of improving reliability, efficiency, and management. This paper summarizes the results of the food aid review.

#### *Objectives of Food Aid*

The food aid review concluded that the broad objective of U.S. food aid is to use the agricultural abundance of the United States to meet the U.S. government's humanitarian and foreign policy objectives related to the achievement of global food security. The United States will use food aid in a manner that enhances global agricultural trade and provides an appropriate U.S. contribution toward global food needs. Since the review determined that the primary function of food aid is to improve food security, U.S. food assistance programs should increasingly target the most food insecure populations. Food distribution is important in both emergencies and development programs for addressing the hunger of the people most in need of food. The Administration supports increased direct distribution and continues to support development programs.

#### *Background to Program Adjustments*

In 1998, faced with a sharp decline in commodity prices, USDA sought to support American farmers and feed hungry people in dire need by using its authority through Section 416(b) to dispose of surplus food procured by the Commodity Credit Corporation (CCC) under the Charter Act. This food was provided to the World Food Program (WFP), private voluntary organizations (PVOs), and foreign governments to distribute to needy people and to monetize. The increased use of the CCC Charter Act resulted in a significant increase in the amount of U.S. Government food aid and development programs beginning in 1999. While this produced benefits, it also led to unintended distortions, including those described in the President's Management Agenda.

#### *Specific Program Adjustments Resulting from the Review*

The Administration's food aid reform will shift most U.S. food donations from 416(b) to Public Law 480 Title II, and pursue a range of complementary initiatives. More specifically, the Administration plans to undertake the following measures:

*End most use of 416(b).*—The Administration will not use the CCC and 416(b) mandatory authority for humanitarian or development programs. The authority to use 416(b), however, will remain unchanged (i.e., the Administration will not request that the authority be eliminated). The small, traditional 416(b) programs administered by USDA, based on actual CCC inventories, will continue.

*Increase requests for Title II.*—The Administration has requested a \$335 million increase in appropriated Title II food (which is used for humanitarian and development purposes) in light of ending the use of 416(b) for such objectives.

*Undertake a careful transition.*—The Administration views fiscal year 2002 as a transition year for the shift from 416(b) to Title II. It is expected that up to \$400 million of food aid will be provided in fiscal year 2002 using 416(b) authority.

*Increase reliance on the Emerson Trust.*—For future cases in which there is an increased need for emergency food aid, the Administration will use the Bill Emerson Trust. The Administration percent will review the procedures for use of the Trust to ensure its flexibility and responsiveness, and request that Congress make any required legislative changes.

*Focus official food aid.*—The Administration will fund Food for Progress government-to-government food aid through its Title I authority, and allow Title III to remain inactive. USDA will continue to refine the operation of Food for Progress.

No legislative changes are required to implement any of these measures.

#### *Impact of Adjustments*

These program adjustments are expected to have many beneficial effects.

—*Greater focus on direct feeding of needy people.*—During the 1990s, a large percentage of 416(b) funding was monetized by recipient governments and PVOs. The food was sold to traders to sell to people, almost always below the cost to the U.S. government of procuring and shipping the commodities. This resulted in total development assistance being less than the cash expended by the U.S. government on the food. The new shift away from 416(b) to Title II will increase the amount of food under Title II that is available for emergencies and can be used for direct feeding of hungry people. The Administration also plans to increase development assistance to make up for part of the decrease in develop-

ment programs from monetized food aid. Based on these shifts, U.S. food aid will focus more on direct distribution to needy people, and U.S. development funding on development programs (avoiding the loss through monetization). To help ensure that the direct distribution reaches the most needy recipients, U.S. agencies will consult with other major bilateral donors and the relevant multi-lateral organizations.

- Increased food aid reliability.*—Funding levels for 416(b) depended on the changing estimates of crop surpluses, while levels for Title II are pre-determined by Congress. Shifting from 416(b) to Title II allows the government and aid agencies to know how much food aid will be available, making it easier to plan programs.
- Improved flexibility.*—The use of the Bill Emerson Trust (especially with improved procedures, if required) and the continued existence of 416(b) authority provide the means to respond to either greater emergency food needs or large U.S. surpluses.
- Better agency specialization.*—USAID will administer most PVO and WFP programs as a result of the shift from 416(b) (which USDA administers) to Title II (which USAID administers). USDA will administer all government-to-government programs as a result of the Administration funding Food for Progress programs through Title I (administered by USDA) instead of Title III (administered by USAID). This consolidation will allow each agency to specialize and reduce the need to have duplicative capabilities. The Administration will continue to refine this specialization and collaboration in order to utilize the expertise of both agencies.
- Increased budget clarity.*—Funding for 416(b) is not subject to the Federal budget appropriations process (i.e., it is a “mandatory” program), but levels for Title 17 are appropriated annually by Congress (i.e., it is a “discretionary” program). Shifting from 416(b) to Title II increases transparency in the budget management process, allowing Administration officials and lawmakers to better maintain priorities and performance. Using the Emerson Trust for unforeseen emergencies also increases accountability because the Trust must be replenished by appropriations each year it is used.
- Ensured appropriate use of 416(b).*—The sudden, sharp threat to farm income in 1998 that precipitated the use of the CCC and 416(b), before Congress began to provide direct supplementary income assistance for farmers, is no longer present. The current mandatory funding and purchase of wheat, the main donation crop, is harder to justify as the conditions that led to the original purchases have changed. CCC will not be used as a regular program to purchase commodities for 416(b) to “dispose” overseas, and 416(b) authority will be used to donate the smaller amounts of commodities in CCC inventory.

#### *Next Steps*

Over the next several months, the Administration will work with Congress on appropriations and any legislative implications of the current reform proposals. To complement the current reforms outlined above, the Administration is examining several other initiatives.

*Streamline cargo preference funding.*—The Administration will propose legislation to eliminate reimbursements by the Maritime Administration to other agencies for part of cargo preference costs. This will end time-consuming intra-governmental transfers.

*Expand Section 202(e) authority.*—The Administration will propose legislation to allow USAID to make administrative payments for WFP previously made through the State Department’s International Organizations and Programs account. This will eliminate duplication, and encourage more accountability in WFP finances.

Over the next year the Administration will continue to refine its reforms, and to review existing programs, legislation and procedures in order to improve the effectiveness and efficiency of U.S. food aid.

*Question.* In the hearing you mentioned an increased number of non-fat dry milk that was more than the 800 million pounds reported earlier. Additionally, I was delighted for your positive remarks of your efforts to reduce this surplus. What are your short and long-term plans to bring this large surplus down?

*Answer.* In terms of our international food aid programs for fiscal year 2002, Section 416(b) planned programming approved as of April 10, 2002, includes funding for approximately 6,800 metric tons of non-fat dry milk exports. In addition, a USDA proposal is pending and approval is expected in the near future, which would provide funding for another 43,600 metric tons of non-fat dry milk exports under Section 416(b). In fiscal year 2003, it is projected that non-fat dry milk from Commodity Credit Corporation (CCC) inventory will continue to be available for pro-

gramming under Section 416(b) authority. The exact volume to be programmed in fiscal year 2003 will depend on commodity availability and viable proposals for donations.

In addition to Section 416(b), approximately 6,500 metric tons of non-fat dry milk will be donated under the fiscal year 2002 Food for Progress program.

*Question.* What is the reaction of this cut from foreign governments, particularly from ones of the greatest need?

*Answer.* In fiscal year 2001, the World Food Program (WFP) was the largest recipient of Section 416(b), receiving about half of the total. During the recent annual bilateral meeting between the WFP and the United States, the WFP stated that in their view the overall change in U.S. food aid policy, especially the end of Section 416(b), will reduce the number of the hungry WFP will be able to feed from 83 million in 2001 to 53 million in 2003.

#### BARRIERS TO U.S. AGRICULTURAL EXPORTS

*Question.* Secretary Penn, when Secretary Veneman appeared before this subcommittee last month, we discussed the problems with trade barriers China intends to enforce regarding agricultural commodities produced through biotechnology. Since then, a reprieve has been granted which is allowing, for the moment, U.S. shipments to continue. However, that remedy is only temporary. Now, we hear from the Russians that U.S. poultry shipments are being banned for reasons including food safety.

Can you give us an update on these two specific problems regarding United States access to major foreign markets?

*Answer.* As part of the interim implementation process for China's new biotechnology regulations process, all of the technology companies with commercial biotech products in the United States have intentions to apply for a safety certificate for these products. Monsanto has made their application for Roundup Ready Soybeans, the only biotech soybean variety commercially produced in the United States. This application has now been accepted by China's Ministry of Agriculture (MOA). Also, part of the interim process involves the ability of companies to apply for an interim safety certificate from MOA in China. In order to apply for the interim safety certificate, a company needs to: (1) show that an application has been made for a "permanent" safety certificate and (2) the application for the interim safety certificate has to be accompanied by an official document from the exporting country—or a third country—that the product has completed the regulation review process in that country. USDA/GIPSA has issued such a document for biotech soybeans, corn, canola, and cotton commercially produced in the United States. Although the implementation of the interim process is currently very fluid, it appears that MOA is now beginning to accept applications for the interim safety certificates. The interim measure will expire on December 20, 2002. The situation will need to be continually monitored.

With respect to the Russian ban on U.S. poultry, we believe the ban was an inappropriate response to the concerns that Russia has expressed, and the issue continues to draw the attention of President Bush, Secretary Veneman, and other senior U.S. officials. The reasons given for the ban, including unquantified findings of salmonella bacteria and irregularities in selected export certificates, had not been previously raised with the United States. Throughout our extensive discussions with Russia, we have been provided no evidence of any health threat to United States or Russian consumers. Nevertheless, because the Russian market is important to U.S. poultry producers and because USDA takes health and safety issues very seriously, we will continue negotiations on a formal protocol to reassure the Russian government and Russian consumers of the safety of our poultry.

*Question.* How can we continue to tell our farmers that trade liberalization is the answer to problems of farm income when it seems that for every trade barrier we knock down, two take its place?

*Answer.* Trade is crucial to the health and prosperity of U.S. farmers and ranchers as about 25 percent of farm production is exported each year. Over the past decade, we have made great strides to lower trade barriers and reduce subsidized competition for U.S. agricultural exports. During the current World Trade Organization (WTO) agriculture negotiations, we will continue the reform process by improving market access opportunities for U.S. products and reducing high subsidies that distort international markets. In addition, we will continue to pursue bilateral and regional free trade agreements that are in the interest of the United States. We will also work bilaterally with countries to resolve any trade problems.

Finally, it appears true that as more markets are opened, more trade problems arise. As we open markets, we must expect problems to arise and be prepared to

address them. We should not, however, shy away from working to open markets because it might trigger some problems on a small portion of the trade opportunities that are generated.

*Question.* In regard to trade barriers, some commodities are significantly affected and others are not. Today, the pressure seems to be on poultry products, soybeans and corn. Tomorrow it may be fresh fruits and vegetables.

Would you comment on whether or not you feel that trade barriers, as they exist now and in the foreseeable future, do pick winners and losers among U.S. producers and if they do, what steps can USDA or the Congress do to equal the playing field here at home?

*Answer.* Countries that erect trade barriers are usually protecting a domestic interest. Because the United States has a highly productive and efficient agricultural sector and is the world's largest trading partner, it appears that countries are purposefully targeting U.S. products. USDA will continue to work to address these trade barriers against U.S. products for the overall benefit of U.S. agriculture.

#### RURAL HOUSING AND FARM CREDIT SHIFT FROM DIRECT TO GUARANTEED LENDING

*Question.* The Department's fiscal year 2003 budget reflects a shift from direct to guaranteed lending in the housing and farm loans. These programs also experience some of the largest backlogs in your mission areas, including in my home State of Wisconsin. I understand some of this is attributed to questionable increases in loan subsidies. In the real world outside the beltway, the program levels have gone down. When you devised the budget and allocated the resources, you were aware of the impact to these vital programs that serve less affluent borrowers, including proportionally larger numbers of minorities including women.

In your testimony, the Bush Administration indicates that you have provided increased budget authority for these programs to support the notion that is not a cut.

Is the Department concerned about the diminishing resources to assist these constituents, who have limited resources, and represent a higher percentage of minorities than the population served by the guaranteed programs and if so, how do you propose to address these unmet needs?

*Answer.* We are concerned about our ability to assist minority and beginning farmers with farm credit. However, it is the increasing program costs and resulting increase in budget resources, not the reduction of resources, that is at issue. The 2003 budget will actually use approximately \$56 million more in budget outlays for the direct operating and ownership loan programs. Unfortunately, because of increasing costs, the available program levels actually decline slightly even though the budget authority would increase. We do not believe that the increases in loan subsidy rates are questionable. The cost estimates are based upon valid accounting data and the same economic assumptions that support the rest of the President's Budget. The primary basis for the rates increasing is that the Agency is making aggressive use of loan servicing provisions. These provisions alter the cash flow stream and result in higher program costs.

Guaranteed loans are a more cost-effective method of assistance. By maximizing the use of guaranteed loans, the limited amounts of direct loan funds are available to applicants who truly have nowhere else to turn. We have been successful in increasing the use of guaranteed loans to reach minority and beginning farmers. So far in fiscal year 2002, guaranteed operating and ownership assistance to beginning farmers has increased 21 and 35 percent, respectively over last year. Guaranteed assistance to minority farmers has increased by 30 percent over last year. We believe that the approach set forth in the President's budget makes the best use of the available resources.

The Administration remains dedicated to providing affordable housing assistance to rural Americans. By leveraging our direct Section 502 funding with outside sources such as affordable housing grants, and our sweat equity (Self-Help) program, we expect to continue helping the neediest applicants, which include minorities and women.

Although the Section 502 housing direct loan program level for 2003 is less than 2002, the Administration requested additional budget authority to keep the direct loan program level at nearly 90 percent of last year's level. The Administration remains committed to serving the neediest constituents at a time when difficult budget choices must be made.

*Question.* These programs, the guaranteed and direct, were designed by Congress to compliment one another, not replace. Is it your belief that these guaranteed programs will serve these constituents that have been historically served by the direct programs?

Answer. The farm loan guaranteed program cannot replace the direct program, and as previously stated, the budget devotes an additional \$56 million in budgetary resources to keep the direct program levels fairly close to the 2002 levels. It is critical to use guaranteed loans to the maximum extent possible to preserve direct funds for applicants who have no alternative to direct financing.

We do not believe that the guarantee Rural Rental Housing program will serve the same population that has historically been served by the direct program. However, we do believe that the guaranteed and direct Single Family Housing programs complement one another. The guaranteed program serves primarily moderate income rural families, while the direct program focuses on serving low and very-low income applicants. Guaranteed loans are made by lenders at market interest rates and involve no interest subsidy, while direct loans are made by the Agency, and the interest rate for a given loan can be subsidized at a level that is based on a borrower's income. While approximately 30 percent of all guaranteed loans made do go to low-income borrowers, the program was generally designed to serve a moderate income clientele. The guaranteed and direct programs each serve a unique niche for rural homebuyers.

*Question.* What steps will the Department take to effectively address under served individuals and communities with reduced and oversubscribed resources, and wouldn't your outreach efforts breed additional frustrations from within these target populations?

Answer. The proposed budget levels for farm loans will meet most or all of the loan demand, both direct and guaranteed, from targeted groups. In the past, the Agency has faced challenges in fully utilizing targeted funds, and the increased utilization this year is the result of successful outreach efforts. It can be frustrating for those who apply for and must wait for funds, but it is certainly more frustrating for someone who wants to start farming or buy a farm and does not know there is a program that can help, even if they do have to wait for funds.

Each year our Rural Development State offices determine which areas and populations are underserved and most needy and focus outreach efforts on those areas. We do not believe that these efforts create frustrations in our borrowers. Several of our programs have eligibility requirements and other statutory and regulatory provisions to ensure that they serve those most in need of assistance. Our outreach efforts complement that purpose. There are set-asides for some communities, such as Empowerment Zones and Enterprise Communities, and tribal colleges, which further ensure that those funds go to the poorest rural communities.

*Question.* What populations and geographic areas are you targeting for assistance?

Answer. Funds are targeted to Empowerment Zones, Enterprise Communities, Rural Economic Area Partnerships; tribal colleges; and communities with extreme unemployment and severe economic depression. Funds will also be available through the Rural Community Development Initiative to develop the capacity and ability of private, nonprofit, community-based housing and community development organizations serving low-income rural communities to undertake projects to improve housing, community facilities, and community and economic development projects in rural areas.

Single Family Housing direct loan programs are targeted in rural areas to serve very-low, low, and moderate income families. We specifically target underserved counties and Colonias, Empowerment Zones and Enterprise Communities, Rural Economic Area Partnership communities and Indian Country. Five percent of our funds are set-aside for the "100 Underserved Areas and Colonias". These are counties with high rates of poverty and substandard housing that have not received a proportionate share of funding over the previous 5 years.

*Question.* Dr. Penn, your testimony is filled with information targeting socially disadvantaged, limited resource and beginning farmers. Then I read you will reduce the direct farm ownership by \$47 million to \$100 million. So what you are saying is the need is great and outreach efforts are important but we will not provide the proper resources to do the job?

Answer. It is unfortunate that there will be a reduction in the direct farm ownership program level in spite of an additional \$7.7 million in budget authority in this program. However, every budget decision is a difficult choice, and we remain convinced that the proposed budget makes the most effective use of limited resources. The increase in direct farm ownership budget authority is greater than the total budget authority for guaranteed ownership. Although direct loans are essential for those that need them, many farmers need loan guarantees to stay in or start in business, and diverting most or all of those resources to the direct loan programs would only reduce the total number of people that FSA can help.

*Question.* What is the backlog of requests for this program and how do you justify this reduction?

*Answer.* There is currently a backlog of unfunded approved direct farm ownership loans of \$32 million. A significant portion of these applications will be funded in May as a result of a pooling and redistribution of unused loan funds. In addition, the transfer of unused guaranteed operating loan funds to the direct farm ownership loan program, which is statutorily required to be accomplished in August and September of fiscal year 2002, will also satisfy a portion of approved loans awaiting obligation.

*Question.* Mr. Neruda, The USDA Single Family homeownership program with a backlog of over \$5 billion has dropped by over \$120 million. The Multi-Family housing program was decreased by approximately 50 percent and has stopped all new construction for the first time in over 40 years. The Rural Housing Service testimony cites studies that outline a large and continuous unmet need in rural America.

I see increases in the President's request for homeownership programs at HUD. Then I compare what this Committee provided in fiscal year 1994, \$665 million in budget authority for these two critical USDA housing programs and I now look at this request of under \$200 million.

These facts indicate that limited resource farmers and low-income residents and families are not on the President's agenda. Please explain why the Administration has chosen this policy.

*Answer.* This Administration is committed to improving the lives of rural residents, and most particularly, low-income rural residents and families. The President is requesting a program level of almost \$11 billion in Rural Development programs, the bulk of which directly benefits low and very low-income individuals and families. The Single Family Housing direct program would be funded at nearly \$1 billion, which will enable 23,000 low-income families to become homeowners. The budget authority supporting the Single Family housing request is over 30 percent higher than the fiscal year 2002 appropriated level. Higher subsidy rates, however, resulted in a lower program level. The Very Low-income Housing Repair loan and grant request is up over fiscal year 2002 levels, along with Rental Assistance and Farm Labor Housing loan and grant requests. In total, the budget authority requested to support Rural Development programs for fiscal year 2003 is only slightly lower than the fiscal year 2002 appropriated level.

The budget fulfills commitments to focus on housing, infrastructure, and other economic assistance to rural communities. The Department of Agriculture provides subsidized, means-tested loans and loan guarantees to individuals for homes, and makes subsidized financing available to developers who offer housing to elderly, disabled, migrant farm workers, or low-income rural residents of multi-unit housing buildings. All the programs are limited to areas with populations of 25,000 or less.

In fiscal year 2003, the direct and guaranteed Single Family Housing program will fund \$3.7 billion in loans and loan guarantees. This means that 51,000 low to moderate income rural families will have new opportunities for homeownership.

#### COSTS OF CARRYING OUT THE NEW FARM BILL

*Question.* Secretaries Penn, Rey and Neruda, your statements acknowledge that the new farm bill will involve increased workload requirements, that are continuing to assess what those needs may be, and that you will provide us updated estimates.

Secretary Penn, in the event those estimates reveal a substantial shortfall in fiscal year 2003 funding, does the administration plan to submit a supplemental request to this subcommittee, and if not, how do you intend to proceed? What type of programs would you choose not to administer?

*Answer.* We are attempting to estimate the workload requirements for the new farm bill, but would not know the magnitude until the final provisions of the bill are clarified. There may be some areas where the provisions of the bill may permit use of some of the funding authorized by the bill to address certain workload requirements such as technical assistance for conservation programs. In addition, the bill authorizes the use of approved third parties to carry out the technical assistance activities need by producers. Many of the new programs are mandatory and we will not have the luxury of not implementing those programs. Any activities which are not mandatory or urgent and items which could be postponed would be examined as we determine how to allocate available resources. Frankly, it is difficult to speculate what the final requirements may be and what the Administration's approach will be. However, it appears that there will likely be shortfalls in available resources. I am sure we will make every effort to maximize the use of all available



resources before any supplemental request would be considered. We will keep the subcommittee informed when the situation becomes clear.

*Question.* Secretary Rey and Secretary Neruda, there are new programs in pending versions of the farm bill that affect your mission areas as well. Would you please respond to this matter and Secretary Rey, would you specifically address the issue of the Section 11 cap which has restricted conservation technical assistance for the past several years?

*Answer.* The Natural Resources Conservation Service has developed an analytical model that will project the technical assistance cost of programs. The model uses the NRCS workload analyses, timekeeping information, and other program information to projects staff year needs based on the amount of time needed to complete task associated with different programs. The model is designed to easily accommodate changes in policy, procedures funding, and participation levels and will provide NRCS leadership with projected staff year and technical assistance costs needed to implement programs. We have used the model to project costs using information available from the House and Senate bills, however, the figures will continue to change due to the changes in Farm Bill language and as NRCS policies and procedures for the programs are finalized.

Enactment of the Federal Agriculture Improvement and Reform Act of 1996 (the 1996 Act), limited the total dollar amount of Commodity Credit Corporation (CCC) funds made available for fund transfers and allotments to all Federal agencies. The 1996 Act amended section 11 of the Commodity Credit Corporation Charter Act (15 U.S.C. 714), by adding the following language: "After September 30, 1996, the total amount of all allotments and fund transfers from the Corporation under this section (including allotments and transfers for automated data processing or information resource management activities) for a fiscal year may not exceed the total amount of the allotments and transfers made under this section in fiscal year 1995". Under the 1996 Act, Subtitle E—Administration, section 161, reimbursable agreements, funding made available for technical assistance was limited, and held at the 1995 CCC spending level of approximately \$35 million annually. Subsequently in fiscal year 2001 the section 11 cap was increased to approximately \$56 million. In its deliberations on the 2002 farm bill, the Congress is considering ways of remedying the problem caused by the Section 11 cap on NRCS' ability to provide the needed technical assistance to adequately carry out the CRP and WRP.

#### CROP INSURANCE UNDERWRITING GAIN

*Question.* Secretary Penn, the President's budget request includes a new general provision that would impose a cap of 12.5 percent on underwriting gains realized by crop insurance companies as a condition of a Standard Reinsurance Agreement. The rationale for this change is to avoid windfall profits that may occur due to the increased demand for crop insurance, for which premiums are subsidized by the government.

When would savings resulting from this provision first be realized?

*Answer.* That depends on the assumptions that are made about when the reinsured companies actually receive underwriting gains. It is our understanding that the Congressional Budget Office has scored the proposal as having essentially no first year outlay savings because it assumes that the outlay savings will be delayed until the following fiscal year. It is our position that the proposal has real potential for long term savings of about \$115 million annually. The President's Budget assumes that these savings will begin in fiscal year 2003 and savings in obligations are expected in fiscal year 2003.

*Question.* Please explain what effect this provision will have on the availability of crop insurance to producers?

*Answer.* Producers will not be affected by this proposal. There would be no change in the premium paid by producers or the coverage they receive.

*Question.* What is the likelihood that this provision will force certain crop insurance firms out of business or impair the availability of new crop insurance products?

*Answer.* It is questionable that this provision will force certain crop insurance firms out of business, as it is anticipated that the crop insurance companies will reduce their retained risk to correspond with the reduced underwriting gain potential, maintaining a balance between risk and return. The Agricultural Risk Protection Act of 2000 provides for the reimbursement of development and maintenance costs on products approved by the FCIC Board of Directors for reinsurance, and if applicable, offered for sale to producers.

## TAX-EXEMPT FINANCING, RURAL HOUSING SERVICE/RURAL UTILITIES SERVICE

*Question.* The Guaranteed Community Facilities program and the Guaranteed Water and Waste Program are currently prohibited by an OMB circular from using tax-exempt financing.

Wouldn't the use of a guarantee coupled with tax-exempt financing help rural municipalities with much lower interest rates and debt servicing?

*Answer.* The Guaranteed Community Facility and Guaranteed Water and Waste programs are prohibited from using tax-exempt financing by Section 149(b) of the U.S. Tax Code. The OMB Circular only replicates the law. That being said, the use of a guarantee coupled with tax-exempt financing would result in a lower interest rate and thus provide savings in debt repayment for rural municipalities and public entities that can issue tax-exempt debt.

*Question.* Has the Department conducted an analysis for the policy impacts of such a change?

*Answer.* We have conducted some preliminary analysis that indicates that the authority to guarantee tax-exempt debt would result in greater utilization of guaranteed loans and would reduce demand for the limited direct loan dollars.

*Question.* The RHS Section 538 program and several other Federal programs currently have this authority. Why is this not extended to the CF and WW programs?

*Answer.* Section 149(b) of the U.S. Tax Code specifies that any Federal guarantee is nullified if it is financed with tax-exempt bonds. The section goes on to list the exemptions to this rule. In general, all Federal housing programs are exempt along with a few other specific programs. The Community Facility (CF) and Water and Waste (W&W) loan guarantees do not fall under any of the exemptions. That is why Section 538 and several other Federal guarantee loan programs are using tax-exempt financing and CF and W&W are not.

*Question.* Wouldn't this change allow limited direct funds to be used in communities of greater need?

*Answer.* We have conducted some preliminary analysis that indicates that the authority to guarantee tax-exempt debt would result in greater utilization of guaranteed loans and would reduce demand for the limited direct loan dollars.

## CONGRESSIONAL SPENDING PRIORITIES

*Question.* Secretary Jen, the President's request eliminates items that were funded in the fiscal year 2001 and 2002 appropriations bills at the initiative of the Congress. These items, largely in the areas of research, have provided major contributions to the advancement of our understanding of the agricultural sciences and other important fields. Instead, USDA has continuingly preferred competitive research programs through which, I note, the University of Wisconsin performs very well. The position of this subcommittee has been that we need a balance of the two.

Do you not agree that research funded at the direction of the Congress has provided important contributions to agriculture, the environment, food safety, and many other areas?

*Answer.* Yes, research funded at the direction of Congress has made significant contributions, and we are committed to a balanced agricultural research funding portfolio. However, the Administration believes that peer-reviewed competitive programs that meet national needs are a much more effective use of taxpayer dollars than earmarks that are provided to a specific recipient. Competitive programs, such as the National Research Initiative (NRI) open to all the research community, provide the most effective mechanism for attracting the best minds in the Nation to conduct research in agriculture and food systems. Some broad aspects of many research topics currently addressed with earmarked projects may be included in the scope of the NRI program in 2003. Other topics may be addressed under other broader based, competitively-awarded Federal programs or programs supported with Federal and non-Federal funds administered by State-level scientific program managers.

*Question.* What performance standards does USDA use in awarding funds through competitive research programs?

*Answer.* Awards made under CSREES' competitive research programs are peer reviewed by panel members and/or ad hoc reviewers. Peer review panel members and ad hoc reviewers are selected based upon their training and experience in relevant scientific or technical fields taking into account certain factors—i.e., the level of formal scientific or technical education and other relevant experience of the individual, as well as the extent to which an individual is engaged in relevant research and other relevant activities. The panel and reviewers are provided with evaluation factors in order to rank and select projects to be recommended for funding. The evaluation factors may differ for each program depending on the program requirements.

The evaluation factors are published annually in the program's request for applications or guidelines.

*Question.* What safeguards are built into USDA competitive research grant programs that will ensure attention to specific problems that may not receive the attention of the major participants in agricultural research, who traditionally are more successful in securing competitive funds?

*Answer.* Success in securing competitive funds is dependent upon, among other things, the ability to address the specific problem being studied under the program and the ability to provide a research proposal that fully covers the criteria outlined in the request for applications. Each program has evaluation factors against which projects submitted are judged. These evaluation factors are published annually in the program's request for applications or program guidelines. Therefore, all applicants are aware of the criteria that will be used to select projects for funding. In addition, CSREES participates in stakeholder meetings, workshops, and conferences, in which our State partners have an opportunity to discuss the grant awards process. For example the NRI program conducts a major regional grant-writing workshop annually that is open to all United States institutions. At the workshop, NRI Program Directors are present and available for small group and one-on-one interactive discussions with potential applicants regarding the program.

#### INITIATIVE FOR FUTURE AGRICULTURE AND FOOD SYSTEMS

*Question.* Since the Administration favors competitive research programs as the most efficient means of securing the best research, why does the President's proposal recommend eliminating the Initiative for Future Agriculture and Food Systems program?

*Answer.* A provision of the fiscal year 2002 Agriculture Appropriations Act prohibits USDA from administering a 2002 competition for the Initiative for Future Agriculture and Food Systems program and the fiscal year 2003 budget request continues this policy. Since this program was not funded by Congress in fiscal year 2002, the savings were used to fund discretionary programs.

When Congress permitted implementation of this competitive program in fiscal years 2000 and 2001, it fulfilled a valuable role in supporting integrated research, education, and extension activities that met the needs of the agricultural community. The Administration continues to favor competitively awarded grant programs. We stand ready to administer any program that Congress directs us to implement.

#### SECTION 515 MULTI-FAMILY HOUSING

*Question.* The President's fiscal year 2003 request proposes to eliminate all new construction for the Section 515 Multi Family Housing program. All funding will go towards rehabilitation and equity loan needs. I also understand the proposal would use approximately \$2 million in salaries and expenses to conduct a thorough review of alternatives for both making new loans and servicing the existing portfolio of about 17,800 projects. The President's Millennium Housing Commission and the Commission on Affordable Housing and Health Facility Related Needs for Seniors is also given a similar task. The backlog is tremendous and the need and deficiencies in rural areas are reflected in national studies including the USDA Economic Research Service. Additionally, the average resident income of this program is approximately \$8,000.00. In my home State of Wisconsin, 79 percent or approximately 8,000 units (7,896) are for elderly residents. Nationally, this figure is 57.8 percent or 243,979 units. America, including our rural sections, is growing older.

The appropriations levels for this program have dropped significantly over the last 10 years. Congress took steps to address weaknesses in the program and reduce the cost by changing the loan term from 50 to 30 years. Why are we still talking about cutting cost for Rural Rental Housing?

*Answer.* Although progress has been made, this administration is dedicated to further improvement of the program. We suggest there is an opportunity to find other areas of the program that can be made more cost efficient. A task force has been established to complete a comprehensive review of program alternatives, focusing on more efficient ways of funding new construction and servicing the existing portfolio of about 17,800 projects. The task force will make recommendations to the Under Secretary regarding program direction and funding.

*Question.* What positive steps, both legislative and administrative, has the Department performed since 1992 to address weaknesses outlined by Congress?

*Answer.* The Department has taken a number of positive steps in both loan processing and loan servicing activities. A loan scoring system was developed to ensure nationwide consistency in selecting requests, and national funding competition now ensures that funds are directed to the areas of greatest need in the country. The

Department's build and fill policy, implemented in 1994, has been extremely effective in ensuring that communities are not over-developed. This policy ensures that a property is fully occupied before another one is built in the same community. Also, to ensure that the amount of assistance provided to an applicant is no more than necessary, Rural Development has implemented a subsidy layering review. Rural Development State Offices have executed Memorandums of Understanding with State tax credit agencies to share cost data at several stages of processing. Rural Housing Service also uses a computer-based analysis to evaluate each loan proposal throughout loan processing.

*Question.* What is the current default rate and delinquency compared to the previous 10 years?

*Answer.* The Multi-Family Housing program loan delinquency rate at the end of fiscal year 2001 was 1.5 percent for all loans. This is an all time low and the fifth straight year of decreasing delinquency rates. Ten years ago the rate was 3 percent. This rate is less than or equal to rates achieved by other governmental and non-governmental Multi-Family Housing lenders. The Department continues to work aggressively to resolve loan delinquencies to solidify the overall integrity of the portfolio.

*Question.* Has the financial return to the developer been severely reduced as a result of the subsidy layering provisions?

*Answer.* The Department implemented a "subsidy layering" financial feasibility model for the evaluation of all loans starting in 1997. This model, coupled with Memorandums of Understanding between State tax credit administering agencies and Rural Housing Service, has reduced the incidence of excess assistance to a project developer.

*Question.* Why do you propose to stop new construction and what will be done as you conduct this study to address the need?

*Answer.* Funding under Section 515 for new construction is not being requested in fiscal year 2003, as we believe it is appropriate during this period to perform a comprehensive review of the program that will focus on finding more efficient ways to fund new construction. Support for existing occupants in rural rental housing projects will continue to be provided through the rental assistance payments program. Additionally, direct loans will continue to be used for repair, rehabilitation and related purposes, and guaranteed loans will remain available for both new construction and repair and rehabilitation.

*Question.* What is the clear purpose of the Multi-Family Housing Study in your request and what do you expect to do with the findings?

*Answer.* The Multi-Family Housing study will perform a comprehensive review of program alternatives, focusing on more efficient ways of funding new construction and servicing the existing portfolio. The task force will report their findings to the Department so that needed changes, if any, can be made.

*Question.* What evidence do you have to support the notion that this assistance can be provided to the same low-income population at a reduced cost to justify halting new construction?

*Answer.* We will examine alternatives or possible modifications to the Section 515 program developed both by our task force and proposed by the Millennial Housing Commission to make the program more efficient. Also we will examine the existing housing with the intent to develop comprehensive estimates of future rehabilitation needs of the portfolio.

*Question.* What other Federal programs assist the same income populations in rural America and are these less costly?

*Answer.* There are a few other Federal programs that can reach the same populations, albeit in a limited way. Federal Low Income Housing Tax Credits provide tax credits for private investments in the production of new and rehabilitated affordable housing units consistent with State-determined housing priorities. Housing and Urban Development Section 8 vouchers address the issue of affordability but do not provide funds for adding to the housing stock. Federal costs are about 50 percent greater for tax credits units than for vouchers. Coupled together, tax credits and Section 8 vouchers can reach the same populations. However, to date, developers of low-income housing have been reluctant to invest time and funds in developing small properties in rural areas without Rural Housing Service participation. The Housing and Urban Development Home Program is a Community Development Block Grants program offered under the Department of Housing and Urban Development. The Housing and Urban Development Home Program funds can also be used to expand the supply of decent, safe, sanitary, and affordable housing, particularly rental housing, for very low-income and low-income families.

*Question.* How will you serve additional needs in fiscal year 2003, including the elderly?

Answer. Direct loans will continue to be used for repair, rehabilitation and related purposes. Ways in which the elderly have been assisted in this manner include building or increasing the size of community rooms and ensuring that the property is handicapped accessible. The Department will continue in its effort to help the elderly maintain their privacy and live independently.

*Question.* On the topic of preservation, I understand that approximately two-thirds of the 17,000 portfolio is more than 15 years old. What plans do you have for rehabilitating and updating these properties as the needs arise?

Answer. To maximize the affect of limited rehabilitation funding, the Department has made extensive efforts to leverage funds from other funding sources. In recent years, borrowers who have received Section 515 loans have leveraged on average another 45 percent of the development funds from sources such as tax credit proceeds or The Housing and Urban Development Home Program funds. In addition, the Department has subordinated its loans to other funding sources to facilitate new construction and preservation.

*Question.* Is there enough money flowing in these properties to conduct general repairs?

Answer. In most cases, there are sufficient funds flowing from project cash flow to conduct general repairs. However, many projects are unable to generate sufficient income to set aside funds to meet long-term capital replacement needs. Projects most vulnerable are those located in weak housing markets with few or no deep tenant subsidy units available to allow rents to be affordable by very-low and low-income tenants.

*Question.* How is the Agency using other resources such as Section 8, LIHTC, Home and Federal Home Loan Bank funds in these projects?

Answer. We have worked with State tax credit agencies to obtain set asides of tax credits for Rural Development properties in several States. We currently have funding partnerships with Fannie Mae, the Federal Home Loan Banks and State agencies administering The Housing and Urban Development Home Program funds. Section 8 vouchers are used in some instances to supplement rent payments in low income housing when Rural Housing Service rental assistance is not available.

*Question.* If the Committee restored additional funding to this program, what would be the priorities regarding preservation, maintaining the portfolio for low-income residents and providing property owners with incentives that have been promised? Please include associated rental assistance needs?

Answer. A survey of our State Rural Development offices reported a need for \$139.5 million for immediate critical repairs. This levels of funding would require \$65.1 million in Budget Authority. In addition, we estimate that \$45 million rental assistance would be needed to facilitate that level of funding.

Prepayment statutes require the Department to offer incentives to borrowers who request to prepay in an attempt to retain the properties' use as affordable housing. We currently have waiting lists for the two most important incentives, equity loans (over \$9 million) and Rental Assistance (under \$1 million). We estimate that there could be a significant demand of about \$40 million in equity loans and \$30 million in Rental Assistance for inventories to added prepayments.

*Question.* How many projects are currently eligible for prepayment? What is the average time for an owner once they make the request and are in the system? What percentage of owners that request prepayment and are eligible are actually allowed to prepay?

Answer. Approximately 11,000 Multi-Family Housing projects were funded prior to 1989 and are eligible for prepayment. This represents approximately two-thirds of the Multi-Family Housing portfolio. We have not determined the average amount of time between the acceptance of a completed application by the Department and a final action, which typically is either prepayment or the receipt of an incentive to continue participating in the program. Final action most often depends on the availability of resources such as equity loans and preservation rental assistance. However, we do know that approximately half of the applications currently recorded in our prepayment tracking system have been filed during the last year. During fiscal year 2001, of the 119 prepayment requests accepted by the Department, 24 were retained with incentives (20 percent) and 95 projects (80 percent) were authorized to prepay. Of the 95 prepayments accepted, 64 were prepaid with restrictive use agreements (67 percent) and 31 were prepaid without restrictive use agreements (33 percent).

*Question.* I understand the Agency has been attempting to overhaul the operation regulations (3560) for several years. Why haven't these regulations been proposed to the public for comments and when do you plan to have them completed?

Answer. The new 3560 regulations are a complete overhaul of the multi-family housing programs within Rural Housing Service. The process of reviewing this ex-

tensive regulation has taken longer than expected, due to the complexity of the subject matter. With recent actions taken to address concerns of reviewers, we anticipate that the regulation will be published for final review in the near future.

*Question.* The budget request implies that the farm labor community has priority over the standard Section 515 Multi-Family Housing applicants. The Farm Labor Housing program is very specific, serving a limited population within certain geographic locations. Additionally, if you are stopping new construction in the Section 515 Multi-Family Housing program, this program is identical with the exception that additional grant funds or subsidy is driven into the project, which makes it more costly.

If you are looking at ways to reduce the cost for low-income rental housing, why are you continuing with this more costly housing than the standard 515 program?

*Answer.* The Nation's farmworkers are among the poorest of the poor and an overwhelming unmet need for farmworker housing persists throughout America. Farmworkers are a difficult and costly population to serve and the Section 514/516 programs are the only Federal programs serving farmworkers exclusively. Unlike projects serving the general population, many farmworker projects cannot qualify for the Housing and Urban Development Home Program funds or Low Income Housing Tax Credits. In addition, many States do not have special housing programs for farmworkers.

*Question.* Rising insurance rates are having a negative impact on affordable housing stock throughout this Nation. Rural housing is certainly not exempt from these costs.

Has the agency allowed the deductibles to be increased as a result of these increased costs to projects?

*Answer.* Currently, Rural Housing Service regulations provide guidance regarding the amount of deductibles allowed for Multi-Family Housing properties. If owners are unable to obtain the required deductible, other options are provided in the regulations. The owner may make a cash deposit to the reserve account which will be set aside to cover the gap between the required deductible and the obtainable deductible, or the owner may set aside a portion of the existing reserve account to cover the gap.

*Question.* Is this change in the proposed 3560 servicing regulations and if so what kind of relief can you offer prior to issuing the final regulation?

*Answer.* The proposed 3560 servicing regulations do provide flexibility in determining the maximum deductible allowed. However, the current regulations already provide the owners with some relief. The Department continues to work with our field staff, owner and management groups and the insurance community to better address this issue.

*Question.* According to a 1997 GAO Report, titled "Opportunities to Improve Oversight of the Low Income Housing Program" questions were raised as to whether there are sufficient reserves to address major repairs.

Does the majority of the portfolio that has reached the 20 year mark have sufficient reserves to handle major repairs and if not what do you propose to do to address this problem?

*Answer.* While the great majority of the properties have been well maintained, they are experiencing normal wear and tear. The reserve accounts were established based on the development cost at the time of construction and did not factor in an inflation rate. This has caused many reserve accounts to be at an insufficient level to cover current and future repairs needs. The Department works with owners to conduct capital needs assessments to determine the expected need and timing for rehabilitation, specific to their properties. With the information from a comprehensive needs analysis, the Department and owner are able to reassess the reserve account funding levels.

*Question.* Are you allowing projects to increase their rents to assist in building up the reserve accounts and who determines if rent increase requests are honored, the Rural Development Managers, State Director or National Office and is there a national policy for this issue?

*Answer.* The Department encourages borrowers to increase rents when necessary to build up reserve accounts. However, the rent levels for the units must remain marketable and affordable in communities, particularly when rental assistance is not available at the property. When a significant number of units in a project are receiving Rental Assistance, the availability of funding of such Rental Assistance needs to be considered in terms of absorbing the impact of a rent increase. The Rural Development Multi-Family Housing Servicing Officials have been provided the authority to approve changes to rents and reserve account levels. The authorities are provided in Rural Housing Service regulations.

*Question.* Several years ago the occupancy surcharge was eliminated. What can accumulated funds from this surcharge be used for?

*Answer.* The Department of Agriculture currently has approximately \$15.5 million plus interest accrual of \$6 million in occupancy surcharge collections. These funds were collected by Rural Housing Service and deposited in the Rural Housing Insurance Fund in such a manner as to accrue interest on the total amount of funds collected. Under statute, the monies are to be made available only to guarantee the payments of principal and interest on equity loans for developments financed after 1989. Payment from the occupancy surcharge account are to be in only amounts necessary to ensure that additional project expense from the incurred guaranteed equity loan does not raise rent payments above prescribed maximum rent levels necessary to operate the project. Public Law 194-193, enacted August 22, 1996, eliminated the collection of occupancy surcharge payments. Rural Housing Service would like to work closely with the Committee in the future to examine alternative uses for these funds for these funds that may more immediately benefit the portfolio.

*Question.* How much rental assistance that is allocated in the States is currently unused and how do you increase efficiency with the use these funds in the States and the national office?

*Answer.* Currently, the Rental Assistance usage rate is approximately at 92 percent of available units. With current occupancy levels at a 93 percent rate, the Rental Assistance usage rate lines up directly with the occupancy rate. There are areas of the country where out-migration has taken place resulting in the unused Rental Assistance usage rate being higher than average. We are working with the States affected to effectively use unused Rental Assistance. Rural Housing Service field staff evaluates efforts made by owners and managers to market vacant units to Rental Assistance eligible applicants. Rural Development State Directors may authorize the transfer of unused Rental Assistance to another eligible borrower after a borrower has not used a portion of the Rental Assistance units for a 12-month period. During the past few years, the Agency has been successful in significantly increasing the number of transferred unused Rental Assistance units. The Rural Housing Service National Office will continue to monitor and work with field offices to maximize the usage of this valuable resource.

*Question.* Considering the concern for preserving the portfolio for low-income residents, would you support a pilot initiative that would allow multi-family projects to be acquired and rehabilitated by public, non-profit entities with a sole mission of preservation, provided that such an entity maintains the rent and use restrictions and there is no additional RA or RHS subsequent loans used in the projects? Would this allow entities with experience throughout the country to use creative financing and other methods to come up with best practices to address this problem now and in the future?

*Answer.* Such a pilot proposal could be acceptable provided that there are reasonable assurances that long-term capital needs will be adequately addressed without creating additional debt. We also expect that any non-profit or public body participant would be able to meet the existing eligibility criteria currently contained in Section 50(c) of the Housing Act of 1949.

#### RHS 502 HOUSING

*Question.* Direct program-I noticed the President's budget for HUD has substantial increases for homeownership, which includes the down payment assistance program and the self-help ownership program. The USDA 502 program has been extremely successful and since inception. I also understand a new model has been created that increased the subsidy costs of this program. Since the creation of the Centralized Service Center, the delinquency and default rate have decreased.

What are the factors that caused the increase in the subsidy rate for this program?

*Answer.* Rural Development implemented new cash flow models for the 2003 Budget for the following programs:

Increased Subsidy Rate from 2002 to 2003: Direct Section 502 Single-Family Housing Loans; Direct Section 515 Multi-Family Housing Loans; Section 524 Housing Site Development Loans; and Multi-Family Credit Sales of Acquired Property Loans.

Decreased Subsidy Rate from 2002 to 2003: Section 523 Self-Help Land Development Loans; and Single-Family Credit Sales of Acquired Property Loans.

Methodologies used by these new models for calculating defaults, recoveries, payment assistance, and scheduled collections differ from the old models. Program performance assumptions used by these new models are based on historic program performance and proxy data from comparable programs run by the Federal Housing

Administration and Small Business Administration. Previously, program performance assumptions were based on program staff expertise. These changes were a collaborative effort between the Department of Agriculture, Office of Management and Budget, and the General Accounting Office. The changes to these models were made to more accurately reflect the true cost of these programs to the taxpayers, which will allow lawmakers to better determine Federal-funding allocations. This better reflection of the true cost in these models will also help the Department of Agriculture obtain a clean audit opinion on its credit programs. The current interest rate assumptions as well as the most recent program performance data are also included in the new model.

*Question.* The previous administration placed a great deal of emphasis on leveraging Federal resources with other funding to stretch limited dollars. The 502 Direct Leverage Program initiatives allowed private lenders to finance as little as 20 percent of the loan and take a first lien position. Depending on the lender's rate, the 80 percent financed by RHS could have driven up the subsidy cost to make it affordable to a low-income borrower.

Has this impacted the subsidy of the 502 Direct Program?

*Answer.* The subsidy the borrower receives on the direct loan is based on the amount of the loan and the borrower's income. This subsidy is one of several factors that impact on the subsidy cost of the program, which according to the new model is higher than prior years' estimates. However, there is no evidence to suggest that leverage has increased the subsidy rate on direct loans.

*Question.* What risk does the private lender incur?

*Answer.* There is little security risk incurred by a private lender when leveraging with a Section 502 direct loan.

*Question.* What is the average blend of government versus private funds in these leveraged deals?

*Answer.* The average blend of leveraged loans for fiscal year 2001 was as follows: government funds, 77.82 percent; private lender funds, 18.38 percent; and other types of funds (such as forgivable loans and grants) 3.71 percent.

*Question.* Have you conducted a cost comparison to see if the government could have saved money if RHS financed the entire loan and not just a portion?

*Answer.* To date, no formal study of the cost differentials between leveraging and non-leveraging has been conducted. Five years of data has been collected which may be enough to establish some trends.

*Question.* Should the Department continue this initiative, isn't this program based on borrower affordability and not cost to the government?

*Answer.* Leveraged lending continues to be an important component of the direct loan program. This initiative is intended to maximize the number of low and very low-income families afforded the opportunity of homeownership.

In fiscal year 2001, Rural Housing Service leveraged 7,772 Section 502 Single Family Housing direct loans. Leveraging provided approximately \$124 million in loans and grants from other sources to supplement the Section 502 Single Family Housing direct program.

Families assisted are only asked to leverage an amount consistent with their repayment ability. By leveraging Agency funds with other lending institutions and grant programs, we are able to stretch our loan dollars to assist more families in obtaining the American dream of homeownership.

*Question.* Why wouldn't you limit this program to below market rate loans to encourage lenders and non-profits to use low interest loans and/or grants to enhance affordability and allow lender to receive CRA credit?

*Answer.* The leveraging program is designed to include the widest possible spectrum of funding sources. We strive to encourage a broad range of participation and strengthen ties with our local partners. In addition, the customer benefits through homeownership education and establishes ties to the local community through partners and local lenders. To limit our program to below market rate loans would reduce the number of smaller lenders and non-profit groups who could participate in our program.

The Community Reinvestment Act has been a great tool in promoting our leverage loan program to the small community lenders. Many of them retain all the mortgages they make and our leverage loan allows them to put more dollars back into their local communities and meet their Community Reinvestment Act requirements.

We believe that the leveraging program has provided a valuable tool to engage lenders into low-income mortgage finance in which they would not otherwise participate.

*Question.* What is the limit a private lender can charge under this initiative for their interest rate?



Answer. Leveraged lenders are expected to charge reasonable and customary interest rates and fees. Besides monitoring the lending practices of leveraged lenders, Agency staff counsel applicants on how to shop for the best mortgage to supplement our funding.

While the Agency has not set specific limits regarding the interest rate that private lenders may charge, the Agency monitors the lending practices of leveraged lenders to protect borrowers from abusive tactics like excessively high fees, high interest rates and packing, the practice of adding credit insurance or other extras to increase the lender's profit on a loan.

Since the leveraging of Single Family Housing loans is fairly new to the Agency, we are continuously learning and making improvements. We are currently developing guidance to our field offices to ensure consistency and protection for our customers.

*Question.* The 502 Direct Program serves individuals and families in small rural communities with an average income of \$17,000.00 and/or approximately 55 percent of their respective county median income. Additionally, Department of Housing and Urban Development has never effectively penetrated remote rural areas.

Do the HUD homeownership programs serve the same low-income rural population?

Answer. According to the General Accounting Office study published in September 2000, Department of Housing and Urban Development does not offer to rural populations a program comparable to the direct Section 502 Single Family Housing direct loan program.

*Question.* If the President's request provided additional resources for homeownership at HUD, why not the rural programs?

Answer. The fiscal year 2003 budget request reflects a continued commitment for rural programs. The Section 502 Single Family Housing direct budget authority was increased in the President's budget by \$43 million from the fiscal year 2002 level. The decrease in deliverable program funds is due to the increase in the cost of the program.

*Question.* The Payment Assistance program for the Direct 502 program is tied to the median county income and the relationship to the borrower's income. Borrowers must contribute 22 percent, 24 percent or 26 percent of their adjusted income towards their mortgage payments. In some cases a borrower could cross a county line and drop from 26 percent to 22 percent and lower their payment significantly.

Is this a complicated system to administer and does it cause confusion or resentment with the potential customers?

Answer. Administering payment subsidies is not complicated. Rural Housing Service staff uses an automated system to calculate the appropriate payment subsidy based upon the borrower's adjusted annual income, the applicable area median income, and the monthly taxes and insurance for the property. Our partners will soon be able to access this system electronically as a result of our e-government initiatives.

A few of our partners have voiced concerns that an applicant in one area can qualify for a higher loan amount than an applicant located in another area when all other factors are equal. This occurrence is attributed to differences in the area median income, which can vary widely within a state and is not within the Agency's control.

*Question.* Have you looked at any alternatives to this current system and can you make changes administratively?

Answer. Payment Assistance, which replaced the previous interest credit method of calculating borrower subsidy assistance, has been in existence since 1996. This system was adopted in an effort to reduce the cost of the program. Prior to Payment Assistance, interest credit afforded borrowers a more generous subsidy by basing their mortgage payments on 20 percent of their income. Now that payment assistance has been in existence for several years, we believe there is sufficient data to conduct a study of payment assistance. If a study identifies the need for changes to the payment assistance calculations, the Agency can determine whether changes can be made administratively or if regulatory or statutory changes would be necessary.

*Question.* Are individuals and families in the mid-range (24 percent) encountering more difficulty in the approval process than the other two categories?

Answer. We have not received feedback that mid-range income individuals and families are encountering more difficulties in the loan approval process than other income category applicants. If the committee has documented cases, we would be pleased to look into the matter.

*Question.* Have you considered a more family friendly option in the calculation of the subsidy for the mortgage rate that would encourage families to stay intact and

waive the income of elderly parents and/or grandparents including children that attend college?

Answer. We consider the income of all members of the household in determining subsidy except for full-time college students, which is consistent with the Department of Housing and Urban Development and the governing statutes. Many families with part-time college students or elderly family members who come to live in the household are impacted by an increase in payments, although these family members may not have the capacity to contribute financially towards the mortgage payments.

#### GUARANTEED HOUSING

*Question.* Last year, the Department requested and Congress approved an increased guarantee fee from 1 percent to 2 percent to drive down the program cost. After that increase, HUD dropped their rate from approximately 2.5 percent to 1.5 percent. Additionally, FHA and VA guaranteed programs allow mortgage insurance premiums and/or a guarantee fee on top of their established LTVR restrictions. Rural Housing Service is currently prohibited from going over 100 percent of appraisal value for purchase loans. This barrier will only allow fees to be incorporated in the loan only if the appraisal is determined to be 98 percent or lower of the LTVR.

What has been the policy impact on borrowers and lenders from this fee increase, both for the borrowers and private lenders?

Answer. The fee is charged by the Agency to the lender, however the lender typically passes this charge off to the borrower as a closing cost expense. Consequently, the higher fee has increased borrower closing costs associated with the guaranteed program. The fee can be paid out of the borrower's own pocket, financed into the loan if the appraised value of the property being purchased supports including the fee, or it can be paid by the seller as a seller sales concession. In comparison to the Federal Housing Administration insured or Veteran's Administration guaranteed homeownership programs, the fee being charged for the Rural Housing Service guarantee is considered high but not excessive.

*Question.* The Department has the authority to charge up to 2 percent guarantee fee. Have you considered lowering the rate to react to market changes and other Federal housing programs?

Answer. For guaranteed loan purchase transactions, lowering the rate has not been considered an option due to the impact that a lower rate would have on the budget. For instance, lowering the fee rate by 0.5 percent would increase the budget authority required to fund this fiscal year's program level (\$3.15 billion) by over \$15 million. The Federal Housing Administration currently charges an up-front fee of 1.5 percent of the loan amount, but on top of this fee, Federal Housing Administration charges customers an annual fee of 0.5 percent of the outstanding principal balances of their loans.

*Question.* FHA and VA have had a long-standing policy to allow mortgage insurance and guarantee fees to be included in the loan. Do you believe this change would negatively impact the portfolio and cause an increase on the subsidy cost?

Answer. Rural Housing Service already allows fees to be included in the loan amount provided the loan to value ratio does not exceed 100 percent. Allowing fees to be included for up to 102 percent would likely increase the risk of loss and therefore, increase the subsidy rate. A precise estimate is not available.

*Question.* Your mission for the 502 Guaranteed Program indicates this program is to serve moderate-income families and individuals in rural areas who can't obtain conventional mortgage financing?

Does this requirement fit the current overall mission today and does it hinder the administration of this program?

Answer. The guaranteed program is designed to serve customers who do not qualify for conventional credit. Additionally, guaranteed loans are limited to families with household income that are categorized as "moderate" (115 percent of area median income, or less). Generally, these requirements serve our mission because they allow the Agency to concentrate its financial resources on those applicants who are truly in need. However, there are pockets of rural areas where home prices have escalated to a point where a family with a moderate level of income simply cannot afford to buy a modest home.

*Question.* Does HUD or VA have this requirement on any of their programs?

Answer. No, Housing and Urban Development and Veteran's Administration do not restrict use of their programs based on a family's household income or ability to obtain "conventional" credit.

*Question.* One of the missions of the USDA housing programs is to graduate borrowers who receive subsidized housing to commercial credit. In fiscal year 2001,

Congress allowed refinancing using the 502 Guaranteed Loan Program. Additionally, it also allowed refinancing direct loans with guaranteed loans. However, the Department is currently prohibited from refinancing a direct subsidized loan to a private lender's guaranteed loan if the new rate is higher than the current note rate.

If a direct borrower is currently paying 7 percent and wants to move to a 30 year private mortgage loan with a rate of 8 percent, shouldn't that borrower be allowed to do so and isn't this in the best interest of the government and the borrower?

Answer. If they are eligible to refinance, direct program borrowers must graduate their loans, even if it means accepting a higher interest rate. However, graduating a direct loan to a guaranteed loan is currently limited statutorily to those cases where a borrower will receive the same or a lower interest rate on the new loan. This restricts some direct borrowers from utilizing the guaranteed program as a graduation tool. Removing the interest rate increase restriction on direct to guaranteed refinances would allow more borrowers to qualify for graduation.

*Question.* Additionally, if a current guaranteed borrower wants to refinance his/her loan with another guaranteed loan, the Department is requiring that the borrower pay the 2 percent for refinancing.

What other Federal housing programs have this requirement?

Answer. No other programs have this requirement. Rural Housing Service currently charges a 2 percent fee for all guaranteed purchase transactions, including another full 2 percent fee to be paid if an existing borrower wants to refinance his/her loan through the program. The funding fee for Veteran's Administration purchase loans is generally 2 percent, yet the fee for a Veteran's Administration refinance transaction is always a flat 0.5 percent. For Federal Housing Administration refinance transactions, a new up-front 1.5 percent mortgage insurance premium is charged, but a prorated portion of the up-front fee that was charged for the initial Federal Housing Administration loan is rebated to the customer.

*Question.* How many borrowers have taken advantage of this authority to refinance loans?

Answer. So far during fiscal year 2002, we have obligated 278 refinance transactions representing approximately \$24.5 million.

*Question.* If you go to a lower interest rate in the guaranteed refinancing, wouldn't this loan be more secure and in the best interest of the government?

Answer. Guaranteed refinanced loans are limited to performing borrowers already in the portfolio, or to graduation-eligible direct Section 502 borrowers. Only unpaid principal and interest, and reasonable loan closing costs can be refinanced. Guaranteed refinance loans may not include "cash out" to the borrower or the refinancing of subordinate liens. Allowing existing guaranteed borrowers who have paid satisfactorily to lower their interest rates through a guaranteed refinance should reduce risk and help to ensure successful homeownership.

*Question.* Could you give the borrower credit for the first fee paid or possibly a prorated credit for loan exposure instead of the full 2 percent?

Answer. Yes, we have the statutory authority to reduce the fee. In order to do this, data needs to be gathered, or factual estimates made, on how guaranteed refinance transactions will perform over time. Without performance data or valid estimates for guaranteed refinance transactions, the subsidy rate assigned to these loans is the same as that assigned to new loans. Given the lack of guaranteed refinance performance data, we are currently unable to reduce the rate. Better performance data is needed in order to estimate a new subsidy rate, and the Agency plans to make that a priority during fiscal year 2003.

*Question.* What is the lending community and/or public interest groups' reaction to this requirement to pay the full 2 percent refinancing fee?

Answer. Lenders and public interest groups feel that the 2 percent fee is too high to warrant their active promotion of the guaranteed loan refinance program. The cost to refinance with a new guaranteed loan doesn't make economic sense in many cases.

*Question.* I understand that if a current 502 Guarantee borrower wishes to refinance their loan to a lower rate, but their income has risen above the moderate income level for this program, they are prohibited from refinancing with another USDA Guaranteed Loan.

Wouldn't the customer and the government be best served by allowing them to move to a lower interest rate?

Answer. Borrowers would benefit from lower interest rates on their loans. The government's risk position could benefit, as well, whenever housing costs become more affordable for existing guaranteed borrowers. However, allowing borrowers the option to refinance their loans at more liberal terms would encourage them to stay in the program, rather than moving on to a conventional credit.

*Question.* What is the percentage of low-income residents served by the guaranteed program?

*Answer.* Over the course of each of the past three fiscal years, nearly 30 percent of all guaranteed loans have gone to low-income (80 percent of median or less) families.

*Question.* Have you looked at an area population limitation increase to be consistent with other Federal housing guarantee products and what would be the policy implications for market share, attracting lenders and serving borrowers?

*Answer.* The Agency feels that its existing eligible areas for lending activities are reasonable. Expanding the eligible areas to include higher population would certainly increase activity and demand for the guaranteed program. But the question is whether higher population areas meet Rural Housing Service's mission of serving rural economic needs. Generally, the existing parameters that define rural areas for the guaranteed program appear to be adequate.

*Question.* Each year this program has a slow period at the beginning of the fiscal year as funds are allocated through the appropriation allotment process. Each year, loan approvals slow down and have to be prioritized because of limited funding authority. I am told FHA and VA do not experience this slow period.

With the valuable gains you have made in attracting lenders and increasing participation in this program, doesn't it make sense to allow the funding to carryover and not disrupt this integrity of this program?

*Answer.* Because of the lead-time required to process a loan, any interruption in a lender's ability to reserve guaranteed funds may cause them to question whether they should continue participating in the program. Maintaining a flow of funds throughout the year is something RHS strives to ensure. However, making the funds no year does not alleviate breaks in program delivery for the 502 guarantee single family housing program. If demand for funds exceeds the amount of funds available for the year in the 502 guarantee single family housing program, there would be no funds to carryover and lenders would be disaffected with the break in program delivery until a subsequent appropriation. Plus, the Budget request anticipates the expected demand and no carryover funds are anticipated. Additionally, if the appropriation is signed before the fiscal year begins, there is no break in service. What would help to alleviate breaks in program delivery would be inclusion of specific language for the program in the first continuing resolution of a fiscal year that would make available 25 percent of the previous year's loan level on October 1 (the budget authority calculated at the current year subsidy rate). This would provide assurance of continued funding without regard to carryover balances.

*Question.* Can you estimate how many lenders and/or borrowers you have lost during this down time in October and November?

*Answer.* Estimates of lenders and borrowers who may have lost interest in the program are not available. However, we would note that the demand for guaranteed loans remains strong.

#### FARM LABOR HOUSING

*Question.* Is the request for rental assistance enough to accommodate adequate subsidy for new construction in the Farm Labor Housing Program?

*Answer.* In fiscal year 2002, the Rural Housing Service expects to fund the construction of approximately 800 units of farm labor housing through the section 514/516 programs. Six hundred units of Rental Assistance from the national allocation have been earmarked for section 514/516 new construction units, allowing full coverage of the RA demand. Recently, the section 514/516 programs have received modest increases. If a funding level increase is made to the section 514/516 programs, a corresponding increase to the Rental Assistance program is necessary.

*Question.* Does the Farm Labor Housing Program have a set-aside for rental assistance?

*Answer.* There is no formal set-aside for Section 514/516 new construction Rental Assistance. At the beginning of each fiscal year, staff estimate the number of Rental Assistance units needed to accommodate the estimated new construction units that will be built. It is expected that the Rental Assistance funds will be used for renewals first and then for Farm Labor Housing. Anything left is used for Section 515 new construction and debt reduction.

*Question.* Is there anyway to determine the true need and demand while using a NOFA system?

*Answer.* It is difficult to measure need and demand while using a Notice of Funds Availability system. However, the purpose of a Notice of Funds Availability system is not to measure need and demand, but to provide a clean, structured process to make appropriate funding decisions with limited funding. Under a Notice of Funds

Availability system, Rural Housing Service can allocate funds based on merit and overall project need which is difficult to achieve under a "first-come, first-served" process

GUARANTEE 538 MULTI FAMILY HOUSING

*Question.* What is the average household income and rent for this program in comparison to the 515 program?

*Answer.* The average rent at a Section 515 property is approximately \$300 per month. This low rent is attainable primarily because of the 1 percent interest rate and rental assistance available under the program, which in turn allows the Section 515 property to predominately serve very-low to low income households. Under the Section 515 program, over 90 percent of the households are in the very-low income range, with average adjusted household incomes of \$8,105.

Under the Section 538 program, the average rent range is between \$450 and \$550. It is also important to note that approximately 85 percent of the Section 538 projects utilize tax credits to finance the development, which means these properties serve tenants with household incomes that range between 50 and 60 percent of median income. The average median income served is approximately \$35,000.

*Question.* Why have only a few projects been constructed and why was only one loan approved last year?

*Answer.* The Department is aware of certain changes that need to be made to the program to attract participation from the secondary market. Upon conducting stakeholder meetings with members of the secondary market and rating agencies, the Department is moving forward with the necessary regulation changes. Moreover, we have been assured by the rating agencies that these policy changes, once implemented, will make the Section 538 program a very important component of affordable rural housing.

Additionally, the fiscal year 2001 Notice Of Funds Availability did not allow enough time to complete reviews required by the National Environmental Protection Act. These reviews must be completed before a commitment of Federal dollars can be made. The Notice Of Funds Availability utilized for fiscal year 2002 shortened the period for receipt of request for guarantees, which should allow the Department adequate time to complete the National Environmental Protection Act process before the end of the fiscal year. Any request received during fiscal year 2001 that was approved for submission of the full application and not funded during the fiscal year was carried over for guarantee commitment during fiscal year 2002. Additionally, the Department is seeking a reclassification of appropriations to allow funds appropriated during a fiscal year to be available for commitment during the subsequent fiscal year.

*Question.* Have you looked at an area population limitation increase to be consistent with other Federal housing guarantee products and what would be the policy implications for market share, attracting lenders and serving borrowers?

*Answer.* The population limitation of Rural Development's Rural Business Cooperative Service is 50,000. Business development is often limited because the employer is not able to attract employees due to a lack of affordable housing in the area. Because of the lack of affordable housing, the rural community loses out two-fold; first, by losing the tax base of the prospective employer, who decides to choose another location that would be more attractive to recruiting employees. Secondly, the community loses the tax base of the prospective employee who cannot locate in the community due to lack of affordable housing. The same principle holds true for the rural community's inability to attract teachers, nurses, police officers, firefighters and other essential occupations necessary to make a community viable.

Raising the population limit would make the Section 538 program inconsistent with the other principal Rural Housing Service rental housing program, the Section 515 program. Raising the population limitation to 50,000 would enable the Section 538 to work hand in hand with the Business and Industry and other guaranteed loan programs. It would likely open the program to more moderate income families.

*Question.* Would you consider a sliding scale on the guarantee fee, for example a higher guarantee fee the entity has over 25 percent of leveraged funds and would the private sector and housing community react positively towards this change?

*Answer.* The Department has discussed this issue with members of the private sector and the housing community. There is an agreement that the 1 percent initial guarantee fee is acceptable, but that the one-half percent annual renewal fee has a negative impact on debt service coverage ratios. As a result, the Department is currently working on several changes to the regulations, which includes the reduction of the annual renewal fee from one-half percent to one-fourth percent. We be-

lieve that the lower annual renewal fee will help create greater affordability. However, lowering of the annual fee could result in a higher subsidy rate.

*Question.* How many loans have closed since program inception and how many closures went forward when there was an obligation but when the loan closed a decision was made not to continue with the guarantee?

Answer. To date, the Agency has closed 13 guarantees, totaling \$19,438 million to provide 672 units. There are now over 29 guarantee commitments in the pipeline, which are in different stages of completion. The pipeline currently totals approximately \$35 million and will produce 1,300 affordable rural housing units.

There are several instances in which the lender decided to continue with the loan and development of the housing, without continuing to pursue the guarantee. In such cases, we believe the Section 538 Notice Of Funds Availability served as a catalyst for the development of housing in rural areas. Without Section 538, the lender might not have even considered the development of housing projects in rural areas.

*Question.* What alterations can you make to increase activity with this program to serve rural America?

Answer. The Agency is moving forward with several regulation changes designed to make the program more industry friendly. They include:

Implementing the same investor repurchase provisions that are found in the Rural Business Service Business and Industry Program. This change would ensure the industry prompt payment of the guarantee and provide better ratings by the rating agencies.

Lowering the annual renewal fee from 0.5 percent to 0.25 percent.

Reworking the liquidation time periods to be more consistent with the secondary market.

#### RURAL UTILITIES SERVICE

*Question.* What has been the effect of electric power deregulation on rural electric cooperatives?

Answer. Maintaining access to reliable and affordable electric service in rural areas is one of the greatest challenges in the deregulation (or restructuring) of the electric industry. The Rural Utilities Service believes that rural areas can share the benefits of more competitive electric markets, if market rules include effective oversight, consumer protections, and reliability of service is ensured. Increased competition among electric providers is being pursued at the wholesale and retail level.

To date 24 States and the District of Columbia have adopted measures to open retail markets to competition. However, experiences with volatile wholesale electric markets in California and elsewhere, have led eight of these States to reverse or delay retail competition (Arkansas, California, Montana, Nevada, New Mexico, Oklahoma, Oregon, and West Virginia). Many of the remaining States, including largely rural States in the Midwest, South, and West, have also deferred or rejected proposals to open their retail markets.

Experience with retail competition in cooperative service areas is limited. Nine States (Arizona, Arkansas, Delaware, Maine, Maryland, Michigan, New Hampshire, Pennsylvania, and Virginia) required consumer-owned electric cooperatives to allow competitive providers to sell electricity to their retail customers. Other States have generally exempted cooperatives or allowed them to opt into competitive retail markets. Retail competition has been slow in coming to rural areas. For example, in Pennsylvania where cooperatives opened their retail markets on January 1, 1999, ahead of the State's investor-owned utilities, not a single competitive provider has yet sought State approval to serve the largely residential customers of the cooperatives. In Maine and New Hampshire, retail customers of cooperatives have seen rate reductions under retail choice. However, the savings were largely attributable to a pass through of savings from replacement of existing wholesale power contracts with lower cost power from the competitive market. Implementation of retail competition in co-op territory in other States has been slow, as few competitive providers have expressed interest in serving rural consumers.

The lack of competitive interest in rural areas is not surprising. It is important to recognize that utilities serving rural areas are particularly challenged in providing reliable, affordable service by the combined influences of distance, topography, weather, and lower customer density. These factors contribute to the generally higher costs of serving rural customers compared to urban and suburban customers. Electric service in rural areas typically requires more capital investment, has higher operation and maintenance costs, and yields lower revenue per mile of line than in urban and suburban areas.

At the wholesale level, the Federal Energy Regulatory Commission has been aggressively pursuing measures to open up electric transmission systems to support

broader, more competitive wholesale electric markets. Electric cooperatives have been largely supportive of the Federal Energy Regulatory Commission's efforts on wholesale markets and open access transmission because almost all electric cooperatives derive a portion of their electricity from competitive markets and are dependent on the transmission lines of other utilities to deliver power to their distribution systems. Competitive markets and open transmission access give cooperatives more opportunities to secure lower cost and reliable power to serve their customers. Open access also offers cooperatives broader markets in which to sell any surplus cooperative generated power and helps lower their costs.

The efforts at deregulating wholesale markets have increased uncertainties and risks for Rural Utilities Service borrowers. Substantial benefits to cooperatives of competitive markets and open access have been slow to materialize.

The Rural Utilities Service borrowers have been stung by unprecedented price spikes in Western and Midwestern electric markets. Some have had to raise retail rates to cover higher prices. In response, several cooperative-based entities have been formed to help cooperatives cope with market volatility. Power marketers and other entities now offer risk management services to help cooperatives better manage their loads in emerging competitive markets. Volatile wholesale market prices are a major concern in financing new generation. The Rural Utilities Service encourages all borrowers to develop effective market risk mitigation strategies and includes an examination of borrowers' risk management in loan reviews. Implementation by the Federal Energy Regulatory Commission of effective market oversight and enforcement tools is also important.

Implementation of new transmission arrangements has resulted in increased costs for transmission services in several regions. Federal Energy Regulatory Commission's proposed new regional transmission organizations offer potential benefits to Rural Utilities Service borrowers, but one-size-fits-all approaches may not meet the needs of rural systems. An additional concern for transmission dependent cooperatives is that the new regional transmission arrangements may bring increased costs, loss of existing transmission rights, and inadequate payments for use of cooperative transmission facilities. Complaints raising these issues are pending before the Federal Energy Regulatory Commission.

The Rural Utilities Service shares these borrower concerns. In recent years, the Rural Utilities Service has invested several hundred million dollars in loans to expand and upgrade transmission in rural areas. Transition to regional transmission organizations should not undermine security for and repayment of the Federal investment in these facilities. Rural Utilities Service is committed to working with our borrowers, other rural utilities, the Federal Energy Regulatory Commission, and State regulators to develop regional transmission arrangements that support truly competitive wholesale markets, preserve reliable electric service, protect retail consumers, and include adequate protections for Federal debt.

*Question.* To what extent has the trend changed from generation to distribution in lending activity?

*Answer.* The trends for the Rural Utilities Service Electric Loan program for the past 5 years are clearly demonstrated by the following table.

#### APPROVED FUNDING FOR GENERATION AND TRANSMISSION BORROWERS

[Dollars in thousands]

	Fiscal year					
	1996	1997	1998	1999	2000	2001
<b>Borrower type-distribution:</b>						
Number of Loans .....	123	129	168	251	138	209
Amount of Loans .....	\$653,000	\$611,000	\$846,000	\$1,485	\$1,122	\$1,564
Percent of Loans .....	94	95	98	98	91	92
Percent of Amount .....	79	74	91	81	53	60
<b>Borrower type-power supply:</b>						
Number of Loans .....	8	7	3	6	13	17
Amount of Loans .....	\$169,000	\$213,000	\$79,000	\$340,000	\$995,000	\$1,052,000
Percent of Loans .....	6	7	2	2	9	8
Percent of Amount .....	21	26	9	19	47	40

The table above shows an increase in the number of loans and the amount of funding approved for generation and transmission borrowers during the past 5 years. We expect this trend to continue for the foreseeable future.

The uncertainty of the wholesale power market has caused power supply (generation and transmission) borrowers serving rural America to explore new generation and transmission projects in an effort to manage their electricity supply portfolio to ensure reliable electric service at a competitive price. Many borrowers are building new power generation and transmission facilities in response to the deregulation of electricity and the movement to establish large regional transmission organizations.

*Question.* What percentage of Rural America has access to Internet and broadband communications capabilities on a scale comparable to most urban areas in this country?

*Answer.* With regard to rural Internet access on a comparable scale of quality to urban access, the Rural Utilities Service estimates that 48 percent of rural Americans have dial-up Internet availability that is significantly below urban quality. Urban quality dial-up access is defined as connecting at speeds of 35 Kb/s or greater. With regard to broadband access, it is important to note that true broadband service must be "two-way" high-speed service, not just "one-way" high-speed Internet access. Using the Federal Communications Commission's definition of broadband (at least 200 Kb/s each way), the Rural Utilities Service estimates that, between Digital Subscriber Line and cable modem availability in urban areas, about 60 percent of urban customers can receive broadband. In rural areas, Rural Utilities Service believes that between 20 and 25 percent of all households can receive broadband, and two-thirds of those are in Rural Utilities Service's borrower-served areas.

*Question.* In an exchange with Senator Craig, Secretary Veneman indicated that she is working closely with EPA on water systems where EPA has found serious inadequacies with the water quality and is imposing large fines on these water associations. Additionally, last year the EPA Administrator Christine Todd Whitman approved new regulations addressing arsenic standards for drinking water and was concerned that some public systems would shut down as a result.

How many systems under the RUS portfolio has ceased to operate as a result of the new regulation?

*Answer.* No Rural Utilities Service financed projects at present have ceased to operate as a result of the new Environmental Protection Agency's arsenic regulation. The new standard does not begin to take effect until December 2006.

*Question.* How many systems are you working with in partnership with EPA to address arsenic and other problems where EPA has imposed sanctions and/or fines and are these projects given priority in funding on the state and national level?

*Answer.* Rural Utilities Service is working with the Environmental Protection Agency on many types of projects to assist rural communities in meeting their water and wastewater needs. Rural Utilities Service gives priority for funding to many types of situations small communities face, of which arsenic would qualify. Since the new arsenic standard was only recently promulgated and will not go into effect until 2006, we are only just beginning to see a few applications that involve arsenic removal. Applicants are not required to disclose whether the Environmental Protection Agency has imposed sanctions or fines on the applicant's system and our management information system does not track whether sanctions or fines have been imposed on systems in our portfolio.

*Question.* Please provide information on the backlog of applications for the water and wastewater loan and grants program.

*Answer.* There are currently 497 incomplete applications (applications that have been filed but are not considered complete applications as they are missing documents such as the engineering and environmental reports) and 504 applications (applications that are ready to be further processed once funding becomes available) on hand for Water and Waste Grants for a total of 1,001. The total amount requested by these applications is \$507,727,679 for incomplete applications and \$498,880,923 for applications for a total of \$1,006,608,602. There are currently 831 incomplete applications and 722 applications on hand for Water and Waste loans for a total of 1,553. The total amount requested by these applications is \$1,362,365,191 for incomplete applications and \$1,014,868,140 for applications for a total of \$2,377,233,331.

*Question.* The Emergency Community Water Assistance Grant Programs was a success in the years it was appropriated. Considering the rural water needs and the expected drought conditions in many parts of America, can you foresee a need for this program in the near future?

*Answer.* During fiscal year 2001 we utilized \$20 million in Emergency Community Water Assistance Grant funding. Our projections indicate that we can fund most of the increased demand because of emergencies with our regular funds. Major disasters are handled by the Federal Emergency Management Agency.

*Question.* If the Committee appropriated funds for this program, do you believe it should be expanded to include emergency waste needs also?



Answer. No, we do not have a demand for emergency waste grants at this time.

RBS-GUARANTEED BUSINESS AND INDUSTRY LOANS

*Question.* The program level for the B&I program will drop significantly from recent program levels.

Do you see a decrease in loan activity or demand?

Answer. As of the end of March, we had obligated approximately \$220 million less than we had at the same time last year (\$510 million versus \$290 million). However, a large demand for the program continues, with \$610,441,393 in preapplications and \$258,346,212 in applications, totaling \$868,787,605, pending as of the end of March 2002. The purpose of a preapplication is to allow a lender and borrower to submit a limited amount of information, most of which should be easily obtained, so that the Agency can determine and advise the lender whether the request is likely to meet the requirements of the Business and Industry program. An application involves the submission of all information required by regulation. The Agency evaluates the application and determines whether the borrower is eligible, the proposed loan is for an eligible purpose, there is reasonable assurance of repayment ability, there is sufficient collateral and equity, and the proposed loan complies with all applicable statutes and regulations.

*Question.* Do you anticipate an increased demand for energy generation or distribution in for new facilities and refinancing existing operations in this low interest environment?

Answer. We currently observed an increase in loans to refinance existing operations. We have also recently reviewed two proposed ethanol projects from the Midwest at the National Office level and have five preapplications (no applications) totaling \$69.1 million pending.

*Question.* What is the backlog and how will you address future needs?

Answer. At the end of March 2002, there were 190 preapplications and 177 applications on hand totaling \$868,787,605. Regulations outline selection priorities when more demand exists for the program than there is available funding. This priority selection process will be implemented if the demand exceeds available funding. Any projects not funded this fiscal year will be carried forward to next fiscal year.

*Question.* Has there been any discussion to move to a preferred lender program similar to SBA?

Answer. Authority to establish this category of lender, as an enhancement to delivery of the program, was included in the 1996 Farm Bill. A legal concern was raised concerning the Agency's authority to delegate environmental assessment responsibilities to a preferred certified lender. This concern has not been resolved and would require a statutory change.

*Question.* Do you have adequate resources to provide the proper training, specifically in field offices, to adequately underwrite and service B&I loans and, if not, what additional resources would you need?

Answer. Yes, we do have adequate resources to provide much needed training to field personnel. Field staff training is an on-going requirement. The lending arena is far more complex, with the onslaught of creative methods of financing, new business start-ups, mergers, sales, etc. The staff requires more in-depth training to fully understand and counter the difficult issues arising from this complex lending arena. Our resources are being redirected to provide the in-depth training needed to address this issue.

*Question.* Considering recent Government Accounting Office reports and a rise in defaults and delinquencies, how much of this can be directly attributed to training and staff recruitment to properly administer this program?

Answer. Some of the responsibility for defaults and delinquencies in this program lies in the ability of our staff to properly review and underwrite the potential loan applications and to conduct the necessary lender monitoring. With that in mind, we have taken significant steps toward ensuring that our field office staff is adequately trained and motivated to improve their loan underwriting and lender monitoring skills. The agency has initiated internal measures to address these concerns including assessment review of State Office operations, rescission of State Office approval authority until training of staff occurs, and implementation of financial analysis software (currently in the final stages of acquisition) to assist State Office assessment of applications.

*Question.* What impact do you perceive from the elimination of the B&I Direct Loan Program?

Answer. By discontinuing funding for the B&I direct loan program, USDA will no longer provide the promise of job creation in rural areas and will prevent situations where borrowers are very likely to default. The funding level for the B&I program

was never fully utilized. The program had authority to provide \$50 million in loans since fiscal year 1997 (the first year of the program), but never used near that amount. Further, the subsidy rate went from negative in fiscal year 1997 through fiscal year 2000, to 6 percent in fiscal year 2001, to 28 percent for fiscal year 2002, indicating a much higher default rate than anyone anticipated. The rate rose dramatically, even though lower discount rates between fiscal year 2001 and fiscal year 2002 made direct loans less expensive. Direct B&I borrowers must have been rejected from a private bank in order to qualify. Program performance over the last 5 years indicates a high risk situation not appropriate for a program whose goal is economic development and job creation for rural America. The high default rate indicates that businesses are folding and that the program is not providing long-term, stable jobs to rural America. The lack of demand and the poor program results made it appropriate to discontinue funding.

#### RURAL COMMUNITY ADVANCEMENT PROGRAM

*Question.* What additional flexibility would you request in this account and do you have sufficient data to reflect the shifting needs in each of the states?

*Answer.* We currently have ample flexibility in the Rural Community Advancement Program (RCAP). Full implementation of provisions of the 1996 Farm Bill would not only allow transferring funds within funding streams but also among streams. However, there has not been a demand from the RCAP beneficiaries for this added flexibility.

#### EMPOWERMENT ZONES AND ENTERPRISE COMMUNITIES EARMARK

*Question.* All earmarked funding for EZ/EZ areas are eliminated and carryover funds are cited.

How will you continue to address these areas of greatest need?

*Answer.* While the 2003 budget does not include grants for the Empowerment Zones and Enterprise Communities grants initiative, it maintains the targeting of Rural Development program funds to these areas. We will also continue to provide a significant and critical amount of technical assistance from both the National Office and State and Area Offices to Empowerment Zones and Enterprise Communities. This includes training in such things as grantsmanship, project management, financial management, conflict resolution, and building effective inter-organizational partnerships. In addition, we will continue provide a significant amount of support through Internet-based information systems.

*Question.* Your justification indicates sufficient resources will be available. Do you believe these designated areas will receive the same amount of resources in fiscal year 2003 as in fiscal year 2002?

*Answer.* In general, the ability of rural Empowerment Zones and Enterprise Communities to obtain resources from other Federal, State, local, private, and non-profit sources tends to rise as these communities gain knowledge of the range of programs and experience in working with funding programs and organizational partners who help implement the community strategies. From our experience working with these Round II Empowerment Zones and Enterprise Communities, we believe that most are at a point where they can manage to continue their programs for the next year without additional Empowerment Zones and Enterprise Communities grants.

*Question.* Have the designated Rural EZ/EC areas come into the mainstream economically due to past funding?

*Answer.* The Empowerment Zones and Enterprise Communities have created over 32,000 jobs, made nearly 1,000 business loans, and started or attracted over 850 businesses. Some have gone beyond job creation to build economic specializations such as the luxury yacht industry in the Kentucky Highlands Empowerment Zone. While more of this has occurred in the Round I Empowerment Zones and Enterprise Communities than in the Round II Empowerment Zones and Enterprise Communities, this is principally a matter of time, and as the Round II communities are able to build on the groundwork laid by their early projects, the enhancements in the strength and vitality of their economies will follow as it has for the Round I Empowerment Zones and Enterprise Communities.

#### NATIONAL RURAL DEVELOPMENT PARTNERSHIP

*Question.* How many States are active with their respective State Rural Development Councils? Please describe activities.

*Answer.* The National Rural Development Partnership currently includes 40 State Rural Development Councils, 39 of which receive Federal funding. The Arizona Rural Development Councils has not yet received any Federal funds. The State Rural Development Councils work on a wide variety of issue areas, ranging from

health care to transportation, environmental issues, agriculture, education, and economic development. Descriptions of these contributions provide a sample of the breadth and depth of State Rural Development Councils activities and are provided below:

*Minnesota Rural Partners*

The State Rural Development Councils for Minnesota has created a unique alliance with four foundations, twelve corporations, and three levels of government entities to support development of the Minnesota Farmers' Market Hall, an initiative that fits with Minnesota Rural Partners' plan to help diversify agriculture.

*New Hampshire Rural Development Council*

In 2001, the Council worked diligently with several local, State and Federal partners to develop plans for the Community Kitchen Program, a model for small-scale, shared-use community kitchen facilities which maximizes use of existing community assets and local leadership. Three of these kitchens are in development in New Hampshire with over ten micro-food enterprises participating.

*Pennsylvania Rural Development Council*

The Pennsylvania Rural Development Council collaborated with the State departments of Public Welfare, Health and Insurance in 2001 on a mini-grant initiative to support development of outreach efforts to increase access to health care coverage for Pennsylvania's low-income children and families, promote preventive care and good health planning, and lower the incidence of uncompensated care. This effort resulted in 9 grants to 12 rural communities for a total of \$358,824.

*Wyoming Council on Rural Development*

Inspired by the difficulties many Federal, State and local government agencies, as well as private businesses, were having working with tribal entities in Wyoming, the Council sponsored a workshop that provided these officials and business leaders the knowledge necessary to develop and conduct effective working relationships with Indian Tribes and organizations.

*Question.* After the Department requested and Congress approved of the reorganization of the Department of Agriculture, wasn't the Rural Development Agency designed to change the mission and conduct a coordinated effort with State and local entities?

*Answer.* From its inception in 1990, the National Rural Development Partnership has been a vehicle that the Department of Agriculture uses to conduct a coordinated effort with State and local entities. The central role of State Rural Development Councils in building Federal, State, and local collaborations has not changed over the past decade.

*Question.* Since many of the Rural Development programs have been reduced in the fiscal year 2003 request, did the Administration consider using funds targeted for the NRDP to support critical shortfalls like low-income housing?

*Answer.* Since its founding in 1990, the National Rural Development Partnership (NRDP) has been funded by the Federal government only from the voluntary contribution of discretionary agency funds. Each State Rural Development Council is required to fund at least 25 percent of its annual budget from non-Federal funds. The National Rural Development Partnership is housed in the Department of Agriculture, but it is funded by several Federal agencies. During the 9-year period, fiscal years 1993 through 2001, five Federal agencies provided funding for the National Rural Development Partnership (Department of Agriculture-Rural Development, Labor, Transportation, Veterans, and Health and Human Services). It is the Department of Agriculture's intention to broaden the set of financial supporters of the National Rural Development Partnership for fiscal years 2002 and 2003. Total funding for the NRDP has been about \$2 to \$3 million annually, which is a relatively small portion of the cost of our Rural Development programs.

*Question.* Are the efforts within the Office of Outreach duplicative to the efforts of the NRDP and the 2501 program? Please explain.

*Answer.* No, the efforts of the National Rural Development Partnership and the Office of Outreach are not duplicative. In fact, the National Rural Development Partnership and the Office of Outreach/2501 Program have very different missions. Whereas the 2501 Program fills a very important but narrow niche, serving the needs of socially disadvantaged farmers and ranchers by heightening awareness of the Department of Agriculture programs, the National Rural Development Partnership seeks to improve the quality of life for all rural Americans by fostering inter-agency collaborations.

*Question.* Is there any way to measure success of the NRDP efforts? Do they actively help entities that lack capacity to develop strategic plans, grant writing or reporting activities after they receive Federal and/or State funds?

*Answer.* The National Rural Development Partnership can and does measure the many and varied successes of the 40 State Rural Development Councils. In fact, over 200 success stories are submitted to the National Rural Development Partnership by State Rural Development Councils in any given year. The National Rural Development Partnership network allows us to disseminate these stories widely so that successful work in one State can be adapted and implemented by the State Rural Development Councils in other States.

The National Partnership Office of the National Rural Development Partnership is currently developing a new State Rural Development Councils Accountability System designed to further capture the successes and strengths of our Councils. This Accountability System will further enhance our ability to share best practices and make a difference for rural Americans. An early version of this system is to be in place on October 1, 2002 and the full system is slated to be complete by October 1, 2005.

#### CENTRALIZED SERVICE CENTER

*Question.* The creation of the CSC was a large effort by the Department that I believe has been a great success. One of the CSC justifications was it facilitates the best of both worlds, state-of-the-art software and technology from the private sector combined with Federal supervised credit.

Does the CSC have the adequate resources to continue efficient service in the current environment and what are your plans to keep their resources up to date?

*Answer.* The Centralized Servicing Center currently has adequate resources to provide efficient services for homeowners. Major factors for continuing effective, efficient servicing in the future are technology and human resources. The technology used at Centralized Servicing Center is currently state of the art. However, constant reviews, education, and enhancements are required to integrate new technology and services as they emerge. For example, a new service offered this year is payment by phone. Homeowners can now call the Centralized Servicing Center and provide basic information from the front of a personal check and the payment can then be electronically made. There is no cost to the homeowner for this service and this process is less costly to the government than the standard payment remittance process. Also, all homeowner mortgage documents and communications are imaged and retained within the servicing system. By the end of this fiscal year our local Field Office staff will have access to these images. This will further enhance seamless servicing for our homeowners. This enhancement and others are a result of annual strategic planning sessions to identify and plan for future needs and ensure that technology and staff are allocated to changing needs. In addition, through periodic visits to other major Private Industry Mortgage Servicers, participation in the Commercial Service Bureau Users Group and participation in the Mortgage Bankers Association Technology work groups, our staff is educated on changing technology and services. In the near future, we plan to provide our customers Internet access to Centralized Servicing Center.

*Question.* There were discussions in the past that the CSC would become a Federal collection center for other Federal loans. Can you provide an update?

*Answer.* In March 2001, Treasury declined our proposal to collect Single Family Housing debt that remained following property disposition and our request to be considered to become a Federal Debt Collection Center. It is our understanding that Treasury plans to service these debts itself.

#### FSA FARM CREDIT

*Question.* The fiscal year 2003 Budget Summary includes a justification for the shift from Direct Operating and Ownership Farm Loans to Guaranteed, continuing a trend of the last decade. Additionally, the program levels in the President's budget reflect the ability for FSA to provide operating loans to 31,000 farmers in the guaranteed program and 14,500 with the direct. For ownership loan programs, levels would provide assistance to 4,500 farmers with the guaranteed farm program and 1,000 with the direct farm program. This shift will affect at risk farmers that have nowhere to turn.

The Direct Operating and Ownership Loan Programs were designed to assist farmers that could not obtain credit elsewhere. The guaranteed programs do not take the place of the direct programs in serving the same population. What will be the impact of the reduction in direct farm operating and ownership programs?

**Answer.** Administrative efforts undertaken in the guaranteed programs to reduce the paperwork burden on lenders and expedite the approval process have increased the amount of loan activity in fiscal year 2002 compared to the previous year. This increase is most dramatic in the guaranteed farm ownership loan program where use has increased by 46 percent compared to a year ago. This increased use of guaranteed loan programs will assist in fulfilling the demand for FSA loan assistance. This surge in use of the guaranteed programs by applicants previously seeking direct loans will enhance the ability of at-risk beginning and minority farmers to obtain direct loan assistance.

**Question.** What are the current backlog and the rate of obligations of funds in comparison to the previous year?

**Answer.** Use of direct operating loan funds is consistent with a year ago at this time. Use of the guaranteed loan programs has increased compared with a year ago—in the operating program, the usage has increased by 8 percent and the farm ownership program is experiencing a 46 percent increase compared to a year ago. The demand for low-interest emergency disaster loans is 57 percent less than the previous year.

**Question.** How will this change affect minority and beginning farmers?

**Answer.** Due to increased use of the guaranteed loan program by applicants previously seeking and obtaining direct loan funds, low-income minority and beginning farmers will have increased access to direct loan resources to fulfill their credit needs.

ECONOMIC RESEARCH SERVICE/NATIONAL AGRICULTURAL STATISTICS SERVICE  
AGRICULTURAL RESOURCES MANAGEMENT SURVEY

**Question.** The President's budget includes a \$2.7 million increase for ERS and a \$4.6 million increase for NASS in order to improve the Agricultural Resource Management Survey (ARMS). This survey gathers information from family farmers all over the country in order to provide USDA and other organizations with the most recent data available. The budget also proposes an increase of \$15.5 million for NASS in order to fund the activities associated with conducting the 2002 Census of Agriculture.

Please explain the differences between ARMS, which gathers information every year, and the Census of Agriculture, which gathers information every five years. Is the information gathered duplicative?

**Answer.** The Agricultural Resource Management Survey (ARMS) is an annual survey of about 1 percent of U.S. farms and obtains detailed information that can be used to measure the economic performance of farms. In addition, the ARMS is specifically designed to provide a research data base that can be used to analyze many different agricultural and resource policy issues. The ARMS is USDA's primary source of information about the current status of and changes in the financial condition, production practices, use of resources, and household economic well being of America's farmers. The ARMS supports the official USDA annual farm income estimates and the sector net income reported to the Bureau of Economic Analysis for developing annual GDP and personal income for the U.S. economy. The ARMS survey supports the Congressionally mandated commodity cost of production estimates (corn, oats, barley, sorghum, wheat, cotton and dairy) and 7 additional commodities (rice, tobacco, peanuts, sugarbeets, hogs, and cow-calf production) for which ERS receives many requests for policy analysis.

The Census of Agriculture provides county, State, and national estimates of general farm and farm operator characteristics at 5-year intervals. The estimates are based on completed questionnaires mailed to all farms. The Census reports are widely used to make spatial and temporal comparison of farm numbers, land in farms, crop and livestock production and inventories, and other farm and farm operator characteristics. The information content from the Census can be used to conduct economic analysis on farm policies at the farm level but lacks the detail needed to conduct economic analysis on farm policies for individual commodities.

Prior to the 1997 Census of Agriculture, there was duplication between the Census, ARMS, and other NASS surveys in collecting crop and livestock inventories, agricultural production, and sales. For the 1997 and 2002 Census of Agriculture, NASS and ERS made major efforts to establish consistent definitions and to minimize the duplicative data collection and overlap with ARMS. For the 2007 Census of Agriculture, steps are being taken to integrate and coordinate ARMS and other economic surveys to further remove duplicate reporting. The integrated effort will prevent duplicate reporting by farmers and reduce respondent burden.

**Question.** Please explain what the effect would be of merging the two surveys, and whether this has been considered previously.

*Answer.* The reengineering of ARMS and its integration with the Census of Agriculture will not change the overall objectives and uses of either survey. However, respondent burden will be reduced by preventing duplicate reports by farmers. The reengineered ARMS and e-Government initiative will build a questionnaire repository for “customizing” instruments to a respondent’s profile. The process will be dependent on the use of a complex sampling design and a data warehouse containing individual reported survey and Census data. With the transfer of responsibility for the Census of Agriculture to USDA, some efforts were made to coordinate the 2002 Census of Agriculture with the ARMS data collection. Changes were made in the information content so the reported estimates would be consistent and complementary. With the proposed reengineering of ARMS, both data collection efforts would be fully coordinated and integrated in the 2007 Census of Agriculture.

*Question.* Is the ARMS survey carried out on years that the Census of Agriculture questionnaires are carried out, or is there an effort to streamline efforts during those times?

*Answer.* The ARMS survey is conducted in the same year as the Census of Agriculture. The ARMS is necessary to be able to produce the annual farm sector income and balance sheet estimates. The coordination of the data collection between the Census and ARMS, however, will ensure that a respondent selected for both surveys is only contacted once.

*Question.* Is the Administration expecting to continue increasing funding for ARMS annually, or do the increases in the President’s budget raise base funding for this activity to an acceptable level?

*Answer.* Continued increases should not be necessary if this increase is provided. The survey sample size would be reinstated to its original level while at the same time providing resources to modernize survey methods and better coordinate the collection and reporting of economic data. The requested \$7.3 million for NASS and ERS raises the base annual funding level for ARMS to an adequate level. The level of funding would increase the size of the ARMS survey sample to an adequate level to generate statistically defensible results for the U.S, farm production regions, and the 15 leading States in terms of farm value of production. The funding would also provide coverage of commodities in the cost of production phase of the survey to meet legislative mandates. Without the additional funding to cover escalating survey cost, only national level estimates for the sector could be developed and with the increasing interval between the commodity cost of production survey estimates, would no longer be defensible in terms of production technologies.

#### ECONOMIC RESEARCH SERVICE

##### FOOD ASSISTANCE AND NUTRITION RESEARCH PROGRAM

*Question.* Does ERS solicit input from FNS on study and evaluation needs for the domestic food assistance programs? If so, does FNS receive feedback on how their input has been utilized? Do you believe there are gaps in the current research?

*Answer.* In developing priorities for the Food Assistance and Nutrition Research Program, the Economic Research Service (ERS) works closely with the Food and Nutrition Service (FNS), the agency responsible for administering the Department’s food assistance programs. As one part of this effort, ERS requests and FNS provides a written list of priorities each year. ERS then meets with FNS to discuss their priorities and how ERS can help meet their needs. During the past 5 years, ERS has consistently incorporated some, but not all of FNS priorities into its research plan. Limited and declining research funds for food assistance research dictate that some projects will not be funded. Beginning in fiscal year 2002, the President’s budget has provided some research funds to FNS that allow FNS to initiate some priorities directly.

##### RHS DEMONSTRATION PROGRAM

*Question.* In fiscal year 2001, Rural Housing Service was authorized to create a housing demonstration program for agriculture, aquaculture and seafood processor worker housing. What is the status of the demonstration program and what lessons were learned?

*Answer.* Public Law 106–387 Department of Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Act, 2001—authorized Rural Housing Service to establish a demonstration program to provide financial assistance grants—for agriculture, aquaculture and seafood processor workers in Mississippi and Alaska. A Request for Proposals was issued on February 12, 2001. Nine proposals were received in response to the Request for Proposals. Seven proposals were received from sponsors in Mississippi and two proposals were received from

sponsors in Alaska. Four proposals in Mississippi and two Alaska were selected for funding.

As of March 31, 2002, one project has been completed in Alaska and will be ready for occupancy by processing workers during the 2002 season. The sponsors of the other five proposals are continuing to work toward construction and we anticipate these projects getting underway within the next 12 months.

It is too early to tell how successful this demonstration will be. It is clear, though, that there is an overwhelming unmet need for processor worker housing in many parts of the country. Our staff recently attended a roundtable discussion on processor worker housing issues. This roundtable brought to light the unique problems we are facing when trying to deal with the problem. Due to agricultural producer integration, many new processing facilities have sprung up in small communities ill-equipped to handle an influx of hundreds or thousands of low-income families. As a result, many of these workers find themselves renting over-priced, substandard housing units or even sleeping in shifts in order to make the housing affordable. There are few resources available to assist these small communities in providing adequate housing for these low-income residents. Rural Housing Services's Section 514/516 Farm Labor Housing program definition does not include processor workers and is not adequately funded to deal with the problem. The Rural Housing Service Section 515 Rural Rental Housing program could be used to house processor workers if there were adequate funding, but in recent years funding levels have been low.

If a new program serving processor workers was authorized, we suggest that it would be beneficial to conduct a national pilot program. The structure of the program would be similar to the demonstration and many of the lessons learned in the demonstration could be applied to the pilot program.

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QUESTIONS SUBMITTED BY SENATOR ROBERT C. BYRD

RISK MANAGEMENT AGENCY

USDA RESPONSE TO DROUGHT CONDITIONS-AG PRODUCTION

*Question.* Weather conditions again this year do not appear promising for our Nation's farmers and ranchers. Drought conditions in the eastern United States already are resulting in water shortages, calls for restrictions on access to aquifers, and a general concern that this year's drought will be worse than those of the past 2 years. On the west coast, earlier reports of high snow packs have turned to disappointment due to a two month dry spell. In spite of these reports, the President's request does not include any funding for emergency loans and, instead, relies on carryover funds to meet anticipated needs which, according to your statement Secretary Penn, will be sufficient this year.

In 1999, drought took hold of West Virginia, along with other States, and caused long-term harm to farmers and ranchers. Cattlemen had to liquidate their herds due to lack of forage and water. I don't see how we can sit idly by when we know what is on the near horizon. According to the U.S. Drought Monitor released on March 5th, parts of the country has been in drought conditions for a period of years and the East Coast States have been suffering abnormally dry conditions since last fall. The entire State of West Virginia falls in the ranges of moderate to extreme drought.

Do you believe that crop insurance and other risk management tools are satisfactory to meet the challenges farmers and ranchers are sure to face this year due to adverse weather conditions?

*Answer.* Yes, the Risk Management Agency (RMA) has launched initiatives to satisfactorily insure that farmers and ranchers are provided with crop insurance and other risk management tools. The Agriculture Risk Protection Act of 2000 (ARPA) constituted major legislative changes that RMA implemented in stages. Premium subsidies were increased as provided by the Act. This provided producers more than \$36.7 billion in protection on over 211 million insured acres through nearly 1.3 million policies for causes of loss due to adverse weather conditions, such as drought, inability to plant due to drought, and failure of irrigation water supply.

The Dairy Options Pilot Program (DOPP) was expanded to include 300 counties. DOPP is an innovative cost-share program for dairy producers that helps dairy farmers put a "floor" under the price they receive for milk using futures and options markets.

RMA has cooperative agreements with 12 State Departments of Agriculture to provide customized risk management educational opportunities to producers in the States of Pennsylvania, Maryland, Vermont, Rhode Island, New York, Delaware,

West Virginia, Maine, New Jersey, Connecticut, New Hampshire, and Utah. RMA supplements these activities with additional risk management training in high schools, community colleges, and other forums.

RMA is continuing to develop, expand and improve its risk management tools so producers can plan, grow, and market their crops with confidence because they are backed by affordable, tailored policies that provide substantial risk protection.

*Question.* If Congress were to develop a disaster program this year due to weather conditions, how would you suggest it be crafted so as to not discourage people from buying crop insurance in the future?

*Answer.* Consider structuring any disaster benefits based on whether the producer had purchased insurance and slightly enhance the amounts for those who had insurance.

*Question.* As you work with the farm bill conferees on a package that may include assistance for the 2002 crop year, will you support efforts to provide assistance to farmers and ranchers who may suffer from weather-related losses this year?

*Answer.* The Administration continues to rely on Federal crop insurance as the primary safety net for agricultural producers. We are fully confident that crop insurance, along with other risk management tools, can provide adequate protection to meet the challenges of producers. There has been a high rate of participation in the program over the past few years and we expect to provide farmers with immediate payoffs when, and if, losses are realized. Where there isn't adequate coverage for producers, USDA also offers the Noninsured Assistance Program and emergency loans.

*Question.* Does the Department have a contingency plan to assist farmers and ranchers this year in the event weather conditions continue to worsen?

*Answer.* USDA's primary safety net for agricultural producers continues to be the Federal crop insurance program. Because it is far too early in the year to determine the degree of loss due to adverse weather conditions, we plan to continue monitoring the situation. If and when losses are realized, we are committed to provide farmers with immediate indemnity payments.

#### ELIMINATION OF WATERSHED AND FLOOD PREVENTION ACTIVITIES

*Question.* The President's budget request eliminates funding for ongoing watershed operations activities, including a program to rehabilitate flood control structures that are posing dangers to public health and safety. Instead, the President proposes to shift funding into a contingency fund for the Emergency Watershed Protection Program. This way, I understand, funds would be available for flood recovery operations when disaster strikes.

While I agree that a contingency fund for the Emergency Watershed Protection Program makes sense as a way to expedite emergency assistance to stricken areas, I find it troubling that we would have to eliminate funding for preventing measures at the same time. This strategy brings to mind the old adage of an ounce of prevention being worth a pound of cure.

There are many examples of how watershed operations have made a difference to rural communities. During May and July of 2001, catastrophic rains flooded 22 counties in Southern West Virginia. Although Raleigh County West Virginia was hit hard by these heavy rains, one small town called Sophia was spared massive damages. Why? Because the Soak Creek watershed project protected 205 homes, 46 businesses, six churches, and one school from massive flooding damage. Even in non-disaster years, this \$10.5 million watershed project provides an annual flood benefit of \$625,400. Without the Soak Creek Channel watershed project, the rains of 2001 would have been more devastating for this community.

Secretary Rey, don't you agree that a sound investment in flood control would help avoid the need for emergency response to a disaster and reduce overall costs in both dollar and human terms?

*Answer.* I agree that prevention and avoidance can help avoid emergency response to disasters. The Administration's proposal is to terminate funding to the Watershed Protection and Flood Control program and to rely more on programs administered by the Corps of Engineers and FEMA.

*Question.* Since the Corps of Engineers has jurisdiction for flood control only in large watersheds, if USDA does not have a role in flood control in small watersheds, which comprise most of rural America, who will?

*Answer.* The Corps of Engineers jurisdiction is not limited to only large watersheds and they are presently assisting several communities in small watersheds in rural America. FEMA's programs are also working with communities in rural America in helping to resolve natural resource concerns. Presently, many States have existing programs that assist communities in small watersheds in solving the natural



resource concerns. These existing programs are more efficient than the USDA's watershed program.

*Question.* Would you not agree that existing flood control structures and measures funded through USDA have prevented substantial damages over the years, and if so, why would you now want to eliminate a program that prevents floods and replace it with a program that will be forever chasing flood waters after they have already done their damage?

*Answer.* The small watershed has been in existence since 1944 with enactment of Public Law 534 and then expanded in 1954 with Public Law 566 and have prevented substantial damages in the past 58 years throughout America. The past watershed projects installed will continue to provide benefits in the future, but as times have changed, we need to reexamine the programs and fund those that are more cost effective like the programs administered by the Corps and FEMA. We also need to recognize that existing programs at the State and local level are also addressing many of these issues.

#### USDA RESPONSE TO DROUGHT CONDITIONS—RURAL COMMUNITIES

*Question.* Secretary Neruda, drought conditions do not affect only farmers and ranchers. Rural communities also suffer. Today, Berkeley County, West Virginia, is experiencing its worse water crisis of record. The county had made plans to develop a more efficient water delivery system to serve its people, but the current drought conditions have made their problems immediate and extremely serious. The springs that had been used for water supply are producing far below their norm. Quarries, which used to supplement these springs, are being pumped dry. They have appealed to me to help and I am bringing this to your attention.

Over the years, I have fought to increase the levels of funding for rural water and wastewater programs at USDA. I strongly believe that it is our obligation, as representatives of the people, to ensure that our citizens have access, at least, to the most basic of services. Without water there is no life. The drought conditions we now face have only made worse an unacceptable condition.

Berkeley County will soon be submitting an application to USDA for rural water assistance. I would like assurance from you that this application will receive your personal attention.

*Answer.* Rural Development officials have met with the Board of Directors of the Berkeley County Public Service District to discuss their circumstances. The Public Service District has identified needs that must be addressed, and is currently planning how to best meet those needs. An application for Rural Utilities Service funding was discussed; however, the Public Service District indicated that it was pursuing other possible sources of funds at this time. I will ensure that my office monitors the progress of an application if one is submitted.

*Question.* Will you please advise me when you have received this application and keep me apprised of the actions of USDA in regard to its disposition?

*Answer.* The Water and Waste Disposal program is conducted primarily at the State level. Because of that, I believe the most efficient approach would be to have my West Virginia Rural Development staff keep your staff at the State level informed of actions relating to filing and development of an application.

#### QUESTIONS SUBMITTED BY SENATOR TIM JOHNSON

##### PRIME

*Question.* One of 9 ethanol projects currently underway in South Dakota, is an innovative ethanol production and cattle feeding operation, known as (PRIME) or the Dakota Value Capture Co-op. Once complete, this project will produce approximately 20 million gallons of ethanol, and, capture the value of the wet distillers grains (byproduct from ethanol production) and employ it as an input in the feeding of cattle in an adjacent feedlot.

To help jump-start this innovative project, I worked to provide \$6 million in appropriations last year. As you know, I've been trying to get USDA to expedite their share, \$3 million, of this grant to PRIME because the Energy Dept. has already approved funding and is set to devote their share, \$3 million, to PRIME within 1-2 weeks. In a letter sent to William Hagy, Deputy Administrator of Business Programs at USDA, John Ferrell, from the Office of Fuels Development at DOE, indicates that the department intends to fund PRIME, LLC of South Dakota for an integrated ethanol complex, including an ethanol unit, waste treatment system and enclosed cattle feed lot. The application received by DOE is being processed at this time. Their disbursement of \$2.82 million is expected by the end of March 2002. The

Department states that it does not have any other open or planned solicitations or funding for a similar type project. That letter was sent to USDA on February 28, 2002.

More than 700 South Dakota farmers and ranchers have invested over \$14 million in equity toward this cooperatively held ethanol and cattle feeding project. These Ag producers deserve the cooperation of those of us at the Federal level, in accordance with the enactment of the fiscal year 2002. Agriculture Appropriations Conference Report, to do our jobs and help provide the grant assistance authorized last year.

Can you give me an update on the status of this matter and when the USDA grant will be made?

Answer. On March 29, 2002, Rural Business-Cooperative Service Administrator, John Rosso delegated authority to administer the grant funds at the State Office level to our Rural Development South Dakota State Director. The State Office is currently working with officials of Dakota Value Capture Cooperative to process and administer the Department of Agriculture grant funds. This will allow Dakota Value Capture Cooperative to work closely with the State Office to expedite this process.

*Question.* How will you help move the process along to ensure the expeditious delivery of grant funds to the project?

Answer. Mr. Rosso contacted representatives of Dakota Value Capture Cooperative on April 3, 2002, to express the need for and explain exactly what the Agency will require in order to timely process the grant. Rural Business-Cooperative Service has established a working relationship with the Department of Energy Project Officer, Dakota Value Capture Cooperative, and others to ensure that the grant funds are delivered as expeditiously as possible.

#### EWE LAMB EXPANSION PROGRAM AND LMAAP

*Question.* Last October USDA announced extending the Lamb Meat Adjustment Assistance Program (LMAAP) to July 31, 2003. New rules to extend LMAAP have yet to be published in the Federal Register. Additionally, USDA announced plans to implement a ewe lamb expansion program (through LMAAP) that would provide incentives for producers to purchase or retain breeding ewes, expand their herds, and increase the available supply of domestic lamb meat. These are the only details producers have received about this new program that was announced in October.

What is the status of the new rules extending LMAAP?

Answer. New rules to extend the LMAAP will be published in the Federal Register on March 26, 2002.

*Question.* When will the ewe lamb expansion program be released and implemented?

Answer. Information regarding the ewe-lamb expansion program will be provided on April 8, 2002, via an update to USDA document 10-LD, Lamb Meat Adjustment Assistance Program.

#### LOAN RATES

*Question.* It's my hope and goal that Congress enacts a new farm bill soon in order to provide a level of predictability to farmers with respect to what loan rates and other safety-net mechanisms will be for the 2002 crop year and beyond. Should the farm bill conferees fail to produce a final conference report on the farm bill prior to March 22nd (the so-called Easter Recess deadline), what will USDA do with respect to loan rates for the 2002 crop year?

Answer. USDA is still optimistic that Congress will complete the Farm Bill in time to set loan rates for the 2002 crop.

#### UPDATED YIELDS

*Question.* Farmers capitalized upon advances in production-agriculture technology to become more efficient and competitive. In South Dakota, producers have matched this technology with their know-how to achieve measurable crop yield improvements in recent years. The Senate farm bill recognizes this fact and allows farmers to update their yield and acreage data used to calculate farm payments. However, the House bill relies upon old yield from the 1981-1985 period to figure support.

Understanding that implementation of the new farm bill will be complicated no matter the final product, what is USDA's position with respect to whether or not producers should have the choice of updating their yields used to calculate program payments?

Answer. The process of updating yields would be time consuming, so USDA hopes the new Farm Bill can be finalized in a way to permit this to be done in an orderly

manner. We recognize that many producers have program yields which do not currently reflect their production history of recent years for some crops.

#### FARM BILL PAYMENT LIMITATIONS

*Question.* Why does the September 2001 report, "Food and Agriculture Policy-Taking Stock for the New Century" document published by USDA suggest that too few farmers are receiving too many of the Federal Government payments, yet, USDA has not supported or even taken a position on the Dorgan-Johnson-Grassley payment limitations amendments in the Senate farm bill?

*Answer.* Our policy document was primarily addressing a broader concern with the distribution of farm program benefits across all sectors of agriculture and not the narrower question/issue of the distribution of payments among traditional program crop producers. We believe that current programs have not addressed the needs of many producers as well as they have commercial producers of the few major program crops. There are many sectors of agriculture which receive relatively little assistance from Government programs and services and that was one of the concerns we were addressing. The Senate payment limitation provision addresses a narrower concern regarding the distribution of payments and benefits for producers of those few program crops. This is a somewhat different issue. The payment limit provision will have disparate effects on producers of a few major program crops in different regions of the country, but will not address the issue of providing benefits to producers of other commodities who also need assistance of various kinds. We believe the Congress is the appropriate body to address the largely regional distributional questions brought up by the Dorgan-Johnson-Grassley amendment.

#### HONEY BEE RESEARCH

*Question.* Mister Secretary, domestic honey producers and beekeepers have contacted me with deep concerns about the cuts proposed in the fiscal year 2003 USDA budget with respect to honey bee research and the Agricultural Research Service (ARS). Honey producers play an important role in the agricultural economy in South Dakota.

They are concerned with the reduction of bee research from \$5.7 million to less than \$2.5 million, given that this program comprises less than 1 percent of the total budget for ARS.

Why did the bee research program bear such a sizable reduction in this year's budget when the total program represents simply a small share of the total ARS budget?

Did USDA seek input from honey producers, beekeepers, or researchers concerning these cuts? If so, what sort of meetings or events took place to seek input on the cuts? If not, why not?

*Answer.* The President's Budget proposal actually reduces ARS' research on honeybees by \$4 million, from \$8 million in fiscal year 2002 to some \$4 million in fiscal year 2003 and represents a relatively small share of the total reduction of \$104,486,000 proposed for ARS in fiscal year 2003.

The Department based its decision to consolidate and reduce honeybee research in order to finance national high priority research initiatives in fiscal year 2002 strictly from the recommendations of the Strategic Planning Task Force, which conducted site visits and laboratory reviews at these locations. Difficult decisions had to be made within the context of overall budget limitations and the need to provide increases for high priority national initiatives such as invasive species and counterterrorism research.

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#### QUESTIONS SUBMITTED BY SENATOR THAD COCHRAN

##### PROPOSAL TO CAP UNDERWRITING GAINS

*Question.* The President's fiscal year 2003 assumes \$155.2 million in savings from a proposed appropriations bill general provision to cap crop insurance underwriting gains at 12.5 percent.

To what extent have the legislative enhancements to the crop insurance program in 2000 yielded (windfall) profits for the private insurance companies?

*Answer.* In 1999 and 2000, Congress provided emergency funding which USDA used to discount the premium producers were required to pay for crop insurance. As a result of this discount, the total acreage enrolled in the crop insurance program increased and some producers began purchasing higher levels of coverage. The Agricultural Risk Protection Act of 2000 (ARPA) further encouraged producers to shift to higher levels of coverage. ARPA increased the premium subsidy to about 60 per-

cent for the typical policy; however, there was a larger percentage increase in subsidy at the higher levels of coverage. In 1998, the crop insurance program provided coverage on about 182 million acres with total premiums of about \$1.9 billion, and in 2003 we estimate net acres insured will be about 208 million acres with total premiums of about \$2.8 billion. In other words, due to the higher Government subsidy, the insurance companies are selling higher value policies to essentially the same customers. As a result, the companies have benefited from both higher administrative expense reimbursements and higher underwriting gains.

*Question.* If the proposed cap is imposed, would sufficient incentives exist for companies to participate in the program?

*Answer.* The last year that companies experienced a loss was 1993 (-\$83 million). Since then companies have made approximately \$1.6 billion in underwriting gains, half of which was generated under the 1998 (2000 reinsurance years). These underwriting gains represent a substantial reserve in the event of another loss year.

*Question.* Why is legislative authority being requested to do this? Doesn't the Department have the administrative authority to impose this cap?

*Answer.* Yes, we could cap underwriting gains administratively by renegotiating the Standard Reinsurance Agreement (SRA). While the Department has been prohibited from renegotiating the SRA for several years, Congress provided authority in the Agricultural Risk Protection Act of 2000, to renegotiate the SRA once before 2005. However, our legislative proposal would amend Section 508(k) of the Federal Crop Insurance Act to provide permanent authority capping underwriting gains at 12.5 percent. This would also allow Congress to consider the appropriate level of underwriting gains in the same way that it has considered the appropriate level of delivery expense reimbursement; which is currently capped at 24.5 percent. In addition, implementing the cap through a general provision in the appropriations bill would allow the savings to begin to accrue immediately.

*Question.* As you may be aware, CBO has re-estimated the savings from this proposal. Rather than the \$155 million in budget authority and outlay savings included in the President's budget, CBO estimates that the proposal would save \$62 million in budget authority and no outlays in fiscal year 2003. What is the basis for the fiscal year 2003 budget authority and outlay savings estimates in the President's budget? How were they calculated?

*Answer.* The projected savings of \$115 million annually is based on actual program experience. The Department's estimate assumes the cap will be placed on each individual reinsured company. While it is a realistic estimate for a typical year with normal production conditions, the results are likely to vary from year to year. Further, The amount of savings in budget outlays that can be achieved in the first year depends upon the assumptions that are made about when the companies actually receive underwriting gains. The President's Budget assumes that these savings will be reflected in fiscal year 2003.

It is our understanding that the Congressional Budget Office's (CBO) estimate of \$62 million caps all insurance companies combined, resulting in less savings. CBO has also scored the proposal as having essentially no first year outlay savings because it assumes that the outlay savings will be delayed until the following fiscal year. While we acknowledge these differences, it is our position that the proposal has real potential for long term savings of about \$115 million annually.

*Question.* I understand that producers purchased higher levels of coverage in 2000-2001 as a result of changes made to the program in 2000. Has there also been a significant change in program participation?

*Answer.* No, there has been no other real change in program participation. Total acres covered have not increased substantially, rather, producers have chosen to shift to higher coverage levels. In 1999 and 2000, USDA used emergency funding to increase the premium subsidy as an incentive for producers to buy higher levels of coverage. ARPA further encouraged the shift to higher levels of coverage by increasing the premium subsidy to about 60 percent of the typical policy premium.

*Question.* What has been the impact of the fiscal year 2002 appropriations Act limitation on funding for risk management education programs authorized by the Federal Crop Insurance?

*Answer.* As a result of this funding limitation, the Risk Management Agency (RMA) and the Cooperative State Research, Education, and Extension Service (CSREES) have had to significantly reduce the level of educational partnering with State departments of agriculture, 1890 and 1862 Land Grant universities, and other public and private organizations. Consequently, agricultural producers will have far fewer educational opportunities to learn about existing and emerging risk management tools.

*Question.* What would be the consequence of continuing fiscal year 2003 funding for these programs at the fiscal year 2002 level?

Answer. State and local farm organizations have consistently indicated to RMA and CSREES that farmers and ranchers need strong, well-funded risk management education and information programs to help them deal with the increased pace of change in today's farming sector. Education programs for small and limited resource farmers are especially critical. The Agricultural Risk Protection Act of 2000 (ARPA) recognized the need for education and provided funding that is appropriate for that need. Programs funded at a reduced level for fiscal year 2003 would not be able to fully meet expectations for farmers and ranchers who need to be well informed on risk management, as envisioned in ARPA.

CONSERVATION PROGRAMS/NATURAL RESOURCES CONSERVATION SERVICE (NRCS)

*Question.* The budget proposes termination of USDA's ongoing watershed operations on the basis that the program provides a marginal cost-benefit ratio in terms of economic returns and environmental benefits for each dollar invested, as compared to the FEMA and Corps of Engineers' programs. Should these USDA projects, which are smaller in scale and protect rural communities, be expected to get the same return as those projects undertaken by the Corps of Engineers?

Answer. Typically, the smaller watershed projects protect lower value property, which results in lower benefits. Additionally, the majority of the active USDA watershed projects have non-monetary benefits such as improved water quality or wildlife habitat, which are not included in the benefit/cost ratio.

*Question.* Given that the Corps of Engineers currently has the authority to carry out Public Law 566 watershed and flood prevention operations but typically does not choose to carry out these smaller projects, do you believe that rural America will receive the support it needs and not be passed over for the larger projects that affect urban populations that the Corps typically funds? Will the Corps be required to support the smaller projects if the Administration's proposal is adopted?

Answer. Although the Corps of Engineers may work on any size watershed under other authorities, it is not authorized to work on Public Law 566 projects. It is our understanding that every Corps project must be Congressionally authorized. The Administration will direct the Corps to evaluate authorized Public Law 566 projects and seek Congressional authorization on those it considers a priority within overall spending limits.

*Question.* With the tremendous benefits that the Forestry Incentives Program carries out such as water quality improvement and the creation of wildlife habitats with minimal budgetary commitment, why has the President's budget proposed to terminate this program?

Answer. According to the President's budget request, the Forestry Incentives Program falls within the category of having not performed well, having a limited scope, or having goals that can be better addressed through other programs.

*Question.* Both the Senate and House versions of the Farm Bill include an increase in acreage for the Conservation Reserve Program over the current capped level of 36.4 million acres. What impact would an increase in enrollment of Conservation Reserve Program acres have on commodity prices?

Answer. Both the House and Senate farm bills would increase the CRP enrollment cap to around 40 million acres. The extent of commodity supply and price impacts of expanding CRP largely depend on actual net changes in planted acreage that occur as a result of the change in CRP enrollment levels. Typically plantings decline, but by a lesser amount than CRP acreage increases. This plus international production response mitigates commodity supply and price effects.

A recent analysis of price impacts of expanding CRP enrollment from 36.4 million acres to 40 million acres provides an indication of the magnitude of expected price changes with a higher CRP enrollment cap. This analysis evaluates the impacts of enrolling the additional 3.6 million acres in signups held in 2003 and 2004 and estimates that average prices over 2004 through 2011 would increase \$0.05 to \$0.09 per bushel for wheat, \$0.02 to \$0.06 for corn and other feed grains, \$0.07 to \$0.11 for soybeans, and around \$0.01 to \$0.03 per pound for cotton. Ranges are provided because of uncertainties inherent in long-term price projections and potential changes in future farm programs.

AGRICULTURAL RESEARCH SERVICE (ARS)

RESEARCH PROGRAM IMPLEMENTATION

*Question.* What impact is the President's budget proposal to terminate funding for Congressional add-ons having on the agency's ability to implement research activities funded for fiscal year 2002? (For example, how successful are your efforts to

recruit scientists and research staff funded for fiscal year 2002 if the President's budget proposes to terminate funding for these positions in fiscal year 2003)?

Answer. The President's Budget proposal to terminate fiscal year 2002 Congressionally-designated research projects in fiscal year 2003 affects the agency's ability to compete with both private and public science and technology organizations in the recruitment for the best and highly qualified scientists. As to be expected, highly qualified scientists are not likely to apply and the agency is forced to select from applicants not as highly qualified, in order to implement the research program. This hiring handicap can impact the quality of the research project and the long-term success of the program.

#### BASE FUNDING REDUCTION

*Question.* How did you decide where to take the \$15 million reduction in base funding proposed in the budget, i.e., which programs and locations to close or consolidate to achieve this savings?

Answer. In order to achieve the savings of \$15 million to finance proposed increases in the fiscal year 2003 ARS Budget, the Department adopted the recommendations of the Strategic Planning Task Force which conducted site visits and laboratory reviews. The Task Force was established as required by the 1996 Farm Bill, which required a 10-year strategic plan for Federal ag research facilities. The programs and locations identified for consolidation and closure in the fiscal year 2003 budget were specifically recommended in the Task Force Report.

*Question.* The budget proposes to close the Orono, Maine, and Brawley, California, ARS locations. This is a proposal we have seen in past Administration budgets. Is your current recommendation based on a recent review of these locations? What were your specific findings?

Answer. The decisions to close Orono, Maine and Brawley, California were strictly based on the Task Force recommendations and not from any recent review of these locations. However, the factors that lead to the findings and recommendations of the Task Force in 1999 are still relevant today.

#### HONEY BEE RESEARCH

*Question.* The budget proposes to close the honey bee research programs at Baton Rouge, LA; Beltsville, MD; and Tucson, AZ, and consolidate portions of these programs into the program at Weslaco, TX. The result is that the fiscal year 2003 budget proposes to reduce bee and honey research funding by 50 percent (falls from \$8 to \$4 million). Is it realistic to assume that this program consolidation will produce this level of savings and that all the honey bee research for the benefit of the United States can be conducted in one laboratory in subtropical, south Texas? For example, can genetics study really be carried out in the presence of the Africanized honey bee population in Texas?

Answer. Changes in bee research activity reflect budget priorities within the President's fiscal year 2003 budget. The budget reduces ARS' bee research effort from 19 to 9 scientists, with a reduction in funding of \$3.7 million out of \$6.4 million total. Since bee pollination provides \$15 billion in added value to crops, particularly those with a high vitamin and nutritional content, ARS will make every effort to continue critical research efforts.

The budget allows for the following bee research programs to be continued: Africanized honey bee research; some almond pollination research; bee germplasm preservation research (although the germplasm repository will be closed); miticide development for Varroa mite control (at a reduced level of effort); research in a subtropical climate applicable only to the dwindling (because of presence of the Africanized honey bee) fraction of beekeepers that overwinter their hives in the Lower Rio Grande Valley]; antibiotics for American foulbrood (at a very reduced level of effort); and honey bee vigor research (at a very reduced level of effort).

The following programs will be terminated: all bee breeding programs (since bees cannot be bred in the Africanized honey bee infested Weslaco area); the Baton Rouge Breeder Colony Service (a service that allows beekeepers to analyze hives for mite resistance); bee nutrition and artificial diet research previously conducted at Tucson; the Bee Disease Diagnosis Service at Beltsville; the Africanized Honey Bee Identification Service at Beltsville; integrated pest management (IPM) for Varroa mites; IPM for the small hive beetle; and most research on honey bee vigor.

#### LOWER MISSISSIPPI DELTA RESEARCH

*Question.* I understand that The Lower Mississippi Delta Nutrition Intervention Research Initiative is ready to proceed to the design and implementation phase and that additional funds above the base fiscal year 2002 level will be required. What

is the current (fiscal year 2002) level of funding for this project? How much is included in the fiscal year 2003 request for this project? Is the fiscal year 2003 proposed level adequate to move to the planned phase of this project? If not, what additional amount will be required? Please provide a status report on this project, including the work planned for fiscal year 2003 and each subsequent fiscal year to completion of the project, including the funding required in each fiscal year to carry out the work scheduled.

Answer. The current level of funding for this project is \$3,153,000. No additional funds were requested for fiscal year 2003. Five major surveys have been completed. They are: (1) Key Informant Survey; which determined nutrition/health problems, and strength and weaknesses of counties; (2) FOODS 2000; which determined foods eaten, food insecurity, health perceptions, participation in USDA nutrition programs, and shopping information; (3) Community Assessment; which determined assets of counties relative to nutrition interventions, location of resources, and demographic information; (4) Grocery Survey; which determined the availability and accessibility of foods in the 36 counties; (5) Focus Group Survey; which determined attitudes and knowledge about shopping for foods, food insecurity, healthy food choices, and behavioral changes.

Pretest instruments for determining food choice behaviors in low-income African-American youth were completed. Two pilot nutrition intervention projects were completed: church-based nutrition and wellness intervention for African-American women with hypertension in Louisiana, and community clinic-based nutrition and health promotion intervention for adults in rural Mississippi.

Studies proposed for each for the next 5 fiscal years if funds are available are as follows:

An additional \$6,353,000 would support the following studies: (1) pilot test measures for increasing fruit and vegetable consumption of African-American youth on the campuses of Alcorn State University, University of Arkansas at Pine Bluff, and Southern University and A&M College in Louisiana (\$1,103,000); (2) establish Community Partners in three counties/parishes: Phillips County, AR; Washington County, MS and Franklin Parish, LA. (\$2,250,000); (3) collaborate with additional Partners (for example: College of Public Health, AR; Delta State University, MS; Delta Health Alliance, MS; MS Valley State; LA, to be determined). They will be necessary for recruiting and training community nutrition workers needed for the intervention research (\$700,000); and (4) maintenance of the Capacity of the Consortium (\$2,300,000).

An additional \$6,470,000 will provide support for the following studies: (1) designing nutrition intervention research with communities in Arkansas, Louisiana, and Mississippi and developing data collection and monitoring instruments, and procedures, and begin to build community capacity. (\$2,250,000); (2) new Delta partners begin recruiting and testing training materials for community workers in the intervention research (\$1,000,000); (3) implement measures for increasing fruit and vegetable consumption of low income African-American youths on campuses of Alcorn State University, University of Arkansas at Pine Bluff and Southern University and A&M College (\$1,170,000); and (4) maintain capacity of Delta NIRI Consortium (including the completion of the validation of the Delta NIRI Food Frequency Questionnaire with the Jackson Heart Study) (\$2,050,000).

An additional \$9,522,000 would support the following studies: (1) pretest instruments for nutrition interventions and build necessary capacity in the communities in Arkansas, Louisiana, and Mississippi. (\$3,000,000); (2) recruit and train interviewers, data collectors, community nutrition workers for the interventions in Arkansas, Louisiana, and Mississippi. (\$3,500,000); (3) finalize data collection and analysis from the low-income African-American fruit and vegetable intervention, and publish (\$972,000); and (4) maintain capacity of Delta NIRI Consortium (\$2,050,000).

An additional \$10,400,000 would support for the following studies: (1) data collection, nutrition education, training of communities, implementing the nutrition interventions in Arkansas, Louisiana, and Mississippi. Maintain the capacity in communities (\$3,000,000); (2) continue the recruitment and training of community workers and assist in the beginning of analysis. (\$2,500,000); (3) pilot test the Fruit and Vegetable intervention in three other settings, including one for white low-income youth (\$2,000,000); (4) maintain the capacity of Delta NIRI Consortium (\$1,900,000); and (5) plan and develop additional pilot nutrition interventions for additional counties in Arkansas, Louisiana, and Mississippi (\$1,000,000).

An additional \$10,400,000 supports the following studies: (1) analyze intermediate variables in the interventions, while continuing the monitoring and implementation of the interventions in Arkansas, Louisiana, and Mississippi. (\$2,000,000); (2) recruitment and training of additional community workers for the new pilot interven-

tions and to keep the pool of workers available for the original interventions (\$2,500,000); (3) implement the Fruit and Vegetable interventions in the additional settings (\$2,000,000); (4) maintain the capacity of Delta NIRI Consortium (\$1,900,000); and (5) implement one additional nutrition intervention in other communities in Arkansas, Louisiana, and Mississippi (\$2,000,000).

#### HOMELAND SECURITY

*Question.* For fiscal year 2002, additional supplemental emergency appropriations were provided for the ARS to address homeland security needs. An additional \$40 million was provided for ARS salaries and expenses, of which at least \$21.7 million was to be made available for facility and operational security needs, and an additional \$73 million was provided for the National Animal Disease facilities at Ames, Iowa (+\$50 million), and Plum Island, New York (\$23 million).

Could you please update us on the agency's additional homeland security requirements and how the emergency appropriations made available for fiscal year 2002 are being spent to address these needs?

*Answer.* The fiscal year 2002 Supplemental appropriation provided \$40 million under the Salaries and Expenses account for operational security needs of ARS facilities and for increased biosecurity research. The Secretary approved an initial allocation of \$37 million for these purposes and held \$3 million in reserve to be allocated at a later date.

ARS will obligate \$21.7 million for physical security upgrades at the Agency's highest priority research facilities located at Plum Island, NY; Ames, IA; Laramie, WY; Athens, GA; Frederick, MD; Newark, DE; Beltsville, MD; Ft. Collins, CO; Albany, CA; New Orleans, LA; Peoria, IL; Wyndmoor, PA; and East Lansing, MI.

The remainder of the \$37 million, or \$15.3 million, will be used to finance critically needed research to support the biosecurity protection of agricultural animal and plant resources. ARS has allocated \$13.8 million for the development of rapid detection capacity for all priority threat agents. ARS will develop a comprehensive suite of tests for action agencies that detect pathogens at the site of the problem. The pathogens will be detected using DNA fingerprinting technology. ARS will cooperate with a consortium of university and private sector partners, but work on high consequence pathogens will be restricted to ARS Biosafety Level 3 facilities at Ames, IA; Plum Island, NY; Laramie, WY; Athens, GA; and Ft. Detrick, MD.

An additional \$1.5 million was allocated for research on Information Systems. Funding for this research will be committed to develop a database for foot and mouth disease. Genomic databases such as this will be useful in diagnostics and vaccine development. They will also be valuable to law enforcement agencies to pinpoint the origin of an outbreak.

*Question.* What is the appropriate research role of ARS relative to homeland security?

*Answer.* The most serious threats to American agriculture are those that are regulated in international trade or could destroy the confidence of Americans in their food supply. Animal pathogens, such as foot and mouth disease virus that recently ravaged England, are seen as the most potent threat. The Office of International Epizootics (OIE) provides a list of pathogens that are regulated in international commerce. USDA experts were asked to assess the animal pathogens from that list (List A) for threat potential reflecting their likely economic impact on the American economy, the availability of rapid and reliable detection or diagnostics for the disease, the availability of control measures including vaccines, and the ease of spread of these diseases and then to provide an overall assessment based on these factors. Additionally, analysis furnished by the USDA Office of the Chief Economist also supported the expert's assessment by concluding that all pathogens selected would indeed have a major economic impact in the event of an outbreak.

A number of zoonotic agents, which affect both animals and man, are currently the subject of research or control measures by other agencies, but may need to have expanded programs for research and control based specifically on their impact on animals. Among these are the causative agents of West Nile Virus, Rift Valley Fever, Nipah encephalitis, Hendra encephalitis, Western Equine Encephalitis and other encephalites. The transmissible spongiform encephalopathy, Bovine Spongiform Encephalopathy, is included as an agent of concern, as its presence in a country can have a significant negative financial impact and depressing effect on the food supply. These effects are recently observed in Japan and earlier in England and Europe.

Plants as well as animals may be subject to terrorist attack. The list of pathogens that could be used to deliberately attack crops is large and less well defined than for animals. As USDA prepares for the next phase of Homeland Security research



and control measures, the Department will revise the lists as necessary to include expanding them based on updated information and additionally identified needs for research information and control measures. These lists of pathogens and vectors, where appropriate, will be a driver for the USDA approach to providing security for the agricultural system and confidence in the food supply of this country.

As the USDA enhances its laboratory and surveillance systems to protect American agriculture from the deliberate introduction of threat agents, one of the foremost needs will be tests which can rapidly and with great accuracy and sensitivity detect the presence of pathogens in animal and plant tissues. In the case of an outbreak, portability of the detection systems would aid regulatory diagnosticians in limiting the spread of disease while preventing excessive culling of suspect populations. These rapid field tests are needed immediately because adequate vaccines are not available for the most threatening pathogens.

The Agricultural Research Service (ARS) will utilize genomic sequencing of multiple strains of threat agents of plants and animals to provide information for development of rapid nucleic acid based tests for pathogen detection and also for information for antigens for vaccine development in subsequent phases of Homeland Security. For animal pathogen rapid detection systems, ARS will work closely with the Animal and Plant Health Inspection Service to validate tests and assist in transfer of reagents and protocols to regulatory laboratories. Plant research will begin to seek resistant germplasm. ARS will also develop bioinformatics tools, including pathogen databases, to support detection system and vaccine development.

*Question.* ARS partners with land grant universities and other research institutions to conduct research. Which of these institutions have an existing capability in homeland security/bioterrorism research? Please provide a specific list, including the institution and its existing expertise.

*Answer.* ARS scientists will identify university collaborators whose research capacity will complement their own in fulfilling the ARS Homeland Security research mission. The scientists will identify collaborators with strengths in genomics of pathogens, development of detection systems, and in the validation of detection systems. Each university collaborator will be chosen to allow ARS to rapidly conduct its research to deliver validated rapid detection systems for threat agents.

*Question.* The conferees directed that funds for planning and design at Plum Island not be obligated until the Secretary submits the House and Senate Appropriations Committees the results of the Department's review of security issues at Plum Island and other locations. What is the status of this review and when can we expect to receive that report?

*Answer.* ARS entered into a contract on May 5, 2002 with Science Applications International Corporation for two feasibility studies dealing with (a) the national need for a Biosafety Level 4 Laboratory and (b) the overall operational and financial merits of rebuilding the Plum Island Animal Disease Center in place on Plum Island or siting it elsewhere. These studies are scheduled for completion on August 5, 2002.

#### ECONOMIC RESEARCH SERVICE

##### AGRICULTURAL RESOURCE MANAGEMENT SURVEY

*Question.* The President's fiscal year 2003 budget Proposal includes an increase of \$2.7 million for the Economic Research Service (ERS) to assist the National Agricultural Statistics Service (NASS) in reengineering the Agricultural Resource Management Survey (ARMS).

Please explain the need for reengineering the ARMS survey in fiscal year 2003.

*Answer.* ARMS funding has not kept pace with survey costs. The cost for conducting ARMS at the level of its inception in 1996 has increased about 35 percent. With static funds for ERS sponsored surveys, the sample size and scope of ARMS had to be reduced to offset these cost increases. Without additional funds for reengineering the ARMS, the 2003 sample size will be approximately one-half of what it was in 1996 and will seriously jeopardize ERS's ability to meet USDA data needs and provide high quality information. Instead of surveying commodities in a 3-year cycle for commodity cost of production, commodities are now surveyed on a 7-year cycle at one commodity per year. The national sample of all farms in 2003 will only support national level estimates of farm income and sector economic performance.

*Question.* What would be the specific role of ERS in reengineering the ARMS survey?

*Answer.* ERS has responsibility for determining which commodity cost of production estimates are made each year, assuring that the information content reflects the changing technology and structure of agriculture, and addressing current policy issues. ERS staff will work closely with NASS staff in all phases of the survey ad-

ministration, including the determination of appropriate sample designs, questionnaire development, enumerator training, development of computerized data edit procedures, and data analysis.

*Question.* How would the additional \$2.7 million be allocated within ERS?

*Answer.* Of the \$2,700,000, \$2,315,000 will be transferred to NASS to restore the sample size of ARMS to the level of its inception in 1996 and to provide the added samples that will allow state-level farm income estimates in the 15 major production States. In addition, \$135,000 is targeted to improve the survey response rate with promotional materials and a training workshop for survey enumerators. ERS will use \$250,000 to develop on-line WEB based data tabulation and distribution system for ERS customers. With this system, customers would be able to acquire customized summary tables from the ARMS database.

#### INVASIVE SPECIES INITIATIVE

*Question.* The budget for fiscal year 2003 also includes an increase of \$2 million to initiate a program of work to examine the economic effects of invasive pests and diseases on the global competitiveness of U.S. agriculture.

What specific information does ERS expect to obtain through this initiative that could not be extracted from other ongoing research?

*Answer.* The budget initiative will fund efforts to work jointly with USDA's Animal and Plant Health Inspection Service in adding an economic dimension to invasive species risk assessment. Knowing the value associated with various pest and disease risks, and comparing this with the costs of alternative approaches to the problem (exclusion, monitoring and detection, eradication, management, indemnity, etc.) provides a sounder basis for making decisions about effort and fund allocation among multiple pest and disease threats, and different Federal plant and animal protection programs. There is no other ongoing research that addresses this need.

*Question.* What would be the practical application of this research?

*Answer.* In addition to providing information to make sounder decisions for fund allocation, the capability to quickly develop intelligence on the economic consequences of various pest-related scenarios is also potentially useful in addressing emergency outbreaks. The initiative would provide for an ongoing program in the economics of invasive species' threats to agriculture.

*Question.* How long do you project it will take to complete this new program, and what are the anticipated out-year costs?

*Answer.* Since specific pest threats, and the economic and trade conditions under which they emerge, vary from year to year, it is envisioned that specific projects would continuously be initiated and completed under the ongoing program of work, thus providing an economic basis for addressing unanticipated requests for compensation for pest damage. Annual out-year costs are expected to be constant at the \$2 million level, but may change when the fiscal year 2004 budget is submitted.

#### NATIONAL AGRICULTURAL STATISTICS SERVICE

##### AGRICULTURAL RESOURCE MANAGEMENT SURVEY

*Question.* The President's fiscal year 2003 budget includes an increase of \$4.625 million for the National Agricultural Statistics Service (NASS) to assist the Economic Research Service (ERS) in re-engineering the Agricultural Resource Management Survey (ARMS).

Please explain the need for re-engineering the ARMS survey in fiscal year 2003.

*Answer.* ARMS is an integrated survey effort to annually monitor the overall financial status and well-being of American agriculture. This re-engineering effort will allow for consolidation of data collections and permit efficiencies in processing, leading to an overall reduction in respondent burden. To continue the collection of essential information to accurately portray the economic conditions and the production practices of the rapidly changing agricultural sector, a thorough re-engineering effort is required. Several related data series will be researched for opportunities to collaborate with the ARMS design.

The ARMS costs have increased approximately 35 percent in the past 5 years without any funding increases, resulting in significant program cuts and eroding statistical quality. In addition, the collection of Congressionally mandated cost of production data for the ERS has been delayed from a 3-year cycle to a 7-year cycle. Without funding to restore the program and funding to integrate and rebuild an efficient system, farm income and expenditure estimates as well as data for research and policy analysis will continue to erode.

*Question.* What would be the specific role of NASS in re-engineering the ARMS survey?

*Answer.* NASS is responsible for conducting the ARMS survey to ensure a quality and timely statistical data product for the use of both ERS and NASS. ERS works jointly with NASS to determine annual survey content and associated survey design issues. The vast majority of the survey re-engineering and infrastructure responsibilities fall to NASS. NASS designs the survey, maintains the sampling frames, selects the sample, develops the survey data collection instruments, conducts the data collection, builds the survey processing systems, and edits and summarizes the data. The integration of ARMS with other economic survey data collections will result in the re-engineering of these survey components. NASS has primary responsibility for the integrity of the ARMS data.

*Question.* How would the additional \$4.625 million be allocated within NASS?

*Answer.* A large portion of the funds allocated to NASS for the re-engineering effort will be devoted to staff resources. Resources have been pulled from other program areas over time to maintain the ARMS program, but for the last few years maintaining the program at an optimal level has not been possible; consequently the scope of the survey, sample sizes and commodity coverage have been trimmed. To bring the ARMS program back to optimal levels for providing high quality information and to re-engineer it for efficiencies, staff must be dedicated to planning, integrating associated data collections, re-designing, re-programming, and processing the Agricultural Resource Management Survey. Significant funds will also be allocated to data collection costs and other direct costs such as computer charges for data processing, printing, training, and survey promotion.

*Question.* What are the key differences between the ARMS survey and the Census of Agriculture that NASS conducts every 5 years?

*Answer.* ARMS is USDA's primary source of information about the current status of and changes in the financial condition, production practices, environmental impacts, use of resources, and household economic well being of America's farmers. This detailed farm and enterprise level economic information is the foundation of USDA's research and analyses that answer key questions from the Department, Congress, Executive Branch officials, and other decision-makers about the differential impacts of alternative policies and programs across the farm sector. In addition, ARMS provides data for the annual estimates of average farm income, annual estimates of farm expenditures, and provides the data for the Congressionally mandated cost of production estimates for 14 agricultural commodities.

The Census of Agriculture, conducted every 5 years, is essential for a periodic evaluation of the changing structure and demographics of American agriculture. It is the only source of consistent, comparable data at the county level. Census collected production agriculture and inventory data are comprehensive and include information for minor commodities and all States, while ARMS focuses on specific commodities, environmental practices, and financial and management issues in selected major producing States and regions.

#### CENSUS OF AGRICULTURE

*Question.* For the Census of Agriculture, the President's Budget requests an increase of \$15.935 million, due to the fact that fiscal year 2003 will be the peak year in the 5 year cycle of the Census.

Which specific activities take place during this peak year requiring so much additional funding?

*Answer.* The increased funding requested in fiscal year 2003 is needed due to many significant data collection activities occurring in 2003: completion of the labeling and ZIP-code sorting operations for roughly 3 million mail packages; mailing and follow-up data collection activities; and the processing and analysis of all Census of Agriculture records. The Computer Assisted Telephone Interview network and data validation systems to assist census respondents who utilize the toll-free information telephone lines will be brought online from a test environment. Training programs and instructional guidelines will be communicated to the NASS State offices, Puerto Rico and the outlying areas of Northern Marianas, Virgin Islands, and Guam. NASS will also purchase and install new equipment and implement the software needed to effectively and efficiently process, retrieve and view scanned questionnaire images. NASS will contract with the Commerce Department's National Processing Center for functions not supported by NASS's infrastructure. This will serve to minimize costs and provide faster, more efficient processing of the large census work loads. Later in fiscal year 2003, the Agency will devote resources to the analysis and summarization of census data.

*Question.* What would be the affect of making the Census no-year funding, in the event that we hit a budget year when it might not be possible to increase funding for the Census to meet its cyclical needs?

*Answer.* The census appropriations are no-year funds. NASS has been working to make program adjustments which would flatten the annual levels of funding; however, it is difficult to compress the collection and processing time and not have a funding spike. Providing data products as soon after the reference year as possible necessitates a funding increase proportional to the work requirements.

#### LOCALITY BASED AGRICULTURAL ESTIMATES

*Question.* The Budget request for fiscal year 2003 includes an increase of \$1 million to develop an annual integrated Locality Based Agricultural County Estimates/Small Area estimation program. Please explain the need to develop this new program. Is it not possible to extract the local area statistics that are being requested from the Census data?

*Answer.* The Locality Based Agricultural County Estimates/Small Area Estimation Program provides small area estimates on an annual basis as opposed to once every 5 years from the Census of Agriculture.

The initiative will enhance the current county estimates program by increasing the accuracy of the statistics and will allow exploration of alternate ways of integrating the Census of Agriculture with the comprehensive annual county estimates data sets. The county estimates program provides annually over 125,250 estimates to the Risk Management Agency (RMA). These estimates are currently used directly in the indemnity calculations for RMA's Group Risk Plans and the Group Risk Revenue Plans. RMA also uses NASS county estimates yield as a proxy when an individual farmer's yield history is not available. The county estimates are used as part of the risk rating process and thus have an impact on premium levels paid by producers. NASS county estimates have become even more critical to agricultural producers and RMA since the passage of The Agricultural Risk Protection Act of 2000 which provides an additional Federal investment of \$8.2 billion in the program over 5 years and mandates group-risk alternatives in the Catastrophic Risk Protection coverage.

In addition, funding of this initiative will allow satellite technology to be expanded into 3 additional major crop producing States to provide a valuable geographic information system (GIS) data layer on crops for areas other than counties. Data layers can be drawn numerous ways; for example, watersheds, townships, Indian Reservations, grain transportation zones, potential crop disease outbreak zones, and animal habitats. This allows aggregate commodity totals to be calculated for various geographic areas and uses.

#### E-GOVERNMENT

*Question.* The fiscal year 2003 budget request includes an increase of \$3 million for e-Government data dissemination and electronic data reporting to address the Government Paperwork Elimination Act (GPEA) allowing individuals to transact with NASS electronically.

What specific activities are necessary to comply with the Government Paperwork Elimination Act?

*Answer.* The GPEA mandates that agencies must offer electronic methods of transacting business with our customers, when practicable, by October 2003. NASS, USDA's statistical agency, collects primary agricultural information from voluntary responses by farmers and agri-businesses on hundreds of surveys and disseminates information to the public. Farmer reported data are protected by law. NASS published data, already electronically available, should be made more user friendly. The NASS focus to meet GPEA requirements is to develop electronic data reporting (EDR) capabilities so data providers can supply needed information in ways and times more convenient to them. To offer EDR, NASS must ensure that the EDR process does not degrade data quality, that response rates do not decline due to respondent frustration, and that the security of the reported data is not compromised. NASS has a business plan to develop the EDR architecture with a pilot scheduled for 2002. The EDR system will be deployed in 2003. NASS has identified 30 "simple and repetitive" surveys to offer Web reporting as an option for respondents in 2003. Complex surveys will not be "practicable" for EDR until they have been studied and useability tests conducted to insure data quality. In 2004, thirty additional "complex" surveys will offer web reporting. By 2006 all surveys that should offer EDR will be available, and in 2007, the Census of Agriculture will be offered electronically for data reporting. Development of the EDR system which addresses the GPEA mandate is just the first phase of transforming NASS for e-Government.

*Question.* How would the \$3 million be allocated within NASS in order to comply with the Government Paperwork Elimination Act?

*Answer.* The \$3 million will be allocated to the following areas to support the development of the NASS EDR system: EDR security including hardware, licenses, certificates, and support staff; software purchases or development, training, and supporting staff; conversion of questionnaire metadata to a new metadata repository; setup costs, travel, training and staff for useability testing; technical and general support to internal and external customers; the development of tools to link processes; training; marketing of EDR; and a project manager to oversee the implementation of the plan.

COOPERATIVE STATE RESEARCH, EDUCATION, AND EXTENSION SERVICE (CSREES)

INTEGRATED ACTIVITIES

*Question.* The fiscal year 2003 budget for the Cooperative State Research, Education, and Extension Service (CSREES) proposes to move the Critical Issues and Regional Rural Development Centers programs from the Research, Education, and Extension Activities account to the competitive Integrated Activities account. Previously, in the fiscal year 2000 budget, USDA requested and the Congress moved funding for programs such as Water Quality, Food Safety, and Pesticide Impact Assessment to the newly-authorized Integrated Activities account.

What has been the advantage of funding programs under Integrated Activities as opposed to research and education and extension accounts?

*Answer.* Programs funded under the Integrated Activities account use several authorities that CSREES has to fund projects that address the agency's research, education, and extension mission. These authorities encourage technology transfer.

Funding research, education, and extension under Section 406 of AREERA holds several advantages. The integrated program is open to a broad array of colleges and universities. All colleges and universities, including the 1890 institutions, Hispanic-serving institutions and non-land-grant colleges are eligible to compete for funds under these programs, thereby broadening the range of topics proposed and building research, extension, and education capacity in the agricultural programs of non-1862 land grant institutions. Grants under the Section 406 integrated authority are awarded competitively, as required by law; therefore all proposals are judged on technical merit with only the best projects funded. Most importantly, the integrated program more closely links the research activities with extension and education activities, and are designed to transfer results of the research to producers and the general public more quickly than pure research programs.

The Agricultural Research, Extension, and Education Reform Act of 1998, (AREERA) expanded the Special Grant authority to include extension and education activities. The Critical Issues and Regional Rural Development Centers programs will be conducted under the Special Grant authority, Section 2(c)(1)(B) of Public Law 89-106, as amended. This will allow these programs to focus on research, education, and extension activities in keeping with the expanded Special Grant authority.

*Question.* Why are Critical Issues and Regional Rural Development Centers appropriate candidates to be moved to the Integrated Activities account?

*Answer.* The proposed realignment of the Critical Issues Special Grant to the Integrated Activities account will achieve greater integration of research and extension activities. The Critical Issues Special Grant will address new or re-emerging plant and animal pests and diseases issues and will be awarded on a peer-reviewed competitive basis. The proposed combining of the Rural Development research and extension activities into a single program in the Integrated Activities account will achieve greater integration of research and extension activities. Funding in fiscal year 2003 will continue to support research and extension activities at the four Rural Development Centers located at Pennsylvania State University, Iowa State University, Mississippi State University, and Utah State University. Each Center addresses stakeholder-driven priorities within its region to enhance rural communities and foster economic development.

*Question.* Are there other research and extension programs that you suggest might be better served by being moved to the competitive Integrated Activities account?

*Answer.* Section 406 of the Agricultural Research, Extension, and Education Reform Act of 1998, authorizes an integrated, multifunctional research, education, and extension competitive grants program. Using this authority, funding has supported not only the linkage of research, education, and extension activities but also projects and programs which span and combine all three activities into one cohesive effort. As with the Food Safety and Water Quality program, an issue whose resolution

spans research, education, and extension would lend itself to an integrated, multi-functional program.

RURAL DEVELOPMENT

*Question.* The President's budget for fiscal year 2003 does not provide for new construction of rural multi-family housing and limits funding to loans for repair, rehabilitation, and preservation. As part of this proposal, USDA has initiated a study of the entire multi-family housing portfolio to determine ways to carry out the program more efficiently. Do you believe that an interruption in construction of new rural multi-family housing would be detrimental to very low-income tenants that utilize this rural housing program?

*Answer.* Rural Housing Service has an excellent track record of providing Multi-Family Housing to rural America and will continue to do so. We currently provide affordable rental homes to approximately 468,000 rural households at 17,500 properties nationwide. We provide subsidized rental units in 1,870 counties of the United States. The majority of these rental homes are occupied by some of the most vulnerable households in America, single, elderly women, and families headed by women. The average adjusted household income of residents in Rural Housing Service multifamily housing is \$8,100, a figure below 30 percent of the median rural income.

Although we have not proposed funding new construction under the Section 515 program in fiscal year 2003, we believe it is appropriate during this period to analyze the ongoing needs in rural America for multi-family housing and the costs associated with providing funding under the program. From the analysis, we will better be able to determine if the Section 515 program is the most effective method, in terms of cost to the Federal government and in delivery, in which to meet these needs.

*Question.* A significant decrease (\$250 million) in distance learning and telemedicine direct loans is proposed for fiscal year 2003. Do you not believe that such a large decrease in loans could result in a backlog for this important program that provides a crucial link between rural communities and urban medical facilities?

*Answer.* Since the Distance Learning and Telemedicine Program's inception, more than 90 percent of this program's benefits have come from grant funding. Experience indicates that rural health care clinics, and especially educational providers, simply cannot afford loans to implement their projects. In addition, schools and school districts are prohibited by law from entering into long-term debt agreements in many States. Since the program began to make loans in 1997, only \$13 million in loans have been approved over 5 years. The \$50 million in lending authority requested is sufficient to meet the demand from larger, consortium-based entities with the necessary resources to collateralize a loan.

*Question.* An important part of the rural development portfolio is the Rural Community Advancement Program (RCAP) which includes water and waste disposal grants and loans. Last year, increasing funding for the water and waste programs was a priority of this Committee. Can you give us the total backlog for the water and waste disposal program to date?

*Answer.* There are currently 497 incomplete applications and 504 applications on hand for water and waste grants for a total of 1,001. The amount requested by these applications is \$507,727,679 incomplete applications and \$498,880,923 applications for a total of \$1,006,608,602. There are currently 831 incomplete applications and 722 applications on hand for water and waste loans for a total of 1,553. The amount requested by these applications is \$1,362,365,191 incomplete applications and \$1,014,868,140 applications for a total of \$2,377,233,331.

*Question.* In the Senate Farm Bill that is now in conference with the House a provision has been included that would alleviate the backlog for not only the water and waste programs but also other programs within the rural development area. The Congressional Budget Office (CBO) scored this provision at \$454 million. This seems to be a rather conservative estimate of the backlog. Do you agree with this estimate? If the backlog for water and waste programs is cleared, where will this bring us in our effort to deliver safe drinking water and proper waste water systems to all households in America?

*Answer.* The \$454 million is a reasonable figure for the backlog of complete applications. It accounts for the funds already available for obligation in fiscal year 2002. The amount of applications changes daily as applications are approved and additional applicants apply for assistance. Also, the amount of budget authority needed changes as applications progress as some applicants will need less grant and more loan than originally applied for. The \$454 million will certainly go a long way in

getting us closer in our efforts to deliver safe drinking water and proper wastewater systems to all households in America.

*Question.* The technical assistance that circuit riders provide to communities in order to conform with the increase in drinking water regulations that affect small systems is invaluable and has been a priority of this Committee. An additional fifteen States are expected to receive a much needed third circuit rider this year due to the \$1.5 million increase provided. Do you believe that additional States would benefit from a third circuit rider if increased funds were available for fiscal year 2003?

*Answer.* We believe that additional States would benefit from an additional circuit rider if increased funds were available for fiscal year 2003. However, we had to make tough choices when developing our budget. The budget does not provide funding for additional circuit riders.

FARM SERVICE AGENCY (FSA), RURAL DEVELOPMENT (RD), NATURAL RESOURCES  
CONSERVATION SERVICE (NRCS) FIELD OFFICES

*Question.* Would you please outline your plan and time line for the review of the field office structure mentioned in the budget?

*Answer.* We have established a working group under the direction of the National Food and Agriculture Council to review the field office structure of the Farm Service Agency, Natural Resources Conservation Service and Rural Development agencies and to develop a plan for consolidating field office operations in order to improve efficiency. The target for completion of the review and implementation plan is no later than September 30, 2002.

*Question.* How was the goal of co-locating at least 200 addition offices in 2003 established and how will it be accomplished?

*Answer.* This number was arrived at during budget negotiations. The criteria used to determine the 200 offices reflects Farm Service Agency and Natural Resources Conservation Service offices that: (1) were slated for closure as part of the 1994 reorganization plans, (2) are within 25 miles drive of another office, (3) are stand-alone offices with only one agency represented, or (4) have 3 or fewer employees. The working group mentioned in the previous question is reviewing these criteria and offices, but has not completed their analysis or recommendations to date.

*Question.* With respect to restructuring or consolidating the administrative support of field offices, what are your plans and time frames? What are the "administrative support" services and functions for these offices that will be part of this effort?

*Answer.* We have established a working group for restructuring administrative functions under the National Food and Agriculture Council. The team established task groups in mid-March with plans for completing assessments and initial reports by mid-May. The administrative areas that are being reviewed include Civil Rights, procurement and contracting, administrative directives, and human resources. The project goal is to provide realistic and achievable options for significantly increasing efficiency of the administrative operations in Service Center agencies.

*Question.* What is your plan for centralizing loan servicing functions now performed by these offices?

*Answer.* During the development of the President's fiscal year 2003 budget, the Office of Management and Budget requested an analysis of the Farm Service Agency's (FSA) Farm Loan Program to ascertain if functions of that program could be centralized. The FSA has performed an internal analysis of its loan servicing methodology to determine which phases of the process might lend themselves to centralization. The next step in this analysis will be to perform a detailed cost-benefit assessment to determine if any cost savings or other efficiencies could be realized by centralizing some loan servicing activities. This cost-benefit analysis will take into consideration not only any potential cost saving, but also the impact centralization may have on loan repayments, loan subsidy rates, and overall program integrity. We expect to have the results of this assessment available in time to prepare the President's fiscal year 2004 budget.

COCHRAN FELLOWSHIP PROGRAM

*Question.* I am pleased that the budget proposes a \$1 million increase in appropriations for the Cochran Fellowship Program. I note that this increase would not only support an additional 150 program participants but the initiation of new programs in Jordan and Lebanon. Are there any other countries seeking entry into the program?

*Answer.* In addition to Jordan and Lebanon, we expect that the most likely new country for fiscal year 2003 will be Egypt. The majority of the additional funding

will be used to increase the size of the program in current countries, most likely in Asia and Latin America.

**Question.** In past years, additional support for the Cochran Fellowship Program has been provided through the emerging markets program and by AID. Is this additional support expected to continue this year and in fiscal year 2003?

**Answer.** In fiscal year 2002, the Cochran Fellowship Program received additional support from both AID and the emerging markets program: \$1.4 million from AID to support Cochran Program activities in the former Soviet Union, and \$675,000 from the emerging markets program to support Cochran Program activities in Russia, Latin America, and the Caribbean. We expect similar support in fiscal year 2003.

#### FOOD AID

**Question.** While the budget requests a substantial increase in appropriations for Public Law 480 Title II to consolidate and “improve” the delivery of food aid, food aid provided through the Commodity Credit Corporation Food for Progress and 416(b) programs is to be severely curtailed. Won't this proposal sharply reduce food aid tonnage, as compared to levels estimated to be provided this fiscal year and in fiscal year 2001? Just what is that comparison, i.e., the level of food aid tonnage proposed in the fiscal year 2003 budget as compared to the total levels estimated to be provided for fiscal year 2002 and provided in fiscal year 2001? Please provide both in terms of value of commodities and in terms of million metric tons of grain.

**Answer.** The fiscal year 2002 program level for Section 416(b) consists of \$400 million in new funding, plus carry in from fiscal year 2001. While Section 416(b) donations that rely on CCC purchases are to be phased out in fiscal year 2003, much of that reduction is offset by the \$335 million increase in Title II funding. In addition, Section 416(b) authority will be retained and USDA plans to use it to move existing surpluses of non-fat dry milk. The availability of the Bill Emerson Humanitarian Trust will allow for greater flexibility in meeting emergency food needs.

[Regarding the food aid levels for fiscal years 2001–2003, the information follows:]

#### FOOD AID PROGRAMMING—FISCAL YEAR 2001–2003

[In thousands]

Fiscal year	Public Law 480 title I <sup>1</sup>	Public Law 480 title II	Public Law 480 title III	Section 416(b)	Food in progress <sup>2</sup>	Total
<b>Commodity Costs:</b>						
2001 .....	\$105,200.0	\$438,675.0	.....	\$629,989.6	\$107,110.8	\$1,280,975.4
2002 <sup>3</sup> .....	\$108,400.0	\$500,574.8	.....	\$303,346.0	\$109,257.9	\$41,021,578.7
2003 <sup>4</sup> .....	\$106,676.0	\$555,000.0	.....	\$49,600.0	\$25,000.0	\$736,276.0
<b>Metric Tons:</b>						
2001 .....	753.2	2,134.0	.....	3,039.1	436.3	6,362.6
2002 <sup>3</sup> .....	628.3	2,545.0	.....	1,415.8	394.2	4,983.2
2003 <sup>4</sup> .....	530.0	2,765.0	.....	25.0	125.0	3,445.0

<sup>1</sup> Public Law 480 Title I column includes concessional sales portion of Title I, and not Title I-funded Food for Progress.

<sup>2</sup> Food for Progress column includes Title I-funded and CCC-funded Food for Progress.

<sup>3</sup> Fiscal year 2002 values represent estimates as of 4/10/02. Fiscal year 2002 Title II includes the commodity cost portion of carry-over (\$94.1 million) and supplemental funding (\$95 million) enacted in response to the September attacks.

<sup>4</sup> Fiscal year 2003 values are estimates submitted with fiscal year 2003 President's Budget. Section 416(b) estimate is for non-fat dry milk (from CCC inventory).

Note: Tonnages are provided in actual metric tons. Metric ton grain equivalents are not available for all programs.

**Question.** Which agencies participated in the review of the food aid programs that produced the reform proposals included in the President's fiscal year 2003 budget? What was the focus and extent of this review? Is there a report?

**Answer.** The U.S. Department of Agriculture, U.S. Agency for International Development, Department of State, Department of Treasury, National Security Council, Office of Management and Budget, and Office of the U.S. Trade Representative participated in the review. The National Security Council chaired the review.

The objective of the review was to improve the reliability, efficiency, and management of food aid programs. As a result of the review there will be increased emphasis on Public Law 480 Title II, which is the primary U.S. overseas food aid donation program. The Administration has requested a \$335 million increase in Title II funding (which is used for humanitarian and development purposes) in light of the decision to phase out Section 416(b) donations that rely on the purchase of surplus commodities by CCC.



*Question.* The U.S. Maritime Administration now reimburses USDA for one-third of the "cargo preference" law that requires 75 percent of all food aid be shipped on U.S. flag vessels when feasible. The budget proposes that these costs be fully borne by USDA. Why?

*Answer.* The budget proposes to eliminate reimbursements by the Maritime Administration to other agencies for part of cargo preference costs. The full costs of cargo preference will be funded directly through the food aid programs. The 2003 budget includes \$45 million in the Public Law 480 budget request to offset the elimination of Maritime Administration reimbursements. The Maritime Administration will continue to assist FAS and USAID in ensuring compliance with cargo preference requirements.

There are a number of different considerations behind this proposal. First, it will end problems that have arisen associated with trying to coordinate funding for shipments of food aid commodities among different agencies. Difficulties in identifying what actually constitutes increased freight costs and the time necessary to gather, transmit, and review documentation evidencing the increase have greatly added to the administrative burden and costs of operating our foreign food aid programs.

Second, in the interest of increased governmental efficiency, this proposal will eliminate a duplication in financing mechanisms for payment of cargo preference costs and an inefficient inter-governmental transfer of funds.

Third, the proposed change will eliminate delays associated with receipt of reimbursement payments, which can hamper shipments at the end of the fiscal year and affect our ability to meet program goals.

For these reasons, USDA strongly supports this proposal.

#### SUBCOMMITTEE RECESS

Senator KOHL. Our next hearing will be on Wednesday, March 20 at 2 p.m., in this room, when we will hear from representatives of the CFTC, the FDA, and the Department of Agriculture on issues of public health, nutrition and regulatory programs.

If there is no other business to come before the committee, we are recessed.

[Whereupon, at 11:53 a.m., Thursday, March 14, the subcommittee was recessed, to reconvene subject to the call of the Chair.]



**AGRICULTURE, RURAL DEVELOPMENT, AND  
RELATED AGENCIES APPROPRIATIONS FOR  
FISCAL YEAR 2003**

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**WEDNESDAY, MARCH 20, 2002**

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

The subcommittee met at 2 p.m., in room SD-138, Dirksen Senate Office Building, Hon. Herb Kohl (chairman) presiding.  
Present: Senators Kohl, Durbin, Cochran, and Stevens.

**COMMODITY FUTURES TRADING COMMISSION**

**STATEMENT OF JAMES E. NEWSOME, CHAIRMAN**

**OPENING STATEMENT OF SENATOR HERB KOHL**

Senator KOHL. The subcommittee will come to order. We welcome all of our guests here today. The number of witnesses we have and the complexity and the importance of the issues that will be covered is daunting. I cannot think of more important work than that with which you are charged here today.

Americans rely on you for nothing less than the safety and the quality of the food we eat and the drugs that we need to stay healthy. I want to make special mention of our first witness, Dr. James Newsome, chairman of the Commodity Futures Trading Commission. All the members of this subcommittee were extremely relieved that all of your employees were able to escape the Twin Towers on September 11. We commend you and all the CFTC employees for the exemplary manner in which you were able to continue your work and to look after one another immediately following the tragedy.

Our second panel here today will consist of Dr. Elsa Murano, USDA Under Secretary for Food Safety; Mr. William Hawks, Under Secretary for Marketing and Regulatory Programs; and Mr. Eric Bost, Under Secretary for Food, Nutrition and Consumer Services. The primary responsibility of these departments is keeping food safe and available at every point in the supply chain for food coming to our tables. This involves ensuring that devastating plant and animal diseases such as BSE and Foot and Mouth disease never cross our borders. It includes responsibility for expanding domestic and international marketing of U.S. agricultural products, and for working to resolve agricultural trade problems such as those now involving China and Russia.

Most importantly, it means running the programs that combat hunger in America. Hunger dulls the student. It distracts the worker, weakens the elderly and cripples the very young. Without adequate nutrition, none of our other attempts to improve the lives of Americans through government policy will mean very much.

Finally, on our third panel, we will hear from Dr. Lester Crawford, newly appointed as Deputy Administrator of the Food and Drug Administration. Yesterday it was reported that FDA plans to lift the requirement that drug makers test their products to make sure they are safe for children. I have been monitoring this situation and expect Dr. Crawford to address this at today's hearing.

We have many issues to cover today. Personally, I am interested to see how each agency is spending the supplemental funding we provided last year, and I am hopeful this information will be available at this, our last hearing on the President's budget. Following opening statements made by Senator Cochran and my other colleagues, we will hear opening statements from and ask questions of each panel individually.

We have a very full hearing today, so we ask all of our witnesses to keep their summaries brief in order to maximize the amount of time we have for questions. I will now turn to my friend and distinguished ranking member of this Committee for his opening statement.

#### STATEMENT OF SENATOR THAD COCHRAN

Senator COCHRAN. Mr. Chairman, thank you very much. I am pleased to welcome the witnesses who are here to testify before our subcommittee today. We appreciate your cooperation with our subcommittee as we review the budget request submitted to the Congress by the President. The areas coming under the jurisdiction of the agencies that are represented here today are very important and I am not going to take the time of the witnesses to make an elaborate opening statement, except to say that we are very interested in your comments about the budget request. Your assistance in helping us understand the request, the highlights and the importance of these activities, is greatly appreciated. So, we thank you for your presence.

Senator KOHL. Thank you, Senator Cochran. Before we turn to our first witness, I would ask Senator Stevens to make a few comments if he wishes.

#### STATEMENT OF SENATOR TED STEVENS

Senator STEVENS. I will have a question when the time comes, Mr. Chairman.

Senator KOHL. Thank you, Senator Stevens. Mr. Newsome, we welcome you here today, as well as Mr. Bevill. It has been a while since we have asked you to come testify before us, so we appreciate your being here today. And now you may begin your testimony.

#### STATEMENT OF JAMES E. NEWSOME

Mr. NEWSOME. Thank you very much, Mr. Chairman, Senator Cochran, Senator Stevens. I appreciate the opportunity to be here

to testify on behalf of the Commodity Futures Trading Commission. I have included detailed background information in the Commission's written testimony, so therefore I will be brief with you this morning.

Congress has charged the Commission with maintaining market integrity, and protecting market participants against fraudulent and abusive practices. These markets continue to increase in complexity and volume, with trading volumes doubling in just the last 10 years. Yet, the Commission fulfills its mission with just over five hundred employees. Last year, in addition to our normal responsibilities, we were tasked with implementing the Commodity Futures Modernization Act. However, unforeseen events would increase our workload even more.

First, two of the four largest futures exchanges were based in lower Manhattan: the New York Board of Trade and New York Mercantile Exchange. The Commission worked to assist the industry in restoring the operation of these important markets. Additionally, Mr. Chairman, as you so noted, the CFTC's New York regional office was located on the 37th floor of the first World Trade Center. Again, we are thankful that all of our employees escaped without any major physical injury.

We are particularly appreciative and grateful for the assistance of this subcommittee in securing the supplemental funding which was needed to recover and to prepare adequately for the future. We have recently completed a detailed report on both our own and our industry's efforts to recover from the attacks and to prepare, as we must, for future disasters we hope never to face. A copy of that is attached to the written statement.

Second, Enron's rapid financial deterioration last fall caused concern over whether its futures positions could be closed out without causing undue volatility or reducing liquidity. Because Enron was a large trader of energy-based contracts on the New York Merc, its trading activity has been monitored by our market surveillance staff for quite some time. The Commission staff worked closely with the clearing house and affected futures commission merchants and helped ensure an orderly closeout of Enron's positions.

The markets themselves reacted well with little or no adverse impact on volatility or liquidity. We have opened a formal investigation and have made inquiries both to Enron and other Federal agencies that are investigating Enron to determine whether their conduct violated the Commodity Exchange Act. Separately, at the request of the President, we are working with the SEC, the Fed and the Treasury to review potential improvements in accounting, auditing and disclosure practices by publicly held companies.

The President's fiscal year 2003 budget request for the Commission is \$82.8 million with a staffing level of 537 full-time equivalents. This request represents an increase of \$9.1 million, or 12 percent, above the 2002 appropriation. The request also calls for an increase of 27 staff years above the current base of 510, which is the lowest staffing level since 1988. Approximately \$5.9 million of the increase is required for the Commission to maintain its current level of services. The remaining \$3.2 million would support the additional 27 staff positions.

This request would increase and enhance the Commission's information technology capacity, as well as increasing staffing for our enforcement, market surveillance and CFMA implementation efforts. The largest portion of the requested increase, an additional 10 staff years, will be applied to ensuring that our technological capacities will provide effective oversight of an industry with platforms and products that are constantly evolving based upon technological innovations. This increase will assist all of our divisions.

The requested increase will also cover two additional positions for the enforcement program. These positions will be augmented by the dollar resources available from the anti-terrorism supplement funds which will go toward our E-law project. We believe the increase the President has requested for fiscal year 2003 is essential for the Commission to fulfill its Congressional mandate.

Our staff level has been at 592 in recent years, but I believe that we can effectively fulfill our current responsibilities with fewer than 540 FTEs if they are sufficiently well skilled and experienced. This budget request does not include funds to provide pay parity with other Federal financial regulators. However, as the only financial regulator still limited by the pay restrictions in Title V, we have recently had to pay retention allowances to our attorneys and economists in an attempt to reduce our very high turnover rates. Despite this effort, our turnover rate for 2001 of 10 percent was almost twice the government-wide average.

Among attorneys, a large professional component of our staff, the rate was 16 percent versus a government-wide average of 7 percent and an SEC rate of 10 percent. The year before it was 20 percent, and our 5 year average is now 18 percent among attorneys. Three-quarters of those who leave report doing so for financial reasons. But, fully half of these go not to the private sector, but rather to other Federal financial regulators.

#### PREPARED STATEMENT

Mr. Chairman, I respectfully request this committee's support in removing the agency from Title V restrictions regarding pay so we may successfully compete with other financial regulators in hiring and retaining the dedicated staff we need to accomplish our mission. Thank you very much, Mr. Chairman.

[The statement follows:]

#### PREPARED STATEMENT OF JAMES E. NEWSOME

Thank you, Chairman Kohl, and members of the Subcommittee. I am pleased to be here to testify before you on behalf of the Commodity Futures Trading Commission and I appreciate the opportunity to discuss issues related to the Commission's budget. I would like also to briefly review the important role of the futures markets in our economy and the role of the CFTC in overseeing those markets—and how that role has changed under the Commodity Futures Modernization Act of 2000.

#### *Background*

Futures based on agricultural products, non-agricultural physicals, and financial items have come to serve the risk management needs of businesses in virtually every sector of the U.S. economy. While farmers and ranchers continue to use futures contracts to safely lock in the prices for their crops and herds months before they come to market, manufacturers now also use futures contracts to plan their raw material costs. Exporters reduce uncertainty over the prices they receive for finished products sold overseas. Mutual fund managers and individual investors use

stock index futures to protect against market volatility. And electricity generators use futures contracts to secure stable pricing for their coal and natural gas needs.

Although the primary purpose of futures markets is risk management, it should be noted that many futures markets play another important role in the economy, that of price discovery. Many investors and businesses that are not direct participants in the futures markets nonetheless refer to the quoted prices of futures market transactions as reference points or benchmarks for other types of transactions and decisions. This is particularly important in many agricultural markets where no other means of price discovery exists outside of the quoted futures prices, but it is also true in other sectors, including many energy markets.

Congress created the Commission in 1974 as an independent agency and charged it with deterring and preventing price manipulation and other disruptions to market integrity, ensuring the financial integrity of transactions to avoid systemic risk, promoting responsible innovation and fair competition in these markets, and protecting all market participants against fraudulent or other abusive sales practices and from misuse of customer assets. The CFTC has traditionally had three operational divisions: Economic Analysis (DEA), Trading and Markets (T&M), and Enforcement (DOE). DEA has helped the Commission—through market surveillance, market analysis, and market research—to fulfill its responsibility to promote competitive markets free of manipulation or congestion. T&M has developed, implemented, and interpreted regulations that protect customers, prevent trading and sales practice abuses, and assure the financial integrity of firms that hold customer funds. DOE has investigated and prosecuted alleged violations of the Commodity Exchange Act and the Commission's rules.

Recently, to ensure its ability to properly oversee trading in single stock futures and the many other innovative products and platforms that I believe will flourish under the CFMA, we restructured our staff to make the agency more responsive, more effective, and more efficient. The main thrust of the new structure will be that functions previously performed by T&M and DEA will now be performed by two new divisions and one new office: the Division of Market Oversight, the Division of Clearing and Intermediary Oversight, and the Office of Chief Economist. Additionally, the Offices of Public Affairs and of Legislative and Intergovernmental Affairs were combined to form the new Office of External Affairs.

#### *How the CFTC Performs Its Mission*

In seeking to fulfill its mission, the Commission focuses on issues of integrity. We seek to protect the economic integrity of the futures markets so that they may operate free from manipulation or congestion. We seek to protect the financial integrity of the futures markets so that the insolvency of a single market participant does not become a systemic problem affecting other market participants or financial institutions. We seek to protect the operational integrity of the futures markets so that transactions are executed fairly, so that proper disclosures are made to customers, and so that fraudulent sales practices are not tolerated.

The Commission pursues these goals through a multi-pronged approach to market oversight. We seek to protect the economic integrity of the markets against manipulation and congestion through direct market surveillance and through oversight of the surveillance efforts of the exchanges themselves. The heart of the Commission's direct market surveillance is a large-trader reporting system, under which clearing members of exchanges, futures commission merchants (FCMs), and foreign brokers electronically file daily reports with the Commission. These reports show all trader positions above specific reporting levels set by CFTC regulations. Because a trader may carry futures positions through more than one FCM and because a customer may control more than one account, the Commission routinely collects information that enables its surveillance staff to aggregate information across FCMs and for related accounts.

Using these reports, the Commission's surveillance staff closely monitors the futures and option market activity of all traders whose positions are large enough to potentially impact the orderly operation of a market. For contracts which at expiration are settled through physical delivery, such as contracts in the energy complex, staff carefully analyzes the adequacy of potential deliverable supply. In addition, staff monitors futures and cash markets for unusual movements in price relationships, such as cash/futures basis relationships and inter-temporal futures spread relationships, which often provide early indications of a potential problem.

The Commissioners and senior staff are kept apprised of market events and potential problems at weekly surveillance meetings and more frequently when needed. At these meetings, surveillance staff briefs the Commission on broad economic and financial developments and on specific market developments in futures and option markets of particular concern.

If indications of attempted manipulation are found, the DOE investigates and prosecutes alleged violations of the Act or regulations. Subject to such actions are all individuals who are or should be registered with the Commission, those who engage in trading on any domestic exchange, and those who improperly market commodity futures or option contracts. The Commission has available to it a variety of administrative sanctions against wrongdoers, including revocation or suspension of registration, prohibitions on futures trading, cease and desist orders, civil monetary penalties, and restitution orders. The Commission may seek Federal court injunctions, restraining orders, asset freezes, receiver appointments, and disgorgement orders. If evidence of criminal activity is found, matters may be referred to State authorities or the Justice Department for prosecution of violations not only of the Commodity Exchange Act but also of State or Federal criminal statutes, such as mail fraud, wire fraud, and conspiracy. Over the years, the Commission has brought numerous enforcement actions and imposed sanctions against firms and individual traders for attempting to manipulate prices, including the well-publicized cases against Sumitomo for alleged manipulation of copper prices and against the Hunt brothers for manipulation of the silver markets.

In protecting the financial integrity of the futures markets, the Commission's two main priorities are to avoid disruptions to the system for clearing and settling contract obligations and to protect the funds that customers entrust to FCMs. Clearinghouses and FCMs are the backbone of the exchange system: together, they protect against the financial difficulties of one trader becoming a systemic problem for other traders. Several aspects of the oversight framework help the Commission achieve these goals with respect to traders: (1) requiring that market participants post margin to secure their ability to fulfill obligations; (2) requiring participants on the losing side of trades to meet their obligations, in cash, through daily (sometimes intraday) margin calls; and (3) requiring FCMs to segregate customer funds from their own funds.

The Commission also works with the exchanges and the National Futures Association (NFA) to closely monitor the financial condition of the FCMs themselves, who must provide the Commission, exchanges, and NFA with various monthly, quarterly, and annual financial reports. The exchanges and NFA also conduct annual audits and daily financial surveillance of their respective member FCMs. Part of this financial surveillance involves looking at each FCM's exposure to losses from large customer positions that it carries. As an oversight regulator, the Commission reviews the audit and financial surveillance work of the exchanges and NFA but also monitors the health of FCMs directly, as appropriate. We also periodically review clearinghouse procedures for monitoring risks and protecting customer funds.

As with attempts at manipulation, DOE investigates and prosecutes FCMs alleged to have violated financial and capitalization requirements or to have committed other supervisory or compliance failures in connection with the handling of customer business. Such cases can result in substantial remedial changes in the supervisory structures and systems of FCMs and can influence the way particular firms conduct business. This is an important part of fulfilling the Commission's responsibility for ensuring that sound practices are followed by FCMs.

Protecting the operational integrity of the futures markets is also accomplished through the efforts of several divisions. T&M has promulgated requirements that mandate appropriate disclosure and customer account reporting, as well as fair sales and trading practices by registrants. T&M has sought to maintain appropriate sales practices by screening the fitness of industry professionals and by requiring proficiency testing, continuing education, and supervision of these persons. Extensive recordkeeping of all futures transactions is also required. T&M has also monitored compliance with those requirements and supervised the work of the exchanges and NFA in enforcing the requirements.

As with the Commission's efforts to protect the economic and financial integrity of the futures markets, DOE also plays an important role in deterring behavior that could compromise the operational integrity of the markets by investigating a variety of trade and sales practice abuses that affect customers. For example, the Commission brings actions alleging unlawful trade allocations, trading ahead of customer orders, misappropriating customer trades, and non-competitive trading. We also take action against unscrupulous commodity professionals who engage in a wide variety of fraudulent sales practices against the public.

#### *September 11 and Enron*

The Commission began last year with a full plate of tasks relating to implementation of the Commodity Futures Modernization Act, but two unforeseen events would increase its workload even more: the World Trade Center attacks and the Enron bankruptcy. The New York Regional Office of the Commission was located on the



37th floor of 1 World Trade Center. Thankfully, all of our employees escaped without major physical injury. Using backup systems and with help from staff of the Chicago Regional Office and D.C. headquarters, we provided ongoing surveillance of futures markets in the hours and days immediately following the tragedy.

Two of the four largest commodity futures exchanges regulated by the CFTC were based in Lower Manhattan: the New York Board of Trade and the New York Mercantile Exchange. Both were drastically impacted on September 11 and trading did not resume on either exchange for several days. Other futures exchanges, in Chicago and elsewhere, were also impacted by events in New York, particularly by the closing of the stock markets, and experienced temporary interruptions in trading. However, in its preparedness and by its responses to this unprecedented disaster, the futures industry demonstrated foresight, resilience, and determination. Steady leadership, thoughtful contingency plans, prudent investments in redundant facilities and backup systems, the ingenuity of technical staffs, and the courage and tenacity of everyone in the industry, made possible a remarkably fast and effective resumption of trading, restoring for the U.S. economy rapid access to risk-management and price-discovery tools uniquely provided by the futures industry. The Commission, in coordination with local authorities, other Federal financial regulators in the President's Working Group on Financial Markets, the Congress, and the White House, strove to assist the industry in restoring operation of these important markets.

The Commission has been working steadily for the last 6 months to fully reestablish its permanent presence in New York City. At the end of April, the Commission will move into permanent space in Lower Manhattan from our temporary quarters in Jersey City, New Jersey. The Commission and its staff are particularly appreciative and grateful for the assistance of this Subcommittee in securing the supplemental funding we needed to recover and to prepare adequately for the future. The Commission has completed a detailed report on both its own and the industry's efforts to recover from the attacks and to prepare, as we all must, for future disasters we hope never to face. A copy of that report is attached hereto.

The Commission also found itself with new challenges following initial disclosures of Enron's financial difficulties last autumn. Because Enron was a large trader of energy-based contracts traded on NYMEX, its on-exchange activity had been monitored by our market surveillance staff for some time. However, the rapid financial deterioration of Enron last year presented an additional concern for the Commission: Could Enron's on-exchange futures positions be closed out without causing sudden price volatility or unduly reducing liquidity? In fact, Enron was but one of many significant participants in these large and liquid markets and the markets proved to be quite resilient. When its financial difficulties became known and Enron voluntarily closed out its positions, the futures markets reacted well, with little or no adverse impact on price volatility or liquidity.

As would the financial difficulties of any large futures customer, Enron's difficulties also raised concerns about the ability of the FCM, that carried Enron's on-exchange futures positions to successfully close out those positions if Enron were to fail to meet margin calls. When Enron's financial troubles became known last fall, T&M staff worked closely with the NYMEX clearinghouse and the affected FCMs to monitor and manage the closing out of these positions. By appropriately adjusting margin requirements, the clearinghouse was able to ensure that adequate Enron funds remained on deposit at the FCMs. By the time of Enron's bankruptcy filing, the risks to which FCMs were exposed, as measured by standard margin requirements, had dropped by 80 percent from only a week earlier. By mid-December, all of Enron's positions on the regulated exchanges had been liquidated. I believe this episode was a success for the system of financial controls in on-exchange futures markets. There were no disruptions to clearance and settlement system. Enron met all its obligations. No customer lost funds entrusted to any FCM. Obviously, as an oversight regulator, we will continue to look at how and why markets respond the way they do, whether well or poorly, to a situation such as this one.

As the facts surrounding Enron's collapse have unfolded over the last several months, the Commission has made a variety of inquiries both to Enron and other Federal agencies investigating Enron to determine whether Enron's conduct may have violated the Commodity Exchange Act. We are obtaining information from Enron and other sources to determine how it conducted its trading business and whether it functioned within the bounds of applicable exclusions and exemptions under the Act. The Commission is also working with the SEC, FERC, and the Justice Department to ensure that we keep each other apprised of relevant information developed in our respective investigations.

Separately, as a member of the President's Working Group on Financial Markets, I have worked with Secretary O'Neill, Chairman Greenspan, and Chairman Pitt to

review for the President potential improvements in accounting, auditing, and disclosure practices by publicly-held companies.

*Implementation of the Commodity Futures Modernization Act*

Certainly events last year caused many of us to pull attention away from previous plans and intended courses of action. But implementation of the CFMA remains the most important task before this Commission. And notwithstanding the unexpected challenges, solid progress was made last year on security futures products. We are continuing to move toward permitting trading of these new products at the earliest possible date.

As many of you know, we have issued final rules on notice registration, listing standards, self-certification of rules and rule amendments, data reporting, speculative position limits, and dual trading of single-stock futures. Together with the SEC, we have also issued final rules on determining if an index is a narrow-based index subject to joint regulation or a broad-based index subject only to our rules. With the SEC, we have published proposed rules on margin, customer funds protection issues, cash settlements, and trading halts. The NFA has developed numerous rules required by its new capacity as a limited-purpose national securities association.

Chairman Pitt and I agreed generally last year on how to best address the issues that remain before us and we issued a joint statement on December 21st, 2001, the first anniversary of the CFMA's enactment, expressing our commitment to promulgation of final rules on margin and customer funds protection at the earliest possible date, with a goal of permitting actual trading by early in the second quarter of this year. I remain committed to meeting that objective but I believe that in the long term issuing the right rules is as important as issuing rules quickly.

We are also looking forward to completing the intermediary study called for by the CFMA and are considering proposals for rule modernization. We have finalized our timeline for the phases of this important project, including individual interviews which we hope to conduct in late March and early April, public hearings planned for late April, circulation of a final report prior to June 21st, and promulgation of rule amendments as appropriate.

*Budget Request for Fiscal Year 2003*

The President's fiscal year 2003 budget request for the CFTC is \$82.8 million. That sum represents an increase of \$9.1 million (or 12 percent) over the fiscal year 2002 regular appropriation. Of that \$9.1 million, approximately \$5.9 million is required to maintain the current level of services and operations. The remaining \$3.2 million is being requested for an additional 27 staff years over the current base of 510 FTEs, which is the lowest staffing level since fiscal year 1988.

OVERVIEW OF FUNDING LEVELS AND OPERATIONAL EFFECTS

The Commission's top budget priorities are to dedicate resources to fully implement the CFMA and to invest in the technology improvements needed to increase the Commission's ability to continue fulfilling its mission in the face of the rapid technological change that is sweeping the futures industry.

Our request for 27 additional positions should improve our ability to keep pace with the rapid growth in volume, innovative products and transactions, new trading systems, evolving market practices, technological advances, and market globalization. The largest staff increase—an increase of ten—will go to information technology because the effective use of information technology is critical to our ability to fulfill our mission. It is critical that our information technology capacity stay on par with industry practices so that we can provide the timely and accurate information in a relevant format to our investigators, analysts, and attorneys.

The budget also calls for an increase in two staff years for the Enforcement program. This staff growth will be augmented by supplemental anti-terrorism intended to allow us to significantly upgrade our litigation, case, and document imaging and management systems through implementation of the "E-law" project. This system will enable staff to image all documents received or created during investigations and litigation. Those imaged documents—as well as all on-line annotations, notes, work products, and case information relevant to each matter (such as names and phone numbers for witnesses, counsel, and staff at other agencies involved in the matter, etc.)—will be available to Commission staff despite destruction of the paper documents, as happened in New York. We expect this system to increase productivity in DOE as well as to assist the Office of General Counsel and the Office of Proceedings.

In fiscal year 2003, the Market Surveillance, Analysis, and Research program will gain five positions. This 7 percent increase should allow us to keep pace with the growth in new types of exchanges and products, such as single-stock futures, as well

as provide the proper level of surveillance, exchange oversight, contract design review, and market and product studies. However, it is difficult to be sure that resource levels are adequate because so much is not known at this time about the direction of the markets. If, for example, growth in the industry outpaces the resources available to oversee the industry, several risks are introduced, including the increased possibility of undetected price manipulations and abusive trading practices. A key goal of the Commission is to ensure that its regulatory policies reflect industry developments and do not to impede beneficial market innovation. But because these markets and the products traded on them are increasingly complex, it will be difficult to meet this goal without the proper level of staff resources.

The T&M programs which will become part of our new Market Oversight and Clearing and Intermediary Oversight will together gain four positions, or 4 percent of staff, in fiscal year 2003. These functions play important roles in developing regulatory reform initiatives are key to full implementation of the CFMA. In fiscal year 2003, in addition to providing guidance to the public and industry professionals concerning compliance with the CEA, the programs will continue to review Commission rules to determine if they should be streamlined further in light of technological and market developments, to provide guidance to foster innovative transactions and electronic trading systems, and to monitor the risks to regulated industry participants by unregulated derivatives activities as well as the risks posed to registrants by their unregistered affiliates. In addition, these programs help maintain U.S. leadership in setting internationally acceptable standards for the regulation of markets and trading. Again, however, we cannot say with certainty that this increase will be sufficient because the pace of industry transition is uncertain. It is the Commission's objective to be equipped to respond as quickly as desired to these critical challenges and their associated interested parties.

Finally, the Office of the General Counsel is slated for an increase of one FTE to ensure it is able to provide for the timely review of contract market designation applications, rule changes, and proposed enforcement actions; to provide for thorough and timely review and analysis of legislation and proposed legislation affecting the Commission and in defending the Commission in appellate and other litigation; and to assist the Commission in the performance of its adjudicatory functions.

#### EMPLOYEE ATTRITION AND PAY PARITY

The Commission continues to face a serious challenge in attracting and retaining the type of highly skilled and experienced staff that is needed to operate effectively with our new responsibilities under the CFMA. The Commission must move from the role of a front-line regulator to a more flexible oversight role. Some might believe that, in this new capacity, the agency will need fewer resources than in the past. In the near term, anyway, just the opposite is true. The CFMA liberated markets and allowed innovation to flourish, creating new financial products and new trading platforms and permitting clearinghouses to respond in kind. I believe we have seen only the beginning of this exciting process.

This growth and innovation in the marketplace will provide real benefits to participants, customers, and the economy as a whole. However, because our fundamental duties have not changed, this growth and innovation will place increasingly greater demands on our resources. With new exchanges and alternate trading platforms, there is no longer a "template" to follow; rather, oversight must now be tailored to fit a variety of markets along a spectrum of regulatory classifications from basic fraud and manipulation protections to full oversight. To continue to fulfill our mission to promote markets free from congestion and manipulation and to protect market participants from fraud and abusive practices, we must have staff with the proper training and with solid experience in the markets we oversee.

All too often, however, we lose good people just as they are coming into their own as economists, commodity lawyers, and trading specialists. Our overall turnover rate is twice the Federal average. Among attorneys it is almost 20 percent annually and we have seen the average tenure of a new attorney decrease from 5 years to 3 years. In most, if not all, cases our ability to compensate skilled people lags not only far behind that of the private sector, but also well behind that of the other Federal financial regulators, where turnover rates are significantly lower. We are now the only Federal financial regulator still subject to the pay restrictions of Title V. The SEC recently was exempted from Title V but their recruitment and retention problems, according to the statistics, are less serious than our own. It is difficult enough to accept the loss of a productive employee to a higher-paying job in the private-sector but it is downright frustrating to lose such an employee to another Federal agency because of disparate pay scales. Therefore, Mr. Chairman, I respectfully request this Committee's support for removing the Commission from Title V pay re-

strictions so we may successfully hire and retain the dedicated staff we need to accomplish the important mission that we have in front of us.

Thank you for the opportunity to present our mission, responsibilities, and resource needs. I would be happy to provide answers to any questions you may have.

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COMMODITY FUTURES TRADING COMMISSION ON THE FUTURES INDUSTRY RESPONSE  
TO SEPTEMBER 11

THE ROLE OF THE FUTURES MARKETS

The Commodity Futures Trading Commission (the Commission or CFTC) is charged under the Commodity Exchange Act with deterring and preventing price manipulation and other disruptions to market integrity, ensuring the financial integrity of transactions in the commodity futures and option markets so as to avoid systemic risk, promoting responsible innovation and fair competition in these markets, and protecting all market participants against fraudulent or other abusive sales practices and from misuse of customer assets. Through oversight regulation, the CFTC enables the futures markets to serve better their two key functions in the economy: a mechanism for managing risk and a means of price discovery.

Futures markets exist primarily to provide a mechanism for managing risk, principally price risk. Producers, distributors, and users of physical commodities—as well as those exposed to fluctuation in financials such as currencies, interest rates, and stock index values—use futures contracts to manage (or “hedge”) their exposure to risk. Thus, disruption of a futures market can cause significant economic hardship for the users of these hedging tools.

Futures markets also perform a second function: they enable other markets to discover appropriate prices for commodities (and the products or services derived from commodities) by referencing quoted futures markets transactions. Businesses, investors, and even government entities throughout the economy depend upon these important price discovery mechanisms. Thus, disruption of a futures market can cause widespread economic hardship for those who look to it for price discovery information. For example, observers have noted that had the New York Mercantile Exchange, Inc. not succeeded in restoring operation of its market for futures contracts based on crude oil so quickly and smoothly after the attacks, then the domestic and global stock markets might have suffered drastically.

There are 16 domestic futures exchanges designated by the Commission as contract markets. Approximately 65,000 persons are registered as floor brokers, floor traders, introducing brokers, associated persons, futures commission merchants, and commodity trading advisors. Although contracts for agricultural commodities have been traded in the U.S. for almost 150 years, the industry has in recent years expanded rapidly into many new markets. Futures and option contracts are now offered in a vast array of financial instruments, including foreign currencies, domestic and foreign government securities, and domestic and foreign stock indices.

There are more than 240 contracts actively traded on U.S. futures exchanges, twice as many as a decade ago, and the volume of trading has also doubled in the last 10 years. The four largest exchanges are the Chicago Board of Trade (CBT), Chicago Mercantile Exchange (CME), New York Mercantile Exchange, Inc. (NYMEX), and New York Board of Trade (NYBOT) but there are other futures exchanges, regional and electronic, that also play important roles.

THE ROLE OF THE CFTC

Congress created the Commission in 1974 as an independent agency with the mandate to regulate commodity futures and option markets in the United States. The Commission consists of five Commissioners who are appointed by the President and confirmed by the Senate, one of whom is designated by the President to serve as Chairman. The CFTC headquarter offices are located in Washington, D.C. The Commission also maintains large regional offices in Chicago and New York, and smaller regional offices in Kansas City, Los Angeles, and Minneapolis.

The CFTC has three operational divisions: the Division of Economic Analysis (DEA), Division of Trading and Markets (T&M), and Division of Enforcement (DOE). DEA helps the Commission—through market surveillance, market analysis, and market research—to fulfill its responsibility to promote markets free of manipulation or congestion so that they best serve the risk-shifting and price-discovery needs of the U.S. and world economies. T&M develops, implements, and interprets regulations that protect customers, prevent trading and sales practice abuses, and assure the financial integrity of firms that hold customer funds. DOE investigates and

prosecutes alleged violations of the Commodity Exchange Act and the Commission's rules.<sup>1</sup>

The Commission also has an Office of the General Counsel (OGC), which serves as its legal advisor, and an Office of the Executive Director (OED), which provides management services to support the Commission's programs. The Office of the Chairman includes the Office of International Affairs (OIA), which assists the Commission in responding to global market and regulatory changes by coordinating the Commission's international activities; the Office of Legislative and Intergovernmental Affairs (OLIA), which facilitates communications with Congress, other Federal agencies, and State Governments; and the Office of Public Affairs (OPA), which serves as the Commission's liaison with the news media, user groups, and the general public.<sup>2</sup>

#### *Impact of the Terrorist Attacks*

The futures industry demonstrated preparedness, resilience, and flexibility in the aftermath of the attacks. NYMEX and NYBOT, despite being directly and severely impacted by the September 11 attacks, successfully responded by following established contingency plans and/or by skillfully adapting to unforeseen challenges and new operational realities. NYMEX initially resumed trading on Friday, September 14th, using internet access to its electronic trading platform. It resumed open outcry trading on Monday, September 17th, after remarkable efforts to restore the functionality of its floor trading facility located only one block from the World Trade Center. NYBOT, whose facilities in 4 World Trade Center were destroyed, moved quickly into a well-conceived, well-resourced backup facility in Queens, complete with trading rings, and resumed its open-outcry trading operations on Monday, September 17th.

The Chicago exchanges were not physically impacted and, after closing their markets to observe an industrywide day of recognition on September 12th, resumed trading in all but their equity-based contracts on September 13th. Trading by all exchanges in contracts based on U.S. equities was suspended until the reopening of the underlying stock markets.

All clearing organizations for the futures exchanges and the banks that they utilize were prepared to function as soon as the exchanges reopened. Clearing operations were fully successful upon this resumption of trading. Virtually all reporting firms (futures commission merchants, clearing members, and foreign brokers) that are required to submit large trader data to the CFTC were able to do so as soon as trading activities resumed. This was accomplished through either their main computing facilities or backup locations. The CFTC's market surveillance large trader automated computer system was not disabled in any way.

#### *Preparedness Efforts*

The firms, clearinghouses, exchanges, and industry associations that make up this important industry had in place prior to the terrorist attacks a variety of preparedness measures and contingency plans for disaster recovery and business continuity. This event produced an unprecedented opportunity for plans and preparations to be tested and, as it turned out, some organizations were better able to withstand and recover from the disruption. Plans and measures that proved most effective in preparing certain market participants to better handle this disaster can and should be held up as benchmarks, guidance, and inspiration to all market participants as the industry seeks to prepare itself, as it must, for disasters that it hopes never to face.

The CFTC, like other financial regulators, learned much about the adequacy of its own contingency plans. The CFTC had in place a Market Disruption Contingency Plan that set forth appropriate procedures to implement and relevant information to collect in the event of extreme market volatility, financial emergency, or disruption to physical or electronic facilities. During a period of such market disruption, designated CFTC staff are responsible under the Plan for: (i) collecting and analyzing information from various markets, market participants, and different self-regulatory organizations; (ii) communicating information to the Commission concerning market events and conditions and possible regulatory responses; and (iii) disseminating information and regulatory responses to markets, market participants, regulatory and self-regulatory organizations, other Federal financial regulators, Congress, and the public.

<sup>1</sup> The Commission recently announced a reorganization plan to combine key elements of DEA and T&M into a single market oversight function, and will use other elements of T&M to oversee intermediaries. A separate office of chief economist will also be established.

<sup>2</sup> The reorganization will also combine OLIA and OPA into a single Office of External Affairs (OEA).

The appropriate regulatory responses under the Plan vary from one market event to another but fall broadly into the categories of: identification and oversight of market moves, "first day" responses, subsequent follow-up and intensified oversight, and responses to particular market-related emergencies (such as the distress of a financial institution, physical emergencies, and major system malfunctions). In addition, the Commission prepared itself for potential problems connected with the year 2000 date rollover by developing contingency plans focused on failures in building infrastructure services and mission-critical information systems.

It is fair to say, however, that neither the Market Disruption Contingency Plan nor the Commission's Y2K contingency plan contemplated the scope of disaster experienced on September 11, which included the destruction or dislocation of two major exchanges and numerous trading firms combined with the destruction of a regional office of the Commission itself. Accordingly, the Commission, like many market participants, must now undertake a strategic review of every facet of its preparedness and contingency plans, both in terms of disaster recovery and business continuity. From instituting better backups of data and more complete archiving of institutional knowledge, to enhancing organizational flexibility and responsiveness in times of crisis, the Commission faces the challenge of ensuring the effective survival of its abilities to fulfill its core mission and accomplish its public policy goals.

It is the Commission's hope that—by sharing through this initial report what it has learned thus far about its own preparedness as a Federal financial regulator, and about the preparedness efforts of the exchanges, clearinghouses, and firms that it oversees—it may benefit both other financial regulators and financial services firms in other industry sectors that are also reexamining their policies, procedures, and practices in the aftermath of September 11.

This report is organized into three parts. The first part describes the efforts of the futures industry to resume operations as quickly as possible. The second part summarizes the Commission's efforts to restore its own operational capabilities and respond to administrative challenges in the aftermath of the attacks, challenges of the type also faced by many market participants displaced from the World Trade Center and surrounding area. Finally, the third part reviews what has been learned thus far about the disaster recovery and business continuity plans of both market participants and the Commission and discusses areas where further discussion, analysis, and cooperation within the industry and with the Commission may prove fruitful.

#### REOPENING THE FUTURES MARKETS

Two of the four largest commodity futures exchanges regulated by the CFTC were based in Lower Manhattan: NYBOT and NYMEX. Both were drastically impacted on September 11 and trading did not resume on either exchange for several days. Other futures exchanges, in Chicago and elsewhere, were also impacted by events in New York, particularly by the closing of the stock markets, and experienced temporary interruptions in trading.

In its preparedness and by its responses to this unprecedented disaster, the futures industry demonstrated foresight, resilience, and determination. Steady leadership, the creativity of technical staffs, and the courage and tenacity of everyone in the industry, made possible a remarkably fast and effective resumption of trading, restoring for the U.S. economy rapid access to risk-management and price-discovery tools uniquely provided by the futures industry. The Commission, in cooperation with other Federal financial regulators, Congress, and the White House, strove to assist the industry in restoring operation of these important markets.

*Tuesday, September 11*

##### *The New York Board of Trade*

NYBOT and its subsidiary exchanges were located in the World Trade Center complex. The Coffee, Sugar & Cocoa Exchange (CSCE) and the New York Cotton Exchange (NYCE) shared a trading floor in 4 World Trade Center.<sup>3</sup>

The Cantor Financial Futures Exchange (CX) had its central matching computer and terminal operations in 1 World Trade Center.<sup>4</sup> At 8:45 a.m. on September 11, NYBOT suspended trading and successfully evacuated all of its staff and members

<sup>3</sup> CSCE comprises Division A of NYBOT. NYCE, which includes two subsidiary exchanges, the New York Futures Exchange and the Citrus Associates of the New York Cotton Exchange, Inc., constitutes Division B of NYBOT. NYCE's Financial Instrument Exchange (Finex) Division also trades various currency futures products on a trading floor located in Dublin, Ireland, during non-trading hours in New York.

<sup>4</sup> Although not a subsidiary of NYBOT, CX is owned by NYCE and NYBOT members and NYBOT provides regulatory services for CX. CX trades various U.S. Treasury futures products.

from its facilities at 4 World Trade Center. By that time, the following NYBOT markets had opened for trading: NYCE's Finex Division, at 8:05 a.m., and CSCE's Cocoa market, at 8:30 a.m.<sup>5</sup>

The other NYBOT markets had not yet opened when the evacuation was ordered. The Cantor facilities were located on the highest floors of 1 World Trade Center and were destroyed with a horrendous loss of life before any evacuation could be effected. At the time of the attack, trading at CX was open on its 23-hour trading platform.<sup>6</sup>

NYBOT had in place a remarkably well thought out, well resourced contingency plan and immediately began preparing to resume trading from its back-up facility in Queens, which had been established after the 1993 bombing of the World Trade Center. It includes both a data center and a trading floor equipped with two open-outcry pits. All NYBOT trading and clearing data were fully backed up and kept current at this alternate site.

#### *The New York Mercantile Exchange*

NYMEX moved several years ago from the World Trade Center complex to One North End Avenue, several blocks away. Shortly after 9:00 a.m. on September 11, NYMEX suspended trading and successfully evacuated its facilities. At that time, the following markets had opened: on the COMEX Division, the metals markets (copper, aluminum, gold and silver) had opened at various times between 7:50 a.m. and 8:25 a.m. and the FTSE Eurotop contracts had opened at 5:00 a.m. and on the NYMEX Division, the metals markets (platinum and palladium) and the propane markets had opened at various times between 8:10 a.m. and 8:30 a.m.<sup>7</sup> Other NYMEX markets, including crude oil, unleaded gas, natural gas, and heating oil, had not opened by the time of the evacuation.<sup>8</sup>

Although it did not maintain a backup facility for open-outcry trading, NYMEX did have backup computer and data storage systems in place to support its trading and clearing activities. However, these systems were housed on Cortland Street, only one block east of the World Trade Center complex, and were inaccessible to NYMEX staff.<sup>9</sup>

NYMEX began holding emergency meetings of its board of directors on the morning of the 11. These meetings, conducted initially by conference call and later in the homes of exchange managers and hotel ballrooms, would continue around the clock. NYMEX was successful early on in contacting the White House, emphasizing the important price discovery role played by energy-based futures markets such as that for West Texas Intermediate Crude, and securing a commitment from the Federal Emergency Management Agency (FEMA) to provide its "full support" to NYMEX's recovery effort.

#### *Other Commodity Futures Exchanges*

At the time of the attack, the agricultural futures and option markets had not yet opened in Chicago, Kansas City, or Minneapolis and each of the exchanges in those cities decided not to open for trading that day. The financial contracts (interest rates and foreign exchange) had opened and were promptly closed. The New York Stock Exchange and the Nasdaq Stock Market, which do not open until 9:30 a.m., never opened on September 11. By early in the afternoon, all of the exchanges

<sup>5</sup>The Finex Division had been open for trading on the Dublin trading floor from 3:00 a.m. to 8:00 a.m., New York time, on September 11. Finex trades executed prior to the attack on September 11 cleared on the 11 using settlements from the 10th. With respect to other NYBOT markets, all open orders from September 11 were declared cancelled and any trades executed in the Cocoa market during the 15 minutes it was open were declared null and void and none were accepted for matching or clearing.

<sup>6</sup>No trades were executed during the CX trading session on September 11. All open positions on CX were subsequently closed pursuant to block transactions and trading in futures contracts was suspended effective September 17th. Trading on CX remains suspended at this time.

<sup>7</sup>The NYMEX ACCESS trading session, which had opened for most contracts at 4:00 p.m. on September 10th, ended at 9:00 a.m. on September 11. Except for the FTSE Eurotop contracts, all NYMEX futures contracts could be traded on NYMEX ACCESSR.

<sup>8</sup>All NYMEX and COMEX Division trades executed on September 11 were subsequently matched and cleared. However, due to system and processing differences between the two divisions, the procedures varied slightly. NYMEX trades executed on the trade date of September 11 were ultimately cleared using settlements from September 10th, the prior trade date. COMEX Division trades executed on the trade date of September 11 were ultimately cleared with trades done in the NYMEX ACCESSR system for the trade date of September 14th. Banking functions associated with this trading activity for both divisions were conducted on Monday, September 17th.

<sup>9</sup>NYMEX did subsequently move computers and other equipment to establish back-up systems at a location in New Jersey.

had begun discussing the issue of whether or not to attempt to resume trading on Wednesday, September 12th.

*The Regulators—Communication and Coordination*

After making the decision on Tuesday morning to send all non-essential personnel in the D.C. and other regional offices home for the remainder of the day and establishing a procedure for contacting Commission employees who had been evacuated from the New York regional office in 1 World Trade Center, the Commission's Acting Chairman convened a meeting of senior staff to address several issues of immediate concern: (1) ensuring that unauthorized access to futures exchanges would be blocked in the event economic terrorism was being contemplated from any quarter; (2) discovering as quickly as possible the situation facing each of the New York futures exchanges and providing whatever support or information possible to those exchanges; and (3) coordinating with other Federal financial regulators to keep the White House and Congress informed on the condition of the U.S. financial markets.

Concerns in the first category were quickly allayed as the Commission confirmed that all boards of trade under its supervision were closed. Commission staff next began contacting exchanges and industry associations to gather contact telephone numbers for managers of the New York exchanges. By mid-afternoon, the Commission was able to reach executives of both NYMEX and NYBOT at their homes and to learn basic information about the status of the exchanges: that the NYMEX facility appeared to be intact but might be inaccessible for some time, that the primary NYBOT facility was likely destroyed but that a backup facility existed in Queens, and, most importantly, that both exchanges appeared to have been successful in getting most of their people safely out of the World Trade Center complex.

Coordination with other Federal financial regulators had already begun by this time, enabling the Commission to inform the New York exchanges that other futures exchanges in Chicago and elsewhere, as well as the securities exchanges, had decided on their own not to open for any trading on Wednesday, September 12th, in recognition of the tragedy that had befallen their colleagues in New York's financial district.

Before noon, the CFTC had participated in a password-protected "all markets" call hosted by Nasdaq with market participants and regulators representing the stock, options, and commodity futures markets. At 1:00 p.m., the CFTC participated in the first call among the President's Working Group on Financial Markets (PWG), which is normally chaired by the Secretary of the Treasury and also includes the Chairmen of the Federal Reserve Board (Fed), the Securities and Exchange Commission (SEC), and the CFTC. Although meetings of the PWG are normally hosted at the Treasury Department, security concerns near the White House had led to closure of key Treasury offices and the PWG conference calls during this period were therefore hosted by the Vice Chairman of the Fed.

The Acting Chairman of the CFTC emphasized to the other PWG members that the futures exchanges had expressed strong concerns, with which he agreed, that it was imperative for banks, financial markets, and regulators to closely coordinate their responses to market interruptions. During this initial call, the PWG discussed the need for coordinated reopenings of the financial markets following what by then appeared would be an almost certain day of voluntary closures by all U.S. exchanges on Wednesday, September 12th. The members agreed to convene for a series of conference calls to ensure coordination of their efforts.

In a subsequent conference call on Tuesday, the PWG members confirmed that each supported the voluntary decisions of exchanges to remain closed on Wednesday, September 12th, as prudent in light of security, access, and safety concerns at some exchanges and as respectful of the tragedy that had befallen colleagues and associates. Also discussed was the assessment that the nation's financial infrastructure remained intact and strong and that trading in all financial products would resume as soon as practicable.

On Tuesday evening, the CFTC participated in another all-markets call hosted by Nasdaq, during which the major stock exchanges agreed to announce their decision to remain closed on Wednesday. Participants also discussed various operational issues. Later in the evening, the CFTC spoke again with NYBOT managers to discuss various issues, including NYBOT's offer to share scarce space and trading time at its backup facility with NYMEX. This spirit of cooperation echoed a separate invitation by NYMEX for NYBOT to share space in the NYMEX facility when access thereto could be restored.

The Commission also kept Congress apprised of events on Tuesday, September 11. Before 11:00 a.m., the Commission's Office of Legislative and Intergovernmental Affairs (OLIA) had notified the staffs of key committees of the loss of the New York regional office, the decision to send home non-essential staff, and the apparent vol-



untary closure of all futures exchanges. The Commission also monitored international developments.

On September 11, staff of the Commission's Office of International Affairs (OIA) were at the Washington, D.C. offices of the Federal Reserve, meeting with the 28 members of the joint task force on securities clearing and settlement systems, which includes members of the Committee on Payment and Settlement Systems of the Bank for International Settlements, composed of central bankers from the G10 countries and the International Organization of Securities Commissions (IOSCO), which represents securities regulators from more than 100 jurisdictions. That evening, OIA contacted the Futures Industry Association (FIA) to offer assistance and to receive any information that would be of interest to non-U.S. regulatory authorities.

*Wednesday, September 12th through Friday, September 14th*

#### *NYBOT*

NYBOT was able to make effective use of its website, updating it four or five times each day with information for traders, employees, and others, as the exchange continued to ready its backup facility and its members for the resumption of open-outcry trading there.

#### *NYMEX*

NYMEX reported that its first priority, after ascertaining the safety of evacuated staff, was to assess its facilities. Well before dawn on Wednesday, a team of managers volunteered to investigate the condition of the exchange's primary facility. New York City Police officers escorted them for part of the trip but they had to walk in the last eight blocks. The team found that emergency generators were running and that the building appeared to be in very good shape.

Notwithstanding the absence of significant damage to the facility, it would still take several days and would require overcoming many challenges, including the lack of electricity and water utilities and the need to transport large numbers staff into Manhattan via water ferry, before NYMEX could resume even its electronic trading.<sup>10</sup> NYMEX was successful in doing just that, getting key people into the facility and overcoming connectivity issues, security considerations, and software compatibility challenges in order to reopen the trading of NYMEX products on a never-before-utilized web-based version of its electronic trading platform, NYMEX ACCESSR.<sup>11</sup> Beta testing was conducted on the morning of the 14th, and trading on the system commenced at 2:30 p.m. that day.<sup>12</sup>

#### *Other Exchanges*

On Thursday, September 13th, all futures exchanges outside of New York reopened for trading. With respect to CBT and CME, the key issue was whether member firms with offices and banks located in or near the World Trade Center were able to conduct business, in particular whether they were able to meet their financial and data transmission obligations to the clearing organizations. Stock index futures and option markets remained closed because the U.S. equities exchanges, particularly the New York Stock Exchange, had not yet reopened.

#### *The Regulators*

The Commission continued to participate actively in multiple daily calls among industry participants, both directly and through the all-markets calls hosted by Nasdaq, and among the members of the PWG. To optimize the Commission's information-gathering efforts, Acting Chairman Newsome delegated to Commissioner Holum responsibility for overseeing coordination and communication with international markets and regulators, to Commissioner Spears responsibility for monitoring the agricultural and physical commodity markets, and to Commissioner Erickson responsibility for fielding issues with respect to technology and operational matters. These delegations proved to be very useful. For example, through the efforts of Commissioner Spears, the Commission was able to assist NYMEX in its efforts to regain access to its facility for key technical staff by communicating clearly

<sup>10</sup>Problems with AT&T frame relay circuits in Lower Manhattan made it impossible to accomplish electronic trading without an immediate migration from NYMEX's proprietary communications network to the internet.

<sup>11</sup>Prior to the attack, NYMEX ACCESSR utilized a closed proprietary network exclusively. The launch of the new web-based version of NYMEX ACCESSR had been scheduled for early September but had been delayed for various reasons.

<sup>12</sup>A pre-opening session was held from 2:00-2:30 p.m. NYMEX ACCESSR went down from 2:38-4:00 p.m. to correct a problem with user profiles and trading rights. Once resolved, NYMEX ACCESSR remained open until 6:00 p.m.

and quickly to the National Economic Council, which served as liaison to FEMA, the importance and urgency of NYMEX's need.

Commissioner Erickson and his staff participated in conference calls coordinated by the FIA that focused on the immediate needs of futures commission merchants (FCMs) and exchange clearing members, many of whom were directly impacted by the attacks. These firms needed to re-establish electronic contact with the clearinghouses and clearing banks so that the necessary transfers of records and funds could be made among firms, clearinghouses, and exchanges. The Managed Funds Association (MFA) was also actively reaching out to its memberships, including commodity pool operators and commodity trading advisors registered with the Commission, to facilitate communication of information to, from, and about affected members in New York.

On the market surveillance front, the Commission's DEA staff examined the positions of large traders and clearing members in equity index futures to assess financial exposures prior to the resumption of trading in equities on September 17th. CFTC staff also provided large trader position data to the surveillance staffs of NYMEX and NYBOT until they could gain access to their own surveillance systems.

OLIA continued to keep Congressional staff informed of developments and, by that afternoon, was able to update its reports to Congressional staff to inform them of the confirmed destruction of NYBOT's primary facility, the apparent survival but inaccessibility of NYMEX's facility, the availability of a NYBOT backup facility, generous offers of support within the futures community (such as CME's offer to provide NYMEX with electronic trading capability and the Minneapolis Grain Exchange's offer of space on its trading floor), the cooperative efforts of the Chicago exchanges to coordinate their reopenings in non-equity contracts, the apparent success of all clearing activities, and the cooperative efforts of the Federal financial regulators.

By Thursday morning, OLIA was able to report to Congressional staff that the safety of every employee in the Commission's New York office had been confirmed. Congressional and White House staff were invited to attend a special meeting of the Commission on Thursday to discuss the reopening of trading in non-equity based futures contracts and other market surveillance issues. Key White House and Congressional staff, as well as representatives from the Department of Agriculture, attended this meeting. As the markets closed on the first day of trading in non-equity futures contracts, OLIA reported to Congressional staff that trading was active but orderly with adequate liquidity and price variations within normal ranges on the Chicago and other Midwest exchanges.

Also during this period, OLIA kept the CFTC's Acting Chief of Staff, Executive Director, and finance staff apprised of Congressional developments pertaining to emergency funding. By Friday afternoon, OLIA was able to respond to requests from Congressional staff for information on additional funding that the Commission would need to cover both the costs of returning to normal operations in New York and the costs of additional security and emergency preparedness measures for the Commission's facilities.

On September 12th, OIA, in coordination with the Office of Commissioner Holum and at the request of Acting Chairman Newsome, took several steps to ensure that non-U.S. regulators and market authorities had open lines of communication with the Commission about both the post-attack responses of U.S. firms and markets and the consequences of the attack that might be relevant to the oversight of their own firms and markets.

OIA provided a continuously manned contact number for foreign regulators and market authorities that needed more information about specific U.S. firms or markets. In addition to assuring that CFTC contact information on the password-protected members page of the IOSCO website was kept up-to-date and communicating separately with the U.K. and German authorities (where the bulk of U.S.-related trading is conducted), OIA posted specific contact information for non-U.S. inquiries on the IOSCO web site. Discussions with other authorities allowed OIA to learn early on that European authorities had suspended trading in U.S.-based derivatives. OIA responded to requests from firms doing business in multiple jurisdictions for information on personnel and possible regulatory relief available in the U.S. OIA was in contact with Treasury's International Division and served as a conduit for certain inquiries from that section to other parts of the CFTC. OIA also worked with IOSCO to communicate information on trading resumption in U.S. equity markets. IOSCO members shared with OIA information about their markets, including information on the pricing of collective investments and derivatives with exposures to the U.S. markets and rumors of suspicious transactions.

*The Weekend, September 15th and 16th**NYBOT*

Having resolved to open for trading on Monday, September 17th, NYBOT conducted a successful mock trading session for traders on Saturday, September 15th at its backup facility which confirmed that all of its systems for trading, price dissemination, and clearing were fully operational. At that time, members also were assigned booths and phone lines, and various security measures were instituted to ensure access only by authorized members and clerks. These efforts ensured that both the exchange and the traders were prepared for a successful launch of open-outcry trading on Monday.

*NYMEX*

Although it had succeeded in rolling out its new internet trading platform, NYMEX still faced numerous operational challenges to overcome before it could resume open-outcry trading. In addition to securing electricity, water, and other utilities for its primary trading facility, the exchange had to arrange for water transportation into Lower Manhattan of more than 2,000 employees, traders, and support staff. The exchange also faced unexpected challenges, such as the failure of a backup generator. Nonetheless, by Monday morning, the NYMEX trading facility was the only building open in the World Financial Center-Battery Park City complex.

*The Regulators*

Over the weekend, CFTC staff continued to participate in several all-markets calls, which were also joined by other Federal financial regulators, in anticipation of a closely coordinated, and tightly monitored reopening of all stock, option, and equity-based futures markets on Monday morning. The regulators and exchanges agreed upon protocols for continuously open lines of communication throughout the trading day and clarified their plans for moments of observed silence at or before the opening bells.

*Monday, September 17th**NYBOT*

Because its backup facility in Queens is smaller than was NYBOT's World Trade Center facility (two trading rings, one for futures and one for related options, versus thirteen in the World Trade Center), NYBOT decided to operate reduced trading hours for each commodity, with different contracts being traded consecutively rather than concurrently. When NYBOT reopened for trading on Monday, its official trading hours for the two trading rings were as follows:<sup>13</sup>

Cocoa—7:30 to 9:00 a.m.; Coffee—9:30 to 11:00 a.m.; Sugar—11:30 a.m. to 1:00 p.m.; Cotton—1:30 to 3:00 p.m.; and FCOJ 3:30 to 5:00 p.m.

The backup facility also had only 100 booths (compared to approximately 500 in the World Trade Center) and originally had only two phone lines per booth. Because of the limitation on phone lines, the same phone number was used by customers to place orders for different futures contracts, depending on the time of day (i.e. customers were asked to call the number in the booth during the time the market they were interested in was trading in the ring). To offset this limitation, NYBOT obtained approximately 200 cell phones for use by members.

*NYMEX*

NYMEX resumed open outcry trading at One North End Avenue on Monday, September 17th, following a memorial observation, at approximately 11:45 a.m. Trading hours for the remainder of that week were as follows:

- COMEX metals and NYMEX metals and propane futures and option contracts traded in various staggered 3-hour trading sessions between 9:30 a.m. and 12:40 p.m.
- FTSE Eurotop futures contracts opened at 10:00 a.m. and closed at 11:00 a.m.
- NYMEX energy futures and option contracts traded in various staggered trading sessions between 10:30 a.m. and 1:45 p.m.

<sup>13</sup>In addition to the CSCE and NYCE contracts that traded in the rings in the backup facility, NYFE contracts traded at a post in a separate room: the NYSE Composite Index and Large Composite Index and the Russell 1000 Index and 1000 Large Index contracts were traded from 9:30 a.m. to 4:15 p.m., and the CRB Index and the SPCI were traded from 10:45 a.m. to 2:00 p.m. (later extended to 10:00 a.m. to 4:00 p.m.). Finex products were traded in New York at a post in the trading room from 8:05 a.m. to 3:00 p.m. (later changed to 9:35 a.m. to 3:00 p.m.); Finex products were traded in Dublin from 3:00 a.m. to 8:00 a.m. (EST) (later extended to 9:30 a.m.).

- Coal futures contracts opened at 11:30 a.m. and closed at 1:15 p.m.
- NYMEX ACCESSR was open from 5:00 p.m. to 8:00 p.m. and reopened at 5:00 a.m. with metals and propane contracts closing at 9:00 a.m. and other energy contracts closing at 10:00 a.m.<sup>14</sup>

#### *Other Exchanges*

In Chicago, trading in stock index futures and option contracts recommenced on Monday morning in perfect coordination with the reopening of the securities markets.

#### *The Regulators*

The Commission monitored the functioning of the futures markets closely on Monday as markets came back on line in coordination with the opening of the securities markets. DEA monitored market activity as the equity-based contract prices fell slightly but remained within very normal ranges, as energy prices also fell slightly within normal ranges. T&M monitored the financial integrity of the clearing and payment systems, confirming that intraday settlement cycles went smoothly, that customer margin obligations were being met, and that no significant operational difficulties were encountered. At mid-morning, Acting Chairman Newsome reported to the PWG that trading was proceeding in an orderly manner and that pricing generally appeared to be responding to fundamentals rather than to fear or alarm.

#### *Moving Forward, September 18th to the Present*

##### *NYBOT*

The use of exchange-issued cell phones was only a temporary solution at the backup facility. Accordingly, NYBOT had a new telephone switch installed on the weekend of September 22nd and additional lines the following week. In November, NYBOT added two trading rings to the backup facility and two more rings were opened on February 11, bringing the total to six. The new rings occupy some of the additional 16,000 square feet that NYBOT secured at this location, with some portion being utilized for support activities. The abbreviated trading hours were extended somewhat in early November with the opening of the third and fourth rings. NYBOT again extended the trading hours for each of its agricultural products when additional support space and trading rings came on line in February.

NYBOT suffered an interruption of trading at its backup (now primary) facility on November 12th when American Airlines Flight 587 crashed on Long Island, disrupting telephone service in the area. The exchange expressed concern over continuing trading when some customers might not be able to reach their floor brokers. Trading resumed the next day.

##### *NYMEX*

Since September 17th, NYMEX has slowly expanded the trading hours for both floor trading and NYMEX ACCESSR trading. At this time, trading hours are not as extensive as before September 11.

#### *Other Exchanges*

All of the commodity futures exchanges, including those in New York, have undertaken efforts to review and update their contingency plans, both for disaster recovery plans and business continuity, in the aftermath of September 11.

#### *The Regulators*

The Commission participated in daily conference calls of the PWG, which continued through the week of September 17th. As part of its efforts to assist FCMs, introducing brokers (IBs), commodity pool operators, and commodity trading advisors as they resumed operations with the full reopening of the futures and securities markets, the Commission announced on September 19th a broad package of regulatory relief measures designed to assist these market intermediaries in carrying on with business in the face of challenges presented by the attacks on the World Trade Center.

These formal measures complemented the CFTC's initial responses to issues of immediate concern to firms and exchanges as they prepared for the resumption of trading, which began the previous week in many non-equity-based futures contracts. The Commission also encouraged firms whose particular circumstances warranted relief beyond that provided in the general measures to contact the CFTC, the National Futures Association, or their designated self-regulatory organizations.

<sup>14</sup> On September 20th, NYMEX extended NYMEX ACCESSR trading hours for the natural gas futures. NYMEX ACCESSR was open from 2:00 p.m. until 8:00 p.m. and from 5:00 a.m. until 10:00 a.m.

The relief announced included notice that the CFTC would not consider September 11 through 14 as business days for the purposes of specified reporting and minimum capital requirements, notice of bulk transfer obligations, and records inspection requirements imposed by CFTC regulations. This effectively extended certain reporting deadlines and recognized that firms may have had difficulty during that week in moving funds, issuing notices, providing customers with access to records, or precisely measuring portfolio values.

Firms whose physical operations were disrupted as a result of the attacks and which were consequently unable to comply with regulations requiring that records be readily accessible and that the means to translate records stored on electronic or micrographic media be available at all times would not be required to do so for the 31-day period from September 11 through October 11. Such disrupted firms that were unable on September 11, 12, 13, or 14 to comply with requirements of specified regulations concerning the calculation of segregated funds and secured amounts were also excused from those requirements for those 4 days. For such firms that were unable to comply with the confirmation statement, transaction application, and position closeout requirements of other specified regulations on September 11 through 14, those days would not be counted by the CFTC as either business or calendar days in determining such compliance.

Some firms whose operations were disrupted by the attacks quickly resumed operations but in alternate facilities or with limited resources and, consequently, may have had difficulty complying with noon deadlines for certain segregated funds calculations. Such firms were permitted, until October 11, to extend those deadlines to the close of business on the applicable business days. Similarly, firms that were unable to access time-stamping equipment were permitted to substitute the use of reasonable alternative methods during the 10-day period from September 11 through 21st.

On October 5th, T&M issued an advisory to clarify for market participants that certain exemptive relief granted by the SEC to registered securities broker-dealers in connection with the events of September 11 would also apply to FCMs and IBs. This clarification was useful because the Commission's rule regarding minimum financial requirements for FCMs and IBs, Rule 1.17, incorporates by reference certain provisions of specified SEC rules, including SEC Rule 15c3-1, and, in connection with the events of September 11, the SEC had previously granted relief from this and certain other rules.

For example, the SEC determined that broker-dealers, when computing the amount of net capital on hand under SEC Rule 150-1, need not consider the days through October 5th as business or calendar days for purposes of taking required deductions from net capital because of failures to complete government securities transactions. Accordingly, and pursuant to authority delegated by the Commission to the Director of T&M under CFTC Rule 140.91, T&M determined to incorporate by reference any relief granted by the SEC as a consequence of the events of September 11 that pertained to any SEC rules that are incorporated by reference into the CFTC's rules. The benefit for market participants was, to the extent that capital calculations by FCMs and IBs might incorporate certain of the requirements of SEC Rule 150-1, to extend the relief granted by the SEC to securities broker-dealers with respect to those provisions to FCMs and IBs in an equal manner.

The Commission has continued to address the particularized needs of market participants. For example, T&M has issued an Advisory setting forth a mechanism by which registrants that had records lost or destroyed in the attacks may obtain regulatory relief. These registrants are permitted to submit an inventory of the lost or destroyed records that identifies them by category and date. The registrants will then only be required to reconstruct certain information specified in T&M's advisory and will be permitted to replace lost records with duplicates, if available. T&M will continue to work with individual market participants or groups that face challenges not addressed by the forms of regulatory relief announced thus far.

In addition to providing regulatory relief, the Commission monitored international developments and cooperated with foreign regulators. In September, OIA staff attended a meeting in Madrid of the IOSCO Technical Committee's Standing Committee 3 (SC3) on Regulation of Market Intermediaries and participated in SC3's discussions relating to regulatory responses to the attacks, including issues related to:

- Contingency planning regarding emergency communications with firms;
- Contingency planning regarding firms' secondary "hot pad" computer facilities;
- Contingency planning regarding lost data recovery;
- Firms' experiences regarding liquidity needs;
- Regulators' granting of temporary relief from capital requirements; and
- Issues relating to suspension of trading on some markets or of certain products.

The committee chairman suggested that SC3 conduct additional work on contingency planning and disaster recovery to take account of experiences on and after September 11.

Staff attended the Council of the Securities Regulators of the Americas (COSRA) meeting in Montreal in October, at which COSRA adopted a resolution on readiness for market disruptions that urged each jurisdiction to review the transparency and accessibility of marketplace rules (including those related to disruptions and defaults) and the sufficiency of disaster recovery arrangements. Also during October, OIA participated in a meeting of the IOSCO Technical Committee in Rome, at which the committee appointed a special project team to review contingency planning, client identification, and expanded cooperation and information sharing among securities regulators. At that time, OIA staff also attended a meeting of the IOSCO Technical Committee's Standing Committee 2 on Secondary Markets (SC2), during which OIA contributed to discussions on supervisory issues and regulatory responses. SC2 expanded its ongoing study on trading halts to examine whether existing available supervisory powers were adequate to address market emergencies posed by September 11.

#### *Cooperation with Law Enforcement Authorities*

DOE requested information from foreign authorities that regulate markets for derivatives products whose prices might have been sensitive to the terrorist attacks. Specifically, the Division focused on energy products, precious metals, interest rates, currencies, and securities indexes because these products could conceivably have been utilized by terrorists or their associates to profit from the attacks. Based on a review of derivatives markets worldwide, requests were sent to regulators in the major market centers for activity in commodities of a sensitive nature.

After receiving prior approval from the Federal Bureau of Investigation (FBI), DOE requested the following information from foreign regulators:

- Whether any person on a confidential FBI watch list was regulated by the authority or had participated in derivatives trading, either on-exchange or over-the-counter; and
- For the period from August 17th to the date of request, any suspicious transactions in any cash or derivatives market (including, but not limited to, energy products; precious metals, interest rates, currencies, and securities indexes) where a customer could have benefited from the events on September

In addition to this general request, DOE sent more specific requests for assistance to two foreign regulators. To date, no regulators have reported to DOE any suspicious transactions or persons participating in their derivatives markets. The foreign regulators continue to monitor the markets for suspicious activity that may relate to the September 11 attacks.

#### RESTORING COMMISSION OPERATIONS

Beginning on the morning of September 11, the Commission and its staff faced the challenge of responding simultaneously to unprecedented situations on two fronts. First, as the oversight regulator for an important segment of the financial services industry, the Commission needed to assess the condition of the futures markets, to monitor and assist in whatever manner possible with their recovery, and to keep the executive and legislative branches of the Federal Government informed of the situation. These efforts were described in Part I of this report.

Fulfilling its responsibilities to the markets and the public required the Commission and its staff to simultaneously overcome an internal challenge: restoring the full functionality of an agency that had lost one of its two largest regional offices and had been forced by security concerns to evacuate most of staff from its Washington, D.C. headquarters and its remaining regional offices. This involved extraordinary efforts in personnel management, facilities acquisition, telecommunications, budget modification, and even mail handling. Those efforts are described in this part of the report. Challenges in the area of information technology that faced the Commission are described in Part III.

#### *The First Two Weeks*

Events unfolded rapidly during the morning of September 11 and the Commission had to respond to administrative challenges on multiple fronts. First, all employees except essential senior staff were evacuated from headquarters and regional offices. Essential staff remained to coordinate efforts with other Federal financial regulators and the exchanges, to locate New York staff, and to respond to questions from the public.

OED quickly established a "control room" in the Commission's executive conference room in Washington, D.C. and equipped it with a bank of phone lines. Key

staff manned these phone lines on September 11 and 12, locating New York staff, sharing information on the Employee Assistance Program (EAP), and fielding incoming calls.

Immediately after the first attack, OED began compiling a list of New York employees and home phone numbers. An ongoing attempt to contact each employee began. The task was difficult due to the lack of a central database of emergency contact information, the absence of current phone numbers and addresses in the personnel files of some employees, and the difficulty of getting calls through to New York. The Enforcement staff in New York had established a phone tree prior to this event, and as a result, the New York Division of Enforcement was able to contact its staff quickly. Diligence and internet search tools proved useful in contacting other New York staff. The last New York employee was tracked down on Thursday morning.

The Commission used its outgoing voicemail system to communicate information about the status of the Washington, D.C. office and about the National Futures Association (NFA) Hotline, which offered to assist in fielding calls from the public and the industry. NFA subsequently issued a press release about its availability to assist in answering questions.

The Commission's EAP provider was instructed to provide immediate counseling for employees and their families, particularly in New York, which included 24-hour one-on-one telephone counseling, face-to-face individual and family counseling for New York employees, and the formation of EAP-facilitated support groups. On September 20th, New York employees were provided the opportunity to share their experiences with each other at a hotel in Newark. Commissioners, division directors, and other senior managers attended the session.

Other employee issues presented administrative challenges. (For example, payroll data was to have been entered on the 10 and 11. In spite of the disruptions, all payroll data was successfully entered and D.C. timekeepers continued to enter payroll data for the New York staff through November.) The Commission's website, [www.cftc.gov](http://www.cftc.gov), proved to be a valuable tool during this period. Because it was operated by another entity and hosted at a remote location, the website was updated and operated without interruption even when CFTC staff were evacuated and CFTC servers were taken off-line for security reasons. As a result, CFTC employees, including displaced New York employees accessing the internet from home computers, had access to up-to-date Commission information. OED continued to add information to the Commission's public website and its intranet, including information on the NFA hotline, EAP information, and links to other relevant websites. OED established a special section of the website for password access by New York staff.

To enable those New York employees who felt ready to do so to participate in the efforts to restore market operations, OED acquired phone cards and temporary cell phones and configured laptop computers. New York phone numbers were forwarded to all CFTC offices and new e-mail addresses and a new network for New York were set up on the servers in Washington, D.C.

With its offices in the World Trade Center destroyed, an immediate priority for the Commission was finding temporary and long-term replacement space. The General Accounting Office confirmed that the Commission could accept an offer of free temporary space from Burson-Marsteller, a public relations firm, which supplied fifty New York employees with phones, cubicles, office supplies, and fax and copying capabilities. Commission staff covered many administrative details, such as notifying all Commission registrants that filings which had previously been sent to New York should now be sent to Washington, D.C. or Chicago. Meanwhile, Commission staff coordinated with the agency's real estate agent to begin the search for permanent space in a markedly different Manhattan office market.

To deal with the unforeseen costs arising from the events in New York, the Commission submitted a supplemental appropriations request to OMB on September 13th to cover expenses in three categories: immediate responses, recovery efforts, and going-forward preparedness. The request was later amended on October 4th to reflect higher than expected costs to acquire and build-out replacement office space and a variety of human resource needs not fully reflected in the original submission. OMB immediately approved certain emergency funds for apportionment by the end of the 2001 fiscal year.

#### *The Next Four Weeks*

The Commission's administrative staff were largely occupied during the remainder of September and most of October with negotiating leases for both short-term office space in Jersey City, New Jersey, and permanent space in Lower Manhattan. OED also arranged additional EAP counseling sessions. Weekly meetings with a permanent space project team—consisting of the Commission's real estate represent-

ative, project manager, a data and security consultant, an architectural firm, an engineering firm, and a construction company—proved effective, particularly with the inclusion of a manager from the New York regional office who could relay the concerns of New York staff.

On the human front, the Commission arranged a ceremony to recognize the special sacrifices and dedication to service of the New York employees. The program included a presentation of the Commission flag to the New York staff and follow-up consultations with EAP counselors.

The White House submitted on October 17th a recommended supplemental budget request for the CFTC to cover the costs of restoring the New York office to its previous capabilities and additional funds to cover the cost of developing an information technology disaster recovery plan.

#### *Moving beyond the Immediate Aftermath*

Once a final agreement for temporary space in Jersey City was reached, the Commission next arranged for equipment rental, moving services, and the configuration of computer and telecommunications networks to enable an early December move-in date. Meanwhile, the lease for permanent space at 140 Broadway was finalized and buildout plans developed.

On the budget front, the Commission received a confirmed supplemental appropriation of \$16.9 million to fund restoration of the New York regional office and various preparedness needs, including network redundancy, security program enhancements, fault tolerant system designs, and operational continuity.

Administrative challenges continued to complicate the Commission's full return to normal operations. For example, the anthrax threat forced OED to consult the Center for Disease Control, the General Services Administration, and the Office of Personnel Management in preparing a response to mail contamination. Ultimately, the Commission asked the U.S. Postal Service to hold all Washington, D.C. mail pending test results and any required treatment of CFTC facilities. Mail for the New York office, which was being routed through Washington, D.C. was held as a precautionary measure. OED found alternative means of managing Commission business by, for example, working with vendors to develop alternative methods of invoicing. All tests results were negative and mail service resumed in early December.

#### *What Worked Well*

Various aspects of the Commission's response to the attacks and the loss of its New York regional office were very successful. The EAP, which was not in place in 1993 when many of the current New York staffers were also with the Commission, was effective in providing immediate support. Cooperation and teamwork among the Commissioners also proved to be a success story. For example, Commissioner Erickson's help was key in locating the interim temporary space for New York staff. More generally, communication technologies, such as cellular phones and laptop computers, but most particularly a website accessible from virtually anywhere a displaced New York employee might be, proved invaluable in keeping the organization working together as a cohesive team.

#### *Issues to Address*

Although the CFTC had some emergency procedures in place, these should be improved. The Commission must develop an effective emergency procedures manual to specify roles and responsibilities and should distribute both home and office copies of this manual to all employees. In addition, employees should be given updated procedures on how to contact each other and a central point of contact. Emergency procedures, including communication protocols, should be periodically updated and employees should receive regular training therein.

If the CFTC's Washington, D.C. telephone contractor had not happened to have been in the building at the time of the attacks, OED may not have been able to set up the bank of phones in the control room. Thus, emergency access to the vendor or the development of such skills with the staff is advisable. It may also be advisable to establish a toll-free number for employees and employees in all offices should have an emergency procedures card with clear instructions on how to call-in. A global emergency message should be prepared for distribution to the main phone line as well as individual phones at any affected location. The ability to reach every employee at home should be improved by maintaining an up-to-date database of employee contact information. Toward that end, OED is working on such a database and is evaluating the manner in which to collect and maintain employee home phone, address, and emergency contact information, in light of concerns with privacy, security, and rapid accessibility in case of need. OED is also evaluating e-mail and other alternatives to cell phone contacts, for use when call volume spikes and



calls will not go through. Other administrative responsibilities also merit attention. For example, the Commission must ensure that property records are updated on a regular basis. An incomplete inventory of furniture, equipment, and supplies in the New York office complicated recovery efforts.

Perhaps, most importantly, and as discussed in Part III of this report, the Commission must analyze and improve upon its data backup, redundancy, storage, and retrieval capabilities to better ensure that critical information, whether first created at headquarters or at one of the regional offices, is not lost in a disaster.

#### INITIAL REVIEW OF PREPAREDNESS EFFORTS

In this segment of the report, the Commission reviews what has been learned thus far about the preparedness—particularly contingency plans for disaster recovery and business continuity (DRBC plans)—of both itself as a Federal financial regulator and of the various market participants that play such important roles in the smooth, reliable, and efficient operation of the commodity futures markets. In addition to conducting internal analyses of the various responses to the attacks, the Commission has solicited the input of market participants in several ways thus far. In October, Acting Chairman Newsome wrote to the exchanges, clearinghouses, and NFA to request their assistance in completing an initial survey, which is described below. In November, Commissioner Erickson chaired a meeting in Chicago of the Commission's Technology Advisory Committee, which was attended by Acting Chairman Newsome and numerous industry leaders, to discuss the responses of market participants to the attacks and their aftermath. These initial outreach efforts, together with informal discussions with market participants, have already provided invaluable insights—many of which are reflected below—and the Commission looks forward to a continued productive dialogue with market participants.

#### *Preparedness of Market Participants*

To learn more about the preparedness of market participants, both prior to September 11 and moving forward, a survey approach was taken. Two dozen of the largest FCMs were asked to describe both their immediate reactions to the disaster and their contingency plans. The U.S. futures exchanges, their affiliated clearinghouses, and the NFA were each asked to summarize immediate responses to the disaster, to assess which responses were most effective, to describe potential improvements identified thus far, and to suggest industry-wide initiatives or regulatory actions that may be desirable. These institutions also submitted to the Commission copies of their existing contingency plans.

#### *The Futures Commission Merchants*

FCMs play a crucial risk intermediation role in the commodity futures markets by serving as the front-line defense against the financial difficulties of individual traders rippling through and becoming systemic problems. Accordingly, because of their importance to the integrity and smooth functioning of the markets and because many FCMs were directly affected by the attacks upon the World Trade Center, the Commission and the NFA cooperatively undertook a survey of two dozen of the largest FCMs to learn about the State of their DRBC efforts. All firms responded. This survey covered topics including the level of detail in formal DRBC plans, how such plans actually worked during the disaster, and any anticipated changes or improvements identified thus far.

The survey results revealed that nearly all firms had documented disaster recovery plans in place and that these were periodically tested and kept up-to-date on an ongoing basis. The plans generally contemplated interruptions in the availability of public utilities and provided for the use of alternative trading platforms or substitute marketplaces. The firms differed in their approaches to communicating these plans to employees, however, with some firms communicating plans throughout their organizations periodically but others not heretofore having contemplated doing so until after an event occurs. The plans generally included provisions for alternative office space and transportation to such space.

All firms duplicated essential computer and telecommunications systems at backup facilities and routinely backed up essential data. Most backup facilities and data storage facilities are located some distance from the main facilities, but a few are close, some within a mile or less. In the latter cases, these firms are revisiting their plans in light of September 11. Nearly all firms have duplicated critical staff competencies to some extent. They use various methods to accomplish this duplication, including cross-training, having employees perform similar functions at geographically dispersed sites, and designating back-up duties.

Of the 18 firms surveyed that were directly impacted by the events of September 11, all were generally satisfied with the performance of their disaster recovery and

business continuity plans. Concerns were expressed, however, that such plans did not fully anticipate the severity of these events in terms of the geographic scope and duration of the disruptions, and the impact on communications systems. Many firms had difficulties caused by the widespread nature of the disaster and the disruptions to telecommunications services. Many firms noted the importance of locating backup facilities a safe distance from primary sites, given the unfavorable experiences they or their competitors had with backup facilities that were in the same disaster zone as the primary facilities. A few firms noted the difficulties presented by a long-term dislocation.

Many firms are modifying their plans in light of September 11. These modifications include improving systems and increasing capacity at disaster recovery facilities, improving network connectivity and communications with exchanges, and improving capacity to conduct business functions from geographically dispersed offices. A few firms mentioned the issue of “interdependent” failures; that is, failures at other institutions with which an FCM may have one or more mission-critical relationships. Planning for such failures presents unique challenges.

*The Exchanges, Clearinghouses, and NFA*

In addition to surveying FCMs on reactions and preparedness, the Commission surveyed the major U.S. futures exchanges and their affiliated clearing organizations, which together with NFA constitute the industry’s self-regulatory organizations (SROs), as to both their own preparedness as trading facilities and their responses as SROs.<sup>15</sup>

Each entity was asked to describe the steps it took in response to the events of September 11, to assess the effectiveness of the industry’s disaster recovery efforts following September 11, to discuss any modifications of its individual DRBC plans thus far being considered, and to make suggestions for improving the industry’s preparedness. All entities responded to the request and those responses are summarized below.

*Immediate Reactions to the Disaster*

All of the U.S. futures exchanges and clearing organizations undertook prompt and ongoing efforts to communicate with employees, members, other exchanges, and the Commission in the wake of the September 11 attacks. They also cooperated in a coordinated shutdown and reopening of futures and option trading that took into consideration the closure of the securities markets. The various organizations exhibited great resilience and flexibility in taking advantage of the different resources and alternatives available to them. Examples of such reactions included:

- Utilizing backup trading facilities for open outcry trading or electronic trading;
- Implementing electronic trading for contracts normally traded by open outcry;
- Quickly securing new data center, backup data center, or office facilities;
- Establishing executive command centers at remote locations;
- Coordinating with foreign exchanges on clearing member issues;
- Maintaining 24-hour operations to assist members with trade entries; and
- Identifying regulatory requirements from which relief might be needed.

In general, the exchanges reported encountering little, if any, difficulty as a direct result of the suspension and subsequent resumption of trading. The New York exchanges reported far greater difficulties, on the other hand, in such areas as communicating with member firms. NYMEX, in particular, also reported problems in gaining access to facilities, and finding sources of electricity and water.

The exchanges readily identified a number of actions that were deemed very effective. For example, daily industry-wide conference calls coordinated by FIA were noted as particularly useful. Other steps noted as effective included:

- Contact with other exchanges, including foreign exchanges, to coordinate disaster responses;
- Commission efforts to coordinate information and market reopenings and to relax regulatory requirements;
- Disaster assistance and offers of assistance from others in the industry; and
- Using websites to communicate information to employees, traders, and other affected parties.

The exchanges also identified a number of challenges they faced in connection with both individualized and industry-wide disaster recovery efforts, which included:

<sup>15</sup>These included NYBOT, CBT, CME, NYMEX, the Kansas City Board of Trade (KCBOT), Minneapolis Grain Exchange (MGE), CX, New York Clearing Corporation (NYCC), Board of Trade Clearing Corporation (BOTCC), Chicago Mercantile Exchange Clearing House (CMECC), Kansas City Board of Trade Clearing Corporation (KCBOTCC), and NFA.

- Lack of geographically-remote emergency backup facilities for some clearing members and for some settlement and custody banks;
- Inability of telecommunications vendors and other utilities to provide uninterrupted service or seamless switching to backup sites;
- Trouble getting adequate information from settlement and custody banks; and
- Relocation of large numbers of clearing members and associated communication difficulties.

#### *Contingency Plans*

Some of the institutions among the exchanges, clearinghouses and one industry association that were surveyed, responded by submitting copies of written contingency plans, which varied in both scope and detail. Two such plans could be described as comprehensive, while others were limited, for example, to recovery of information processing capabilities but not recovery of other key capabilities. Several institutions provided summary descriptions of their strategies for disaster recovery and/or business continuity.

The submitted plans and summaries indicated that these institutions had heretofore been somewhat better prepared to respond to problems related to partial system failures than to total disasters. Four respondents provided copies of contingency plans for problems less severe than a catastrophe. Two others provided summary descriptions, strategies, and business practices for partial system failures.

Many of the responding organizations reported that they have already identified areas of significant potential modification in their pre-September 11 contingency plans. The modifications being considered within the industry include the following:

- Acquisition or expansion of geographically-remote backup trading facilities;
- Securing emergency access to alternate trading facilities at another exchange;
- Establishing geographically-remote disaster recovery sites for data;
- Giving greater attention to the disaster recovery capabilities of vendors and partners, including testing of their respective disaster sites and circuits; and
- Formalizing previously informal plans or plan components.<sup>16</sup>

#### *Suggestions for Industry-wide Initiatives*

Many institutions also made useful suggestions for improving industry-wide preparedness, which reflected both the common experiences of many organizations and the differing impact of events on industry participants. These suggestions focused on steps which the suggesting organizations believed to be important, but which would require coordination and cooperation on an industry-wide basis. They included:

- Identifying best practices for emergency voice and data communications, via the Internet and otherwise, among all industry participants, including exchanges, clearing organizations, and members;
- Establishing emergency procedures, tested annually, on an industry-wide basis, including participation by the Federal Reserve and banks involved in the futures industry;
- Designating a central clearinghouse, such as the website of the Institute for Financial Markets, for information from and for all market participants;
- Maintaining an industry-wide emergency contact directory, covering all exchanges, clearing organizations, and FCMs, including home and cellular telephone numbers as well as e-mail addresses;
- Prearranging post-disaster priority treatment for industry members by key telecommunications and utility providers;
- Planning for coordinated, expedited post-disaster resumption of futures trading;
- Bilateral meetings between the Commission and each exchange to review individual DRBC plans; and
- Providing disaster recovery training for all industry employees.

#### *Previous Reviews of Contingency Plans*

Since IOSCO's adoption in 1990 of Principles for Screen-Based Trading Systems—which included guidance for exchanges and clearinghouses that “[b]efore implementation, and on a periodic basis thereafter, [any electronic trading] system and system interfaces should be subject to an objective risk assessment to identify vulnerabilities (e.g., the risk of unauthorized access, internal failures, human errors, attacks, and natural catastrophes) which may exist in the system design, development, or implementation”—the Commission has reviewed contingency plans of new applicants, if submitted voluntarily, for consistency with the IOSCO guidance.

<sup>16</sup> Aspects of a comprehensive contingency plan frequently listed by information management professionals include:

In anticipation of the year 2000 date rollover, the Commission obtained and reviewed the contingency plans of exchanges and clearinghouses. Developing these plans afforded these institutions the opportunity to assess the vulnerabilities of their information management and communications technologies and to explore alternative backup resources. Some of these were put into place as a result of this review, including backup facilities with mirrored data and the capacity to operate on the electronic platform of overseas partners.

Nonetheless, it is fair to say that neither the reviews of contingency plans voluntarily submitted by new applicants nor the review of Y2K plans focused on preparedness for a large-scale disaster such as September 11. Accordingly, the CFTC, like many market participants, is now undertaking a strategic review of every facet of its preparedness and its contingency plans, both in terms of disaster recovery and business continuity. From instituting better backups of data, offsite storage, and more complete archiving, to enhancing organizational flexibility and responsiveness in times of crisis, the Commission faces the challenge of ensuring the effective survival of its abilities to fulfill its core mission and accomplish its public policy goals.

#### *Preparedness of the CFTC*

##### *Immediate Reactions to the Disaster*

The Commission had to respond to the disaster on several fronts simultaneously. The Commission's reaction to the destruction of its New York regional office, the efforts to verify the safe evacuation of New York staff, the precautionary evacuation of non-essential staff in other offices, and the restoration of Commission operations are detailed in Part III of this report.

Because a state of emergency was declared in Washington, D.C. early on September 11, the CFTC network was shut down to ensure the safety of the Commission's data. The network for the executive offices was restored relatively quickly to retain access to international market and news information through the Internet. Because information on the Integrated Surveillance System (ISS), which is used to conduct daily surveillance of the futures and option markets, and the Exchange Database System (EDBS), which contains trade data from the exchanges, is stored on servers in Washington, D.C. and Chicago, respectively, no surveillance or trade data was lost. (This data is also secured by routine off-site back ups.) The Commission's information system firewall was modified to enable the Division of Trading and Markets to directly monitor trading activity, which was essential to the Commission's ability to approve startup of NYMEX's internet platform, as discussed in Part I.

##### *The Benefits of Y2K Preparations*

During 1999, the Commission's Office of Information Resources Management (OIRM) worked with all parts of the Commission to develop a contingency plan in preparation for the year 2000 date rollover. That plan was published on September 15, 1999, and addressed two areas of concern: (1) building infrastructure failures; and (2) mission-critical information system failures. The Commission's strategy for responding to a building infrastructure failure was to install communications equipment in each of its three main offices (Washington D.C., Chicago, and New York City) and to equip essential staff with laptop computers for remote access to essential network services. The Commission's strategy for responding to the failure of either of its two mission-critical systems was to arrange with the SROs for access to information contained within comparable SRO systems.

The Commission developed a schedule for deployment of resources required to implement the plan under either contingency, a list of essential staff positions, a cost estimate and funding strategy, and an implementation plan. The Commission tested, implemented, and verified the effectiveness of these plans during the fall of 1999. The Commission did not experience any building infrastructure or information system failures during the date rollover.

Because the Commission's New York office was located in 1 World Trade Center, both the remote access facilities and the arrangements with the SROs for access to their information proved helpful to the Commission in responding to the logistical challenges presented by the attacks. Many of the New York office staff were able to work from home, dialing into the Commission's remote access facilities using laptops provided by the Commission. Other staff members were provided temporary work space and access to necessary information at the offices of the New York SROs.

##### *Protecting Market Surveillance Capabilities*

The Market Surveillance Section of DEA, in conjunction with the agency's Chief Information Officer (CIO), is currently working to meet the requirements of the Gov-

ernment Information Security Reform Act (GISRA). A documented assessment of market surveillance program security has been completed using the CIO Council's Federal Information Technology Security Assessment Framework. Based upon this assessment, a draft security plan has been produced in compliance with NIST Special Publication 800-18, Guide for Developing Security Plans for Information Technology Systems. Other upcoming milestones include a program Risk Assessment and Rules of Behavior.

*General Information Security Issues before September 11*

In the spring of 2000, OED arranged for an Information Technology Assessment to be performed externally, which resulted in a report that recommended several new initiatives. As a result, the Commission has taken a number of steps to enhance information security, including assigning a senior staff person to develop an information security program and having the CIO work with the information security specialist and program offices to conduct security self-assessments of the Commission's computer systems.

*Increased Emphasis on Security Issues after September 11*

Immediately after the attacks, OIRM began assessing its ability to restore computing services. That assessment identified a number of deficiencies in existing contingency plans. During the first 2 weeks after September 11, OIRM developed an action plan to remedy those critical deficiencies for which sufficient resources were available and developed a supplemental budget request to remedy those deficiencies that would require additional resources. (This request was funded in a supplemental appropriation.) That action plan includes such things as improving the program for creation and offsite storage of backup tapes and offsite retention of system documentation. OIRM has initiated discussions with those program offices that rely upon the Commission's mission-critical systems to begin the process of identifying the disaster recovery requirements for those systems.

*Moving Forward—What's the Next Step?*

The Commission believes that it is appropriate to continue to solicit the views of market participants, both individually and through their associations, to determine whether and how to best encourage the development of guidance, standards, or best practices in the areas of disaster preparedness, disaster recovery, and business continuity. Invaluable insights have been gained in the Commission's initial outreach efforts through the DRBC surveys and the November 2001 Technology Advisory Committee meeting. In addition to those discussed above, these insights have included the following observations, many of which were received from market participants directly involved in the New York recovery efforts:

- Every single aspect of operational needs (including, without limitation, electricity, water, natural gas, fuel oil, telecommunications, personnel transport, food and drinking water provision) must be considered in emergency planning efforts or critical dependencies will be missed (e.g. having electricity for computers but not being able to run air conditioning systems to maintain safe computer operating temperatures);
- Feasibility of backup operations should be confirmed in advance to avoid legal or regulatory impediments (e.g. special air quality permits that might be required for the sustained operation of diesel generators);
- Communication protocols among staff, with regulators and other government authorities, with other organizations on whom an organization depends for mission critical functions, and even the media must be planned and tested exhaustively;
- It is not enough for key staff to understand the organization's own contingency plans, they must also understand the contingency plans of other organizations with whom important business relationships exist;
- People are an organization's most valuable asset and contingency plans must include providing staff (and relevant market participants such as traders) with the means to reach the organization, giving them the tools they need, and making sure they are safe, secure, and comfortable (for example, staff and market participants expected to use a backup trading facility should have phone numbers, driving directions, mass transit options, parking alternatives, restaurant recommendations, and so forth);
- Regular testing is essential to successful implementation of contingency plans when needed (for example, NYBOT conducted quarterly tests up to July 2001);
- Regular backups should mirror every aspect of an organization's systems; and
- Telecommunications dependencies must be scrutinized for single points of vulnerability.

As one possible avenue for continued cooperation, the Institute for Financial Markets (IFM) has offered to evaluate issues surrounding the promulgation of guidance on coordinating disaster recovery plans among different institutions, an area of preparedness whose importance was emphasized by the ripple effect of the attacks across institutions that routinely rely on one another in the performance of mission-critical functions. Such an effort—led by the IFM, for example, in cooperation with other market participants—could take whatever form those participants believe will be most effective in identifying challenges, approaches, and solutions.

Some of the areas in which such efforts may yield substantial benefits include:

- communications, both telephonic and internet-based;
- backup facilities, both for computers and key operations such as trading;
- protocols and up-to-date information to support communications within and across institutions, firms, and regulators during a crisis;
- non-financial support services, such as access to power and water necessary to sustain operations; and
- effective access to government authorities (at local, State, and Federal levels).

The relative priority of each of these areas, the appropriate participants in such efforts, and the suggestion of other areas of fruitful cooperation will be the subject of both intra-industry and industry-regulatory dialogues.

It is also important to emphasize that the scope of analysis undertaken in consideration of these preparedness issues should not be limited only to terrorist threats. Other types of catastrophe could threaten the stability of the futures and options markets. Thus, the scope of analysis should include, at a minimum, consideration of:

- natural disasters, such as floods and earthquakes that affect multiple entities;
- failures in the telecommunications infrastructure;
- other types of infrastructure failure, such as massive or prolonged power outages;
- the bankruptcy or other collapse of a key institution, particularly one that creates a ripple or “domino” effect on other market participants; and
- fraud or other malfeasance on a sufficiently large scale to undermine the credibility of one or more key markets or market participants.

In all such analyses, two overriding factors should be kept in mind: the continuing globalization of the markets and, again, the critically important but not always obvious interconnections among entities that present the threat of network failures in mission-critical functions.

The Commission hopes that this report will be helpful, both as an analysis of the events on and after September 11 and in planning for the future. The Commission looks forward to working, both internally and with market participants, to build upon the successes witnessed last year as contingency plans were put into action. We must all realize that these measures can and should be continuously improved and the lessons learned thus far will improve our ability to do so. Though we hope never to again face such a tragedy, it is nonetheless incumbent upon each of us to do our very best to prepare this sector of the financial system to recover promptly from adversity and to continue to perform its critically important role in the economy.

Senator KOHL. Thank you very much, Mr. Newsome. This subcommittee was able to provide CFTC with \$16.9 million in supplemental funding last year to try and help your agency and employees in New York rebuild, as you know. Could you please give the Committee a breakdown of how you spent the supplemental funding which was provided?

Mr. NEWSOME. Yes, sir, I would be more than happy to, Mr. Chairman. Again, the commission fully appreciates that supplemental funding. Today, approximately 20 percent, or \$3.5 million of the \$17.1 million appropriated, has been committed. The largest portion has been committed to the immediate recovery needs arising from the total destruction of our New York regional office. We plan to move back into the lower Manhattan financial district next month, and at that point we will turn our full attention to the development of the contingency planning disaster preparedness and damage mitigation efforts that the balance of the supplemental funds were intended to cover.

In detail, the supplemental appropriation of the \$17.1 million was allocated and will be spent as follows: \$750,000 for human resource needs, including counseling, reimbursement of losses and workers compensation claims; \$6.2 million for the physical recovery itself; \$1.5 million for the development of information technology recovery plans, procedures and, then, implementation; \$8.6 (million) for IT preparedness and mitigation efforts, a continuity of operations site and the E-law project that I mentioned earlier, which will assist with collection, storage and retrieval of information gathered or developed during investigations and litigation.

Senator KOHL. We thank you, and we congratulate you on being the first witness to testify before the subcommittee who actually is able to give us specific information on how your supplemental funding has been spent. Hopefully, the rest of our witnesses will be able to do the same.

Mr. Newsome, recent revelations about Enron Corporation sent shock waves throughout the financial markets. We understand the CFTC's regulatory issues are limited to the futures industry and as such have limited relevance to the Enron investigation. Is there any reason for concern that any segment of the futures industry, over which you do have jurisdiction, may be prone to the sort of trading irregularities we saw in the Enron case? And more specifically, could activities that the CFTC conducts help prevent those sorts of problems?

Mr. NEWSOME. Mr. Chairman, I think the Enron situation is a good example because they operated on the fully regulated exchanges in which we have full regulatory oversight, and they also operated in OTC markets in which we have anti-fraud and anti-manipulation authority. I will explain the difference in both, quickly.

When the Enron situation came about, the first thing we did was turn to the regulated futures markets, primarily the New York Mercantile Exchange, to look at the positions in which Enron was a substantial player in that marketplace. As I commented, we worked very closely with the Exchange, with the clearinghouse, and with the futures commissions, merchants, to orderly unwind the contracts that Enron had at NYMEX. I think the market participants, and the CFTC as the regulator, were very coordinated in those efforts.

We were able to unwind the Enron positions to make sure that it did not create volatility and dry up the liquidity in those markets, and I think both from the market's standpoint and from the regulatory standpoint we were very successful there. We are currently working with NYMEX to look at the positions that Enron held in the market through our market surveillance program, in which we look at those positions on a daily basis to determine whether or not an industry participant is maybe trying to manipulate those markets. We continue to cooperate with NYMEX in looking at those, and are continuing our investigation into those efforts.

In the OTC market, our approach is different because simply we have the anti-fraud, anti-manipulation authority. Typically as we address that side of the market, as we would in other basically unregulated markets, the bucket shops, the fore-x shops that we bring charges against, because we have no upfront surveillance method,

we rely on market participants to provide us information in terms of what is going on there, if there are any problems. And I would have to say that prior to the Enron situation, we had received absolutely no calls from any of the participants who felt they were being unfairly treated or that markets were being manipulated because of Enron.

However, again, we are investigating that portion of Enron and that investigation is ongoing. And as we are able to draw facts we will certainly make that information, as well as our recommendations, available to the Congress for further debate.

Senator KOHL. Thank you very much. Senator Cochran.

Senator COCHRAN. Thank you Mr. Chairman. Chairman Newsome, I noticed that there is a part of the budget request that includes a user fee. This is relying on, as I understand it, the enactment of a user fee on transactions, to provide the Commission with the necessary funding to carry out its responsibilities during the next fiscal year. Let me ask you this, if a user fee is not enacted, what would be the effect on the commission, and would any additional funding need to be appropriated to make up for the lack of funding from a user fee?

Mr. NEWSOME. Senator, as the OMB budget has been passed out, without removing us from Title V, if things remained as is, that funding level is adequate to fund the commission for the next year without any fees. If we were moved out from under Title V and then the committee chose to fund that, then there could be an amount, we are currently looking into that. I could not give you an amount right now of what that would be.

Senator COCHRAN. I remember hearing your discussion on this problem before and I remember being impressed with the seriousness of the situation at that time, and your testimony today reconfirms that in my mind as something that ought to be done in terms of the legislative process. So, this committee, I do not think, has jurisdiction to do that. We are not a legislative committee. We just appropriate the money for the agencies and the department to carry out their responsibilities. At what stage is the effort to secure legislation that would give you this authority?

Mr. NEWSOME. At one point, as Senator Feinstein was drafting her amendment to the Energy Committee, that language was included. It is my understanding that language has since been pulled out of that amendment, and so I am not aware of any substantial effort ongoing to include that language in any bill that might have jurisdiction over us.

Senator COCHRAN. I presume if someone like, well, Senator Kohl decided he wanted to introduce a bill to grant that particular outcome on Title V, that would probably be referred to the Agriculture Committee in the Senate, would it not?

Mr. NEWSOME. That is my understanding, Senator, because we are under the total jurisdiction of the Agriculture Committee.

Senator COCHRAN. One other question, last week we had before this committee some witnesses who asked a question about the report of a foot-and-mouth disease case in Kansas, and we were assured at that time by the witnesses that it was a false alarm, that there was no factual basis to support a fear that there had been a foot-and-mouth case in Kansas. There was a lot of other con-



versation on that issue, but I understand now that there was a sell off of livestock futures as a result of that report. Has the CFTC looked into that situation, and were there any irregularities that we need to know about? Is there anything we need to do in connection with this appropriations bill that would enable you to fully investigate that situation?

Mr. NEWSOME. We are very aware of the situation and are currently looking into that right now, Senator Cochran. Certainly there was some volatility in the live cattle market, on the Chicago Mercantile Exchange last week. We currently have a team from our enforcement division and our market surveillance division who are discussing the issue with USDA, and officials at the Chicago Mercantile Exchange.

And as we develop the scenario, the time frames on when information was released and how the markets responded to that, we will certainly make that information available. Additionally, if we find that there were any violations of the Commodity Exchange Act, the commission will take the appropriate action. In terms of how that relates to our appropriations funding, I think we certainly have the adequate resources to address a situation such as that in the market.

Senator COCHRAN. I appreciate your responses to the questions. I think, given the experience you had on September 11 and the challenges that resulted from that, you have really had your hands full, that this agency, the Commodities Futures Trading Commission, has continued to function and carry on its responsibilities, as I understand it, and we commend you for that great effort.

#### ADDITIONAL COMMITTEE QUESTIONS

Mr. NEWSOME. Thank you very much.

Senator KOHL. Thank you, Senator Cochran, and thank you, Mr. Newsome, for being with us today.

Mr. NEWSOME. Thank you, Mr. Chairman.

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

#### QUESTIONS SUBMITTED BY SENATOR HERB KOHL

##### PRESIDENT'S BUDGET

*Question.* The President's budget this year will provide for an increase of 27 staff years. Your testimony provided information on how these employees will be used.

Taking into consideration the extremely high turnover rate among employees you discussed, and the fact that the future direction of the markets is unknown, do you believe these additional 27 employees will truly be enough to ensure that CFTC has the ability to fulfill its mission?

*Answer.* The Commission places a high priority on responsiveness in order to protect the interests of market users and to ensure that our efforts do not stifle market innovation and evolution. The Commission's budget request to OMB for an additional 64 FTEs was made in the context of the current level of compensation, which is below the levels of other Federal financial regulators. The high turnover rate experienced by the CFTC is a direct result of that lack of pay comparability. The flexibility needed in the personnel area to meet the challenges posed by the implementation of the Commodity Futures Modernization Act of 2000 and to keep pace with the rapidly evolving changes, especially technological changes, taking place in the markets that we oversee can be best provided by paying Commission staff at levels comparable to the other Federal financial regulators.

*Question.* We provided funding last year to provide retention bonuses to employees whose occupations have historically experienced the highest turnover rate at CFTC. Do you know what effect the retention bonuses have had on turnover so far?

*Answer.* The group retention bonuses for attorneys and economists were in effect for only the last half of fiscal year 2001; therefore, it may be too early to draw any firm conclusions at this point. However, the rate of attrition among attorneys was 16 percent in fiscal year 2001, down from 20 percent in fiscal year 2000. Among economists, the rate was 5 percent, down from 15 percent in fiscal year 2000. Overall, attrition among full-time permanent employees was 10 percent in fiscal year 2001, down from 11 percent in fiscal year 2000. Fiscal year 2001 was the fifth straight fiscal year that the Commission has experienced double-digit turnover rates among full-time permanent staff—a rate that is almost double the government-wide average.

#### PROPOSED TRANSACTION FEE

*Question.* Finally, the President's budget proposes a transaction fee beginning April 1, 2003 that is supposed to generate \$33 million in fiscal year 2003 alone.

Could you please elaborate on what this fee is for, how the \$33 million estimate was derived, and if it is agreed to by the Congress, whether these funds will supplement your current budget request of \$82.8 million or substitute Congressional appropriations?

*Answer.* According to OMB, the fee would be imposed only on transactions with public customers. The proposal would be phased in over the first year and would assess a fee of 31 cents per contract on transactions overseen by the Commission for 6 months of fiscal year 2003, which is estimated to yield \$33 million. It is my understanding that fee-generated funds would be in lieu of \$33 million in appropriations, rather than an additional \$33 million.

*Question.* In your statement, you ask for the Committee's support of the removal of Title V pay restrictions for CFTC employees, as you are the sole Federal financial regulator still under these restrictions, and it is the driving force behind your high employee turnover rate. I am aware that you have submitted legislation to the House and Senate Agriculture Committees that would remove the Title V restrictions. If this legislation were adopted, and we funded full pay parity with other Federal financial regulators, according to the CFTC's numbers, it would cost approximately \$16 million in fiscal year 2003.

If the Title V restrictions were lifted, could the receipts from this proposed transaction fee be used to ensure pay parity for your employees?

*Answer.* It is my understanding that OMB proposed these fees to be offsetting collections, which would make them available for any salary or expense need of the Commission for which the Commission is authorized to use its appropriated funds.

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#### QUESTIONS SUBMITTED BY SENATOR THAD COCHRAN

##### HIRING AND RETAINING HIGH-LEVEL PROFESSIONALS

*Question.* I am aware that an ongoing problem for CFTC has been the ability to hire and retain qualified professionals to effectively execute the oversight and regulatory responsibilities of the agency. It is my understanding that CFTC continues to lose top-level personnel to the private sector and to other Federal regulatory agencies, such as the Securities and Exchange Commission (SEC). In the absence of pay parity legislation, what measures have been taken to attract needed professionals to CFTC?

*Answer.* The Commission uses a wide variety of human resources flexibilities available to it within Title V. They include:

- Recruitment, Retention & Relocation Allowances.*—The Commission's attorneys and economists—which comprise almost 40 percent of staff—are paid a 10 percent retention allowance. Although this pay does not count toward retirement, it does serve as both an incentive to keep some valuable employees from leaving service at the CFTC and a selling point to attract prospective employees. The Commission in the past has paid recruitment allowances when deemed necessary to lure highly desirable applicants to the Commission, although use of this authority is subject to fund availability. The Commission does pay, when appropriate, relocation costs for eligible employees.
- Superior Qualification Authority.*—The Commission has used this authority to appoint new hires from the private sector at rates of pay above step one of the grade for which they qualify.

—*Non-pay Benefits.*—The Commission has looked beyond pay to other benefits that may be meaningful to the quality of life of our employees and have sought to use them including: Flexi-time, non-taxable transit subsidy allowances, and a small in-house fitness center.

*Question.* I know that retention bonuses have been used to entice top-level professionals to stay. Has this been successful? What other efforts has CFTC made to retain personnel?

*Answer.* As stated earlier, the group retention bonuses for attorneys and economists were in effect for only the last half of fiscal year 2001; therefore, it may be too early to draw any firm conclusions at this point. However, the rate of attrition among attorneys was 16 percent in fiscal year 2001, down from 20 percent in fiscal year 2000. Among economists the rate was 5 percent, down from 15 percent for the same period. Overall, attrition among full-time permanent employees was 10 percent in fiscal year 2001, down from 11 percent in fiscal year 2000.

Also as stated earlier, the Commission has used a wide variety of human resources flexibilities available to it within Title V, including recruitment, retention, and relocation allowances, superior qualification authority, Flexi-time, and non-taxable transit subsidy allowances. We believe that without the use of these flexibilities our turnover problem would be even more severe.

#### REGULATORY AUTHORITY OVER DERIVATIVES

*Question.* Senator Feinstein has proposed an amendment to the Energy Bill giving CFTC the authority to regulate energy derivatives trading in order to increase consumer awareness of the energy market. What is CFTC's view on having regulatory authority over energy derivatives?

*Answer.* The Commission believes that it would be premature to make any changes to the current law prior to the completion of Congress's hearings the Enron matter and the inquiries being made by the Commission and other agencies. Should the evidence show that legislative changes are necessary appropriate, the Commission is ready to assist Congress in advancing our mission of protecting the public from fraud, manipulation, and abusive practices.

*Question.* How would this affect the agency's budget request for fiscal year 2003?  
*Answer.* With these caveats in mind, the Commission notes that any amendment to the Commodity Exchange Act that will increase the Commission's oversight authority will necessarily require a substantial increase in the Commission's budget request. Further, the greater the change to the Commission's oversight authority, the greater the requested increase would be.



DEPARTMENT OF AGRICULTURE

FOOD SAFETY

STATEMENT OF ELSA MURANO, UNDER SECRETARY FOR FOOD SAFETY

ACCOMPANIED BY:

MERLE D. PIERSON, DEPUTY UNDER SECRETARY FOR FOOD SAFETY

MARGARET O'K. GLAVIN, ACTING ADMINISTRATOR

DENNIS KAPLAN, DEPUTY DIRECTOR, OFFICE OF BUDGET AND PROGRAM ANALYSIS

OPENING REMARKS

Senator KOHL. At this point we would ask our second panel of witnesses to make their way to the table. Here on our second panel we welcome Dr. Murano, from USDA, Under Secretary for Food Safety; Mr. Hawks, Under Secretary for Marketing and Regulatory Programs; Mr. Bost, Under Secretary for Food, Nutrition and Consumer Services; as well as staff members that each of you have brought along. And we also have at the table Mr. Dennis Kaplan, from the Office of Budget and Program Analysis. We have reviewed your full testimony and so it is not necessary to go through that in its entirety. If you could summarize the elements of the full statement we would appreciate that at this time. And we will call on Dr. Murano first.

STATEMENT OF ELSA MURANO

Dr. MURANO. Thank you, Mr. Chairman, Mr. Chairman and Mr. Cochran. I am pleased to appear before you today to discuss the fiscal year 2003 budget for food safety within the Department of Agriculture. I am Dr. Elsa Murano, Under Secretary for Food Safety, and with me today are Dr. Merle Pierson, Deputy Under Secretary for Food Safety; Ms. Margaret Glavin, Acting Administrator of the Food Safety and Inspection Service, and our deputy administrators.

Since this is my first time here, I would like to introduce myself to you. I am a native of Havana, Cuba. I am a scientist by profession, having earned an M.S. degree in anaerobic microbiology and a Ph.D. in food science and food microbiology from Virginia Tech. The last 12 years I have dedicated my life to the study of food safety as a professor and researcher at both Iowa State and Texas A&M Universities.

At USDA our number one goal is to protect the meat and poultry supply for consumers here and abroad. Every day, 7,600 inspection personnel ensure that plants are meeting food safety rules. The pathogen reduction final rule has been implemented nationwide in plants of all sizes. The success of the rule has been proven in a number of ways. First, through salmonella testing data which

shows that the prevalence of this pathogen has significantly decreased in all product categories. And secondly, data from the Centers for Disease Control show significant reductions in foodborne illness, which CDC has stated are likely due to implementation of the rule.

#### GOALS OF FSIS

Today I would like to briefly mention the five goals that I believe will help us take food safety to a new level. I strongly believe they need to be pursued simultaneously in order to achieve our mission of protecting the public's health. Our first goal is to improve the management and effectiveness of FSIS programs. Performance expectations, lines of authority and accountability for ensuring compliance with regulatory requirements is essential to meet our public health objectives. This especially includes our field operations where we need to have the best trained and best supervised work force possible.

In addition, we need to have systems in place that will ensure that we are vigilant regarding meat and poultry inspection, including adherence to humane slaughter practices.

Our second goal is to enhance the coordination of food safety activities within and outside USDA. We have several efforts underway. Outside USDA we are working with the Food and Drug Administration exchanging information on an ongoing basis about dual jurisdiction establishments. I believe there are other opportunities for us to enhance coordination with the FDA in these types of establishments to further leverage our resources for the maximum public health benefit. One includes the possibility of deputizing FSIS inspectors in emergency situations to help FDA address threats to the food supply.

The third goal is to enhance the scientific basis of existing food safety policy systems. Achievement of this goal is essential if we are to make sound decisions on protecting the public's health. One way to accomplish this is to use risk assessment as a way to identify hazards and provide a basis for making risk management decisions. Another way is through the application of performance standards as an important verification tool for HACCP. As you know, we have turned to the scientific community to get input on this issue. Both the National Advisory Committee on Microbiological Criteria for Foods and the National Academy of Sciences will provide us recommendations by the end of this year.

As another effort to ensure our policy decisions are science-based, and the process is transparent and inclusive of all interested parties, we have planned a series of meetings to discuss how FSIS can integrate scientific principles into its activities and decisionmaking. In January, we hosted a two-day public meeting to discuss the role of epidemiology in investigating foodborne illness outbreaks and initiating product recalls. We are planning a scientific meeting for May 6 and 7 in Washington to discuss the state of pathogen reduction measures, including HACCP, and to discuss the role of performance standards.

Our fourth goal is to enhance outreach and public education efforts. We will host a food safety education conference in September of this year, cosponsored by HHS and the Partnership for Food

Safety Education. It will provide an opportunity for food safety education and communication leaders from across the country to present and share projects, assess current trends and plan for the future.

And lastly, our final goal is to ensure that our meat and poultry are safe from intentional contamination. We have taken specific steps to accomplish this within the USDA Homeland Security Council. We created the Food Biosecurity Action Team to coordinate and facilitate all activities pertaining to food security and emergency preparedness. In addition, and in partnership with HHS, we created the Food Threat Preparedness Network, or PrepNet, which includes all food safety agencies of the Federal Government. Both of these entities are fully engaged in the development of plans to quickly respond to biosecurity threats, as well as preparedness strategies designed to prevent or contain events to the greatest extent possible.

We have made headway in food safety and we are on the right track. To help us continue our efforts the fiscal year 2003 budget includes a funding request for the Food Safety Inspection Service of \$804 million, a \$28 million increase above 2002. Let me very briefly discuss the four specific components of the request.

#### BUDGET REQUESTS

First, \$10.8 million is for pay and benefit increases for our workforce. Second, we are requesting \$14.5 million to implement the FSIS Automated Corporate Technology Suite (FACTS). This is an initiative to replace our existing, disjointed information systems with a system that has data sharing capabilities, making program data available at all levels of the organization. Third, our budget includes a \$1.5 million request to expand risk prevention and management efforts in small and very small meat, poultry and egg establishments. And fourth, our budget contains a request of \$1.2 million to conduct targeted epidemiological surveys at slaughter establishments as part of this effort. Samples will be taken at meat and poultry operations and analyzed for the presence of lesions and drug or chemical residues.

#### PREPARED STATEMENTS

I am committed to realizing these five goals and, in doing so, strengthening the safety of our meat, poultry and egg product supply. This concludes my statement. Thank you for listening and I certainly look forward to any questions you may have.

Senator KOHL. We thank you.

[The statements follow:]

#### PREPARED STATEMENT OF DR. ELSA MURANO

Mr. Chairman and Members of the Subcommittee, I am pleased to appear before you today to discuss the fiscal year 2003 budget for food safety within the Department of Agriculture (USDA). I am Dr. Elsa Murano, Under Secretary for Food Safety. With me today are Dr. Merle D. Pierson, Deputy Under Secretary for Food Safety; Margaret Glavin, Acting Administrator of the Food Safety and Inspection Service (FSIS); and USDA's Budget Director, Stephen Dewhurst. Other FSIS representatives here today are Ron Hicks, Acting Associate Administrator, Jeanne Axtell, Acting Deputy Administrator for the Office of Management, and members of the Budget Division staff.

Since this is my first time here, I would like to introduce myself to you. I am a native of Havana, Cuba. My family and I emigrated to the United States 40 years ago. So many of my compatriots have lost their lives in shark-infested waters, seeking the very freedom and opportunities that led to my being here today. So as a Cuban-American, I thank the United States, my adopted country, for being the beacon of liberty for the world.

I am a scientist by profession. I graduated with a B.S. in Biology from Florida International University. I developed a deep interest in the medical field and in public health, which led me to earn an M.S. degree in Anaerobic Microbiology, and a Ph.D. in Food Science from Virginia Tech. I also developed an appreciation for the field of food microbiology, and decided to dedicate my life to the study of bacteria, which although microscopic, are capable of causing so many cases of foodborne illness each year in our country, and throughout the world.

I have been a researcher and teacher in the field of food safety, both at Iowa State and Texas A&M Universities. My research efforts have led me to investigate organisms like *Escherichia coli* O157:H7, *Listeria monocytogenes*, and *Salmonella*, all the bad actors that have become household words. My approach in this work has been to determine where these pathogens are found, and to investigate safe methods that can be used to control or eliminate them from farm to table.

Throughout my career as a researcher, I have become keenly aware of the importance of sound scientific studies, and how these can help provide us with the critical information we need to make decisions that will truly reduce the risk of foodborne illness. I have also observed the need for a proactive approach, one that does not react to food safety crises, but rather anticipates risks and prepares to mitigate the potential for harm. The events of September 11 are a reminder to all of us that we need to be diligent in order to prevent threats to our food supply as much as humanly possible.

Since September 11, the question has been asked, "What is USDA now doing to ensure the safety of the nation's meat, poultry, and egg products supply?" Recent events have caused us to examine every aspect of our food safety system at USDA. After close scrutiny, I am confident that we are in a strong position due to our food safety infrastructure. We have a daily presence of inspectors in every meat, poultry, and egg products facility, strong sampling and laboratory resources, a science-based regulatory inspection system, and an import reinspection, audit, and verification program that permits free trade while ensuring that product entering the U.S. is as safe as domestic product. I would like to thank you for your support, because the full funding that FSIS received in fiscal year 2002 enables us to fulfill our responsibility to the American people by ensuring that the U.S. food supply remains among the safest in the world.

#### MY VISION

It is truly an honor to have been asked by President Bush and Secretary Veneman to serve as Under Secretary for Food Safety. To have the chance to really make a difference in the food safety arena is a golden opportunity that I do not take lightly. I would like to share with you my vision for the future of food safety and inspection for meat, poultry, and egg products and how the fiscal year 2003 budget request supports that vision.

When I began the job last fall, I indicated that I would spend some time assessing where we are and what has been accomplished before deciding where we needed to go. I have determined that we have a strong food safety infrastructure. Within FSIS alone, more than 7,600 inspection personnel verify the safety of meat, poultry, and egg products nationwide. Combined with the resources of other government agencies at the Federal, State and local levels, we have an extensive system of protection. A vital part of our infrastructure is the Pathogen Reduction (PR)/Hazard Analysis and Critical Control Point (HACCP) regulation, which came into effect for all meat and poultry plants in 2000.

Our food safety infrastructure is designed to address both intentional and unintentional threats to the safety of our food supply. Thus, we must continue to strengthen it, and to increase its flexibility in responding to food safety threats, if we are to maintain consumer confidence in our food supply and our regulatory programs.

I have five goals I want to pursue in the coming year to ensure that we are proactive in protecting the public's health. These goals are not listed in any particular order because they must all be pursued with equal vigor in order to ensure the safety of the nation's food supply. My five goals are to:

- Protect meat, poultry, and egg products against intentional harm;
- Improve upon the overall management and effectiveness of FSIS programs;



- Enhance coordination of food safety activities within and outside of USDA;
- Use science to guide our future policy decisions; and
- Significantly enhance outreach and public education efforts.

*Protect Against Intentional Harm*

Since September 11, we have placed increased attention on the need for coordinated efforts to ensure biosecurity. As I mentioned earlier, due to our extensive food safety systems, we have not needed to make dramatic changes to our operations to respond to possible terrorist threats. However, I want to assure you that we have taken specific steps to continue to protect the safety of our meat, poultry, and egg products, with a special emphasis on intentional contamination. Allow me to describe some of these steps, which have as their hallmark an improved coordination in the prevention, as well as response to biosecurity threats.

Within the Department, the USDA Homeland Security Council is the lead group in our effort to ensure the safety of our food supply. The Council is responsible for overall USDA Homeland Security policy, coordination of Department-wide homeland security issues, tracking USDA progress on homeland security objectives, and appointing representatives to inter-agency or external groups. The Council also ensures that information, research, and resources are shared, and activities are coordinated with other Federal agencies.

The USDA Homeland Security Council has three subcouncils that provide coordination between mission areas and agencies, as well as information to the Secretary and other key decision-makers. One of these, the Protection of the Food Supply and Agriculture Production (PFSAP) subcouncil, is charged with protection of the food supply and agricultural production. The Under Secretary for Marketing and Regulatory Programs and I are co-chairs of this subcouncil, which is responsible for:

- Coordination of activities within USDA mission areas in response to a terrorist threat to agricultural production;
- Coordination of activities within USDA mission areas in response to a terrorist threat to meat, poultry, and egg products;
- Border surveillance and protection to prevent introduction of plant and animal pests and diseases;

With specific regards to protection of meat, poultry, and egg products, there are three entities through which activities are carried out, both within and outside USDA. First, is the Food Biosecurity Action Team, or F-BAT. F-BAT is an internal FSIS group, which we created in response to the September 11 attacks; second is the Food Emergency Rapid Response and Evaluation Team (FERRET), which involves all of USDA and which existed prior to September 11; and third is the Food Threat Preparedness Network (PrepNet), which includes all food safety agencies of the Federal Government, and which was created after September 11. I would like to explain to you in more detail what each of these three entities brings in fighting bioterrorism.

Let's begin at the level of FSIS' preparedness. First, the Food Biosecurity Action Team (F-BAT) was formed to coordinate and facilitate all activities pertaining to biosecurity, countering terrorism, and emergency preparedness within the Agency. F-BAT also serves as FSIS' voice with other government agencies, and internal and external constituents on biosecurity issues.

F-BAT is charged with 5 goals:

- Ensuring the continuation of FSIS essential functions during emergencies;
- Ensuring employee safety pertaining to terrorism, bioterrorism and catastrophic emergencies;
- Ensuring that FSIS is prepared to prevent and respond to agricultural terrorism or attacks on the food supply;
- Ensuring proper communication with FSIS employees, USDA, industry, trade associations, consumers, media, and Congress; and
- Ensuring the security of our laboratories.

F-BAT has been instrumental in several initiatives to improve food safety and security. These include:

- Assessing potential vulnerabilities along the farm-to-table continuum;
- Providing guidelines to industry on food security and increased plant security, particularly in small and very small plants;
- Strengthening FSIS coordination and cooperation with law enforcement agencies; and
- Enhancing security features at all FSIS laboratories, and increasing the capacity of its laboratories to test for additional food safety hazards and biological agents.

In conjunction with F-BAT, FSIS is integrating bio-security responsibilities into new veterinary medical specialist positions being established in each district office.

These individuals will serve as points of contact in each district on biosecurity issues.

Next, I'll describe our Department-wide mechanism to ensure expeditious and effective response in the event of a food security threat—that mechanism is called FERRET—the Food Emergency Rapid Response and Evaluation Team.

As I mentioned before, FERRET existed before September 11, having been established in 1998 to provide a quick and appropriate USDA response across agencies to food safety emergencies. FERRET is chaired by me, as the Under Secretary for Food Safety, and emergency response activities are coordinated by FSIS. As I said earlier, the USDA formed its Homeland Security Council in response to September 11, with one subcouncil in charge of protecting the food supply and agricultural production. So, if a food-related biosecurity event occurs, FERRET and this subcouncil become one; however, if there is a food emergency that is not biosecurity-related, only FERRET will function.

The third pillar of our biosecurity efforts is the Food Threat Preparedness Network, also known as PrepNet. This group functions across departments to ensure food security throughout the government. PrepNet is co-chaired by the Administrator of FSIS and the Director of the Center for Food Safety and Applied Nutrition at the Food and Drug Administration (FDA). It is a strong example of our commitment to working with our sister public health agencies to take proactive measures against bioterrorist threats. Other members of PrepNet include APHIS, the Centers for Disease Control and Prevention (CDC), the Department of Defense (DOD), and the Environmental Protection Agency (EPA). The focus of this group is on preventive activities to proactively protect the food supply, as well as rapid response in case of an emergency. PrepNet, which works in conjunction with Governor Ridge's Office of Homeland Security, is reviewing each agency's statutory authorities and is conducting an assessment of needs with plans to fill the statutory gaps. PrepNet members also share scientific and laboratory assets.

#### *Improve Overall Management and Effectiveness*

Now permit me to continue with goal number two of my plans, which deals with improving the management and effectiveness of FSIS programs. Many of the efforts related to this goal started before I came on board. Two examples are the restructuring of our district offices, and improving the technical background of our workforce.

Last February, FSIS formed an internal working group to review the role and functions of the district offices. Based on the findings and recommendations from this group, FSIS will realign its field offices and personnel. The result of the realignment will be a reduction of district offices from 17 to 15, with two current offices serving as sub-district offices. Further adjustments in the district office structure may be needed as changes occur in the regulated industry.

Regarding our workforce, FSIS recognized sometime ago that it needs to ensure that field employees have the training and expertise needed to operate in a more science-based environment. As part of our efforts to ensure a strong science-based workforce, and therefore a solid infrastructure, FSIS has introduced the new Consumer Safety Officers (CSO) position. CSOs conduct on-site food safety and other consumer protection assessments in meat and poultry establishments, and make determinations about the scientific efficacy of a plant's HACCP operating plan. This new occupation advances the Agency's transformation to a public health regulatory agency by changing the focus of inspection personnel from being merely process observers to professionals who verify the effectiveness of risk mitigation and reduction activities employed in food production processes. FSIS has already selected and trained thirty-five CSOs. They began new assignments in December 2001. We plan to select and train, from among our existing personnel, additional CSOs during fiscal year 2002. The next class of CSOs is expected to enter training early this summer. This is part of our effort to gradually increase the proportion of scientific and technical professionals in FSIS and make available at the frontline more personnel with scientific and technical expertise in meat and poultry facilities.

Along with the CSO, our veterinarians play a key role in ensuring that our mission is carried out. To that end, we are conducting a pilot test to explore improving the role of veterinarians in FSIS as well as implementing new strategies to recruit and retain these valuable professionals. We have established a new veterinary presence in the field with the introduction of the District Veterinary Medical Specialists (DVMS) position. The DVMS will serve as the primary contact for humane handling and slaughter issues, including verification and enforcement activities, information dissemination, training, documentation, and generation of recommendations for reports to senior management on future policies. We appreciate the Committee's funding support for these positions in the fiscal year 2001 Supplemental Appropriations

bill. These DVMS' will make an important difference in the Agency's continued efforts to ensure full compliance with humane handling and slaughter regulations, as well as facilitate coordination of other activities in the field. In the wake of September 11, we will now also rely on these professionals to serve as the Agency's first point of coordination and response to intentional threats to the food supply. Their presence in the field makes them uniquely qualified to also serve as the FSIS point of contact on matters of biosecurity for industry, the Agency's field workforce, and food safety authorities at the Federal, State, and local level. They also work closely with FSIS' field epidemiologists as liaisons to State and foreign public health systems.

These are important steps, but not enough. We have no intention of leaving behind over 6,000 FSIS inspectors who are so important to our mission. They, too, must be able to operate in the new, more science-based FSIS. Our inspectors need to further their understanding of HACCP and how it enhances their authority. We intend to review training procedures for inspectors and enhance HACCP training to ensure that inspectors clearly understand and carry out their responsibilities. We are also pilot testing different inspection roles under the HACCP-based Inspection Models Project, or HIMP, which are discussed later in my statement.

In order for these efforts to work, the Agency needs a strong supervisory and management infrastructure. Supervisors need to be held accountable for their decisions and they need the authority to hold their subordinates responsible for their actions. Clear performance expectations, lines of authority, and accountability for assuring compliance with regulatory requirements can forge a strong link among managers, supervisors, and employees to meet food safety objectives. I am convinced that through strong management, FSIS will be able to carry out its mission of ensuring the safest food supply in the world.

#### *Enhance Coordination of Food Safety Activities*

My third goal is that of enhancing coordination of food safety activities within and outside USDA. I have come to believe very strongly that by working together, we can best leverage our resources to ensure a safe food supply. One example of how this could be done is through the cataloguing of Federal, State and local partners' capabilities regarding identification techniques and laboratory resources, so that we can quickly determine which agency is best able to respond to a particular situation, and how to coordinate the response to that incident among all agencies.

Such strategic leveraging has already begun within USDA, through our recent partnering with the Animal and Plant Health Inspection Service, or APHIS, on the subject of veterinary training. We have established joint training opportunities in foreign animal diseases, coordinated emergency preparedness, and reviewed food biosecurity from a collaborative veterinary corps perspective. Our partnership with APHIS also extends beyond training activities. We are requesting funding for fiscal year 2003 to establish an integrated surveillance system with APHIS that would conduct more comprehensive sampling at slaughter and correlate the data with on-farm data collected in the APHIS National Animal Health Monitoring System (NAHMS). The system would provide more seamless data coverage from farm to table, and present opportunities to better understand the types of risk reduction strategies that producers and processors can employ. FSIS is also exploring the possibility of co-locating its laboratories with APHIS and the Agriculture Research Services' (ARS) laboratories.

Strategic partnering must also occur between FSIS and agencies outside of USDA. I am proud of our recent coordination efforts with FDA to combat pathogens. As you may know, FSIS and FDA have had a Memorandum of Understanding since 1999 to exchange information on an on-going basis about establishments that fall under both of our jurisdictions. As a result, we have worked together on several cases in which we were jointly able to ensure the safety of specific food products.

I believe there are other opportunities for us to work with FDA to further leverage our resources for the maximum public health benefit. In fact, we are currently working on initiatives with FDA that will be truly groundbreaking in this area. We are exploring ways to increase coordination and sharing of resources to prevent overlap and duplication in the food safety arena. We hope to have an announcement in the near future of additional joint FSIS-FDA initiatives.

I would also like to make note of my commitment to working with our international partners in ensuring a safe food supply worldwide. FSIS is actively engaged in the CODEX Alimentarius Commission, a standard setting body for food safety. Last year, we received an additional \$100,000 in appropriated funds to further our food safety agenda at this international level. By working with our international partners to establish internationally recognized food safety standards, we are ensuring that the U.S. government has a voice in the dialogue.

Our international efforts also include ensuring that imported product is safe for consumption and held to the highest standards of food safety. As you may know, recent reports of poor sanitary conditions in meat plants in Mexico have raised questions concerning USDA's auditing and plant certification in Mexico. I take these allegations very seriously. For this reason and at the request of Secretary Veneman, I recently traveled to Mexico to get an assessment of the situation. During this visit, I, along with the FSIS Acting Administrator and other USDA officials, met with Dr. Javier Trujillo, Director of Food Safety for Mexico, and other Mexican government officials to measure their level of commitment to maintaining a meat inspection system that is equivalent to the United States. We also took the opportunity to visit several plants in question to see the sanitary conditions first hand. I will continue to ensure that every effort is being made in Mexico and all other eligible exporting countries to maintain the highest level of sanitary conditions and will keep you apprised of the progress.

*Use Science to Guide Policy*

My background as a researcher in food safety has shown me the importance of science and how it should influence regulatory policy. Thus, my fourth goal is one of injecting science into the process of rulemaking. I'm open to new solutions and new ways of doing business only if they stand on the firm foundation of science. Enhancing the scientific foundation of existing food safety policies and systems is paramount, and it is one of my highest priorities. One way to accomplish this is to seek an open dialogue with the scientific community. Towards this end, I am pleased to announce plans to hold a science symposium this spring on pathogen reduction and microbial testing. This will be an opportunity for academia, consumers, and industry, to share their expertise and comment on the future direction of these important issues.

In addition to hosting scientific symposia, scientific advisory committees and other science-based organizations can help FSIS improve its scientific decision-making. One notable example is the question of performance standards. At the direction of Congress, we have turned to both the National Advisory Committee on Microbiological Criteria for Foods, and to the National Academy of Sciences (NAS), which are comprised of the nation's top scientists and foremost experts in the food safety discipline, in order to determine the best course of action on this issue. Performance standards are an important verification tool for HACCP. The work of the Advisory Committee and the NAS is more than just an academic exercise. Their expert opinion will go a long way towards helping us determine how to select the right standards, and whether the standards have an effect on public health.

Performance standards serve as a measure of the success of food safety programs. However, it is not enough to set just any performance standard—for the wrong standard can mislead us into believing that systems designed to control hazards are working when maybe they are not. Thus, we must set performance standards that are reliable, and that are accurate in terms of reflecting when HACCP is not working and control of hazards has been lost.

The issue of performance standards was most recently showcased in the Supreme Beef case. This case has confused many into thinking that FSIS can no longer shut down meat and poultry plants. The fact of the matter is that USDA has the authority to shut down plants for sanitation or other food safety reasons, just as it always has. However, since the Supreme Beef decision, FSIS can no longer rely solely on Salmonella data to shut down plants. I must emphasize that Salmonella testing in grinding operations has not stopped. The difference is that now we are using the performance standard data in conjunction with other measures, to verify that the establishment's HACCP plan and Sanitary Standard Operating Procedures (SSOPs) are working. As you know, our inspectors are charged with such verification activities. Thus, record reviews, monitoring of plant personnel, as well as microbial sampling are the tools they use to determine whether HACCP and SSOPs are working.

In addition to continuing our use of HACCP to control foodborne hazards, we are piloting novel ideas such as HIMP, to address the on-line slaughter process. I like to think of HIMP as a total food safety and process control system. As you know, under HIMP, volunteer plants take a more active role in the carcass sorting process, while our inspectors concentrate on more intense inspection and verification activities. The true value of this pilot project is that it is demonstrating how real-time data gathering can help plants maintain control over product, and how increasing the time that inspectors can spend in verification activities improves their ability to detect deviations. HIMP is still in its infancy, and FSIS is continuing to evaluate it and improve it. FSIS has received numerous comments through public meetings and Federal Register notices about the project, and the General Accounting Office (GAO) has released its own review of HIMP. We welcome all of these comments and

are always willing to consider changes that will result in improvements and enhancements in food safety.

In fact, we plan to have all of the data collected thus far on the HIMP project reviewed by a scientific institution, in order to ensure that any conclusions we draw are sound and supported by science. Later this year, it is our plan to publish a Federal Register notice on the HIMP program for young chickens, to propose several improvements. We encourage all interested parties to submit their ideas to FSIS for consideration. It is important to remember that HIMP is a pilot project, and we are constantly improving it. It is not yet ready to be implemented nation-wide. When it is, we will communicate this in a transparent and open manner, and it will only take place when the data shows that HIMP represents an improvement over the traditional inspection system.

Our laboratories also play a significant role in our efforts to use science to improve FSIS' effectiveness. They are key to ensuring that we have the science to base our policy on, and to take enforcement action when necessary. For the last 3 years, FSIS has been working to gain accreditation for its laboratories under International Organization for Standardization (ISO) standard 17025. This standard is internationally recognized as a comprehensive and rigorous standard for food testing laboratories. Earlier this year, our Microbial Outbreaks and Special Projects Branch laboratory in Athens, Georgia was accredited by the American Association for Laboratory Accreditation, the accrediting body in the United States recognized by ISO. The American Association for Laboratory Accreditation has audited our three regulatory laboratories. FSIS is pleased to announce that its Athens, Georgia laboratory was accredited in February and its St. Louis, Missouri, and Alameda, California, laboratories were accredited earlier this month.

Another important way to utilize science as the foundation for decision-making is to use the tool of risk assessment. Simply stated, risk assessment is the process by which risks to the food supply, such as bacteria, are identified, and their probability of causing harm characterized. Mathematical models are developed with these data, and used in order to determine whether changing certain practices will reduce or increase the risk to consumers. Risk assessment is an important part of policy making, because it helps us make the best decisions based on science.

An example is the Bovine Spongiform Encephalopathy (BSE) Risk Assessment that was recently completed by Harvard University's Center for Risk Analysis. The purpose was to evaluate the ability of U.S. measures to prevent the spread of BSE to animals and humans, if it were to arise in this country. The risk assessment provided valuable data showing that we are in a strong position to prevent the entry of BSE into the U.S. As the Harvard University risk assessors put it "the U.S. is highly resistant to BSE."

Filling data gaps needed for risk assessments is a priority, because a risk assessment model is only as robust as the data used to develop it. In instances where we don't have the needed data, we must work with researchers to fill the gaps. As you may know, FSIS meets with ARS each year to discuss our research agenda. The work that both FSIS and ARS do to prioritize research needs and carry out that research is very important to our policy making efforts. In the future, I plan to explore additional partnerships—such as with academia—to fill data gaps.

#### *Enhance Outreach and Public Education Efforts*

My fifth goal for the coming year is to enhance our outreach and public education efforts. I'm pursuing an aggressive education and communication program to ensure that consumers have confidence in our food safety system. This program extends beyond the traditional outreach effort FSIS has engaged in—educating consumers about safe handling practices and educating industry on the Agency's regulatory requirements. My public education and outreach agenda expands the definition of the public to the broadest sense by including consumers, industry, FSIS employees, our public health sister agencies, State and local health departments, and foreign food safety officials.

While I recognize that FSIS excels at developing materials to educate the public on food safety, the distribution of the materials is very costly. It is my goal to work with our partners to find a cost-effective and shared means of ensuring that these important food safety messages reach their targeted audiences.

One example of our joint efforts to educate the public is our upcoming food safety education conference. The conference will be sponsored by USDA and the Department of Health and Human Services (HHS), in cooperation with the Partnership for Food Safety Education. We're planning the conference for September to provide an opportunity for food safety education and communication leaders from across the country to present and share projects, assess current trends, and plan for the future.

Another way we're working towards this goal is through a number of cooperative agreements to foster improved education and understanding of the risks associated with the handling of meat, poultry and egg products by retail stores and food service facilities. Last year, FSIS entered into 18 cooperative agreements with State retail food safety task forces, municipalities, and colleges and universities that work with the underserved or economically disadvantaged communities. And this year, we are working to fulfill those agreements as well as expand the number of agreements we have to reach even more individuals.

In addition, FSIS has entered into a cooperative agreement with the Association of Food and Drug Officials (AFDO) to provide train-the-trainer educational programs nationwide to State and local sanitarians who inspect these establishments, as well as small retail store and food service facility owners and managers.

A seamless communication network involving all who play a role in ensuring the safety of the food supply—from the regulators down to the consumers—is essential to our mission. Coordinated efforts and a strong public education campaign will provide the framework for this communication network.

Consumers look to the government for guidance regarding food safety. I am seeking an aggressive education and risk communications program coordinated with HHS to ensure that our efforts are recognized, and that consumers have confidence in our system.

Having reviewed the overall mission and organization of the Agency, I would like to discuss some of the operational changes underway in FSIS to support the President's Management Agenda.

#### PRESIDENT'S MANAGEMENT AGENDA

As you are aware, President Bush has made improving government performance a priority for this Administration. The need for reform is not news. Overlapping missions and competing agendas grow up alongside one another, wasting money and baffling the public. This Administration believes that government not only needs to reform its operations—how it goes about its business, and how it treats the people it serves; it also must rethink its purpose—how it defines what its business is and what services it should provide.

President Bush has called for a government that is active but limited—which focuses on priorities and does them well. And the President's Management Agenda focuses on improving Federal management and delivering results that matter to the American people. As I pursue the five goals I have identified in my vision for USDA's Food Safety mission area, I will be assuring that the intent of the President's Management Agenda is fully realized.

FSIS has already taken significant steps in improving the management and effectiveness of its programs and operations. For example, FSIS has been engaged in ongoing efforts to flatten its organizational structure and increase the number of employees involved with program delivery since the mid-1990's. This earlier effort was intended to provide the organizational structure to support the implementation of the Pathogen Reduction and HACCP regulation and assure re-direction of resources to the front-line activities of the Agency. Today, FSIS has turned its attention towards transitioning its workforce. The goal is to have a front-line inspection workforce that is equipped with the scientific knowledge and technical skills to operate in a public health regulatory environment. Creating this transformation requires the introduction of changes in the workforce composition, changes in the education and training of inspection personnel, and changes in the performance expectations for managers and employees at all levels.

A significant percentage of FSIS resources (92 percent) are involved directly and indirectly in the food safety inspection of meat, poultry, and egg products establishments. These functions can be enhanced through a variety of partnership activities with Federal, State, and local governments, the regulated industry, and consumers to meet our mission goals. Using new budget authority made available through the Homeland Security Supplemental appropriation, FSIS is exploring opportunities with other Federal agencies to leverage resources to enhance the security of the food supply. FSIS is developing closer ties, through cooperative agreements, with CDC, FDA, and U.S. Customs Service, and State and Federal law enforcement agencies, on threat recognition and interdiction activities associated with acts of bioterrorism involving the food supply. There are also significant roles for academia and the private sector to accomplish the vital work of homeland security. Private sector resources in academic and the commercial sector can play vital roles in training and education, in laboratory studies, and in information technology.

FSIS also plans to continue its work with those States conducting State inspection programs. Presently, roughly 40 percent of meat, poultry, and egg products inspec-

tion is carried out under State-operated inspection programs. USDA provides grants to the States, which then administer inspection programs that must be certified as “equal to” the Federal program. Currently, 27 States participate with FSIS as “equal to” partners. Maine is seeking to establish its own State program and is expected to be certified as early as this summer.

Accurate and timely financial information is key to achieving the highest measure of accountability and the best operating performance among Federal programs. The Food Safety mission area is committed to ensuring that Federal financial systems produce accurate and timely information to support the operating, budget, and policy decisions for public health and food safety regulation.

For its part, FSIS has been one of the lead agencies within USDA in converting to a new accounting system designed to meet the goals of improved financial performance. In fiscal year 2002, FSIS is continuing to improve its financial performance by implementing new business processes within the district offices and by establishing new resource management performance expectations for field managers.

The President’s Management Agenda champions citizen-centered e-government as a primary means of improving the Federal government’s value to the citizen. Under the leadership of USDA’s Office of the Chief Information Officer, FSIS has been working with other USDA agencies to identify specific strategic and enabling e-government initiatives. These “Smart Choices,” as they are known, will form the core of the USDA e-government Strategic Plan. Working towards an electronic government is essential to my vision for an expanded outreach and education effort. Improved access to food safety information and timely data sharing is key to my vision as well.

As part of the USDA e-government Strategic Plan, FSIS has the lead in implementing the proposed Food Safety and Security Tools initiative. This initiative promotes interdepartmental collaboration, real-time data collection, and tracking and retrieval of port- and plant-specific data regarding food and livestock. Specifically, its focus is to:

- Share information among agencies more rapidly and effectively;
- Equip field inspectors with upgraded wireless and telephone service to enable them to enter and receive data and to communicate with each other and with management in a wider range of work settings; and
- Enhance communication in times of crisis to ensure that essential food safety-related coordination and communication occurs.

As you can see, my vision for the future of food safety and the inspection of meat, poultry, and egg products is expansive. FSIS’ efforts to realize this vision and at the same time, to meet the goals of the President’s Management Agenda will not be easy, but we recognize the reward if we are able to do so—the safest food supply possible. At this time, I would like to focus on the food safety budget request for fiscal year 2003 and show you how our funding request relates to achieving this goal.

#### FISCAL YEAR 2003 BUDGET REQUEST

The FSIS budget request for fiscal year 2003 supports the Agency’s basic mission of providing continuous food safety inspection in each meat, poultry, and egg products establishment in the country. The increase over the fiscal year 2002 appropriation ensures a level of funding necessary to cover increased salary and benefit costs, thus assuming continued support for an in-plant inspection workforce of 7,600 employees. The budget request provides funding for a much-needed overhaul of the Agency’s data sharing and information management capabilities. The budget request anticipates no change in the Agency’s current overtime and user fee structure in fiscal year 2003. FSIS will, however, review and propose changes to overtime fees and propose an annual licensing fee. Both of these would take effect in fiscal year 2004.

In fiscal year 2003, FSIS is requesting \$803.6 million, a net increase in appropriated funds of \$28 million. Of this proposed increase, \$10.8 million is for pay and benefit increases. FSIS employee salaries, benefits, and inspector travel between plants take up nearly 90 percent of the FSIS budget. This increase also includes \$1.2 million for the Grants-to-States program, primarily for increased pay costs at the State level. It is imperative that States are fully funded for their share of the cooperative programs to permit continued coordination between Federal and State authorities on inspection activities and emerging food safety threats. If not fully funded, Federal and State pay raises, benefits, and increases in health insurance and retirement benefits place a significant burden on our ability to adequately staff inspection activities in meat, poultry, and egg products establishments.

Earlier, I mentioned the need to overhaul FSIS' data sharing and information management capabilities. FSIS' fiscal year 2003 budget includes a request of \$14.5 million to implement the FSIS Automated Corporate Technology Suite (FACTS). FACTS is an initiative to replace FSIS' existing disjointed information systems, with a system that has data-sharing capabilities, making program data available at all levels of the organization. All projects managed within FACTS will be interrelated through the single database, which will provide a central point of access, decreasing data redundancy and inaccuracy. A primary emphasis of this initiative will be to provide timely, up-to-the-minute data on in-plant inspection and performance. This will dramatically improve the ability of our inspectors and other professionals to make decisions quickly, and will allow FSIS to focus its resources on areas of greatest risk. The data sharing attributes of FACTS will also improve the coordination of risk management efforts both within USDA and between Federal, State, and local food safety authorities. Thus, acquisition and implementation of FACTS is key, and I strongly believe that the Agency cannot afford not to have this system if it is to do a top-notch job of protecting the public's health. Certainly, efficiency will be increased, since by increasing the on-line access to information, FACTS will help reduce paperwork and administrative costs and expedite the handling of information requests. FACTS should be viewed in conjunction with our Field Automation and Information Management initiative (FAIM). While FAIM provides the tools for inspector communications, training, and data collection and analysis in the field, FACTS provides the software, servers, and telecommunications in the office. From that foundation, FACTS will develop systems that will support program experts in headquarters, while integrating data collection from (and data dissemination to) the inspection workforce.

FSIS' fiscal year 2003 budget also includes a \$1.5 million request to expand risk prevention and management efforts in small and very small meat, poultry, and egg establishments. Concerns with food safety have caused major changes in food production, processing, and marketing in recent years. The advent of HACCP controls in inspected meat and poultry establishments and increasingly stringent standards by leading retail customers and foreign importers are all helping to drive these changes. Large firms are adapting, and often leading the way. Small and very small firms cannot adapt as readily because they frequently lack the resources to implement cost-effective practices that will better protect public health. To address this, FSIS will develop and provide information and outreach to small and very small processors to help them improve their HACCP systems. Working cooperatively with other food safety agencies at the State and international level, as well as academia, industry, consumer groups, and other relevant stakeholders, FSIS proposes to establish a data sharing system to distribute food safety information to small meat, poultry, and egg producers and processors.

Another new initiative included in the fiscal year 2003 budget request is \$1.2 million to conduct targeted epidemiological surveys at slaughter establishments. These surveys represent the data collection part of an effort to improve the overall quality and availability of data now found in disparate animal health databases, such as the National Animal Health Monitoring System (NAHMS) and the National Anti-Microbial Resistance Monitoring System (NARMS). The goal is also to develop a unified animal-based public health surveillance system.

As part of this effort, raw product samples will be taken at meat and poultry slaughter operations and analyzed for the presence of lesions, and drug or chemical residues. Data from the samples will be analyzed for possible links to emerging diseases, priority pathogens, or other significant threats to public health. This information will allow the Agency to better assist producers and processors in the prevention of pathogens and other food safety hazards. It will also enable FSIS to refine its risk-based inspection strategies in collaboration with other Federal and State officials who have regulatory authority for farm-to-table food safety. FSIS will work with APHIS, FDA, CDC, and the States to prioritize the data collection needs associated with the survey program.

#### CLOSING

At this point, I would like to reiterate my five goals:

- Protect meat, poultry, and egg products against intentional harm;
- Improve upon the overall management and effectiveness of FSIS programs;
- Enhance coordination of food safety activities within and outside of USDA;
- Use science to guide our future policy decisions; and
- Significantly enhance outreach and public education efforts.

I am committed to realizing these goals and in doing so, strengthening the safety of our meat, poultry, and egg products supply. This concludes my statement. Thank



you for the opportunity to testify before you on behalf of USDA's Office of Food Safety. I welcome your questions.

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BIOGRAPHICAL SKETCH OF ELSA A. MURANO

Dr. Elsa A. Murano was sworn in as under secretary for food safety by Agriculture Secretary Ann M. Veneman on October 2, 2001. In this position, she oversees the policies and programs of the Food Safety and Inspection Service.

Murano has extensive public and private experience in the field of food safety as both a manager and educator. During the past 6 years, from 1995 until her recent swearing-in, Murano held several positions with Texas A&M University at College Station, Texas. Most recently, since 1997 she served as the director of the university's Center for Food Safety within the Institute of Food Science and Engineering. During this time she also served on the university's Department of Animal Science Research Advisory Committee and the Food Safety Response Team of the Texas Agriculture Extension Service, and served from 1999–2001 as the Chair of the Food Safety State Initiative Committee of the Texas Agriculture Experiment Station. She held the position of the Center for Food Safety's associate director from 1995 to 1997. In 2000 she was appointed professor in the Department of Animal Science, after having been an associate professor in that same department from 1995–2000. In addition, in 2000 Murano was awarded the Sadie Hatfield Endowed Professorship in Agriculture.

Murano served as a professor-in-charge of research programs at the Linear Accelerator Facility at Iowa State University Service Laboratories in Ames, Iowa from 1992 to 1995. She was an assistant professor in the Department of Microbiology, Immunology, and Preventive Medicine at that university since 1990.

Before joining USDA, from 2001 until her recent appointment, Murano served as a member of the USDA National Advisory Committee for Meat and Poultry Inspection. Since 1998 she also served on the National Alliance for Food Safety Operations Committee, which she chaired during 2000. She was a member of several professional organizations, which included the American Society for Microbiology, the Association of Meat Science, the Institute of Food Technologists, the Poultry Science Association, and the International Association of Food Protection.

A native of Havana, Cuba, Murano holds a B.S. degree in biological sciences from Florida International University in Miami. She also holds a M.S. degree in anaerobic microbiology and a Ph.D. in food science and technology, both from Virginia Polytechnic Institute and State University in Blacksburg, Va.

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BIOGRAPHICAL SKETCH OF DR. MERLE D. PIERSON

Agriculture Secretary Ann M. Veneman today announced the selection of Dr. Merle D. Pierson as deputy under secretary for food safety.

"I'm extremely pleased that Merle Pierson is joining the USDA team," said Veneman. "His scientific expertise in food safety will serve USDA well as we continue to develop sound food safety policies based on science."

Pierson is internationally recognized for his work with Hazard Analysis and Critical Control Point (HACCP) systems and research on the reduction and control of foodborne pathogens, having authored or co-authored more than 100 journal articles and five books on food safety and quality.

Prior to his appointment, Pierson served as professor of food microbiology and safety at Virginia Polytechnic Institute and State University (VPI). During his tenure at VPI, he served as head of the Department of Food Science and Technology from 1985 to 1994, and acting superintendent of the Center for Seafood Extension and Research from 1992 to 1994. He served as a member of the National Advisory Committee on Microbiological Criteria for Foods from 1990–1997. Additionally, he has been actively involved in various capacities with the work of the Codex Alimentarius Commission—an international body that seeks to protect the health of consumers and ensure fair practices in food trade through adoption and implementation by governments of food standards, codes of practice, and other guidelines. He has served as a consultant to government and industry on a number of food safety issues, including HACCP.

A native of South Dakota, Pierson received his B.S. in biochemistry from Iowa State University and his M.S. and Ph.D. in food science from the University of Illinois.

## PREPARED STATEMENT OF MARGARET O'K. GLAVIN

Mr. Chairman and Members of the Subcommittee, I am pleased to have the opportunity to submit a statement for the record on the current status of Food Safety and Inspection Service (FSIS) programs and on the fiscal year 2003 budget request for food safety within the U.S. Department of Agriculture.

FSIS has a long, proud history of protecting public health. Although the Agency under the current name was established by the Secretary of Agriculture on June 17, 1981, its history dates back to 1906. It is the mission of FSIS to ensure that meat, poultry, and egg products prepared for distribution in interstate and foreign commerce for use as human food are safe, 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.

Over the course of the past year, FSIS began a comprehensive review of the Agency's statute mandated mission of ensuring the safest food system possible. The Agency is focusing on improvements we can make to enable us to more effectively carry out our mission. We are identifying and introducing steps to enhance our performance and to better serve the public health interests of the American public.

## INFRASTRUCTURE

With the Hazard Analysis and Critical Control Point (HACCP) System fully implemented, the Agency is turning its attention to ways to improve our infrastructure as a means of better supporting our science-based inspection system.

FSIS is a large agency, with approximately 9,500 employees. This includes more than 7,600 inspection personnel stationed in approximately 6,000 meat, poultry, and egg products plants who inspect more than 139 million head of livestock, 8.2 billion birds, and 3.1 billion pounds of liquid egg products annually. In fiscal year 2001, FSIS facilitated the export of over 11 billion pounds of meat and poultry to approximately 100 countries throughout the world and began work on a new system to automate the certification of meat and poultry exports. Agency personnel also reinspected 3.8 billion pounds of imported meat and poultry from 30 countries, of which 8 million pounds were refused entry into the United States. 7.8 million pounds of egg products were imported from Canada, of which 30 pounds were refused entry. Canada and The Netherlands, remain the only countries certified to export egg products to the United States, although The Netherlands exported no egg products to this country last year. Mexico submitted a request to determine equivalency and eligibility to export egg products and processed poultry. The Agency is working with Mexico and awaiting additional information before making a determination of equivalence.

As you may know, recent reports of poor sanitary conditions in meat plants in Mexico have raised questions concerning USDA's auditing and plant certification in Mexico. I take these allegations very seriously. For this reason and at the request of Secretary Veneman, I recently traveled to Mexico to get an assessment of the situation. During this visit, I, along with the Under Secretary for Food Safety and other USDA officials, met with Dr. Javier Trujillo, Director of Food Safety for Mexico, and other Mexican government officials to measure their level of commitment to maintaining a meat inspection system that is equivalent to the United States. We also took the opportunity to visit several plants in question to see the sanitary conditions first hand. I will continue to ensure that every effort is being made in Mexico and all other eligible exporting countries to maintain the highest level of sanitary conditions and will keep you apprised of the progress.

To ensure the safety of imported products, FSIS maintains a comprehensive system of import inspection, linking all U.S. ports of entry through a central computer system. This allows FSIS to establish compliance histories for countries and plants exporting to the U.S. and to communicate instantly among ports when problems are found at any individual port of entry. This system is one part of FSIS' efforts to verify the effectiveness of foreign inspection systems and also to support our sister agency, the Animal and Plant Health Inspection Service (APHIS) in preventing the entry of meat or poultry products that present an animal disease threat to U.S. livestock. While FSIS has had a Memorandum of Understanding (MOU) with APHIS since 1985, the two agencies recently updated the MOU to further strengthen communication and cooperation for imported products at ports of entry and for audited products. The MOU is an example of how the two agencies are working together to assure product from restricted countries is not imported and does not pose a threat to public health.

In light of recent animal health diseases in Europe and bioterrorist threats both in the United States and abroad, FSIS' certification process for foreign inspection

programs has become a subject of heightened interest. Annually, we review all foreign inspection systems in countries eligible to export meat and poultry to the United States. In fiscal year 2001, FSIS reviewed the documentation of and performed on-site audits in 27 of the 32 countries eligible to export meat and poultry products to the United States, as well as two countries requesting eligibility, and was satisfied that all 29 countries had implemented Sanitation Standard Operating Procedures (SSOPs), HACCP systems, and pathogen testing programs. These audits included visits to 217 slaughter and processing establishments and 82 laboratories. FSIS did not audit four countries (Austria, Ireland, Northern Ireland, and England) in 2001 because the September 11 events disrupted planned travel. The fifth (Uruguay) was delayed because of foot and mouth disease concerns that might have resulted in its delistment. Those issues were resolved, and Uruguay was audited from January 14 through February 1, 2002. There were no major deficiencies. FSIS has rescheduled the four remaining audits for 2002.

FSIS is also responsible for assessing State inspection programs that regulate meat and poultry products that may be sold only within the State in which they were produced. The 1967 Wholesome Meat Act and the 1968 Wholesome Poultry Products Act require State inspection programs to be “at least equal to” the Federal inspection program. If a State chooses to end its inspection program or cannot maintain the “at least equal to” standard, FSIS must assume responsibility for inspection. There are currently 27 States that have a State meat or poultry inspection program and operate under cooperative agreements with FSIS. In these States, Federal funding is provided for up to one-half of the States’ cooperative inspection program, as long as the State maintains a program “at least equal to” the Federal program. Maine is in the process of establishing its own State program and could be certified as the 28th State with a State inspection program as early as this summer.

FSIS also conducts compliance and enforcement activities to address situations where unsafe, unwholesome, or inaccurately labeled products have been produced or shipped. The objective of these activities is two-fold—one, to make a critical appraisal of compliance with meat and poultry regulations, and two, as a result of certain critical appraisals, to take enforcement action where necessary. In fiscal year 2001, more than 32,000 compliance reviews were conducted. As a result of these reviews and other activities, approximately 17 million pounds of meat, poultry, and egg products were detained for noncompliance with the respective laws, and nine criminal convictions were obtained against firms and individuals for violations of the meat and poultry inspection laws. In addition, FSIS assisted in 66 voluntary recalls of meat, poultry, and egg products during fiscal year 2001.

#### *Biosecurity Efforts*

Since September 11, we have placed increased attention on the need to coordinate our biosecurity efforts within the Agency and Department, as well as with other Federal, State, and local agencies, consumer and industry groups. The Agency has a strong emergency preparedness plan in place and I am secure in its ability to respond to an intentional attack on the meat, poultry, or egg products supply. FSIS recently formed the Food Biosecurity Action Team (F-BAT) to coordinate and facilitate all activities pertaining to biosecurity, countering terrorism, and emergency preparedness within the Agency. F-BAT also serves as FSIS’ voice with other government agencies, and internal and external constituents on biosecurity issues.

F-BAT is charged with 5 goals:

- Ensuring the continuation of FSIS essential functions during emergencies;
- Ensuring employee safety pertaining to terrorism, bioterrorism and catastrophic emergencies;
- Ensuring that FSIS is prepared to prevent and respond to agricultural terrorism or attacks on the food supply;
- Ensuring proper communication with FSIS employees, USDA, industry, trade associations, consumers, media, and Congress; and
- Ensuring the security of our laboratories.

F-BAT has been instrumental in several initiatives to improve food safety and security. These include:

- Assessing potential vulnerabilities along the farm-to-table continuum;
- Providing guidelines to industry on food security and increased plant security, particularly in small and very small plants;
- Strengthening FSIS coordination and cooperation with law enforcement agencies; and
- Enhancing security features at all FSIS laboratories, and increasing the capacity of its laboratories to test for additional food safety hazards and biological agents.

F-BAT coordinates with FERRET—the Food Emergency Rapid Response and Evaluation Team—the Department-wide mechanism to ensure expeditious and effective response in the event of a food security threat. The Agency also is a participant in the Food Threat Preparedness Network, (PrepNet), which functions across departments to ensure food security throughout the government. PrepNet is co-chaired by the FSIS Administrator and the Director of the Center for Food Safety and Applied Nutrition (CFSAN) at the Food and Drug Administration (FDA). This group is a strong example of our commitment to working with our sister public health agencies to take proactive measures against bioterrorist threats. Other members of PrepNet include APHIS, the Centers for Disease Control and Prevention (CDC), the Department of Defense (DOD), and the Environmental Protection Agency (EPA). The focus of this group is on preventive activities to proactively protect the food supply, as well as rapid response.

With these collaborative groups in place, FSIS is well situated to respond to food safety threats to our nation's food supply, regardless of whether they occur as a result of intentional or accidental action. FSIS will continue to coordinate its prevention and response activities on all levels, both internally and externally among all stakeholders.

#### ENHANCING EFFECTIVENESS

We are moving to enhance our effectiveness by focusing on employee performance and accountability. We will give our employees the tools they need to perform in a HACCP-based, scientifically designed program environment. We have invested heavily in the training and education of our workforce to ensure that they are able to apply sound science to the decisions they make on a daily basis. We will enter into training partnerships with the private sector to ensure that our workforce continue to have access to state-of-the art training and education. We are redesigning our performance measurement and appraisal system to ensure that our employees receive appropriate oversight and supervision. We are testing new tools such as correlation reviews, web-based chat rooms for training and information sharing, pilot programs to make more effective use of the skill and training of our veterinary corps, and revised supervisory structures for our field offices. We are moving to implement the recommendations of several work groups that have studied the structure and workings of our field force so as to improve coordination, management oversight, and correlation across the work force. This will improve the consistency and quality of our decisions. Our program design has become increasingly science-based; our program delivery must be modernized to keep pace.

We are also making strides in our financial accountability. We continue to invest in our financial and budget systems and to inject discipline and professionalism into our resource management. Resource allocation modernization is an important initiative to ensure that we are maximizing the use of the resources we have.

In making these improvements we must seek the advice and input of our stakeholders. We have formed a Standing Subcommittee on Field Accountability of the National Advisory Committee on Meat and Poultry Inspection. This Subcommittee, which will meet for the first time in April, will provide guidance and oversight to our efforts to enhance our efficiency and effectiveness.

#### *Modernization of FSIS Information Technology*

The Agency is also taking aggressive steps to enhance efficiency by replacing outdated hardware, software, and other computer-related systems. These upgrades will help our employees in the field function more efficiently and will enhance communication, increase the availability of real-time information, and enable us to track actions taken by inspectors. Our efforts are twofold. The first includes the Field Automation and Information Management (FAIM) initiative, which is the major vehicle by which FSIS is providing its dispersed field workforce with the technology tools to support HACCP-based regulatory determinations and actions in the field. The second is our FSIS Automated Corporate Technology Suite (FACTS), a new initiative to replace FSIS' existing information systems with an enterprise architecture of data-sharing capabilities that will make the data available to all levels of the organization.

FACTS began as an effort to improve the accessibility of information to all users throughout the Agency. From 1997 through 1998, FSIS conducted a Business Process and Data Analysis project. The purpose was to analyze the Agency's core business processes and data needs from a strategic, enterprise-wide view. FACTS is an integrated initiative to address FSIS' current and future information technology (IT) needs. FACTS will focus on the FSIS corporate applications and data management projects, including our nationwide telecommunications and security infrastructure. In conjunction with the field infrastructure established by the ongoing FAIM effort,

FACTS will promote a science- and risk-based meat, poultry and processed egg inspection program through the use of modern information technology.

In fulfilling FSIS business requirements, FACTS will fully support the USDA infrastructure, architecture and security specifications through a web-enabled, centralized data source across the mission area, maximize use of commercial off-the-shelf products, and cyber-security oriented preparedness. FACTS will also facilitate data and information exchange among Federal, State, local and, as appropriate, private sector entities. This will enable FSIS to comply with, by October 2003, the Government Paperwork Elimination Act (GPEA), which requires Federal agencies to provide individuals or entities the option to submit information or transact with the agency electronically, and to maintain records electronically when practicable.

#### *Laboratory Improvements*

An essential component of FSIS' mission to protect public health is the work of our Agency's four multidisciplinary laboratories. The three field service regulatory laboratories conduct laboratory testing for microbiological contamination, chemical and antibiotic residues, pathological conditions, processed product composition, and economic adulteration. In fiscal year 2001, FSIS' three regulatory labs performed conducted 737,139 analyses on 159,401 meat, poultry, and egg product samples. The fourth laboratory is the Microbial Outbreaks and Special Projects Branch (MOSPB) laboratory in Athens, Georgia, which conducts special projects for FSIS and assists in the event of an outbreak of foodborne illness.

I am proud to announce that FSIS was recently awarded accreditation under International Organization for Standardization (ISO) Standard 17025 for procedures that the Agency conducts at its MOSPB laboratory. The Agency's three field service regulatory laboratories in St. Louis, Missouri, Alameda, California, and Athens, Georgia have also been awarded accreditation.

Accreditation encourages uniform laboratory practices and increases credibility. The ISO Standard 17025 is internationally recognized as a comprehensive and rigorous standard for food testing laboratories. In order to maintain accreditation, the FSIS quality manual and work instructions must be continually updated. Each laboratory will also be audited by A2LA once a year, with an in-depth audit occurring every other year. In addition, the FSIS Laboratory Quality Assurance Division conducts annual and special audits of the four FSIS laboratories.

#### RISK-BASED, SCIENCE-BASED PROGRAMS

##### *Pathogen Reduction (PR)/HACCP*

The risk-based, science-based modernization of the meat, poultry, and egg products inspection programs, begun in 1996 through the PR/HACCP final rule, has resulted in significant food safety improvements. Reductions in the prevalence of many microbiological contaminants, such as Salmonella, have occurred across all categories of meat and poultry products, and these have been accompanied by reductions in foodborne illness. Since its implementation in January of 1997, this science-based regulatory system has changed the food safety landscape for the better. CDC has attributed the decline in foodborne illness to the implementation of HACCP. These improvements would not have been possible without the consistent support of you, Mr. Chairman, and the Members of this Committee. This support has enabled FSIS to complete implementation of the PR/HACCP system and to consolidate the resulting gains into a sound plan for the future.

Under PR/HACCP, plants identify critical control points during their processes where hazards such as microbial contamination can occur, establish controls to prevent or reduce those hazards, and maintain records documenting that the controls are working as intended. FSIS believes that HACCP-based process control is the most effective means available for ensuring the safety of food.

The PR/HACCP rule continues to be FSIS' most important tool for ensuring the safety of meat and poultry. However, the Supreme Beef case has confused many into thinking that FSIS can no longer shut down a plant. In fact, USDA has the authority to shut down plants for sanitation or other food safety reasons. The only change resulting from the Supreme Beef case is that FSIS can no longer rely solely on Salmonella data to shut down plants. I must emphasize that Salmonella testing has not stopped. We are using the performance standard, in conjunction with other measures, to verify that the establishment's HACCP plan and Sanitary Standard Operating Procedures (SSOPs) are working. As you know, our inspectors are charged with such verification activities. Thus, record reviews, monitoring of plant procedures and personnel, and sampling are the tools they will use to determine whether HACCP and SSOPs are working.

In response to the court's ruling, FSIS has developed new actions to take if an establishment fails to meet the Salmonella standard. FSIS is using the failure as an indicator that further investigation is needed to determine the cause of the failure. Therefore, after the first set of microbiological samples indicates Salmonella is present at levels above the standard, FSIS will assess the plant's HACCP system and sanitation procedures, then develop a plan to verify corrective actions implemented by the plant. If the plant fails a second set of Salmonella tests, FSIS will document the failure with plant management. This record requires the plant to take action to correct the reasons for the failure. FSIS also will conduct an in-depth review of the plant's corrective and preventive actions and will initiate a third sample set once those actions have been completed. If FSIS finds that the corrections are inadequate to address the cause of the failure, then we will initiate enforcement action. Failure of a third Salmonella test set will require FSIS to determine whether the HACCP system has failed to prevent, eliminate, or reduce to an acceptable level, the occurrence of the identified food safety hazard. If this determination is made, FSIS will initiate additional enforcement action.

The conference report accompanying the fiscal year 2001 agriculture spending bill directed the Secretary to request reports from the National Research Council's National Academy of Science (NAS) and the National Advisory Committee on Microbiological Criteria for Foods (NACMCF), which are comprised of the nation's top scientists and foremost experts in the food safety discipline. The NAS study is in its early stages and is expected to be completed in approximately 14 months. The NACMCF study is also in its early stages and it is unknown when it will be complete.

#### *HACCP-based Inspection Models Project (HIMP)*

In addition to moving forward with HACCP, we are continuing to pursue innovative ideas such as the HACCP-based Inspection Models Project, or HIMP, to further address the on-line slaughter process and enhance the safety of food products. HIMP is best described as a total food safety and process control system. Under HIMP, volunteer plants take a more active role in the carcass sorting process, while our inspectors concentrate on more intense inspection and verification activities. The true value of this pilot project is that it is demonstrating how real-time data gathering can help plants maintain control over product, and how increasing the time that inspectors can spend in verification activities improves their ability to detect deviations. HIMP is still in its infancy, and FSIS is continuing to evaluate it and striving to improve it. FSIS has received numerous comments through public meetings and Federal Register notices, and the General Accounting Office (GAO) has released its own review of HIMP. We welcome all of these comments and will make changes that result in improvements and further enhancements in food safety.

We will continue to seek advice and input on HIMP from all of our stakeholders. This year, we plan to develop a proposed rule for public comment on the HIMP program for young chickens. The proposal will include the several improvements to the pilot program.

#### *Science Based Risk Assessments*

To further guide the Agency's policy making, several risk assessments have been conducted or are underway to evaluate the risk associated with certain microbiological pathogens. FSIS and APHIS, through Harvard University's School of Public Health, have recently completed a risk assessment on bovine spongiform encephalopathy (BSE). A risk assessment for *Listeria monocytogenes* in ready-to-eat products has been completed, and a draft risk assessment for *E.coli* O157H:7 in ground beef has been submitted to the NAS for peer review. The Agency is in the early stages of initiating a risk assessment on *E.coli* O157H:7 in trim. These risk assessments represent the first step in a policy making process. Risk assessments look at possible ways that FSIS could protect public health through the implementation of regulations created to diminish the risks posed by foodborne hazards in products regulated by FSIS.

#### *Bovine Spongiform Encephalopathy (BSE)*

To date, no confirmed cases of BSE have ever been found in the United States despite more than 11 years of active surveillance, nor have there been any reported cases of vCJD, the human variant of BSE. Because of controls put in place by the U.S. government, it is unlikely that meat purchased in the United States would be contaminated with the BSE agent.

In April of 1998, the USDA commissioned Harvard University's Center for Risk Analysis at the School of Public Health, in conjunction with the Tuskegee University Center for Computational Epidemiology and Risk Analysis, to conduct a risk assessment to analyze and evaluate USDA's measures to prevent BSE. The risk assess-

ment reviewed current scientific information, assessed the ways that BSE could potentially enter the United States, and evaluated existing USDA regulations and policies to prevent the spread of BSE within the United States if it were to occur.

The results of the risk assessment were released on November 30, 2001, and indicate that the risk of BSE occurring in the United States is extremely low. Additionally, the report showed that early protection systems put into place by the USDA and HHS have been largely responsible for keeping BSE out of the United States and would prevent it from spreading if it ever did enter the country.

Based on a preliminary review of the risk assessment, USDA announced a series of actions to be taken that would continue strengthening programs to reduce the risk of BSE even further. These actions include the following:

- USDA has arranged for the risk assessment to be peer-reviewed by a team of independent experts to validate its scientific integrity. These experts are looking at whether the data have been correctly interpreted and whether the computer model can be used easily by USDA scientists to evaluate “what if” scenarios.
- APHIS continues to increase testing for BSE, with more than 12,500 cattle samples targeted in fiscal year 2002-up from 5,000 during fiscal year 2001. Surveillance is a critical part of USDA’s multifaceted strategy. APHIS is on target to meet this goal, having already tested 3,312 cattle as of December 31, 2001.

On January 17, 2002, FSIS published an options paper in the Federal Register that outlines additional possible regulatory actions to limit the risk of BSE exposure. To ensure these options are science-based, they will be tested using the computer model developed by Harvard to see what impact they would have on further reducing risk.

The options include: prohibiting the use of brain and spinal cord from specified cattle in human food; prohibiting the use of central nervous system tissue in boneless beef products, including meat from advanced meat recovery systems; and prohibiting the use of the vertebral column from certain categories of cattle, including downed animals, in the production of meat from advanced meat recovery systems. USDA has invited public comment on the options and will then proceed to develop appropriate regulatory proposals.

USDA is also drafting a proposal to prohibit the use of certain stunning devices used to immobilize cattle during slaughter, and an advance notice of proposed rulemaking to consider disposal options for dead and downer animals, because such cattle are considered an important potential pathway for the spread of BSE in the animal chain.

#### *Listeria monocytogenes (Listeria)*

On February 27, 2001, FSIS proposed a rule, which was published in the Federal Register to help prevent contamination by *Listeria* and other harmful pathogens in ready-to-eat meat and poultry products. The proposed regulation would require meat and poultry establishments to conduct food contact surface testing for generic *Listeria* or address post-lethality contamination in their Hazard Analysis and Critical Control Point (HACCP) plans.

The comment period was extended several times and finally closed 195 days later on September 10, 2001. FSIS received approximately 3,000 comments with 50 of them being substantive in nature and the remaining comments being non-substantive form letters.

In order to facilitate public input and gather additional information during the comment period for this proposed rulemaking, FSIS held a scientific conference and a public meeting in May 2001, to discuss the proposed provisions, especially those that would require certain establishments to conduct environmental testing for non-pathogenic *Listeria*.

The proposed rule identified additional needs for scientific information and analytical data that if addressed, could strengthen the scientific foundation of the rule. It is extremely important that the regulations be based on sound science and common sense measures involving significant public comment.

Before moving forward with a final rule, FSIS expects to evaluate outstanding data needs identified during the comment period. These data needs include:

- Analysis of *Listeria* contamination of ready-to-eat hotdogs by the Agricultural Research Service;
- Reevaluation of the *Listeria* risk assessment to take into account contamination during processing and in-plant mitigation strategies; and,
- Assessment of the effectiveness of HACCP verification sampling by FSIS.

#### *E-coli O157:H7 in Ground Beef*

In 1998, FSIS initiated the process of conducting a risk assessment for illnesses associated with *E. coli* O157:H7 in ground beef. The draft risk assessment shows

that the risk of illness to consumers is low; very few cooked ground beef servings are likely to have surviving pathogens present. The best estimates predicted from the assessment is that the risk of *E. coli* O157:H7 illness for the general population is less than one for each million servings of ground beef consumed. The occurrence and extent of *E. coli* O157:H7 contamination in ground beef is most influenced by factors such as the prevalence of the pathogen among cattle and the level of contamination on the carcass. The prevalence of *E. coli* O157:H7 in ground beef increases in the summer months and decreases during the winter; therefore, the assessment predicts the risk of illnesses is higher in summer months.

This draft risk assessment was completed in November 2001 and has been presented to the National Academy of Science (NAS) for peer review. The assessment produces scientific support for:

- estimating the likelihood of human morbidity and mortality associated with specific numbers of *E. coli* O157:H7 in ground beef servings;
- development of regulatory impact assessments to provide the basis for FSIS rulemaking;
- identification of critical control points and critical limits in Hazard Analysis and Critical Control Point (HACCP) systems for ground beef;
- development of risk-based sampling plans for FSIS inspectors to verify that industry HACCP systems are meeting regulatory standards for *E. coli* O157:H7 in ground beef; and
- identification of future food safety research areas on *E. coli* O157:H7 in ground beef.

Ultimately, the risk assessment will serve as an important policy making tool as the Agency considers what steps to take to enhance food safety.

#### WORKFORCE OF THE FUTURE

Another way in which FSIS seeks to maximize its effectiveness as a regulatory and public health agency is by increasing the scientific expertise of its workforce. The Agency's frontline workforce needs a broader scientific and analytical background in order to verify PR/HACCP requirements and deal more effectively with high priority and emerging food safety hazards. FSIS is also working to increase the depth of its scientifically trained workforce through recruitment of commissioned officers of the Public Health Service with medical and public health backgrounds, and the implementation of the Food Safety Fellows. In addition, the Agency has undertaken efforts to enhance the education, training, and professional skills of its employees in order to build a world class food safety protection workforce.

FSIS has already begun transitioning its workforce. In fiscal year 2001, FSIS hired and trained 35 Consumer Safety Officers (CSO) and conducted 4 weeks of intensive training before assigning them to the district offices. CSOs are professional positions requiring a general scientific background and individuals are responsible for conducting onsite food safety and other consumer protection verification and evaluation activities in establishments operating under a grant of Federal inspection. CSOs assess the scientific adequacy of HACCP plans, SSOPs, and plant microbiological verification sampling strategies. They also monitor the interaction of systems within the establishment in order to ensure food safety and other consumer protections. Additionally, CSOs focus particular attention on assisting small and very small plants in the design and implementation of HACCP plans, SSOPs, *E. coli* monitoring plans, and microbiological control strategies. In doing so, CSOs help FSIS comply with the Small Business Regulatory Enforcement Flexibility Act (SBREFA), which requires that Federal agencies act to mitigate the adverse impact of new regulations on small business by providing them assistance and guidance.

FSIS believes that introducing into the district offices, CSOs with scientific and analytical skills will improve our ability to fully modernize our inspection system and will ensure the consistent application of new inspection procedures designed to verify that official establishments meet regulatory requirements. We were grateful for the Committee's support for our introduction of CSOs in fiscal year 2001 and have high expectations for the important role these positions will play in the effort to further enhance our workforce and the level of food safety in the United States.

FSIS also recognizes that its veterinarians play a key role in moving towards the professionally trained workforce of the future. The Agency's workgroups continue to make progress on the recommendations from the taskforce report, "The Future of FSIS Veterinarians: Public Health Professionals for the 21st Century." The Agency's Chief Veterinary Medical Officer, is serving as Executive Sponsor and will ensure the recommendations from the report are fully implemented. In December 2001 the Agency also hired 17 more Veterinary Medical Officers (VMOs) to serve as District Veterinary Medical Specialist (DVMS). The DVMS' completed 2 weeks of intensive



training in January 2002 and have now been assigned to the district offices in a liaison capacity. The DVMS' will serve as the primary contact for humane handling and slaughter issues, including verification and enforcement activities, information dissemination, training, documentation, and generation of recommendations for reports to senior management on future policies. We appreciate the Committee's funding support for these positions in the fiscal year 2001 Supplemental Appropriations bill. These DVMS' will make an important difference in the Agency's continued efforts to ensure full compliance with humane handling and slaughter regulations, as well as facilitate coordination of other activities in the field.

As we move towards a more science-based workforce, training and education is a high priority for the Agency. In July 1999, FSIS began the process of assessing the knowledge and training requirements of our future workforce by establishing the Workforce of the Future Steering Committee (WOFSC). The Committee was asked to integrate, coordinate, and oversee the Agency's workforce planning activities and to guide this transition of the workforce. The Committee ensures that the transition of the workforce of the future is carried out efficiently, cost effectively, and with consistency across the Agency. The Steering Committee, which is comprised of all major FSIS program areas, as well as representatives of the National Joint Council of Food Inspection Locals, the National Association of Federal Veterinarians, and the Association of Technical and Supervisory Professionals, has developed guiding principles for managing this change. The guiding principles were adopted by the Agency and are aimed at ensuring consistency in Agency decision-making, procedures, and communication, in order to maintain employee support for the transition to the workforce of the future.

The Agency also established the FSIS Training and Education Committee for 2001 and Beyond (TEC 2001) to examine our current education and training activities, conduct an assessment of Agency needs, develop an education vision for the Agency, and develop a strategy for educating and training our employees for the 21st century. The TEC 2001 Committee reviewed the current status of training within the Agency and made several recommendations about steps FSIS should take to develop a more effective program for the future. The final report encourages the Agency to take the following actions:

- Develop an individualized curriculum for each occupation in FSIS;
- Conduct an assessment of individual FSIS employees to determine a baseline of skills already possessed and identify the gaps that need to be filled;
- Develop distance learning applications to deliver training on a variety of topics to employees;
- Establish a formal evaluation effort of training and education activities;
- Reorganize the Agency's training resources to consolidate them and place them directly under the Office of the Administrator as a separate entity;
- Create a Board of Directors to provide guidance and oversight to the Agency program;
- Develop a centralized, interactive database to allow both employees and programs to track training and related activities (classes, costs, travel, credits, etc.);
- Establish a Training Administrator position in each district office;
- Centralize funding for training program activities; and
- Evaluate the number and type of personnel resources that should be dedicated to managing an effective training program.

These activities will form the foundation for a corporate approach to training and education of FSIS employees and ensure that an effective mission-based training program exists within the Agency.

#### FOOD SAFETY EDUCATION AND OUTREACH EFFORTS

FSIS' mission encompasses more than just "regulatory" activities. The Agency's mission also includes a "public health" element that requires extensive communication with stakeholder groups. Our communication programs seek to increase understanding by these groups of our mission, authority, regulations, and procedures. Successfully carrying out these functions is an important and preventive measure the Agency engages in to reduce the threats of foodborne disease outbreaks and further protect the public health.

While the Agency's infrastructure plays an important role in protecting public health and safety from the threats posed by microbiological hazards, strong partnerships with stakeholders are needed to ensure the public is fully educated and aware about their role in preventing foodborne illness outbreaks. Preventing foodborne illnesses involves more than government inspection, regulations, and enforcement, it requires proper handling at the retail, transport, and consumer levels. FSIS believes

that in order to “do its part” the public must have good information about what steps they can take to assist in reducing the number of foodborne illnesses.

#### *Consumer and Food Safety Education*

FSIS education programs are designed to prevent foodborne illness. We develop outreach materials and activities based on current scientific and consumer research, social marketing, and educational research to develop products that will effectively educate the public about the dangers of foodborne illnesses and how these outbreaks can be prevented. Many programs target consumers who are at greatest risk from foodborne illness—the very young, the elderly, pregnant women, people who have chronic diseases, and people with compromised immune systems.

Among these activities, the USDA Meat and Poultry Hotline has for 17 years provided a toll-free national service to consumers, information multipliers and professionals with questions about safe preparation of meat, poultry, and other foods, and foodborne illness prevention. In fiscal year 2001, the Hotline handled almost 86,000 calls. The Agency also received nearly 5,400 inquiries via e-mail. Both of these tools have proven to be an effective means of facilitating two-way communication with consumers and others interested in issues related to FSIS.

In fiscal year 2001, FSIS initiated an outreach pilot project for the Spanish speaking population. The USDA Meat and Poultry Hotline set up a 3 month long Spanish language outreach pilot aimed at providing Hispanic consumers with bilingual service. The pilot outreach efforts were focused and advertised in Miami, Florida; San Diego, California; and Newark, New Jersey. The pilot offered callers a choice of speaking to hotline operators and/or hearing recorded information in Spanish or English.

We also reach out to consumers and others with food safety education campaigns. In May 2000, the Thermy™ campaign was launched to promote the use of food thermometers in the home and is continuing. In 2001, Thermy™, along with other USDA characters, appeared in the Macy’s Thanksgiving Day Parade. Thermy™ has also teamed up with Wal-Mart’s® 800 Supercenters nationwide, along with local cooperative extension agents to educate and demonstrate the use of a variety of food thermometers. Thermy™ brochures and other materials promoting the importance of cooking foods to safe temperatures have been distributed at these and other events. Partnerships and other efforts are being undertaken to further promote the Thermy™ message and tailor the material for the food service industry.

Another highly successful campaign, Fight BAC™, has taught safe handling practices to millions and shows no signs of slowing in popularity. The Partnership for Food Safety Education, made up of Federal agencies, industry organizations, and consumer groups, combined resources for this campaign.

#### *Federal, State, and Industry Partnerships*

Another example of joint efforts to educate the public is our upcoming food safety education conference. The conference will be sponsored by the U.S. Department of Agriculture and U.S. Department of Health and Human Services, in cooperation with the Partnership for Food Safety Education. FSIS will convene the conference in September to provide an opportunity for food safety education and communication leaders from across the country to present and share projects, assess current trends, and plan for the future.

We are also working to enhance our public education efforts through a number of cooperative agreements to foster improved education and understanding of the risks associated with the handling of meat, poultry, and egg products by retail stores and food service facilities. Last year, FSIS entered into 18 cooperative agreements with State retail food safety task forces, municipalities, and colleges and universities that work with the underserved or economically disadvantaged communities. And this year we are working to fulfill those agreements, as well as expand the number of agreements we have, in order to reach even more individuals.

In addition, FSIS has entered into a cooperative agreement with the Association of Food and Drug Officials (AFDO) to provide train-the-trainer educational programs nationwide to the State and local sanitarians who inspect these state-regulated establishments, as well as small retail store and food service facility owners and managers. Because meat and poultry produced at retail is exempt from Federal inspection, State and local agencies must ensure food safety in retail environments.

FSIS’ partnerships are not limited to educational efforts. FSIS works closely with State and local public health and food safety authorities, as well as with its sister public health agencies, such as FDA and the CDC, to coordinate food safety strategies and emergency response activities.

Nationwide surveillance of foodborne illness is a long-standing example of intra-state cooperation that is coordinated by FSIS and CDC. The system by which this

information is coordinated is known as the Foodborne Diseases Active Surveillance Network (FoodNet). Under an agreement between the two agencies, CDC conducts active population-based surveillance of foodborne diseases. This involves the ongoing and systematic collection of foodborne illness data to detect outbreaks and monitor disease trends and patterns. Data collected are used to determine the need for public health emergency response and to assess the effectiveness of efforts to prevent foodborne disease and outbreaks over time.

A companion system, the PulseNet computerized database, matches the DNA fingerprint of foodborne pathogens and accelerates the traceback process to the source of the contamination. PulseNet has been especially successful in identifying dispersed illnesses with potentially common sources of implicated product and alerting the regulatory agencies so that they can take appropriate action.

Each year, FSIS also participates in the Conference for Food Protection (CFP), which is a bi-annual forum for Federal, State, and local government representatives to meet with industry, academia, and consumers on recommended changes to the Food Code. FSIS collaborates with FDA on publication of the Code in order to provide Federal guidance to the States and others with regulatory responsibility for retail food safety. Adoption of the Code increases uniformity of food safety regulation among jurisdictions, which benefits both commerce and consumers.

#### INTERNATIONAL ACTIVITIES

##### *Codex Alimentarius Commission (Codex)*

FSIS also plays a leading role in the United States' participation in global dialogue on the setting of international food safety standards. The GATT Uruguay Round Agreements Act designated USDA as the lead agency for U.S. participation in the sanitary and phyto-sanitary standard setting activities of the Codex Alimentarius Commission. The U.S. Codex Office, located within FSIS, coordinates all U.S. government and non-government participation in these activities. Through notices published in the Federal Register, FSIS advises the public of the standard-setting activities of the Commission, as well as of the dates and agendas of its meetings.

Codex plays an important role in FSIS' ability to fulfill its mission. First, its sanitary and phytosanitary standard-setting activities protect consumers by improving food safety. Second, these activities help ensure that sound science is the basis for establishing international food safety standards. In this way, Codex helps facilitate fair trade in agricultural products.

Codex has grown in importance since it was designated as one of the three international standard-setting organizations whose health and safety standards serve as key reference points in settling trade disputes under the Agreement on Sanitary and Phytosanitary Measures. Currently, more than 160 nations are members of Codex.

As an active member of Codex, the United States has the opportunity to make the international food safety standard setting process work better. We have taken the position that Codex is the organization that the world's governments should use to discuss food safety issues and to set standards. We have also proposed changes in many areas where we believe that progress is needed.

#### FISCAL YEAR 2003 BUDGET REQUEST

With that, I have concluded my discussion of FSIS' programs and would like to provide an overview of the fiscal year 2003 budget request for FSIS. The budget request for fiscal year 2003 compliments the programs previously described as part of our regulatory mission and public health protection responsibility.

The FSIS budget request for fiscal year 2003 supports the Agency's basic mission of providing continuous food safety inspection in each meat, poultry, and egg products establishment in the country. The increase over the fiscal year 2002 appropriation ensures a level of funding necessary to cover increased salary and benefit costs, thus assuring continued support for an in-plant inspection workforce of 7,600 employees. The budget request provides funding for a much-needed overhaul of the Agency's data sharing and information management capabilities. The budget request anticipates future changes in the Agency's current overtime and user fee structure beginning in fiscal year 2004. FSIS will review how it assesses overtime fees and, based on needs identified through this assessment and propose an annual licensing fee that would take effect in fiscal year 2004.

In fiscal year 2003, FSIS is requesting \$803.6 million, a net increase in appropriated funds of \$28 million. Of this proposed increase, \$10.8 million is for pay and benefit increases. FSIS employee salary, benefits, and inspector travel between plants take up nearly 90 percent of the FSIS budget. This increase also includes \$1.2 million for the Grants-to-States program, primarily for increased pay costs at

the State level. It is imperative that States are fully funded for their share of the cooperative programs to permit continued coordination between Federal and State authorities on inspection activities and emerging food safety threats. Less than full funding for Federal and State pay raises, benefits, and increases in health insurance and retirement benefits place a significant burden on our ability to adequately staff inspection activities in meat, poultry, and egg products establishments.

Earlier, I mentioned the need to overhaul FSIS' data sharing and information management capabilities. FSIS' fiscal year 2003 budget includes a request of \$14.5 million to implement the FACTS initiative. FACTS will support the FSIS mission by substantially improving the ability to provide information that is accurate, complete, and timely for use by Agency decision-makers. FACTS will provide a single location for storing data that is accessible to Agency decision-makers in a timely manner, unlike the current data collection systems which are stored in various locations. Using a single storage location will also reduce data redundancy. The data will also be more secure because it will be stored in one location, and information sharing, analysis, and availability will improve because data will be centralized.

A primary emphasis of this initiative is to provide timely, up-to-the-minute data on in-plant inspection and performance, thereby improving regulatory decisions made by Agency personnel and allowing FSIS to focus its resources on areas of greatest risk. The data sharing attributes of FACTS will also improve the coordination of risk management efforts both within USDA and between Federal, State, and local food safety authorities. By increasing the on-line access to information, FACTS will help reduce paperwork and administrative costs and expedite the handling of information requests. This will enable FSIS to comply with, by October 2003, the Government Paperwork Elimination Act (GPEA), which requires Federal agencies to provide individuals or entities the option to submit information or transact with the agency electronically, and to maintain records electronically when practicable. FSIS' fiscal year 2003 budget also includes a \$1.5 million request to expand risk prevention and management efforts in small and very small meat, poultry, and egg establishments. Concerns with food safety have caused major changes in food production, processing, and marketing in recent years. The advent of PR/HACCP controls in inspected meat and poultry establishments, the anticipated rulemaking to mandate PR/HACCP in egg products establishments, and increasingly stringent standards by leading retail customers and foreign importers, are all helping to drive these changes. Large firms are adapting, and often leading the way. Small and very small firms cannot adapt as readily because they frequently have neither the information nor the capabilities to implement cost-effective practices that will produce safer meat and poultry. To address this, FSIS will develop and provide information and outreach to small and very small processors to help them improve their PR/HACCP systems. Working cooperatively with other food safety agencies at the State and international level, as well as academia, industry, consumer groups, and other relevant stakeholders, FSIS proposes to establish a data sharing system to distribute food safety information to small meat, poultry, and egg producers and processors.

Another new initiative included in the fiscal year 2003 budget request is \$1.2 million to conduct targeted epidemiological surveys at slaughter establishments. These surveys represent the data collection part of an effort to improve the overall quality and availability of data now resident in disparate animal health databases, such as the National Animal Health Monitoring System (NAHMS) and the National Anti-Microbial Resistance Monitoring System (NARMS). The goal is also to develop a unified animal-based public health surveillance system.

As part of this effort, raw product samples will be taken at meat and poultry slaughter operations and analyzed for the presence of lesions, and drug or chemical residues. Data from the samples will be analyzed for possible links to emerging diseases, priority pathogens, or other significant threats to public health. This information will allow the Agency to better assist producers and processors in the prevention of pathogens and other food safety hazards. It will also enable FSIS to refine its risk-based inspection strategies in collaboration with other Federal and State officials who have regulatory authority for farm-to-table food safety. FSIS will work with the FDA, USDA's APHIS, the CDC, and the States to prioritize the data collection needs associated with the survey program.

#### CONCLUSION

Mr. Chairman, this concludes my prepared statement. Thank you for your continued support. Thank you also for the opportunity to submit testimony to the Subcommittee on how FSIS is working with Congress and other partners to become a regulatory public health agency that uses science-based decision making to imple-

ment policies to assure the safety of meat, poultry, and egg products for American consumers.

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BIOGRAPHICAL SKETCH OF MARGARET O'K. GLAVIN

Margaret O'K. Glavin is the Acting Administrator for USDA's Food Safety and Inspection Service (FSIS).

From January 1999 until October 2001, Ms. Glavin served as FSIS Associate Administrator. As Associate Administrator, she assisted the Administrator in the general management of the Agency.

From November 1996 until January 1999, Ms. Glavin was Deputy Administrator of the Office of Policy, Program Development and Evaluation for FSIS. As Deputy Administrator, she was responsible for formulating policy, establishing and modifying regulations, and for the design and evaluation of significant new programs and systems.

From 1994 to 1996, Ms. Glavin served as one of three associate administrators, where she had responsibility for the day to day management of the Agency. She led the development of the reorganization of the Agency's field and headquarters structure and oversaw the planning for implementation of that structure. Prior to 1994, Glavin was Deputy Administrator for Administrative Management, where she had responsibility for the Agency's personnel, budget, Information Resource Management activities, training programs, management of Agency property, and procurement and contracting.

Ms. Glavin has been with FSIS since 1983. She served in several other Agency positions, including Deputy Administrator for Regulatory Programs, Director of the Review and Evaluation Staff, and Director of the Standards and Labeling Division.

Before coming to FSIS, she spent 14 years working in the special nutrition programs for the Food and Nutrition Service of USDA. Her particular emphasis was on the school lunch program and other feeding programs for children.

Ms. Glavin holds a B.A. degree in English from Trinity College, Washington, DC, and a M.A. degree in government from Georgetown University, in Washington, DC.



MARKETING AND REGULATORY PROGRAMS

STATEMENT OF WILLIAM T. HAWKS, UNDER SECRETARY FOR MARKETING AND REGULATORY PROGRAMS

ACCOMPANIED BY:

BOBBY R. ACORD, ADMINISTRATOR, ANIMAL AND PLANT HEALTH INSPECTION SERVICE

A.J. YATES, ADMINISTRATOR, AGRICULTURAL MARKETING SERVICE

DAVID R. SHIPMAN, ACTING ADMINSTRATOR, GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION AND

DENNIS KAPLAN, DEPUTY DIRECTOR, OFFICE OF BUDGET AND PROGRAM ANALYSIS

STATEMENT OF WILLIAM HAWKS

Senator KOHL. Mr. Hawks.

Mr. HAWKS. Thank you, Mr. Chairman, Senator Cochran. It is certainly a pleasure to be here today to discuss the marketing and regulatory programs of the U.S. Department of Agriculture and the budget for 2003. I have with me today Dave Shipman, Acting Administrator of GIPSA. I have Bob Acord, Administrator of APHIS, and A.J. Yates, Administrator of AMS.

I have a philosophy that I always abide by, and that is working together works. And I have worked with my agencies to draft goals for which we can be held accountable, and I intend to see that the marketing and regulatory programs of USDA work. And I want to share those goals with you.

The first goal is building broader bridges. We will increase cooperation and strategic partnership with farmers, ranchers, States, foreign governments, Congressional offices and other interested parties to ensure that our policies benefit producers and consumers alike.

Our second goal is to move more product. We will facilitate expanded domestic and international marketing opportunities for U.S. agricultural products, including value-enhanced products and products of biotechnology.

Our third goal is investing in infrastructure. Agriculture that is healthy both biologically and economically is marketable agriculture.

Our fourth goal is growing our people. We will make a concerted effort to recruit, recognize, and reward accomplishments and inspire current and future leaders within MRP.

Our fifth goal is one that is near and dear to my heart, and that is selling agriculture as a profession. We will creatively market the vital role agriculture plays in every American's life to assist our effort to recruit and retain the highest-caliber workforce for marketing and regulatory programs in the USDA.

The funding requests that we are making today are both requests for taxpayer funds and the benefit that is funded by beneficiaries of the program services. They carry out the programs we have, that consist of nearly \$1.5 billion, and over \$500 million is funded by user fees that are paid by the beneficiaries of this service. On the appropriations side the APHIS request is for \$795.4 million, of which \$13.2 million is for buildings and facilities. AMS is requesting \$105.2 million. And the GIPSA request is for \$42.9 million.

Agriculture Marketing Services (AMS) activities are an integral component of the USDA-wide effort to assist the U.S. agricultural industry in marketing their products and finding ways to improve their profitability. Many of the programs administered by AMS are aimed at building cooperative and strategic partnerships with the agricultural community and the State institutions that support it.

The Animal and Plant Health Inspection Service's primary mission is to manage issues involving animal and plant health, conflicts with wildlife, environmental stewardship and the well-being of animals. Together with the States and industry, APHIS protects and promotes U.S. agricultural health, preserving and expanding domestic and international markets for U.S. agricultural products.

The Grain Inspection, Packers and Stockyards Administration mission is to facilitate the marketing of livestock, meat, poultry, cereal, grain, oilseeds and related agricultural products, to promote fair and competitive trade for the benefit of consumers and American agriculture. It helps move more U.S. product domestically and abroad by investing in domestic infrastructure that supports marketing with the grain, poultry, livestock and meat industries.

#### PREPARED STATEMENTS

This concludes my statement, and I hope working together works as we proceed in the appropriation of the 2003 budget. We believe that the proposed funding amounts are vital to providing the infrastructure to protect American agriculture from pests and disease, and for moving more product. It will provide the level of services expected by our customers, the farmers and ranchers, the agricultural marketing industry and the consumers. I thank you for the opportunity to be heard and look forward to answering your questions.

Senator KOHL. Thank you.

We thank you, Mr. Hawks.

[The statements follow:]

#### PREPARED STATEMENT OF WILLIAM T. HAWKS

Mr. Chairman and members of the Committee, I am pleased to appear before you to discuss the activities of the Marketing and Regulatory Programs of the U.S. Department of Agriculture and to present our fiscal year 2003 budget proposals for the Agricultural Marketing Service (AMS), the Animal and Plant Health Inspection Service (APHIS), and the Grain Inspection, Packers and Stockyards Administration (GIPSA).

With me today are Dr. James Butler, Deputy Under Secretary for MRP; Mr. A. J. Yates, Administrator of the AMS; Mr. Bobby Acord, Administrator of APHIS; and Mr. David Shipman, Acting Administrator of the GIPSA. They have statements for the record and will answer questions regarding specific budget proposals.



## MAKING OUR MARK

Under my leadership, the Marketing and Regulatory Programs have identified several broad goals and objectives which will leave a legacy for this Administration. I intend to hold us accountable for:

*Building Broader Bridges.*—We will increase cooperation and strategic partnerships with farmers and ranchers, States, foreign governments, congressional offices, agricultural commodity and industry associations, agricultural scientific groups, and other interested parties to ensure that our policies and programs provide the most benefits they can to the affected people.

*Moving More Product.*—We will facilitate expanded domestic and international market opportunities for U.S. agriculture products including value enhanced products and products of biotechnology. We will work closely with the Foreign Agricultural Service and the U.S. Trade Representative to aggressively and creatively resolve sanitary, phytosanitary, biotechnology, grain inspection, commodity grading and other trading issues that limit our potential for growth in international trade.

*Investing in Infrastructure.*—Agriculture that is healthy, both biologically and economically, is marketable agriculture. We will invest in stronger border security, pest and disease surveillance and monitoring, bricks and mortar such as National Veterinary in Ames, increased market news on export markets, improvements in e-Government, enhanced investigations of anti-competitive market practices and greater support for biotechnology.

*Growing Our People.*—We will make a concerted effort to recruit, recognize and reward accomplishment and inspire current and future leaders within MRP. We will make MRP a place where the best and brightest want to be—including promising men and women in diverse fields that include not only agriculture but also journalism, accounting, and economics. And,

*Selling Agriculture as a Profession.*—We will creatively market the vital role that agriculture plays in every American's life to assist our efforts to recruit and retain the highest calibre workforce for MRP and USDA.

## FUNDING SOURCES

The Marketing and Regulatory Programs activities are funded by both the taxpayers and beneficiaries of program services. They carry out programs costing nearly \$1.5 billion; over \$500 million is funded by user fees paid by the beneficiaries of the services.

On the appropriation side, the Animal and Plant Health Inspection Service is requesting \$795.4 million of which \$13.2 million is for buildings and facilities; the Agricultural Marketing Service is requesting \$105.2 million; and the Grain Inspection, Packers and Stockyards Administration is requesting \$42.9 million.

Legislation will be submitted, which if enacted would recover \$34 million more in user fees. This legislation would authorize new license fees to recover the cost of administering the Packers and Stockyards (P&S) Act, additional license fees for facilities regulated under the Animal Welfare Act, and additional grain inspection fees for developing grain standards. I will use the remainder of my time to highlight the major activities and budget requests for the Marketing and Regulatory Programs.

## AGRICULTURAL MARKETING SERVICE

AMS activities are an integral component of USDA-wide efforts to assist the U.S. agricultural industry in marketing their products and in finding ways to improve their profitability. AMS' mission is to facilitate the marketing of agricultural products in the domestic and international marketplace, ensure fair trading practices, and promote a competitive and efficient marketplace to the benefit of producers, traders, and consumers of U.S. food and fiber products.

*Building Cooperative and Strategic Partnerships*

Many of the programs administered by AMS are aimed at building cooperative and strategic partnerships with the agricultural community and the State institutions that support it. AMS' oversight of marketing agreements and orders provides producers the marketing tools they need to create dependable markets to ensure adequate supplies at a reasonable price throughout the year. In addition, AMS provides oversight to research and promotion programs that allow producers, handlers, processors, or importers to collaborate to solve marketing problems and to increase sales domestically and abroad. USDA continues to believe that national commodity research and promotion programs offer opportunities to maintain, develop and expand markets for agricultural products both at home and abroad. The market news, shell egg surveillance, commodity grading, pesticide data, pesticide recordkeeping, and Federal seed programs depend on support from their State partners to collect

and disseminate information, provide inspections, and otherwise improve the efficiency of both State and Federal programs by sharing human and capitol resources.

An example of recent success is the implementation of the National Organic Standards Program. AMS has worked closely with producers of organic products to develop and implement the National Organic Certification Program. This program will facilitate trading of organic products by verifying for buyers and consumers, across the U.S. and internationally, that organic food labeling is accurate and consistent. The program has established national standards for organic production and handling, and is now accrediting certification agents who will conduct annual on-site inspections to verify that organic products meet these standards. The program's 18-month implementation period began April 21, 2001, and ends October 21, 2002, when the official USDA organic seal will be permitted for use on certified organic fresh and processed products. The program estimates that within a few years of operation, the program will oversee the certification of approximately 14,000 organic producers and handlers.

#### *Moving More Product More Efficiently*

U.S. agriculture is facing continual and rapid changes in the industry, Federal and State regulations and support, domestic and international consumer preferences, and an ever-expanding dependence on export markets.

AMS support of international market opportunities for U.S. agricultural products will yield enormous dividends for the farm economy, national and world economies. With funding received in 2002, AMS has increased its participation in international forums that establish international agricultural trading standards. By working more closely with international organizations, AMS is better able to ensure that U.S. agricultural interests are represented in development of international standards that govern the movement of commodities in international commerce. This will allow U.S. agriculture to remain competitive in foreign markets.

Major changes in transportation services and marketing practices have increased the need for impact and policy analysis and economic research to ensure the efficient flow of agricultural commodities through the distribution system. To address these complex problems, AMS brings together a unique combination marketing and transportation specialists that conduct analyses to support the maintenance of an efficient transportation system for rural America and enhance the overall effectiveness of the food marketing system.

#### *Investing in the Agriculture Infrastructure*

As highlighted in the Administration's report, Food and Agricultural Policy: Taking Stock for the New Century, the success of U.S. agriculture depends on investment in basic services that not only protect producers from external threats such as pests and disease, but also provide the market information and data necessary for competitive and efficient markets. AMS has been able to capitalize on its broad expertise and experience in these matters to develop effective programs and partnerships that provide objective, consistent market data necessary for decision-making.

The Livestock Mandatory Price Reporting System has been a successful effort to provide livestock market information on a near real-time basis over the Internet. To manage the data, AMS developed an automated system capable of accepting thousands of pieces of market information from the livestock industry and that would generate market news reports in as little as 1 hour after receipt of the data. Beginning with the first day of the program, packers have been successful in submitting data to AMS via the secure Internet connection. Over 130 different packing plants report transaction data by lot, several times a day. The system is handling over 90 percent of the volume reported as slaughtered daily, which equates to 110,000 cattle, 330,000 swine, and 15,000 lambs. On August 20, 2001, revised confidentiality guidelines were implemented in order to increase the number of reports available, while still protecting the identity of market participants. Implementation of the revised confidentiality guidelines last August has allowed AMS to provide more complete information and also increase the number of reports available while protecting the identity of market participants. The Pesticide Data Program (PDP) has been instrumental in providing data that addresses domestic and international public concerns about the effects of agricultural pesticides on human health and environmental quality. The program provides unbiased, statistically valid data on pesticide residues in food and water. The information PDP provides to the Environmental Protection Agency—EPA—is vital for conducting realistic assessments of dietary risk from pesticides on food commodities available in the marketplace. These realistic risk assessments will assure that U.S. agriculture has the necessary inputs for being competitive. In addition, PDP data supports the international marketing

of U.S. commodities by assuring foreign governments and buyers that U.S. agricultural commodities are safe for consumption. Newly released data collected in 2000 indicates that only 0.2 percent of the samples exceeded the established tolerance level, of which over one third resulted from post harvest applications.

#### AMS' 2003 BUDGET REQUEST

For 2003, AMS requests \$105 million from appropriated and Section 32; a total increase of \$4.3 million. The 2003 budget includes the following programmatic changes for AMS:

For Global Market News, AMS requests an increase of \$1 million. The agricultural infrastructure will be improved by expanding global marketing activities for American producers by increasing international market news reporting for grains and feeds, oilseeds, livestock, poultry, dairy, and horticultural markets in Central America, South America, and Asia. Increasing the availability of accurate, timely, and unbiased international market information is critical if American producers are to be competitive in a global economy.

For the Pesticide Data Program, AMS requests an increase of \$0.5 million. Funding will be provided to States participating in the program to offset increased operational costs and to complete international accreditation for their laboratories. Increased testing will be conducted on foods generally consumed by children and other commodities with significant dietary consumption.

For the Organic Certification Program, AMS proposes a decrease of \$0.6 million. This reduction recognizes that initial accreditation of organic certification agents was provided during fiscal year 2002 and that future Federal accreditation of organic certification agents will be user-funded.

For the Federal Seed Act Program, AMS requests an increase of \$1.1 million. The funds will be used to upgrade computer systems used to identify and track seed samples as they progress through the testing process, improve seed testing equipment, and increase the number of scientific staff. This increased funding will also allow laboratory upgrades that are necessary to meet international seed accreditation requirements. Improved productivity will permit AMS to provide increased protection to seed buyers in States that have reduced or eliminated seed testing programs.

For the Commodity Purchase Program, the budget includes an increase of \$0.3 million to improve AMS' ability to verify that the purchased commodities are all domestically produced.

For Marketing Agreements and Orders, the budget includes an increase of \$0.6 million to permit AMS to hire additional marketing specialists that are necessary to ensure prompt response to industry requests for new marketing order amendments and provide effective oversight.

#### ANIMAL AND PLANT HEALTH INSPECTION SERVICE

The fundamental mission of APHIS is to anticipate and respond to issues involving animal and plant health, conflicts with wildlife, environmental stewardship, and animal well-being. Together with their customers and stakeholders, APHIS promotes the health of animal and plant resources to facilitate their movement in the global marketplace and to ensure abundant agricultural products and services for U.S. customers. The APHIS mission satisfies 5 strategic goals. They include:

- safeguarding plant and animal resources from foreign pests and diseases;
- minimizing production losses and export market disruptions by quickly detecting and responding to outbreaks of agricultural pests and diseases;
- minimizing risks to agricultural production, natural resources, and human health and safety by effectively managing pests and diseases and wildlife damages;
- ensuring the humane care and treatment of animals; and
- developing safe and effective scientific pest and disease control methods.

APHIS builds broader bridges by working in concert with its stakeholders—States, industry, and the public—to maintain and expand export market opportunities and to prevent the introduction and/or to respond to new threats of plant and animal pests and diseases. APHIS invests in the agricultural marketing infrastructure that helps protect the agricultural sector from pests and diseases while at the same time helping move more U.S. product.

#### *Safeguarding Animals and Plants*

Recent events have highlighted the need to protect the security of our agricultural production sector and food supply. However, well before the events of September 11, and long before foot-and-mouth disease (FMD) crippled the British agricultural sec-

tor, APHIS has been engaged in activities that include monitoring and surveillance for foreign animal disease (FAD) threats beyond our borders, enhanced inspection for animal and plant health threats at our borders, and surveillance within our borders to quickly detect and respond to an animal or plant pest or disease outbreak. Our actions, together with those of stakeholders and the American public, have successfully protected the health of the U.S. livestock and poultry industries against devastating diseases such as FMD and bovine spongiform encephalopathy (BSE, or "Mad Cow" disease) in fiscal year 2001.

The Agricultural Quarantine Inspection (AQI) program has inspectors assigned to ports of entry and land borders to scrutinize passengers and cargo to prevent pest and disease introduction into the United States. In 2001 AQI inspectors processed 92.5 million international air, maritime, and land border passengers/pedestrians at over 300 ports of entry. This is an increase of 4.5 percent over fiscal year 2000. While about 95 percent of international travelers and 96 percent of border vehicles were in compliance with AQI regulations, APHIS seized more than 310,000 prohibited animal products and byproducts. We enhanced the APHIS Smuggling Interdiction and Trade Compliance program by hiring additional officers and investigators. Most of this activity is funded through user fees, though appropriations from the General Fund are needed to pay for inspections along the Canadian and Mexican borders and in Hawaii and Puerto Rico.

The sterile Mediterranean fruit fly (Medfly) preventive release program in California and Florida shields our fruit growers. APHIS works with State and Federal agriculture officials to prevent and respond to Medfly outbreaks. In California, APHIS is cooperating in strong statewide detection efforts that identified several harmful fruit flies entering the United States at California ports. In Florida, our goal is to detect new introductions quickly enough to begin mitigation measures before the flies can get established. Overseas activities are intended to create a sustainable barrier south of our border. Our program also keeps our multi-billion dollar citrus export markets open. If the Medfly would become established on American soil, U.S. producers could lose an estimated \$5 billion annually. The APHIS screwworm program is another example of the safeguarding system in place to exclude plant and animal pests and diseases. The program provides a land barrier between North America and South America. In fiscal year 2001, APHIS continued keeping screwworms out of the United States and further reduced the likelihood that they will ever return. The eradication program is close to achieving its goal of establishing a permanent sterile screwworm barrier in the eastern third of Panama.

#### *Moving More Product*

The APHIS import/export inspection program protects U.S. livestock, poultry, and wildlife populations from restricted diseases, including those transmissible to humans. APHIS regulates animal and animal product imports and promotes the American export of these products by ensuring U.S. animals and animal products meet health and welfare requirements of recipient countries. This program also participates in negotiations on trade of animals and animal products that face potential sanitary restrictions. In fiscal year 2001 APHIS issued point of origin export certificates for the export of approximately 752,000 head of livestock, 60 million doses of semen, and more than 15,000 bovine embryos. It also supervised the importation of approximately 8 million animals, 11 million poultry, 2.5 million doses of semen, and 1,220 embryos.

The Trade Issues Resolution and Management efforts are key to ensuring fair trade of all agricultural products. APHIS staff help resolve trade issues abroad which enhance American commerce. In fiscal year 2001, APHIS helped:

- Reopen the Brazilian market to U.S. wheat, what had been a \$176 million U.S. market before Brazil halted imports in 1996.
  - Open the Argentine market to Florida citrus and expanded access for California citrus and stone fruit; market potential could be as high as \$3 million for U.S. citrus and \$5 million for U.S. stone fruit.
  - Open the Chilean market to more than \$1 million in apple and pear exports from Oregon and Idaho, and an even greater value of citrus sales from Arizona.
- And,
- Gain access to the Japanese market for U.S. Chilean cherries, which could yield about \$10 million in export sales.

Further, the International Plant Protection Convention adopted a standard advocated by APHIS which will ensure that U.S. exports are not unfairly discriminated against for pests that are of not of quarantine significance to the importing country. APHIS staff negotiate sanitary and phytosanitary (SPS) standards, resolve SPS issues, and provide clarity on regulating imports and certifying exports which improves the infrastructure for a smoothly functioning market in international trade.

#### *Monitoring Agricultural Pests and Diseases*

A key part of the APHIS strategy to protect U.S. agriculture is its ability to quickly detect outbreaks of foreign agricultural pests and diseases. APHIS accomplishes its monitoring functions in a cooperative effort with Federal and State governments and industry. Specifically, the monitoring program has four components: surveillance, regulatory enforcement, emergency management, and pest detection. Surveillance investigations are accomplished through the APHIS National Animal Health Monitoring System (NAHMS). In fiscal year 2001, APHIS conducted about 800 investigations compared to fiscal year 2000's total of 385 because of increasing concern over the FMD outbreaks in Europe. APHIS also is on the lookout for an outbreak of BSE. To date, no cases of BSE have ever been detected in the United States. However, in March 2001, APHIS disposed of the two remaining herds of Belgian sheep in Vermont suspected of having a transmissible spongiform encephalopathy (TSE).

In November 2001, USDA released results of a Harvard University risk assessment that showed that the risk of BSE occurring in the United States is extremely low. The report showed that early protection systems put into place by USDA and the Department of Health and Human Services have been largely responsible for keeping BSE out of the United States and would prevent it from spreading if it ever did enter the country. However, we continue to be aggressive in protecting the American consumer and the livestock industry from this disease. We are already planning to more than double the number of cattle samples tested in fiscal year 2002 compared to fiscal year 2001.

Concerns over the threat of bioterrorism have further demonstrated the need for a comprehensive national detection system for safeguarding the country's food production capacity and natural ecosystems. The Homeland Security Supplemental appropriation will enable APHIS to jump start proposed activities in the fiscal year 2003 budget. APHIS will coordinate and oversee early detection surveys in cooperation with the States. APHIS and the States conduct detection surveys for incipient infestations of exotic pests that could cause economic damage if they spread and become established, such as weeds, plant diseases, insects, nematodes, and other invertebrate organisms. Such activities not only act to protect U.S. agriculture, but support U.S. exports as well. For example, surveillance for the Khapra beetle verifies that the United States is free of this pest, one of the world's worst pests of grain/commodities, and thus able to maintain billions of export dollars.

The APHIS emergency management system is a joint Federal-State-industry effort to improve our ability to deal successfully with animal health emergencies, whether natural or unintentional introductions or deliberate acts of bioterrorism. During fiscal year 2001, APHIS began an emergency management grant program to assist States and Tribal Nations to improve their animal health emergency management systems. About \$2 million was provided to 31 States, 6 Tribal Nations, and 1 university.

#### *Controlling Losses from Pests and Diseases*

Pest and disease control techniques are employed by APHIS to minimize plant and animal losses, and wildlife damage. APHIS collaborates with States to help manage or eradicate pests and diseases harmful to American agriculture. The Agency regulates various shipments of plants, livestock, and related products to prevent the spread of diseases. For example, APHIS has such efforts as the cooperative boll weevil program, the cooperative brucellosis program, the Asian long-horned beetle eradication program, the Accelerated Psuedorabies Program, the Bovine Tuberculosis program, and the scrapie eradication program. In fiscal year 2001, the Department released \$336 million of funding from the Commodity Credit Corporation to address pest and disease emergencies for Asian long-horned beetle, chronic wasting disease, citrus canker, Karnal bunt, Medflies, plum pox, pseudorabies, rabies, and tuberculosis. Also included are funds made available for purchase and disposal of imported sheep potentially infected with a TSE.

Another component of APHIS pest management is found in Wildlife Services operations. American wildlife is an active trans-boundary resource, which in some situations poses a risk to human health and safety, as well as natural resources. APHIS, in partnership with the U.S. Fish and Wildlife Service and industry representatives, manages the increase in wolf activity due to reintroduction initiatives throughout the United States. APHIS also protects the sunflower industry from blackbird predation in the Dakotas, by reducing cattail densities as habitat for migrating blackbirds. The Agency also assists in rabies mitigation in racoons, which continues to spread north throughout the eastern seaboard. In fiscal year 2001, APHIS conducted livestock protection activities for approximately 10,000 resource owners in cooperation with private individuals and State, Federal, and local governments.

APHIS personnel also provide wildlife hazard management assistance to almost 400 airports to help minimize wildlife strikes, which can be a threat to human safety.

#### *Animal Care*

APHIS ensures the humane care and treatment of animals by enforcing uniform compliance with Federal laws and regulations. It performs this function through sound enforcement and strong educational outreach efforts to all regulated entities. The Agency uses risk assessments to target inspection resources at the facilities where animal welfare concerns are the greatest. In fiscal year 2001, APHIS, hired an additional 9 animal care inspectors and boosted inspection by almost 10 percent from fiscal year 2000.

#### *Scientific and Technical Services*

APHIS must also develop safe and effective scientific pest and disease control methods and methods for reducing wildlife/agricultural conflicts.

APHIS regulates the movement and releases of biotechnology products to ensure that they do not pose a threat to agriculture and the environment. In fiscal year 2001, APHIS provided 2,600 movement and release notifications and permits; up from 2,200 provided in fiscal year 2000. Since the program's inception in 1987, APHIS has deregulated 54 genetically engineered crop varieties, with one new crop deregulated in fiscal year 2001.

The APHIS veterinary biologics program prevents the importation, production, and distribution of impure, ineffective, unsafe, or impotent veterinary biological products in the United States. This activity includes licensing, inspection, testing statistically-based samples, and issuing permits for product importation. In fiscal year 2001, APHIS issued 113 new product licenses, so that veterinarians can now diagnose, treat, and prevent animal diseases with 26 new market products. Animal drug producers requested approval to market over 17,000 veterinary biological products in fiscal year 2001. APHIS did not act on 27 requests because producers failed to meet these requirements. The APHIS National Veterinary Services Laboratories (NVSL) in Ames, Iowa, tested tens of thousands of submissions in fiscal year 2001 on import/export samples, dip samples for pesticide concentration in the cattle tick program, pseudorabies, scrapie, brucellosis, tuberculosis, and BSE samples. In the recent anthrax attacks, APHIS processed environmental samples from USDA offices across the United States.

The Wildlife Services Methods Development program addresses the research needs to reduce bird damage to the agriculture, aquaculture, and aviation industries; mammal damage to the timber industry and to rangeland; coyote damage to the livestock industry; and predation of threatened and endangered species. The National Wildlife Research Center develops traditional, nonlethal methods such as improved traps and snares, maintenance of registered uses for particular chemical pesticides, repellants and attractants, as well as novel approaches such as reproduction inhibitors/immunocontraceptives.

#### APHIS' 2003 BUDGET REQUEST

The budget request proposes \$782 million for salaries and expenses, a \$120 million increase above the current fiscal year 2002 adjusted base. Notable requests include:

*An increase of \$14 million for Agricultural Quarantine Inspection (AQI).*—The AQI program is the Nation's front-line defense against the introduction of dangerous agricultural pests and diseases from other countries. For example, AQI activities play a key role in protecting the U.S. livestock sector from bovine spongiform encephalopathy (BSE or mad cow disease) and foot-and-mouth disease (FMD). User fees are charged for inspection of international passengers, aircraft, ships, railcars, and trucks. The 2003 budget proposes \$347 million for AQI activities for improved point-of-entry inspection programs by providing additional inspectors, canine teams and state-of-the art high-definition x-ray machines at high risk ports-of-entry on the Canadian and Mexican borders, in Hawaii, and elsewhere. Expansion of the global economy and free trade have caused an increase in the volume of passengers and cargo arriving in the U.S. at additional ports of entry, with additional facilities at existing ports of entry. APHIS has an 85 percent success rate in clearing international passengers within 30 minutes or less. Likewise, 85 percent of passengers crossing at U.S. land border points, in non-peak traffic periods, are now cleared through the inspection system in 30 minutes or less.

*An increase of \$5 million for Foreign Pest and Disease Exclusion.*—This increase will strengthen the capability of APHIS to assess and monitor outbreaks of diseases in foreign countries that have the potential to spread to the United States.

*An increase of \$49 million for Plant and Animal Health Monitoring.*—Experience in Europe from FMD and BSE highlights the need for rapid detection and response to agricultural health threats. While longstanding efforts have kept FMD and BSE out of the United States, vigilant surveillance and monitoring are still needed and would be supported by an increase of about \$21 million. Funding for plant pest detection would increase by \$20 million. Funding to improve the emergency management system, in place to coordinate and implement a quick response to an animal or plant pest or disease outbreak, would be boosted by about \$7 million.

*Shifts \$162 million of emergency Commodity Credit Corporation (CCC) funding to annual appropriations for pest and disease management programs.*—These funds will continue control and eradication efforts begun in 2002 and prior years. Funds will be used to combat species such as the Asian long-horned beetle, citrus canker, chronic wasting disease, Medfly, plum pox, rabies, scrapie, and tuberculosis. Successes in boll weevil eradication and brucellosis efforts allow \$45 million of program reductions as programs rely on loans and shift toward less expensive monitoring efforts.

For Emergency Funding, the Secretary retains authority to use funds from CCC to combat any new emergency pest and disease outbreaks. Since these emergencies cannot be predicted, no estimates are available at this time. However, the Administration is concerned about rising Federal costs of emergency pest and disease control activities and expects to seek public comment before the end of the year on ways to share the costs with States and the private sector.

*An increase of \$12 million for Scientific and Technical Services.*—Resources for expanded diagnostic, response, management and other technical services are increased. This will enhance our ability to quickly diagnose an outbreak of a foreign animal disease.

#### GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION

GIPSA's mission is to facilitate the marketing of livestock, meat, poultry, cereals, oilseeds, and related agricultural products and to promote fair and competitive trade for the benefit of consumers and American agriculture. It helps move more U.S. product both domestically and abroad by investing in domestic infrastructure that supports marketing within the grain and livestock industry. GIPSA fulfills this through both service and regulatory functions in two programs: the Packers and Stockyards Programs (P&SP) and the Federal grain inspection service (FGIS).

##### *Packers and Stockyards Programs*

The strategic goal for the Packers and Stockyards Programs (P&SP) is to promote a fair, open and competitive marketing environment for the livestock, meat, and poultry industries. Currently, with only 166 employees, P&SP monitors the livestock, meatpacking, and poultry industries, estimated by the Department of Commerce in fiscal year 2001 to have an annual wholesale value of \$125 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.

Last year, P&SP conducted over 1,600 investigations. Our Rapid Response Teams remain a powerful tool to address urgent industry issues and to immediately notify the public about a stockyard's or market agency's fiduciary problems. Last year, 94 P&SP investigators were deployed soon after being notified of a crisis to investigate 51 potentially serious situations across the Nation. During fiscal year 2001, these rapid response investigations found violations of the P&S Act, and contributed to returning \$6.1 million to livestock producers and poultry growers.

P&SP also is strengthening investigations and assessments of competitive implications of structural change in the livestock, meatpacking, and poultry industries. Throughout fiscal year 2001, P&SP incorporated economic, statistical, and legal expertise into investigations to increase the efficiency and effectiveness of our investigations of anticompetitive and unfair practices, and our enforcement of the P&S Act. Increased cross-utilization of our economists, legal specialists, auditors, marketing specialists, and industrial specialists from headquarters and field locations has brought targeted investigative and analytical skills to specific investigations. P&SP also pursued cooperative agreements with qualified researchers and research institutions that contribute valuable information to P&SP's economic understanding of the livestock, meatpacking, and poultry industries.

The Swine Contract Library was mandated in the Agricultural Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act of 2000 (Public Law 106-78). It amended the P&S Act to require P&SP to establish and maintain a library of contract provisions offered by packers to swine producers

for the purchase of swine and to make these provisions available to the public. P&SP received 11 comments on the proposed rule published on September 5, 2000. A final rule to implement the swine contract library is underway, but we are finding that our ability to address confidentiality concerns and unique data requirements may depend on the IT improvements requested in the fiscal year 2003 budget. Once complete, the Web-based library will offer summarized information on contract terms and monthly reports on the number of swine under contract.

The Grain Standards and Warehouse Improvement Act of 2000 (Public Law 106-472) required GIPSA to implement the GAO's recommendations to improve investigations of competitive practices and report on actions taken to improve investigations of competitive practices by November 9, 2001. We recently submitted that report and I apologize for the delay in the response. In accordance with GAO's recommendations, and based on required input from the Department of Justice (DOJ) and the Federal Trade Commission (FTC), in fiscal year 2001, the Agency implemented investigation planning, development, implementation, and review processes to ensure appropriate investigation planning and oversight within P&SP and with the USDA Office of the General Counsel (OGC). Also during the fiscal year, OGC added more attorneys to address P&SP matters; Agency economists and legal specialists received additional specialized training; and P&SP issued its first annual assessment of the cattle and hog industries to report on changes in those industries. P&SP is currently finalizing its second annual assessment report.

#### *Federal Grain Inspection Service*

GIPSA's Federal Grain Inspection Service (FGIS) facilitates the marketing of U.S. grain and related commodities under the authority of the U.S. Grain Standards Act (USGSA) and the Agricultural Marketing Act of 1946 (AMA). As an impartial, third-party in the market, we advance the orderly and efficient marketing and effective distribution of U.S. grain and other assigned commodities from the Nation's farms to domestic and international buyers. We are part of the infrastructure that undergirds the agricultural sector.

Since the emergence of value-enhanced grains and oilseeds, niche markets have been developing for non-biotech commodities, and establishment of new regulatory requirements by U.S. trading partners has created a need for greater product differentiation in the marketplace. To meet this need, market participants are relying, in part, on testing for accurate information about products in the marketing chain and to comply with the new market demands. The efficiency of the marketing system will, therefore, depend on the availability of accurate and reliable testing which FGIS is prepared to supply.

In the international arena, FGIS has been working to maintain strong markets for U.S. grains and oilseeds. Working with the Foreign Agricultural Service and the Japanese government, FGIS developed a Protocol for Food Corn Exported to Japan. This protocol, which was adopted by the grain industry, enabled the United States to continue exporting corn to Japan by providing assurance that exported corn did not contain significant levels of StarLink™ corn. This protocol has been considered a model for other countries to which the U.S. exports corn.

FGIS also is keeping pace with the grain industry's move from paper to e-commerce to streamline, automate, and improve business transactions. FGIS is keeping pace with our customers' migration toward an electronic marketing process. We are taking part in pilot tests and demonstrations with electronic commerce vendors; developing a system to send inspection information generated at multiple locations directly to a customer; preparing to submit electronic inspection information into a vendor's document handling system at the request of applicants; and pilot testing a computer generated inspection certificate for export cargoes. By harnessing the latest hardware, software, and available technology, we will be prepared to enter and participate in the electronic commerce arena.

All of our efforts to improve and streamline our programs and services are paying off for our customers, both in terms of their bottom lines and in greater customer satisfaction. FGIS' service delivery costs (adjusted for inflation), decreased from \$0.27 per metric ton in fiscal year 1994 to \$0.26 per metric ton in fiscal year 2001. With the USDA export certificates that grain exporters received at this cost, exporters marketed over \$20 billion worth of cereals and oilseeds. Likewise, here at home, buyers and handlers requested over 1.9 million domestic inspections that facilitated the trading of more than 128 million metric tons of cereals and oilseeds.

One indicator of the success of our outreach and educational initiatives is the number of foreign complaints lodged with FGIS regarding the quality or quantity of U.S. grain exports. In fiscal year 2001, FGIS received only 15 quality complaints and no quantity complaints from importers on grains inspected under the U.S.



Grain Standards Act. These involved 494,267 metric tons, or about 0.5 percent by weight, of the total amount of grain exported during the year.

*GIPSA's 2003 Budget Request*

For 2003, the budget proposes a program level for salaries and expenses of \$43 million. Of this amount, \$20 million is devoted to grain inspection activities for standardization, compliance, and methods development and \$23 million is for Packers and Stockyards Programs. The 2003 budget includes:

An increase of \$3.4 million to provide enhanced information technology applications. With the requested funding, GIPSA would be able to establish and implement e-Government electronic interfaces to allow secure receipt and delivery of electronic data between the agency and its customers. Further, it will enable GIPSA to integrate existing disparate database information systems into a unified system.

An increase of \$2 million to help ensure efficient market functioning. Carcass weight and quality are major determinants of price. Carcass quality characteristics, often measured electronically, are an increasingly important determinant of carcass value. A portion of the requested increase will allow GIPSA to monitor the livestock and meatpacking industries' use of electronic carcass evaluation technologies. Another portion of the budget increase will enable GIPSA to significantly improve enforcement of the anti-competitive and other provisions of the Packers and Stockyards Act. And,

An increase of \$0.5 million is requested to enable GIPSA to expand its newly established biotechnology program to keep pace with the rapid introduction of new products and the need for commodity certification.

The GIPSA budget also includes two user fee proposals. New user fees would be charged to recover the costs of developing, reviewing, and maintaining official U.S. grain standards used by the grain industry. Those who receive, ship, store, or process grain would be charged fees estimated to total \$5.6 million to cover these costs. Also, the Packers and Stockyards program would be funded by new license fees of \$23.3 million that would be required of packers, live poultry dealers, stockyard owners, market agencies and dealers, as defined under the Packers and Stockyards Act.

CONCLUSION

This concludes my statement. I am looking forward to working with the Committee on the 2003 budget for the Marketing and Regulatory Programs. We believe the proposed funding amounts and sources of funding are vital to providing the infrastructure to protect American agriculture from pests and diseases and for moving more product, especially for increasing exports to foreign markets. It will provide the level of service expected by our customers—the farmers and ranchers, the agricultural marketing industry, and consumers. We are happy to answer any questions.

PREPARED STATEMENT OF BOBBY R. ACORD

Mr. Chairman and members of the Subcommittee, it is indeed a pleasure for me to represent the Animal and Plant Health Inspection Service (APHIS) before you today. I have spent a good portion of my career serving this agency and there is none better. Simply put, APHIS is the guardian of U.S. agriculture. A substantial portion of the U.S. economy and the health of our food supply depend on APHIS' ability to prevent foreign pests and diseases from entering the country as well as quickly detecting and controlling them if they do. Safeguarding American agricultural health is vital to providing an affordable food supply for all U.S. consumers. Further, it helps U.S. farmers by preserving and expanding both domestic and international markets for U.S.-produced food and fiber, which must be pest- and disease-free to be sold.

Overseas activities, exclusion efforts at the border, and monitoring and managing agricultural pests and diseases existing in the United States are intrinsic and inseparable components of the larger function of ensuring the health and marketability of U.S. agriculture worldwide. Our efforts also protect animals from inhumane treatment and resolve human and agriculture conflicts with wildlife. For all of these activities, APHIS constantly employs new technologies, scientific improvements, and innovations to complete our work more effectively and efficiently. Our statement will cover what we are doing in fiscal year 2002, our fiscal year 2001 highlights, and our fiscal year 2003 budget request.

Recent events have led Americans—perhaps for the first time—to worry about the security of our food supply. The need for protecting U.S. agriculture, however, is not new to APHIS. Our safeguarding system consists of four tiers: (1) international ac-

tivities to prevent problems from getting to U.S. shores; (2) border exclusion once passengers and products are attempting to enter the U.S.; (3) domestic monitoring, surveillance, and emergency response to quickly detect and respond to problems; and (4) ongoing eradication and control activities for pests and diseases; and wildlife management activities. This strategy of successive lines of defense has been effective. For example, we have kept foot-and-mouth (FMD) disease out of this country since 1929 and have kept any Mediterranean Fruit Fly (Medfly) incursions in check. Nevertheless, the current realities of international trade and travel, as well as the threat of those who would use pests and diseases to terrorize our people and harm our economy, make safeguarding American agriculture increasingly difficult. We must remain vigilant in all of these efforts.

Our international activities reduce the threat of agricultural pest and diseases approaching U.S. borders.

APHIS performs three complementary international functions. First, APHIS monitors and controls or eradicates pests or diseases in locations where they threaten U.S. agriculture. In many ways, for us the first "border" is the one that separates areas with pests and diseases from those free of plagues. We want to deal with problems where they exist before they arrive at our shores. Second, APHIS programs regulate trade to ensure its safety to U.S. agriculture. We must ensure that the same trade that brings people and products to our nation does not bring us unintended visitors like pests and diseases. Third, APHIS promotes U.S. exports, using expertise in pests and diseases to prevent unnecessary trade barriers. American farmers have the best and healthiest products in the world. If the playing field is level, they will prevail. Related line items include Foreign Animal Disease (FAD)/Foot and Mouth Disease (FMD), Fruit Fly Exclusion and Detection, Screwworm, Tropical Bont Tick, Trade Issues Resolution and Management, and Import/Export.

*Foreign Animal Disease(FAD)/FMD.*—APHIS' first line of defense against FADs is understanding where the threats from overseas lie and using that information to prevent those diseases from coming to the United States. APHIS' efforts successfully protected the biological and commercial health of the \$76 billion livestock and poultry industries in the United States against devastating diseases in fiscal year 2001. Excluding FMD and other FADs is critical to protecting U.S. farmers and consumers against losses in productivity, higher food prices, and lost export markets. Our FAD activities overseas include cooperative agreements with several countries, including Mexico and the countries of Central America. These collaborative efforts support FMD and other FAD surveillance and ensure that the United States is prepared to address the threat of disease entry. APHIS' FMD line item currently focuses on Colombia, because it is the nearest threat of overland transmittal to the United States. Considering the increasing numbers of passengers and commodities from other regions arriving by air and water, APHIS has been expanding its efforts to other regions. For example, experts believe that the recent United Kingdom FMD outbreak originated in China. This expanded effort is reflected in the fiscal year 2003 President's budget.

*Fruit Fly Exclusion and Detection.*—APHIS is eradicating Medfly in Guatemala and Mexico through Moscamed, a cooperative cost-sharing program with Mexico, Guatemala, and Belize. APHIS has eliminated Medfly outbreaks from northern Guatemala, Belize, and all but the State of Chiapas, Mexico, since 1998 incursions into previously free areas lead experts to predict that the pest would soon establish itself in the United States, with a \$5 billion per-year cost to U.S. producers. Emergency authority has been used to transfer funds from the Commodity Credit Corporation (CCC) since fiscal year 1999 to get on top of the immediate threat. The eradication program, which includes aerial and ground bait spray treatments as well as release of sterile flies, is preventing the fly from moving north through Mexico into the United States. The goal of the current emergency effort is to create a sustainable barrier by eradicating Medflies from Guatemala to the border of Honduras and El Salvador. This program also keeps our multi-billion dollar citrus export markets open. In fiscal year 2001, APHIS conducted cooperative fruit fly detection programs in States that are susceptible to the pests. In Florida, our goal is to detect a new introduction quickly enough to begin mitigation measures before the flies can get established. APHIS and California also continued strong statewide detection efforts that identified several harmful fruit flies entering the U.S. at California entry ports. In response to these detections, the program is increasing trapping and establishing quarantines, where necessary, to prevent the artificial spread of fruit flies beyond affected areas.

*Screwworm.*—In fiscal year 2001, APHIS continued keeping screwworms out of the United States and further reduced the likelihood that they will ever return. The eradication program is close to achieving its goal of establishing a permanent sterile screwworm barrier in the eastern third of Panama. Establishing the barrier at Pan-

ama's narrowest point will result in significant savings over any other location in Mexico or Central America. Pushing the barrier zone more than 2,000 miles and 7 countries away from the United States by land has provided ever increasing protection for the U.S. livestock industry, thereby preventing economic loss to U.S. producers. Our efforts include sterile fly production in Tuxtla Gutierrez, Mexico, where we produced and distributed an average of 116 million sterile flies per week in fiscal year 2001. APHIS is currently examining options secure of an adequate number of quality sterile flies to maintain the barrier in Panama, eradicate isolated outbreaks, and provide flies to other countries and international organizations wishing to begin eradication programs.

*Tropical Bont Tick (TBT).*—The Caribbean Amblyomma Program (CAP), initiated in 1995, focuses on a regional approach to eradicating the TBT and preventing the introduction of the tick and its associated diseases, heartwater and dermatophilosis, into U.S. livestock and wildlife populations. APHIS provides technical expertise, program guidance, and funding through cooperative agreements with the CAP program and recently assigned a veterinarian to oversee the program. APHIS cooperates with the Food and Agriculture Organization of the United Nations and the Caribbean Community to exclude the pest from the U.S. This is an example of fighting a problem at the "border" other than our own. An eradication program in the U.S. territories or the mainland would be extremely difficult and expensive, but a modest investment in the Caribbean offers the U.S. protection against that dire prospect.

*Trade Issues Resolution and Management.*—APHIS attachés overseas monitor and respond quickly to emerging foreign pest and disease threats at their origin before they to reach U.S. ports. These attachés also resolve problems associated with shipments of U.S. commodities, enabling them to clear the border and enter into the country's market. Overseas personnel collaborate with headquarters staff to present the correct mix of protecting U.S. agriculture and ensuring that U.S. agricultural export products receive fair, science-based treatment in trade negotiations. In fiscal year 2000, APHIS was directly involved in resolving 67 sanitary and phytosanitary (SPS) related trade issues involving U.S. agricultural exports, removing restrictions to trade worth over \$2.5 billion. APHIS attachés abroad are positioned to resolve any difficulties that may impede the importation of U.S. agricultural shipments. Overseas technical assistance efforts also benefit U.S. exports by emphasizing the application of SPS concepts, such as appropriate risk assessment methodologies and harmonization with international standards. One area of growing concern is biotechnology. APHIS personnel worked to ensure that decisions on products derived from biotechnology received the same fair, science-based treatment as all agricultural products.

*Import/Export.*—APHIS protects U.S. livestock, poultry, and wildlife populations from incursions of exotic diseases and parasites including those transmissible from animals to humans. APHIS regulates the importation of animals and animal products, determining if products can safely enter the U.S. without detrimental effects to U.S. agriculture. APHIS also promotes U.S. exports to markets abroad by ensuring that U.S. origin animals and animal products meet health and welfare requirements of recipient countries. This program also participates in negotiations on trade of animals and animal products that face potential sanitary restrictions. Fulfilling this mission in fiscal year 2001, APHIS observed the importation of 7.8 million animals; 10.6 million poultry; 2.5 million doses of semen; and 1,221 embryos. The program issued point of origin certificates for the export of approximately 752,000 head of livestock, 60.4 million doses of semen, and 15,246 bovine embryos. Without APHIS' efforts, U.S. farmers would lose these lucrative exports.

Border exclusion is our first domestic line of defense to keep harmful agricultural pests and diseases out of the United States.

United States border activities encompass the largest component of APHIS' tiered safeguarding system. Border inspections complement the protection aspect of APHIS international activities, as well as promote the free flow of trade in agricultural and other products. These activities give APHIS the opportunity to stop any threats that have arrived at U.S. shores and borders. The border activities include the Agricultural Quarantine and Inspection (AQI) line items, as well as the Cattle Fever Tick program. It is important to note that we are concerned not only with political borders, but "pest and disease" borders as well. For that reason, we inspect people and things leaving Hawaii and Puerto Rico destined for the mainland United States. We must do so because pests and disease present in those areas could spread to mainland States currently free of the problems.

*Agricultural Quarantine Inspection (AQI).*—This program reduces the risk of introduction of invasive species into the United States to protect American agricultural resources, maintain the marketability of agricultural products, and facilitate the movement of people and commodities across the borders. With appropriated

funding, APHIS minimizes the threat of pests and diseases entering the U.S. by conducting point-of-entry inspections of travelers and cargo along the Mexican and Canadian borders and pre departure inspections of passengers and cargo traveling from Hawaii and Puerto Rico to the mainland.

With AQI user fees collections, APHIS inspects arriving passengers' baggage, commercial aircraft, and commercial vessels from foreign countries; commercial trucks crossing the U.S.-Mexico border; and railroad cars crossing the U.S.-Mexico border. As a result of the heightened focus on security, the need to enhance inspections to protect U.S. agriculture from possible biosecurity invasions is a major priority. Using fee collections along with funding from the Homeland Security Supplemental appropriation, we will enhance our efforts and successfully protect U.S. agriculture.

In response to the FMD outbreak in the United Kingdom and other parts of Europe during fiscal year 2001, the Secretary of Agriculture made \$13.5 million available from the AQI user fee reserve to increase inspection efforts at our ports. APHIS enhanced the surveillance of animal products from the European Union (EU) and implemented 100 percent inspection of all passengers on flights originating from affected EU member States. In fiscal year 2001, APHIS inspected approximately 92.5 million maritime and airport passengers; pre-departure passengers in Puerto Rico and Hawaii, pre-clearance passengers in Bermuda and the Bahamas, and pedestrians and bus/vehicle passengers arriving in the U.S. at over 300 ports of entry. This is an increase of 4.5 million over fiscal year 2000. Our ports of entry are pathways for plant and animal contraband materials. While 95.4 percent of the international travelers and 96 percent of border vehicles were in compliance with our AQI regulations, we seized 314,641 prohibited animal products and byproducts. We also maintained 100 trained beagle teams at 35 major U.S. airports, land borders, maritime ports, and post offices. These beagles undergo a 12-week training course with their proposed handlers at the Agency's National Detector Dog Training Center in Orlando, Florida. APHIS continues to maintain X-ray scanning equipment as a screening tool in passenger baggage clearance at all foreign-arrival and pre-departure sites, as well as at several land border ports on the Mexican border.

In fiscal year 2001, we enhanced our Smuggling Interdiction and Trade Compliance (SITC) program by hiring additional officers and investigators. SITC officers analyze pathways, prosecute smugglers, and provide outreach to industry on regulatory requirements. In addition, we work closely with several Federal agencies, State Departments of Agriculture, the Office of the General Counsel, and State and local police. The fiscal year 2003 Budget and additional funds from the Homeland Security Supplemental appropriation reflect a commitment to provide heightened security by upgrading security clearances for all SITC officers to retrieve high levels of intelligence information and receive formalized training in this area. SITC must work with other intelligence groups like the Federal Bureau of Investigation (FBI), U.S. Customs, and the Office of Homeland Security to collect information necessary for determining appropriate targets and interdiction activities to prevent prohibited biological agents from entering the United States. We conducted two major blitzes on the Canadian border focusing on vehicle traffic. The SITC program confiscated over 3,000 pounds of exotic fruits, herbs, and meats at three western New York crossings during a 3 day blitz.

*Cattle Fever Tick.*—This program is designed, through the inspection of cattle and horses, to rapidly identify tick incursions, eradicate them, and prevent their spread. In addition, the program prevents the introduction of cattle fever ticks into the United States from Mexico by using horseback patrols to apprehend stray cattle and horses and enforce systematic quarantines along the Rio Grande River. This program, begun in 1906, was the first cooperative Federal-State eradication effort in the United States. In 1943, we eradicated two species of the cattle fever tick from the Southwestern United States, with the exception of a permanent quarantine zone between Texas and Mexico. Today, the permanent quarantine zone extends over 900 miles from Del Rio to the Gulf of Mexico and is up to six miles wide. In fiscal year 2001, during horseback patrols for cattle and horses in the permanent quarantine zone, APHIS apprehended a total of 144 stray and smuggled animals from Mexico, 114 of which were infested with cattle fever ticks.

Stakeholders have proposed enhancements to the APHIS safeguarding mission, particularly at the borders. To ensure that the Agency is prepared to meet new challenges and stay ahead of potential problems, APHIS commissioned thorough evaluations of its plant and animal health safeguarding programs. After an in-depth review, the National Plant Board, which recognized APHIS programs as strong, vital and necessary to the survival and U.S. producers, presented APHIS with its recommendations for strengthening plant health safeguarding programs in July 1999. Since then, APHIS has incorporated a number of the Plant Board's most important recommendations into its operations. These include establishing the SITC program,

securing Congressional approval of the updated Plant Protection Act, and strengthening risk assessments. These achievements have significantly strengthened APHIS' ability to prevent harmful agricultural pests and diseases from entering the country. In response to other Plant Board recommendations, APHIS is examining ways of re-tooling and strengthening its risk management strategies. These activities, including increased offshore risk mitigation strategies, improvements in the collection and use of international pest information, and further strengthening our scientific and analytical base, would augment inspections at U.S. ports of entry.

The National Association of State Departments of Agriculture (NASDA) Research Foundation conducted a similar review of APHIS' animal health safeguarding programs in 2001. We believe this review will strengthen animal health programs in much the same way the Plant Board's review has benefited plant health safeguarding efforts. The Animal Health Protection Act—similar in scope to the Plant Protection Act—was recently introduced in Congress. The Act would consolidate and streamline the more than 20 animal quarantine and related laws that are now on the books, some of which have not changed since the 1880s. The Act would enable APHIS to establish a more efficient, effective system for regulating the import, export, and interstate movement of animals and animal products. It also would help strengthen APHIS' efforts to deter people from deliberately bringing in prohibited animals, animal products, and even animal disease agents. We need these prohibitions and investigative tools now more than ever before.

Domestic monitoring, surveillance, and emergency response reduces agricultural production losses and export market disruptions.

The next tier in APHIS' safeguarding system includes monitoring and rapidly responding to any threats to animal or plant health. The animal health monitoring and surveillance (AHMS) and the pest detection line items constitute the Agency's key surveillance efforts. The emergency management system (EMS) line item helps to quickly respond to animal disease threats. The Homeland Security Supplemental appropriation will enable us to jump start proposed activities in the fiscal year 2003 Budget.

*AHMS.*—The AHMS program covers foreign animal disease investigations, surveillance for animal disease programs, certification programs, animal identification, and risk assessments. Collaborative information sharing and producer confidentiality are cornerstones of the AHMS program. Through effective partnerships with animal commodity producer groups—and with State governments, university researchers, and other Federal agencies—the program met producers' and the U.S. public's information demands in a cost-effective, collaborative manner.

With increased focus on animal health security in fiscal year 2001, APHIS increased foreign animal disease (FAD) investigations. In fiscal year 2001, APHIS conducted 801 investigations, a substantial increase over fiscal year 2000's total of 385 because of increasing concern over the FMD outbreaks in Europe. To prevent FAD incursions and the potential for additional intentional acts that may impact national security, APHIS thoroughly investigates all suspicious situations. This includes another FAD, bovine spongiform encephalopathy (BSE). To date, no case of BSE has ever been detected in the United States. APHIS has tested more than 13,900 brain samples. The annual number more than doubled, from 2,303 in fiscal year 2000 to 5,056 in fiscal year 2001. This is the largest single-year total since surveillance began in 1990. This enhanced testing helps support and validate the United States' BSE-free status.

BSE is a transmissible spongiform encephalopathy (TSE). The TSE family of diseases affects a number of animals, and some also affect humans. One of those, variant Creutzfeldt-Jakob disease (vCJD) has been linked to BSE. The Centers for Disease Control and Prevention's ongoing surveillance program has not detected vCJD to date in the United States, with the exception of an ill U.K. resident who sought medical care in the United States. Taking no chances, in March 2001, APHIS removed and disposed of the two remaining herds of Belgian sheep in Vermont suspected of having the TSE marker, a sign of potential disease. APHIS disposed of the first herd in July 2000.

The U.S. Department of Agriculture has conducted several risk assessments examining the possibility of BSE emerging in the United States. All the assessments have concluded that the potential risk of BSE emerging in the United States is low. In November 2001, the Harvard School of Public Health, Center for Risk Analysis, completed a three-year study of the risk of introducing BSE into the United States. They concluded that the U.S. Government's actions have successfully minimized the risk of BSE in the United States, to the point that even if a few infected animals were detected, the disease would not become established. Nevertheless, the adverse economic impact of even a single case of BSE in the United States would likely be similar to that experienced in the United Kingdom because of consumer concern and

the trade implications. Because of insufficient technical information about TSEs, importing countries block many animal products from countries with BSE. To prevent a similar scenario from occurring in the United States, the fiscal year 2003 budget includes \$7 million in grants to States for BSE, FMD, and other FAD surveillance. Disease outbreaks in the UK and other European countries demand that we accelerate our safeguarding efforts. To continue to keep FADs from entering the U.S., we must enhance surveillance and monitoring activities as proposed in the fiscal year 2003 budget.

Our AHMS program also conducts monitoring and surveillance for several poultry, equine, and livestock diseases, which complement our eradication efforts. For example, the National Poultry Improvement Plan (NPIP), an industry-State-Federal program, continued to protect and serve the \$25 billion poultry industry in fiscal year 2001. The provisions of the NPIP, developed jointly by industry members, and State and Federal officials, established standards for evaluating poultry breeding stock and hatchery products for freedom from hatchery-disseminated and egg-transmitted diseases. In fiscal year 2001, we tested 2,756 samples from live-bird markets in the Northeastern United States for the presence of the avian influenza virus (AIV) and isolated it in 419 of the samples. We also tested the 2 million horses in fiscal year 2001 for equine infectious anemia (EIA). Of the horses tested, .03 percent tested positive. EIA is a viral disease that causes fever, anemia, progressive weakness, and weight loss.

APHIS is actively partnering with the National Johne's Working Group whose membership includes representation from Federal and State agencies, Universities, biologists, and livestock industry organizations. Johne's is a chronic bacterial disease that can have major economic influence on individual cattle producers and international cattle markets. At the end of fiscal year 2001, the Johne's disease program included 1,950 herds that had control plans or risk assessments filed with States, including 514 enrolled during the year. Approximately 140 advanced within their program to higher levels of assurance for test negative status. In fiscal year 2002, Congress established the Johne's disease program as a separate line item.

As progress continues toward the eventual eradication of brucellosis from the U.S. domestic livestock, the Agency is placing more emphasis on surveillance activities to ensure that we find the last affected herd. In fiscal year 2001, we tested 11.1 million cattle, 300,000 more than in fiscal year 2000. We must maintain adequate surveillance after eradication to prove to our trading partners that we are disease free. Similarly, APHIS continued to monitor the incidence of tuberculosis throughout the United States. Emphasizing national surveillance, the Agency more than doubled its testing of tuberculosis suspect tissues submitted by meat inspection personnel from slaughtered cattle from 1,028 in fiscal year 2000 to 2,991 in fiscal year 2001. APHIS identified 71 samples as positive.

*Pest detection.*—Concerns over the threat of bioterrorism have further demonstrated the need for a comprehensive national detection system for safeguarding the country's food production capacity and natural ecosystems. The Homeland Security Supplemental appropriation will enable us to jump start proposed activities in the fiscal year 2003 Budget. APHIS will train personnel in key locations throughout the country and coordinate and oversee early detection surveys in cooperation with States. APHIS and the States participate in the Cooperative Agricultural Pest Survey (CAPS) program, which provides the network for APHIS and the States to target invasive plant pest species and response activities. This program must increase and enhance the domestic infrastructure for early detection of weeds, plant diseases, insects, nematodes, and other invertebrate organisms which can gain entry into the country or into an area previously free of the pests. APHIS and the States conduct detection surveys for incipient infestations of exotic pests that could cause economic damage if they spread and become established in the United States. CAPS provides an electronic information exchange through the National Agricultural Pest Information System (NAPIS) database, web sites and e-mail systems, and provides strong interagency and interpersonal networks. NAPIS provides a summary database of pest survey results that are useful in tracking the spread of pests within the United States, demonstrating their absence, and planning their control to support U.S. exports. APHIS makes hundreds of thousands of observations, such as taking grain samples for Karnal bunt, setting traps for fruit flies, or checking trees for citrus canker and plum pox. Both positive and negative results yield valuable and useful information as can be seen with Khapra beetle. Khapra beetle is one of the world's worst pests of grain/commodities. Our surveillance verifies that the United States is free of this pest and thus able to maintain billions of dollars of exports.

*Emergency Management System (EMS).*—This program is a joint Federal-State-industry effort to improve our ability to deal successfully with animal health emergencies ranging from natural disasters to introductions of FADs. In addition to un-

intentional introductions of FADs, the EMS addresses intentional introductions and emerging diseases which could pose a threat to trade. With full readiness to deal with animal health outbreaks, we can mitigate the damage of outbreaks on the Nation's food supply and economic well-being. APHIS provided assistance to the UK during its fiscal year 2001 outbreak of FMD by coordinating teams of Federal and State veterinarians, including 158 veterinarians from APHIS, to travel to the UK to assist with eradication efforts. In addition to helping an important ally and trading partner, our veterinarians gained valuable knowledge and experience.

During fiscal year 2001, the Agency began an emergency management grant program to assist States and Tribal Nations to meet or exceed the National Animal Health Emergency Management System State Standards. Of the 38 grants we awarded, 31 went to States, 6 to Tribal Nations, and 1 to a University. We established State Standards to identify critical issues in emergency animal health preparedness. APHIS also conducted a tripartite exercise with Canada and Mexico to develop, practice, and evaluate a North American emergency response plan for an FMD outbreak. The exercise focused primarily on communications and the use of vaccines.

Ongoing eradication and control activities minimize risks to agriculture production, natural resources, and human health and safety.

The final tier of the APHIS safeguarding system is eradicating and controlling pests and diseases already established in the U.S. to minimize the losses they cause, prevent their spread, and reduce trade restrictions on U.S. exports. Selected programs include the Boll Weevil, Biological Control, Emerging Plant Pests, Golden Nematode, Gypsy Moth, Pink Bollworm, Pseudorabies, Scrapie, and Wildlife Services Operations line items.

*Boll Weevil.*—The cooperative boll weevil eradication program (BWEP) has been highly successful in reducing losses. Nationwide, the fiscal year 2001 program spent approximately \$274 million, with 26 percent of that amount provided in Federal cost-share funds. The BWEP has eradicated boll weevil from 5.9 million acres out of nearly 16 million acres of cotton production since 1983. As a result, APHIS and program cooperators are very encouraged with the program's progress and 10 million acres are in active eradication. In fiscal year 2001, the Farm Services Agency issued \$94.6 million in low-interest loans to grower foundations to fund startup costs for new eradication programs and operating capital for existing programs. After fiscal year 2002, the need for these loans should begin to decline rapidly.

*Biological control.*—APHIS provides resources for survey, release, and establishment activities to control pests of economic significance using natural enemies. APHIS' National Biological Control Institute supports cooperative pest management partnerships through its competitive grant programs. We approved 35 grants to Federal agencies, State Departments of Agriculture, industry, and universities in fiscal year 2001 to develop and supply educational materials and services and to implement the safe and effective use of biological controls in pest management programs. Just a few of the initiatives included biological control of salt cedar, spotted and diffuse knapweed, imported fire ant, and Asian longhorn beetle (ALB). We also continued our offshore biological control program against the pink hibiscus mealybug and papaya mealybug.

*Emerging Plant Pests.*—APHIS addresses a wide range of plant pest infestations and diseases not covered through ongoing programs. Program activities include delimiting surveys, control or eradication treatments, epidemiological studies, laboratory diagnostics, and parasite releases to combat emerging pests. In fiscal year 2001, we focused on ALB, Japanese beetle, and pine shoot beetle. Our first priority is to prevent the spread of these pests to non-infested areas of the United States. This is an example of where the pest and disease "borders" exist within the U.S., borders that do not match State borders. To further ALB survey, regulatory, and control efforts in New York and Illinois, APHIS spent \$29.9 million in emergency funds. Since this emergency program began in 1997, APHIS has drastically reduced ALB populations, thus reducing the risk of spread to uninfested areas.

*Golden Nematode (GN).*—By conducting a statewide GN survey, this cooperative program enabled the export and interstate shipment of potatoes valued at over \$90 million without GN-related phytosanitary restrictions. In fiscal year 2001, APHIS collected 11,323 soil samples from 6,361 acres in 20 New York State counties and found no new GN detections.

*Gypsy Moth (GM).*—APHIS works to prevent the artificial, long distance movement of the European gypsy moth to uninfested areas of the United States. We conduct survey activities in cooperation with the States to detect and delimit isolated populations outside the generally infested area. During fiscal year 2001, APHIS and cooperators placed approximately 300,000 pest detection and delimitation traps

throughout the United States. Our efforts limited major outbreaks of over 640 acres to 4 outside the regulated area which met our performance goal.

*Pink bollworm (PBW).*—We continued the cooperative PBW sterile release program to protect cotton in the San Joaquin Valley of California. The program trapped 70 native (non-sterile) moths, demonstrating a reduced risk to cotton, compared to the 154 trapped in fiscal year 2000. APHIS produced 800 million sterile moths at the Phoenix, Arizona, rearing facility for incremental releases in the San Joaquin Valley. APHIS also coordinated an extensive PBW survey involving all cotton acreage in New Mexico, Oklahoma, and Texas. Survey results confirmed the absence of PBW in Oklahoma and most of Texas, allowing APHIS to further delimit the regulated area.

*Pseudorabies.*—At the beginning of fiscal year 2001, the United States had 434 pseudorabies quarantined premises. The program released all but twelve quarantines at the end of fiscal year 2001. Slaughter surveillance continues to play an important role in identifying newly infected herds. Thirty-six States are now participating in Major Packer Surveillance. In fiscal year 2001, the Secretary authorized the transfer of an additional \$56.1 million in emergency funds to continue the very successful accelerated program of indemnity, surveillance, vaccination, compliance, and enforcement. As of January 15, 2002, there were no herds under quarantine compared to 1,305 at the beginning of fiscal year 1999 before the accelerated program started. This program is a good example of how monitoring and cooperation from producers for depopulation can eliminate animal disease.

*Scrapie.*—The Voluntary Scrapie Flock Certification Program (VSFCP) monitors participating flocks and certifies those flocks as free of scrapie once they have been in continuous compliance with the program standards for 5 years. As of October 1, 2001, there were 861 flocks enrolled in the program. This represents a 38 percent increase in participation during fiscal year 2001. On August 12, 2001, APHIS published the final rule “Scrapie in Sheep and Goats; Interstate Movement Restrictions and Indemnity Program.” The rule requires identification of animals for interstate movement, provides indemnity for destroyed animals, establishes standards for handling infected and exposed flocks and for approving tests and laboratories, and sets standards for the State scrapie control program. This rule will substantially improve APHIS’ ability to trace infected and exposed animals which will make it easier to find and clean up flocks.

*Wildlife Services Operations.*—APHIS provides Federal leadership in managing wildlife conflict. The American people consider wildlife as a valuable public resource even though it can cause damage to agricultural and industrial resources, pose risks to human health and safety, and affect other natural resources. Our responsibility is resolving problems that occur when human activity and wildlife conflict with one another.

The Agency conducted livestock protection activities for approximately 10,000 resource owners in fiscal year 2001 in cooperation with private individuals and State, Federal, and local governments. Aerial operations are an important part of an integrated approach to our activities. This activity is critical, not only for livestock and wildlife protection activities, but also for such operations as wolf capture and relocation, assisting in search and rescue operations, wildlife surveys and census gathering, and in the aerial distribution of oral rabies vaccine units. APHIS continues to implement the safety recommendations from the 1998 report, Safety Review, Evaluation, and Recommendations Concerning the USDA, APHIS Wildlife Services Aviation Program.

In addition to threatening livestock and other agricultural resources, wildlife can pose dangers to human health. Airports report approximately 3,600 wildlife strikes to civil aircraft each year and the U.S. Air Force alone reports more than 2,500 strikes. The requests for assistance in managing wildlife hazards at airports and military air bases continue to increase. In fiscal year 2001, our personnel provided wildlife hazard management assistance to 393 airports. Our wildlife biologists conducted 118 direct assistance and technical assistance projects on these airports for the protection of property, and human safety. Another human health threat is the spread of gray fox and raccoon rabies. In fiscal year 2001, the Secretary transferred \$4.2 million in emergency funds to continue the oral rabies vaccination program (ORVP) in the eastern United States and Texas.

APHIS continues to cooperate with various State and Federal agencies to protect reintroduced black-footed ferrets from predators and to monitor for diseases. We continue to assist State and Federal wildlife officials in California and Nevada with protecting Sierra Nevada and Desert bighorn sheep from mountain lion predations. In fiscal year 2001, APHIS began collaborative efforts with State agencies in Georgia, Alabama, and Florida for the Wildlife Management and Game Bird Restoration Program. The major focus of this tri-State, Federal, and private industry program



is to identify how professional predation management enhances population numbers and productivity for a variety of ground nesting birds.

Developing and applying scientific methods that benefit agricultural producers and consumers protects the health of animal and plant resources and sustains agricultural ecosystems.

APHIS conducts programs to develop new or improved methods for reducing wildlife/agricultural conflicts, controlling or eradicating harmful plant and animal pests and diseases, and applying new technology to assure that the latest genetically engineered viral vaccines are pure, safe, potent, and effective. We also conduct laboratory tests to support disease and pest control and/or eradication programs. These activities are included under the Biotechnology/Environmental Protection, Veterinary Biologics, Veterinary Diagnostics, and Wildlife Services Methods Development line items.

*Biotechnology/Environmental Protection.*—This program regulates the movement and release of biotechnology products to ensure that they do not pose a threat to agriculture and the environment. APHIS processes permits, notifications, and petitions related to transgenic plants tested in the field and entering the marketplace. In fiscal year 2001, APHIS increased the number of movement and release notifications and permits processed to 2,638 from fiscal year 2000 levels of 2,161. We also processed 8 comprehensive permits which allow numerous requests on one permit. Since the program's inception in 1987, APHIS has deregulated 54 genetically engineered crop varieties, with one new crop deregulated in fiscal year 2001. In December 2001, APHIS had six pending deregulation applications.

APHIS continues to foster international regulatory harmonization for genetically-engineered plants and microorganisms. APHIS held an AgBiotech bilateral meeting with Canada which resulted in a draft Bilateral Agreement on environmental assessment criteria for transgenic plants and future areas of cooperation. APHIS continued a joint project under the Transatlantic Economic Partnership (TEP) aimed at having regulatory authorities in the European Union and the United States accepting common data requirements that affect each other's decisions regarding approval of biotechnology products. Success in the TEP will facilitate a harmonized approval process for genetically modified plants between North America and Europe.

*Veterinary Biologics.*—APHIS strives to prevent the importation, production, and distribution of impure, ineffective, or impotent veterinary biological products in the United States. In fiscal year 2001, APHIS issued 113 product licenses. Veterinarians and animal owners now have 26 new products for the diagnosis, prevention, or treatment of animal diseases. APHIS provided oversight for 2,481 active licensed or permitted products for the control of 197 animal diseases. APHIS approved 17,185 serials of veterinary biologics, while rejecting 27 serials for failing to meet Agency requirements. Our Veterinary Biologics Program also continued efforts to reduce trade barriers that limit the sale of veterinary biological products overseas. Program officials continued technical discussions with representatives of the European and U.S. biologics industries and with regulatory officials from the European Union.

*Veterinary Diagnostics.*—APHIS develops and maintains national and international laboratory diagnostic support for our animal disease prevention, detection, control, and eradication programs. We provide assistance to State and other Federal agencies and laboratories, educational institutions, and foreign governments in animal disease diagnosis. We also maintain national and international laboratory reference assistance and conduct developmental projects for rapidly advancing technologies.

In fiscal year 2001, our National Veterinary Services Laboratories (NVSL) in Ames, Iowa, conducted tens of thousands of tests on import/export samples, dip samples for pesticide concentration in the cattle tick program, pseudorabies, scrapie, brucellosis, tuberculosis, and BSE samples. We also processed over 1,300 proficiency exams to certify laboratories to conduct testing on equine infectious anemia, bluetongue, Johne's disease, and other diseases and provided training to State, Federal, private, and foreign participants on domestic and foreign animal diseases. In the recent anthrax scare, NVSL processed environmental samples from USDA offices across the U.S., testing for the bacterium. While all samples tested negative, APHIS devoted immediate resources to secure the NVSL facility and to conduct anthrax testing.

*Wildlife Services Methods Development.*—This program provides research for APHIS' Wildlife Services program. Our National Wildlife Research Center (NWRC) provides scientific information for the development and implementation of effective, practical, and socially-acceptable methods for wildlife damage management. With this research, we can protect crops, livestock, natural resources, property, and public health and safety.

Our NWRC national headquarters is on the Foothills Campus of Colorado State University in Fort Collins, Colorado with a 25,000 square foot indoor Animal Research Building and a leased 82,000 square foot Wildlife Science Building on the 43 acre site. During fiscal year 2001, General Services Administration awarded a lease construction contract for an outdoor animal research complex with projected completion in 2002. We also completed a design and issued bid documents for a new support wing addition to the existing indoor Animal Research Building. Construction of this wing should begin in fiscal year 2002 with occupancy in fiscal year 2003.

NWRC researchers continue to make progress toward developing integrated strategies for non-lethal control in integrated pest management programs. These include contraceptives like vaccines for white-tailed deer and nicarbazin for controlling Canada goose populations. We continue to develop humane wildlife capture devices and to coordinate a national trap testing program to improve animal welfare, meeting our commitment to the European Union.

Inspecting and monitoring animals covered under the Animal Welfare Act and various laws protecting horses ensures humane care and treatment.

APHIS has the responsibility, in addition to protecting agriculture, to ensure that animals receive humane treatment under the law. This responsibility is carried out by our Animal Welfare and Horse Protection Programs.

*Animal Welfare.*—APHIS continues to focus on conducting quality inspections under the Animal Welfare Act (AWA) at USDA licensed and registered facilities. The program's risk-based inspection system concentrates activities on facilities where animal welfare concerns are the greatest. In fiscal year 2001, APHIS hired nine new animal care inspectors—bringing the total to 82 after reaching a high of 64 in fiscal year 1998—boosting inspections by 9.5 percent after a 1.5 percent decrease in fiscal year 2000. We are adding more inspectors in fiscal year 2002 to continue this trend. The program continues to make improvements in its computer technology with all field personnel producing an easy-to-understand inspection report. We have expanded the use of digital cameras, with field personnel documenting incidents of noncompliance and, when necessary, immediately transmitting their photographs to investigators or headquarters staff or both. As part of the program's e-business improvements, research facilities can now file their annual report online through the Internet. In fiscal year 2001, APHIS inspectors continued a series of specialized training courses on care and handling of elephants, use of animals in research, and basic training for newly hired inspectors.

*Horse Protection.*—APHIS also administers the Horse Protection Act (HPA) of 1970 which prohibits the showing, sale, auction, exhibition, or transport of sore horses. Inspectors monitor shows and sales for compliance and oversee an industry self-regulation system, the Designated Qualified Person (DQP) program which is the primary means of detecting sore horses. Horse Industry Organizations (HIOs) maintaining certified DQP programs participate with APHIS in yearly DQP training seminars and refresher courses. In November 2000, APHIS presented to nine HIOs a draft multi-year operating plan to improve the program. Six of the nine HIOs elected to follow the multi-year plan. Consequently, for the other three, we must prosecute violations of the HPA as Federal cases. At those shows where the HIO agreed to the plan, the respective HIO may assess penalties for violations. Although there remain a few minor problems with enforcement using the multi-year plan, APHIS plans to continue offering it, possibly with minor modifications.

#### OUR FISCAL YEAR 2003 BUDGET REQUEST

The value of American agriculture is enormous. Our bounty is multiplied when you consider the economic benefits of trading our agricultural products overseas for other goods and services. Our agricultural wealth, however, cannot be taken for granted. When people and commodities move freely across our political and pest and disease borders, the security of our agricultural products is threatened. Our only defense, when encouraging free travel and trade, is to safeguard through inspection and surveillance activities. When an agricultural pest or disease gets past our free border, we must take aggressive action to eradicate it. To carry out these activities, we request \$782.2 million, an increase of \$120.4 million over the adjusted fiscal year 2002 base in our salaries and expenses account. In our building and facilities account, we request \$13.2 million, an increase of \$6 million over fiscal year 2002.

The challenges facing American farmers and ranchers are increasing due to economic and trade pressures. To help ease these pressures, APHIS programs must safeguard producers from foreign pests and diseases and facilitate and resolve trade barriers and issues. Our first priority is to address expanding trade and travel which could leave us vulnerable—both to disease and pest threats, and to unfair

trading practices. We request a \$62 million increase to prevent foreign animal diseases such as FMD or BSE from entering the U.S. Our efforts include:

- Enhanced border crossing and cargo inspections;
- Increased surveillance assistance overseas to define international disease borders;
- Additional domestic surveillance throughout the U.S. animal populations for early detection;
- Increased surveillance of cloven hoofed wildlife that may harbor any diseases;
- Technical assistance to foreign countries;
- Placing emergency managers in States;
- Foreign animal disease testing and ensuring laboratory quality standards;
- Increased reptile and amphibian inspection for exotic ticks; and
- Risk assessments to respond to international and domestic responsibilities for regionalization.

To expand agricultural trade, we must be able to prove that we do not have associated pests or diseases. We request a \$25.8 million increase to prove our pest and disease free status with additional surveillance, testing, and information technology support. We must also assure employee safety when using our aircraft. These needs include:

- Enhanced pest detection system to rapidly detect any incursion made past our borders;
- Harmonization activities and licensing requirements for veterinary biologics products;
- Implement safety recommendations for our aerial operations program; and
- Maintain information technology equipment and provide for new program applications and e-Government initiatives.

Equally important is our need to address the eradication and suppression of diseases and pests once they have become established in the U.S. Many of our traditional eradication programs are cooperative in nature and have a long history of support from industries and other stakeholders. We must continue ongoing emergency programs which are currently being funded by transfers from the CCC, and establish a program to control grasshoppers and Mormon crickets. Our increase includes \$166.5 million to:

- Enhance our chronic wasting disease program to include on-farm inspections, sample collections, testing, education, and depopulation;
- Establish a grasshopper/Mormon cricket program to effectively predict and suppress these pests from western Federal, tribal, State, and private range lands;
- Create an ongoing plum pox surveillance and control program to protect stone fruit industries;
- Continue the Medfly program in Mexico and Guatemala to prevent Medflies from moving northward through Mexico to the U.S.;
- Continue eradication efforts for citrus canker in Florida and ALB in Illinois and New York;
- Enhance scrapie surveillance, testing, indemnity, and flock clean up;
- Enhance tuberculosis testing, training, and Mexico eradication efforts; and
- Continue oral rabies vaccination efforts in Texas and several eastern and north-eastern States.

Our request contains a decrease of \$43.4 million in the boll weevil program where there are fewer acres in active eradication and producers have access to Federal loans to ensure adequate cash flow. We request a net increase of \$13.6 million in wildlife services operations to expand work on FMD in wild animals, ensure continued safety of aerial operations and continue rabies vaccination efforts, while assuming that cooperators will cover a larger share of the cost of wildlife management programs.

We request an increase of \$6 million in our buildings and facilities account to maintain our laboratory and inspection stations and to complete construction of the new animal and plant facility on the site currently occupied by the Miami Animal Import Center, Miami, Florida.

*Pest and disease eradication programs.*—I would like to discuss two issues related to the USDA/APHIS activities to control infestations. The first is funding ongoing emergencies and the second is cost sharing responsibility.

*Funding ongoing emergencies.*—In recent years the cost of controlling and eradicating infestations of plant and animal pests and diseases through transfers from the Commodity Credit Corporation has increased significantly, from \$24 million in fiscal year 1998 to \$335 million in fiscal year 2001. In addition, the number of infestations for which funding was provided and the average cost to combat each infestation have also grown, to the extent that it is not uncommon to have to allocate over \$50 million to a single disease in one year.

The \$335 million of CCC funding provided in fiscal year 2001, which is equal to 60 percent of the total discretionary appropriation for salaries and expenses in that year represented a major expenditure of Federal resources. The Administration continues to be concerned that the use of CCC ongoing programs, that can last five years or more is not consistent with the emergency nature of these funds. Therefore, the Administration has proposed to delete the transfer authority from the APHIS appropriation and substitute amended authority under the Agricultural Risk Protection Act of 2001, that would limit the use of emergency transfers to infestations that were not funded in the previous fiscal year (unexpected needs). At the same time, the fiscal year 2003 discretionary budget includes significant increases to fully fund ongoing eradication programs. These actions will have the following benefits:

- Requesting Congress to appropriate funding for eradication requests for ongoing programs.
- Continue to allow the use of CCC for real emergencies.
- Allow for planned, predictable financing of ongoing, long-term eradication programs.

*Cost sharing responsibilities.*—As the Federal commitment to eradicate infestations has increased, we wish to establish flexible criteria to define the responsibility of the affected partners—the Federal government, State and local governments, industry, and growers. Currently, the Federal government often pays over 90 percent of costs, including indemnities to affected producers. Therefore, the Department and the Office of Management and Budget will be establishing how funding responsibility will be allocated, to be published as a rulemaking for public comment by the end of 2002. When these criteria are published, they will:

- Allow State and local governments to plan future budget needs;
- Provide for the rational, transparent and predictable allocation of resources;
- Allow all infestations to be treated in a relatively consistent way;
- Speed the internal review process.

#### CONCLUSION

Our safeguarding system consists of four levels of defense: (1) international activities; (2) border exclusion; (3) domestic monitoring; and (4) control and eradication. This strategy of successive lines of defense has been effective in keeping the most harmful pests and diseases out of the country. This system, however successful in the past, needs strengthening. With last year's terrorist actions, the threat of intentional foreign pest or disease introduction now seems more real than ever. Accordingly, APHIS has an enormous job to ensure our integrated agricultural safeguarding system can meet the challenges we face. Our focus centers around a more modern, efficient, and integrated system that protects American producers from pest and disease threats at a different kind of border: the area separating pest and disease affected areas from free ones. These borders may be in foreign locations, along our U.S. borders, or within the U.S. We are confident that proving our disease free status will allow our agricultural products to compete effectively in the global market place. We commit to effective use of the resources you entrust to us.

We appreciate all of your past support and look forward to even closer working ties in the future. We are happy to answer any question you may have.

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#### PREPARED STATEMENT OF A.J. YATES

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 2003 budget proposal.

#### MISSION

AMS activities are an integral component of USDA-wide efforts to assist the U.S. agricultural industry in marketing their products and in finding ways to improve their profitability. AMS' mission is to facilitate the marketing of agricultural products in the domestic and international marketplace, ensure fair trading practices, and promote a competitive and efficient marketplace to the benefit of producers, traders, and consumers of U.S. food and fiber products. We accomplish this mission through a variety of activities funded from appropriations and from fees charged for services.

We are responsive to our customers' changing needs. The nature of our services such as market reporting and grading enables us to maintain close contact with our customers. To improve our service, AMS is actively pursuing new ways to provide public electronic access. We encourage the public to electronically comment on rule-

making. We offer online market news reports, application for services, filing for protection under the Perishable Agricultural Commodities Act, and bidding on Federal commodity purchases.

Furthermore, since most of our user-funded services are voluntary, we must always remain conscious of cost while being responsive to customer needs. To carry out our mission, AMS maintains strong cooperative partnerships with State programs and other Federal agencies. Our Market News, Shell Egg Surveillance, Pesticide Data, Microbiological Data, Pesticide Recordkeeping, and Federal Seed programs depend on support from their State partners to collect and disseminate information, provide inspections, and otherwise improve the efficiency of both State and Federal programs by sharing human and capital resources.

Before I discuss our proposed increases for fiscal year 2003 in more detail, I would like to briefly describe some of the marketing issues facing U.S. farmers and a few of AMS' significant accomplishments during fiscal year 2001, and plans for 2002.

#### GLOBAL AGRICULTURAL MARKETING

U.S. agriculture is facing continual and rapid changes in the industry, Federal and State regulations, financial assistance, domestic and international consumer preferences, and an ever-expanding dependence on export markets. AMS support of international market opportunities for U.S. agricultural products will yield enormous dividends for the farm economy, national and world economies. High production levels for many U.S. agricultural commodities make it necessary for U.S. producers to increase their global market share and develop sustainable export sales. America's consumers also benefit from a consistent year-round source of agricultural products from our trading partners.

AMS has been modifying Agency activities to include international as well as domestic markets so that our programs more fully serve the needs of U.S. agriculture. For example, our Transportation Services and Pesticide Data Programs provide information that facilitates agricultural commodity exports, AMS grading programs offer certification to export specifications, and AMS laboratory testing programs allow foreign buyers and government requirements to be met.

In 2002, the Agency received funding for a new Global Market Expansion activity that delivers additional support to agricultural producers, growers, and exporters in the international marketing of U.S. food and fiber products. This activity allows the Agency to provide its technical expertise in a variety of international forums where international trading standards are being developed. By working with international organizations, AMS is able to affect the design of food quality standards and model inspection protocols so that they are fair to U.S. shippers and they do not become non-tariff barriers to U.S. agricultural trade. In addition to serving as a language of commerce, trade standards help resolve commodity trade disputes with foreign governments and buyers. U.S. Cotton standards, for example, are universally used and accepted by the cotton industry and are used in settling international trading disputes. In addition, all international seed shipments exported to Europe must be certified using Organization of Economic Cooperation and Development specifications, or OECD Seed Schemes. As the U.S. Accreditation Authority to the International Seed Testing Association, AMS works to develop rules for sampling and testing of seed in international trade and for accrediting seed testing laboratories. Recently, AMS developed U.S. Trade Description Standards for Poultry and is working with the United Nations Economic Commission for Europe to have these U.S. standards adopted as the international standard. The U.S. standards were designed to facilitate and enhance wholesale trading of poultry products in both domestic and international markets. Agency experts are now working with the turkey industry to develop similar U.S. Trade Descriptions.

#### PESTICIDE DATA PROGRAM

Our Pesticide Data Program, or PDP, provides information of a different sort, but still ultimately benefits growers and facilitates marketing. PDP has been instrumental in providing data that addresses domestic and international public concerns about the effects of agricultural pesticides on human health and environmental quality. The program provides unbiased, statistically valid data on pesticide residues in food and water. The information PDP provides to the Environmental Protection Agency—EPA—is vital for conducting realistic assessments of dietary risk from pesticides on food commodities available in the marketplace. In addition, PDP data supports the international marketing of U.S. commodities by assuring foreign governments and buyers that U.S. agricultural commodities are safe for consumption.

The program is built on a Federal-State partnership with 10 States—California, Colorado, Florida, Maryland, Michigan, New York, Ohio, Texas, Washington and

Wisconsin. These States collect and test commodities for pesticide residues. PDP laboratory procedures are designed to detect, verify, and report low-level pesticide concentrations using uniform laboratory procedures and an effective quality assurance program based on EPA Good Laboratory Practices.

Over the past 10 years, the program has tested 51 commodities. The results from PDP testing provide comparative pesticide residue data between fresh versus processed commodities, and an in-depth comparison for selected domestic versus imported commodities.

Newly released data collected in 2000 is based on a total of 10,907 samples of fruit and vegetables, rice, peanut butter, and poultry. Approximately 80 percent of the tested samples were domestically produced, 19 percent were imported, and 1 percent were of unknown origin. Pesticide residues only exceeded the established tolerance level in two-tenths of 1 percent of the samples. While residues were detected on 67 percent of the fruit and vegetable, 33 percent of the rice, 26 percent of the peanut butter, and 3 percent of the poultry samples tested during 2000, they were significantly below tolerance levels. Post-harvest applications accounted for over one-third of the detected residues in fresh and processed fruit and vegetables. EPA has used PDP data in the re-registration of 43 pesticides—data based on actual residue levels. Without PDP data, EPA previously used worst case assumptions that farmers applied pesticides at the maximum approved levels. In addition, the data are used in determinations regarding Section 18 Quarantine Exemptions and pre- and post-harvest use registrations. The information has also been used to examine pesticide residue issues relating to good agricultural and integrated pest management practices.

In March 2001 we began testing finished drinking water samples at 11 sites in the States of California and New York. We selected these sampling sites as a good representation of a variety of population segments including major urban areas, hydro-geographic regions and land uses. In January 2002, the program expanded water sampling and testing to include five sites in Colorado, Kansas and Texas, to provide monitoring data for areas not covered by EPA drinking water models.

#### NATIONAL ORGANIC PROGRAM

AMS' National Organic Certification program will facilitate trading of organic products by verifying for buyers and consumers, across the U.S. and internationally, that organic food labeling is accurate and consistent. The program has established national standards for organic production and handling, and is now accrediting certification agents who will conduct annual on-site inspections to verify that organic products meet these standards. The program's 18-month implementation period began April 21, 2001, and ends October 21, 2002, when the official USDA organic seal will be permitted for use on certified organic fresh and processed products. With a few years of operation, the program is expected to oversee the certification of approximately 14,000 organic producers and handlers.

The Agricultural Risk Protection Act of 2000 provided funding intended to defray some of the certification costs for organic producers. AMS will distribute certification cost-share funding through agreements with the 15 States targeted for the program. The States will distribute the funds to organic producers who request reimbursement and whose production operations are inspected and certified between December 2000 and October 2002 by an approved certification agent. All of the payments will be completed by November 2002.

#### MANDATORY PRICE REPORTING SYSTEM

AMS' Livestock Mandatory Price Reporting addresses concerns about market concentration in the livestock industry and resulting price discovery problems in the marketplace. On April 2, 2001, AMS implemented the Livestock Mandatory Price Reporting, or LMPR, System to meet the requirements of the Livestock Mandatory Reporting Act. The Act required USDA to develop a program to provide information on the marketing of cattle, swine, lamb, boxed beef, lamb carcasses, and boxed lamb. This is the first regulation that requires the industry to electronically report proprietary information on daily market transactions.

LMPR is an ambitious effort to provide livestock market information on a near real-time basis over the Internet. To manage the data, AMS developed an automated system capable of processing thousands of pieces of market information from the livestock industry and generating market news reports in as little as 1 hour after receipt of the data. Beginning with the first day of the program, packers have been successful in submitting data to AMS via the secure Internet connection. Over 130 different packing plants report transaction data by lot, several times a day. The system is handling over 90 percent of the volume reported as slaughtered daily,

which equates to 110,000 cattle, 330,000 swine, and 15,000 lambs. In addition, transaction data includes specifics for various aspects of the lot such as weight and carcass characteristics. Of the 94 reports developed for mandatory reporting, 83 are now being released. The system is designed to protect the confidentiality of packers. No data have been released that compromise the identity of source packers.

#### ELECTRONIC GOVERNMENT INITIATIVES

To make our services more accessible to our customers, AMS is moving aggressively to implement several electronic government, or e-government, initiatives. With the assistance of outside experts, AMS developed a master technology business plan to guide the Agency in an intelligent integration of e-government technology. Guided by this plan, we will establish a business process management system that accepts electronic information from the public over the Internet and routes each electronic submission to the appropriate office for response. Working in conjunction with other USDA agencies, AMS will pilot the use of an Internet web portal to deliver customized access to market news reports for public use. We will also add a corporate portal for AMS decision-makers to allow them to efficiently search and retrieve information across the Agency. Additionally, our new web content management system will enable employees to easily move content to the web and ensure that the web content is current, consistently presented, and auditable.

We plan to harden security around our information technology assets. We redesigned the security architecture of the AMS Internet web site to deny potentially damaging scans and intrusions from unauthorized public sources. This redesign will expand protections provided by the existing AMS security program, and furnish our employees with the necessary web-based security awareness training.

AMS is also providing electronic marketing assistance to the agricultural industry. We are partnering with the meat and poultry industry to establish an industry-based, non-profit electronic business standards forum. The standards produced by this forum will be used to facilitate the rapid industry-wide adoption of Internet-based systems for electronically trading meat and poultry products. AMS' support will ensure broad industry participation and the development and use of fair standards.

In 2001 AMS revised existing Agency web pages to comply with the Rehabilitation Act of 1973. Also, we can now post rulemaking actions on the AMS web site using a consistent format, accept e-mail comments from the public, or provide the public with on-line web forms to capture their comments. When appropriate, we can post the comments we receive on our web site to facilitate public review and to encourage public participation.

#### PROTECTION OF AGRICULTURE AND THE FOOD SUPPLY

While we are not requesting additional funding in 2003 for protection of agriculture and the food supply, AMS is doing its part in the Department's efforts to guard against potential threats. In addition to improved cyber-security, AMS has developed strategies to upgrade the security of agency operations and facilities to ensure the continuation of our services to the agricultural industry. We are strengthening physical security at laboratory facilities to improve protection for Agency employees and the public. Security measures include entry control, surveillance and emergency power systems. To ensure continuity of service, AMS established emergency alternate headquarters locations.

#### BUDGET PROPOSAL

In 2003 we propose to capitalize on the Agency's marketing expertise and further assist U.S. agricultural producers and traders by expanding our Global Market Expansion program to make more international market information available. We are also requesting funds to improve the infrastructure of our Federal Seed and Pesticide Data programs. These improvements will ensure that the programs can deliver the services and information they were established to provide.

For fiscal year 2003 we are requesting program increases of \$2.6 million in Marketing Services for the Global Market Expansion, Federal Seed, and the Pesticide Data programs. These increases are partially offset by a decrease in one-time Organic Certification funds. We are also requesting an increase of \$1.3 million from permanent appropriations for Section 32 administrative funding.

#### GLOBAL MARKET EXPANSION

We are requesting an additional \$1 million for Global Market Expansion. To remain competitive in export markets, producers must have access to a centralized,

consistent, public source of timely information on international prices and trade volume. This is especially critical to the growth and economic stability of smaller and medium-sized enterprises. The U.S. dairy industry, for example, is looking for timely market information on Asia and certain Latin American countries, most notably on high value products such as specialty cheeses, ice cream and frozen desserts. The U.S. poultry industry is seeking to expand its market opportunities beyond Asia and Mexico. AMS' Market News system will provide the information they need by significantly increasing the international trading volume and price information we gather, analyze and report.

The pending Free Trade Area of the Americas agreement will open significant markets in Central and South America to U.S. trade, and AMS will be ideally situated to provide timely market information from across the Americas to the benefit of U.S. interests. A major part of the AMS proposal to expand international market reporting is focused on the development of stronger relationships with market information agencies in key competitor countries. AMS has established a strategic alignment with the Market Information Organization of the Americas network, whose primary goal is facilitating the consistent exchange of current market information between the countries of the Americas.

Market reporters based in Washington, D.C., will develop new reports, expand the information provided in current reports to meet industry requests, and offer increased technical assistance programs.

#### FEDERAL SEED

We are requesting an increase of \$1.1 million for the Federal Seed program so that we can implement basic infrastructure improvements that will allow AMS to continue to support and protect market competitiveness in the seed industry and for all U.S. producers. The program is also vital to international sales of U.S. seed.

The International Seed Testing Association cited specific critical deficiencies in its recent program accreditation audit of the AMS seed laboratory. If we fail to address these deficiencies, we risk losing our international accreditation and consequently our ability to facilitate international seed sales. The Association's specific recommendations include the replacement of outdated seed testing equipment with newer, more reliable and more efficient models. The laboratory equipment currently used for testing seed samples to verify germination is over 20 years old and constantly in need of repair.

To effectively protect seed buyers from mislabeled seed, AMS—Federal Seed program must also upgrade its computer equipment and database, and increase staffing to expand seed inspection. The program's database, developed in the 1980's, is desperately in need of an upgrade. AMS uses its seed database to identify and track seed samples through the testing process, generate test reports, track Federal Seed Act investigations, and generate investigative reports.

To adequately protect buyers of seed shipped from States without inspection programs, AMS must increase its staff of seed specialists and botanists to collect and test seed from States without inspection programs. Budget reductions in many States have virtually eliminated their State seed inspection programs. Currently, an estimated 15 percent of the seed sold in States without active seed control programs is mislabeled. The higher level of mislabeled seed will surely continue to increase without an effective monitoring program.

#### PESTICIDE DATA PROGRAM

We are also requesting an increase for infrastructure improvements to the Pesticide Data Program. Increased funding of \$500,000 will allow the program to monitor changes in residue profiles required by the Food Quality Protection Act of 1996, and to add data on new commodities and residues. For example, the program must develop data analysis methods for organophosphate replacements. Many of these pesticides are used extensively in the European Union and Canada and are likely to be found in crops exported to the United States. Approximately 70 percent of the increase requested will be used to offset rising operational costs at the State level. Funds will also be used to complete International Standards Organization accreditation for PDP laboratories. Overall, these improvements will enable PDP to deliver approximately 15 percent more pesticide residue data, covering additional children's foods and other commodities with significant dietary consumption.

#### COMMODITY PURCHASE SERVICES

We are requesting increased funding from Section 32 permanent appropriations to improve administration of commodity purchase activities. An increase of \$306,000 will enable AMS to better verify that the commodities purchased are all domesti-



cally produced. We will also work with the industry to make the procurement system more efficient.

AMS purchases approximately 683 million pounds of fruits and vegetables per year for domestic food assistance programs at a cost of about \$340 million. The purchasing contracts for those commodities require that all of the food products meet the published specifications and that they originate from produce 100 percent grown, processed and packaged in the United States. To ensure seller compliance with the domestic origin requirement, we will increase our domestic review activities. These domestic reviews involve the collection of additional data to identify, track, and report on commodities purchased under Federal procurement contracts. We will also conduct weekly product reviews, provide the findings to the purchaser and bidder, and maintain a database of these findings for future reference.

#### MARKETING AGREEMENTS AND ORDERS

We request an additional \$600,000 for Marketing Agreements and Orders administration to improve oversight and program review activities. AMS marketing agreement and order programs play a critical role in helping to stabilize market conditions for more than 60,000 producers, with crops valued at more than \$5 billion annually. AMS program resources, faced with increases in regulatory and policy requirements, are stretched to their limit in processing informal and formal rule-making recommendations in a timely manner, monitoring marketing order and Section 8e imported commodity compliance, and ensuring effective program oversight. Consequently, the program has been unable to respond quickly to recent requests from industry for new marketing orders and amendments. Additional funding will allow the program to improve its efficiency and better serve the industry in establishing new programs and processing amendments to existing programs.

#### BUDGET REQUEST SUMMARY

That concludes our budget presentation for fiscal year 2003. By fund, our total budget request includes \$77.7 million for Marketing Services, a net increase of \$3.1 million. In addition to the program increases I have outlined, our request includes a decrease in one-time funding for Organic Certification of \$639,000, an increase for pay costs of \$1.1 million, and adjustments for employee pensions and annuitant health benefits and the Federal Employees' Compensation Act. We are requesting the current funding level of \$1.3 million for Federal-State Marketing Improvement Program grants under Payments to States. Our request for \$26.2 million in Section 32 Administrative funds includes a program increase of \$900 thousand and an increase for pay costs of \$400 thousand, for a total increase of \$1.3 million. This budget request allows AMS to build on its strengths to assist the agricultural industry by facilitating domestic and international marketing and provides for infrastructure improvements necessary to ensure effective delivery of services to our customers.

Thank you for this opportunity to present our budget proposal.

#### PREPARED STATEMENT OF DAVID R. SHIPMAN

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 submit our fiscal year 2003 budget proposal.

GIPSA is part of USDA's Marketing and Regulatory Programs, which works to ensure a productive and competitive global marketplace for U.S. agricultural products. 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.

GIPSA has both regulatory and service roles. Our Packers and Stockyards Programs (P&SP) promotes a fair, open, and competitive marketing environment for the livestock, meat, and poultry industries. The Agency's Federal Grain Inspection Service (FGIS) provides the U.S. grain market with Federal quality standards, a uniform system for applying them, and impartial, accurate grain quality measurements that promote an equitable and efficient U.S. grain marketing system. Overall, GIPSA helps promote and ensure fair and competitive marketing systems for all involved in the merchandising of livestock, meat, poultry, and grain and related products.

#### ORGANIZATION

GIPSA is headquartered in Washington, DC. Our P&SP, which administers the Packers and Stockyards Act of 1921, as amended (P&S Act), currently has 166 em-

ployees at headquarters and in three regional offices. The Atlanta Regional Office is primarily responsible for enforcement issues relating to the poultry industry; the Denver office for enforcement issues related to the cattle and sheep industries; and the Des Moines office for enforcement issues related to the hog industry. Legal specialists, economic, financial, marketing, and weighing experts from the various locations work together to address issues, and to monitor emerging technology, evolving industry and market structural changes, and other issues affecting the livestock, meatpacking, and poultry industries the Agency regulates.

FGIS personnel work in a unique public-private partnership with over 2,000 State and private inspectors to provide high-quality inspection and weighing services on a user-fee basis across the Nation. Federal inspectors service 38 export elevators in Georgia, Illinois, Indiana, Louisiana, Maryland, New York, Ohio, Oregon, and Texas. Eight delegated State departments of agriculture provide service at an additional 19 export elevators in Alabama, California, Minnesota, Mississippi, South Carolina, Virginia, Washington, and Wisconsin. In Canada, the Canadian Grain Commission provides official service on U.S. grain transported through Canadian ports under a cooperative agreement at seven locations, with GIPSA oversight. Fifty-nine (59) designated private agencies serve the domestic market under GIPSA supervision. In fiscal year 2001, this unique mix of Federal, State, and private inspection agencies provided over 2 million inspections on nearly 235 million metric tons of grains and oilseeds; weighed over 100 million metric tons of grain; and issued more than 89,000 official weight certificates.

Our Technical Center in Kansas City, Missouri, is GIPSA's central laboratory for technical leadership and support for the official grain inspection system and U.S. grain industry, and home of the Agency's Biotechnology Reference Laboratory.

#### GIPSA'S PACKERS AND STOCKYARDS PROGRAMS

GIPSA's Packers and Stockyards Programs (P&SP) administers the P&S Act to promote fair and open competition, fair trade practices, and financial protection in the livestock, meat packing, meat marketing, and poultry industries. The objective of the P&S Act is to protect producers, growers, competitors, and consumers against unfair, unjustly discriminatory, or deceptive practices that might be carried out by those subject to the P&S Act. To meet this objective, GIPSA seeks to deter individuals and firms subject to the P&S Act from engaging in anti-competitive behavior, engaging in unfair, deceptive, or unjustly discriminatory trade practices, and failing to pay livestock producers and poultry growers; and to initiate appropriate corrective action when there is evidence of anti-competitive, trade, payment or financial practices that violate the P&S Act.

The livestock, meat, and poultry industries are important to American agriculture and the Nation's economy. With only 166 employees, GIPSA regulates these industries, estimated by the Department of Commerce in fiscal year 2001 to have an annual wholesale value of \$125 billion. At the close of fiscal year 2001 there were 6,241 market agencies and dealers, and 2,050 packer buyers registered with GIPSA. In addition, 1,525 facilities providing stockyard services, an estimated 6,000 slaughtering and processing packers, meat distributors, brokers and dealers, and 205 poultry firms are subject to the P&S Act.

Last year, GIPSA conducted over 1,600 investigations. Most violations of the P&S Act were corrected voluntarily, with many resulting in livestock and poultry producers receiving additional funds for the sale of their products. During fiscal year 2001, 15 administrative or justice complaints were issued to bring subject firms into compliance with the P&S Act.

GIPSA continues to provide payment protection to livestock producers. Financial investigations last year resulted in \$6.3 million being restored to custodial accounts established and maintained for the benefit of livestock sellers. This is nearly triple the \$2.7 million restored in fiscal year 1999, and \$400,000 more than the \$5.9 million restored in fiscal year 2000. Livestock sellers recovered over \$844,000 under the P&S Act's packer trust provisions. During fiscal year 2001, 47 insolvent dealers and market agencies corrected or reduced their insolvencies by \$2.9 million; insolvent packers corrected or reduced their insolvencies by \$1.9 million.

To ensure that producers and growers are aware of the protections the P&S Act provides, GIPSA has increased its outreach activities to better educate the industry about the P&S Act and GIPSA's regulatory role in the market. In fiscal year 2001, GIPSA continued a series of poultry "town hall" meetings that it hosted for poultry growers, integrators, and affiliated industries. The "town hall" meetings prompted multiple requests for additional presentations from growers, integrators, and industry organizations about GIPSA's authority in the poultry industry, which were honored as GIPSA personnel had the time and resources to do so. GIPSA also conducted

23 orientation sessions for new auction market owners and managers to educate them about their fiduciary and other responsibilities under the P&S Act. These visits in the early stages of a market's operations also protect livestock producers who rely on the market to be a competitive, fair, and financially sound marketplace. Further, GIPSA personnel regularly met with industry associations at the local, State, and national levels. GIPSA participated in these meetings to remain abreast of problems and concerns in the livestock, meat, and poultry industries, and to better understand the marketing options and constraints these industries face. On the front lines, GIPSA's resident agents, situated at 28 locations across the Nation, maintain open communications with State officials to discuss areas of overlapping jurisdiction. GIPSA recognizes that it is essential to stay in touch with growers, producers, and Federal and State representatives to understand, stay abreast of, and anticipate issues confronting the industries it regulates. GIPSA's outreach efforts have fostered a broader base of understanding with growers and producers. We will continue and expand this effort.

Our regulatory responsibilities are the heart of our mission to enforce the P&S Act. To this end, GIPSA closely monitors practices that may impede the free trade of livestock, meat, and poultry. Investigating complaints alleging anti-competitive, unjustly discriminatory, or unfair practices in the livestock, meat, and poultry industries remains a top priority. GIPSA continues to initiate appropriate corrective action if we discover evidence of these practices.

GIPSA's Rapid Response Teams remain a powerful tool to address urgent industry issues and to immediately notify the public about a firm's fiduciary or financial problems. Last year, 94 GIPSA investigators were deployed soon after being notified of a crisis to investigate 51 potentially serious situations across the Nation. During fiscal year 2001, these rapid response investigations contributed to returning \$6.1 million to livestock producers and poultry growers.

The Agency also provides a hotline (1-800-998-3447) by which constituents may anonymously voice their concerns. Last year GIPSA responded to and investigated issues raised by 124 callers. These calls were in addition to calls received in our regional offices.

GIPSA is also strengthening investigations and assessments of competitive implications of structural change in the livestock, meatpacking, and poultry industries. Throughout fiscal year 2001, GIPSA incorporated economic, statistical, and legal expertise into investigations to increase the efficiency and effectiveness of our investigations of anti-competitive and unfair practices, and our enforcement of the P&S Act. Increased cross-utilization of our economists, legal specialists, auditors, marketing specialists, and industrial specialists from headquarters and field locations has brought targeted investigative and analytical skills to specific investigations. GIPSA also pursued cooperative agreements with qualified researchers and research institutions that contribute valuable information to GIPSA's economic understanding of the livestock, meatpacking, and poultry industries.

In addition to our normal regulatory duties, GIPSA has fulfilled several Congressional mandates in fiscal year 2001 and continues work on others: Captive Supply Study, annual Assessment the Cattle and Hog Industries, implementing the recommendations in the GAO Report and the Swine Contract Library.

House Report No. 106-948 directed GIPSA to complete a comprehensive study of the captive supply issue. USDA released "Captive Supply of Cattle and GIPSA's Reporting of Captive Supply" on January 18, 2002. The report clarifies GIPSA's definition of the term "captive supply," and compares GIPSA's captive supply statistics to those published by other organizations. GIPSA found that differences in captive supply statistics reported by various organizations result from conflicting definitions of captive supply and variations in the geographical bases of the data collection. The report also compares 1999 procurement transactions data of the top four beef packers to summary captive supply data the packers submitted to GIPSA. GIPSA found that captive supplies accounted for 32.3 percent of the firms' total slaughter rather than 25.2 percent, as reported in the packers' annual reports to GIPSA. The data discrepancies are attributed to misunderstandings about captive supply definitions and computational errors. GIPSA will take several actions in response to the study findings. GIPSA will (1) publish our definition of captive supply in the Federal Register (livestock that is owned or fed by a packer more than 14 days prior to slaughter; livestock that is procured by a packer through a contract or marketing agreement that has been in place for more than 14 days prior to slaughter; and livestock that is otherwise committed to a packer more than 14 days prior to slaughter); (2) clarify the reporting definitions on the Packer Annual Report form; (3) audit future Packer Annual Reports; and (4) report captive supply information in more detail.

Amendments to the Packers and Stockyards Act in the Grain Standards and Warehouse Improvement Act of 2000 (Public Law 106-472) require GIPSA to sub-

mit an assessment of the cattle and hog industries to Congress each year. GIPSA's "Assessment of the Cattle and Hog Industries, Calendar Year 2000" (issued in June 2001) describes the general economic state of the cattle and hog industries during 2000, changing business practices in those industries, and activities that raise concerns under the P&S Act. The assessment found that technology, consumer demands, and competitive forces are driving substantial changes in the structure and behavior of firms in the livestock and meatpacking industries. Many of the changes may benefit the industries involved, consumers, and the Nation as a whole. Some may foster unlawful anti-competitive behavior or unfair trade practices. GIPSA will address the concerns discussed in the report by monitoring changes in industry structure and behavior, and examining practices that may be unlawful under the P&S Act. GIPSA also may formally investigate, undertake regulatory initiatives, or further research and analyze the economic, competitive, and trade practice implications of the structural and behavioral changes. GIPSA is currently finalizing its second annual assessment report.

Another mandate began with the General Accounting Office's (GAO) Report to Congress, issued in September 2000, "Actions Needed to Improve Investigations of Competitive Practices." The Grain Standards and Warehouse Improvement Act of 2000 (Public Law 106-472) required GIPSA to implement the GAO's recommendations and report on actions taken to improve investigations of competitive practices by November 9, 2001. In accordance with GAO's recommendations, and based on required input from the Department of Justice (DOJ) and the Federal Trade Commission (FTC), in fiscal year 2001, the Agency implemented investigation planning, development, implementation, and review processes to ensure appropriate investigation planning and oversight within GIPSA and with the USDA Office of the General Counsel (OGC). Also during the fiscal year, OGC added more attorneys to address GIPSA matters; Agency economists and legal specialists received additional specialized training; and GIPSA issued its first annual assessment of the cattle and hog industries to report on changes in those industries. The report to Congress has been delayed, in large part, by GIPSA's increased workload resulting from implementation of GAO recommendations, and the Agency's report on captive supplies in the cattle industry, which was completed and submitted to Congress on January 18, 2002.

The Swine Contract Library was mandated in the Agricultural Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act of 2000 (Public Law 106-78). It amended the P&S Act to require GIPSA to establish and maintain a library of contract provisions offered by packers to swine producers for the purchase of swine and to make these provisions available to the public. Publication of the final rule is contingent on development and deployment of a Web-based system capable of receiving contracts, extracting unique contract provisions, and posting summary information in a manner that complies with the confidentiality requirements of the P&S Act and is useful to market participants. This is a sizeable and complex undertaking. GIPSA has been appropriated approximately \$200,000 annually to develop and operate the Swine Contract Library. Additional funding may be necessary in the future. GIPSA is exploring ways to expedite the development and implementation of the electronic process and final rule. Once complete, the Web-based library will offer summarized information on contract terms and monthly reports on the number of swine under contract.

GIPSA will continue to provide payment protection to livestock and poultry producers; increase the number of competition and trade practice investigations of potential violations of the P&S Act; pursue voluntary corrections of violations of the P&S Act which will likely result in livestock and poultry producers receiving additional funds; continue outreach efforts to educate our constituencies about the benefits and protections offered to livestock and poultry producers under the P&S Act; monitor and respond rapidly to complaints of anti-competitive, unjustly discriminatory, or unfair behavior in the livestock, meat and poultry industries that violates the P&S Act; pursue cooperative agreements that contribute valuable information to GIPSA's economic understanding of the regulated industries; address violations of the P&S Act through formal corrective actions; respond thoroughly and responsibly to all governmental inquiries and Congressional mandates; and pursue rule-making that enhances GIPSA's ability to investigate and litigate violations of the P&S Act.

#### GIPSA'S FEDERAL GRAIN INSPECTION SERVICE

GIPSA's grain inspection program facilitates the marketing of U.S. grain and related commodities under the authority of the U.S. Grain Standards Act (USGSA) and the Agricultural Marketing Act of 1946 (AMA). GIPSA provides the market

with descriptions (grades) and testing methodologies to measure the quality and quantity of grain, rice, edible beans, and related commodities; provides an array of inspection and weighing services, on a fee basis, through a unique partnership of Federal, State, and private laboratories; and ensures that the standards are applied and the weights recorded fairly and accurately. 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.

For an average cost of 26 cents per metric ton of grain in fiscal year 2001, exporters received USDA export certificates from GIPSA that they used to market over \$20 billion worth of cereals and oilseeds. Likewise, here at home, buyers and handlers requested over 1.9 million domestic inspections that facilitated the trading of more than 128 million metric tons of cereals and oilseeds.

Traditionally, the official grain inspection system has operated in a supply driven food chain. Grain was produced, delivered to the elevator, and marketed as a commodity with buyers relying on the grades and standards to describe the general quality of a product.

The emergence of value-enhanced grains and oilseeds, development of niche markets for non-biotech commodities, and establishment of new regulatory requirements by U.S. trading partners has created a need for greater product differentiation in the marketplace. To meet this need, market participants are relying, in part, on various quality assurance mechanisms, such as process verification, and testing for accurate information about products in the marketing chain and to comply with the new market demands. The efficiency of the marketing system will, therefore, depend on the availability of accurate and reliable quality assurance and testing processes.

To ascertain USDA's place in today's evolving marketplace, during fiscal year 2001, GIPSA published an advance notice of proposed rulemaking seeking public comment on the Department's role in facilitating the marketing of grains, oilseeds, fruits, vegetables, and nuts. GIPSA coordinated the Department's effort to explore how it can continue to foster the marketing of agricultural products in an evolving marketplace characterized by biotech and non-biotech crops, as well as by an increasing number of crops with specific end-use quality attributes. Two themes emerged in comments pertaining to USDA's role in market facilitation: (1) USDA should continue and expand existing programs to standardize testing methodology, and (2) USDA may have a role to play in developing process verification programs for grains, oilseeds, and related agricultural products.

To address the public's comments, and to meet the greater need of providing all players in the market with the information they need to effectively market all U.S. grain, whether derived conventionally or through biotechnology, in fiscal year 2001, GIPSA opened a biotechnology reference laboratory.

In fiscal year 2002, building on its previous efforts, GIPSA began expanding its Rapid Test Performance Evaluation Program to assess the performance of rapid tests developed to detect commercially produced biotechnology events in grains and oilseeds, and confirm that the tests operate in accordance with manufacturers' claims. Initially, this program was used to evaluate rapid tests developed to detect the presence of the Cry9C protein produced in StarLink™ corn.

Based on findings of a fiscal year 2001 study which found that U.S. and European private and government laboratories' capabilities to analyze for biotechnology events varied significantly, on February 7, 2002, GIPSA began offering a Proficiency Program for organizations that test for biotechnology-derived grains and oilseeds. The program will enable organizations to enhance testing reliability and help the grain industry determine the proficiency of commercial labs that provide testing services.

GIPSA also is exploring the feasibility of providing a voluntary Process Verification Program to facilitate the marketing of grains, oilseeds, and related agricultural commodities. The market is adopting a variety of new marketing mechanisms, such as process verification, to augment traditional marketing approaches, in response to changing consumer demands. GIPSA plans to assess how the Agency can add value through process verification for these commodities by augmenting existing market mechanisms.

GIPSA also is continuing to collaborate with the National Institute of Standards and Technology (NIST), and standards organizations in the United States and other countries to establish internationally recognized standard reference materials and standard methodologies for agricultural biotechnology events.

Our efforts to respond to the market's needs for services to facilitate the marketing of biotech and non-biotech grains have been substantial. But a great deal of activity has been underway in other areas as well.

GIPSA continuously evaluates and implements new technology in the official inspection system to respond to market needs. Further, the performance of existing

official inspection methods is routinely evaluated and improvements are developed as needed. Official inspection methods (including calibration equations) are made available to commercial inspection users to enhance consistency between official and commercial grain inspection results. We are in the process of implementing several types of new technology for grain inspection:

- Digital imaging was piloted in fiscal year 2000 to certify the percentage of broken kernels in long-grain milled, long-grain parboiled, and short-grain milled rice. GIPSA is refining a quality control system for this new technology and plans to expand its use for official rice inspection. We also are using digital imaging to measure the vitreousness of Hard Red Spring and Durum wheats. GIPSA, in a joint program with the Canadian Grain Commission (CGC), also plans to investigate the use of flatbed scanner technology for imaging and differentiating white and red wheat kernels. This new technology could greatly improve the accuracy, consistency, and objectivity of inspection and grading.
- GIPSA's work on mycotoxin analysis continues to expand. We have established a zearalenone reference method and began evaluating zearalenone test kits for use in the official inspection system.
- Working with the North American Export Grain Association (NAEGA), GIPSA developed a prototype automated grain inspection system that will speed inspections, reduce costs to the industry, and enhance GIPSA's efficiency. We are operating the prototype system throughout fiscal year 2002 to gather performance data and identify required enhancements.
- GIPSA is working with researchers from academia and the USDA Agricultural Research Service to define wheat protein quality and to develop practical, rapid methods for assessing wheat protein quality in marketing channels.
- We continue to cooperate with Canadian, Australian, and several European entities to develop and test a "global" near-infrared transmission (NIRT) calibration to measure the quantity of protein in wheat and barley. The calibration, based on tests of nearly 40,000 samples of wheat and barley, uses artificial neural network technology to achieve excellent accuracy for very diverse grain types.
- GIPSA has received ISO 9002:1994 registration of its moisture reference, protein reference, oil extraction reference, mycotoxin reference, mycotoxin test kit evaluation, and pesticide data program laboratories. In addition, the pesticide analysis service has recently received its recommendation for registration. We are currently updating our program to the ISO 9001:2000 standard. Two additional programs, the Pesticide Data Program and the Biotechnology Branch, are currently working toward ISO 17025:1999 accreditation.

GIPSA also is keeping pace with the grain industry's move from paper to e-commerce to streamline, automate, and improve business transactions. Recent advances in information technology have provided the U.S. grain marketing system with tools to provide instantaneous exchange of electronic documents and data among all parties in the trade chain. GIPSA is keeping pace with our customers' migration toward this marketing process. We are taking part in pilot tests and demonstrations with electronic commerce vendors; developing a system to send inspection information generated at multiple locations directly to a customer; preparing to submit electronic inspection information into a vendor's document handling system at the request of applicants; and pilot testing a computer generated inspection certificate for export cargoes. By harnessing the latest hardware, software, and available technology, we will be prepared to enter and participate in the electronic commerce arena.

All of 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. GIPSA's service delivery costs (adjusted for inflation), decreased from \$0.27 per metric ton in fiscal year 1994 to \$0.26 per metric ton in fiscal year 2001.

We are an integral part of America's grain handling infrastructure—a superior infrastructure of storage facilities, rail lines, and waterways that makes American agriculture preeminently successful in the global marketplace. We recognize our role and will continue to provide all members of the U.S. grain handling system with the innovative, high-quality official inspection services they need to efficiently and effectively meet the challenges of a changing marketing environment.

Our outreach and educational efforts to our international customers are maintaining strong open markets for America's grains and oilseeds. In fiscal year 2001, GIPSA began producing multimedia tools to educate the domestic and international grain industries. GIPSA now offers CDs on wheat, corn, and soybean grading; a grain grading overview; rough rice milling yield, and testing corn for StarLink™ to the public. In fiscal year 2001, GIPSA distributed over 2,000 new CDs and 5,000 revised brochures to official inspection offices, grain handling and processing firms,

producers, foreign grain buyers, government agencies, and educational institutions, and posted the brochures in electronic format on the Internet. We are now producing CDs on grain sampling methods and sample variability, container stowage exams, and rail sampling safety.

One indicator of the success of our outreach and educational initiatives is the number of foreign complaints lodged with GIPSA regarding the quality or quantity of U.S. grain exports. In fiscal year 2001, GIPSA received 15 quality and quantity complaints from importers on grains inspected under the U.S. Grain Standards Act, involving 494,267 metric tons, or about 0.5 percent by weight, of the total amount of grain exported during the year.

Exporters, importers, and end users of U.S. grains and oilseeds, as well as other USDA agencies, USDA cooperator organizations, and other governments, frequently ask for GIPSA expertise overseas. In fiscal year 2001, we responded to 10 requests for technical assistance overseas. We helped Zambia, Kenya, Tanzania, and Uganda develop grain standards and inspection methods; conducted a weight review on a U.S. wheat shipment to the Philippines; met several times with Japanese officials to address their concerns over StarLink™ corn; participated in several international biotech conferences; and assisted USDA cooperators with rice grading seminars in Nicaragua, Costa Rica, and Guatemala, and grain quality seminars in several other countries.

At home, GIPSA regularly holds seminars and meetings to educate foreign visitors and customers about the quality and value of U.S. grain exports. In fiscal year 2001, GIPSA representatives met in the United States with 75 teams from 32 countries, to provide information, technical guidance, and educational seminars. These international outreach efforts help promote greater harmony between U.S. and international standards, and foster a better understanding of the U.S. grain marketing system, the official U.S. grain standards, the national inspection system. This, in turn, reduces the risk of new barriers in today's open and freer global marketplace, enhances purchasers' confidence in U.S. grain, and facilitates the export of U.S. agricultural products.

The grain program will continue to work to ensure our relevance and value to American agriculture. We are reaffirming our commitment to facilitating the marketing of U.S. grain by responding to our customers' needs and providing the highest quality grain inspection and weighing services to all whom we serve.

#### FISCAL YEAR 2003 BUDGET REQUEST

To fund these important initiatives and to enable GIPSA to remain a valuable part of American agriculture, GIPSA's budget request for fiscal year 2003 is \$42.9 million under current law for salaries and expenses and \$42.5 million for our Inspection and Weighing Services. There is also an additional increase of \$733,000 for pay costs contained in the budget. GIPSA also is submitting legislation to collect \$28.8 million in new user fees in fiscal year 2003, \$5.6 for the grain program and \$23.3 million for PSP.

The President's fiscal year 2003 budget proposes a current law request for grain inspection of \$19.6 million. There are proposed increases of \$850,000 to build unified data warehouse; and \$450,000 for detection of new added value crops and biotechnology traits.

The \$850,000 increase for a data warehouse would allow GIPSA to harness advances in information technology to integrate existing disparate database information systems to enhance the efficiency of our oversight and management of the official grain inspection system.

The \$450,000 increase will help ensure that the accelerated introduction of new added value crops, whether derived through modern biotechnology or conventional breeding, does not outpace GIPSA's ability to evaluate testing methods and accredit laboratories. The ability to distinguish specific crops will be driven by added market value, customer demands, and the regulatory requirements of our trading partners. The proliferation of regulatory requirements around the world concerning biotechnology-derived crops, including the eventual implementation of the international Biosafety Protocol (estimated for late 2002), will place further demands on the grain industry to distinguish certain crops. The market demand to segregate higher valued crops will also place a greater need on being able to identify specific varieties or qualities of grain. The increased funds will enable GIPSA to expand its newly established biotechnology program to keep pace with the rapid introduction of new products. This will involve expanding the ability to validate rapid protein-based tests, keep pace with the rapid development of DNA-based methods, and develop reference methods for traditional end-use traits such as fatty acid profiles, amino acid profiles, phytate content, and other nutritional qualities.

The President's fiscal year 2003 budget proposes a current law request for Packers and Stockyards Program of \$23.3 million. There are proposed increases of \$1,000,000 to improve enforcement of the anti-competitive and other provision of the Packers and Stockyards Act; \$1,200,000 for the development of Web applications for PSP; \$1,000,000 to monitor the livestock and meatpacking industries' use of electronic carcass evaluation technologies.

The \$1,000,000 increase for anti-competitive enforcement stems from a General Accounting Office recommendation that attorneys be more actively involved in the investigative process for anti-competitive practice investigations. Congress later mandated that GIPSA fully implement the GAO's recommendations. This staffing increase will allow GIPSA to fully integrate attorneys to the extent recommended by the GAO into the more complex anti-competitive, financial, and trade practice investigations.

The increase of \$1,200,000 will allow GIPSA to implement eGovernment initiatives within the Packers and Stockyards Program. Currently, GIPSA has no web programmers or web designers that would allow it to rapidly and accurately deploy Web-based applications to meet eGov applications. These funds would be used to contract-out the design, development, implementation, and maintenance of important eGovernment Web initiatives.

The final increase of \$1,000,000 for the PSP would enable GIPSA to increase its monitoring and regulatory presence as the livestock and meatpacking industries increase their use of electronic carcass evaluation technologies. Increasingly, to meet consumer demand and provide greater "value," packers began purchasing livestock through contract and marketing agreement or formula-priced transactions, and began using new means of automating the evaluation of cattle and hog carcasses based on new technologies, including among other methods, ultrasound and photographic imaging. Although carcass merit purchasing has been used for decades in the livestock and meatpacking industries, the technologies and their applications for evaluating carcass merit are changing at an accelerating pace. Previously, carcass merit purchases were generally based on a carcass weight and often one or two grades assigned by USDA graders. Today, packers increasingly rely on internally assigned measures of carcass quality using modern and complex technologies. The technologies now being implemented by packers have a direct effect in determining the prices paid to producers for livestock. These changes introduce new risks for producers, since these new technologies are not standardized and their accuracy is inconsistent. This lack of standardization and inconsistent accuracy leaves producers vulnerable to unfair and unjustly discriminatory practices by unscrupulous members of the meat packing industry.

There are additional increases in the budget that will benefit both the grain inspection and Packers and Stockyards programs: \$83,000 for employee pension and annuitant health benefits; \$790,000 for a web server farm; \$565,000 to meet information technology security requirements; and \$41,000 for the Federal Employees' Compensation Act (FECA) program.

The increase of \$83,000 for employee pension and annuitant health will allow GIPSA to pay the full share of accruing employee pensions and annuitant health benefits beginning in fiscal year 2003.

The \$790,000 for a web server farm will support GIPSA's internet and intranet. The Agency must establish standard Web hardware, software, and facilities to implement the developing eGovernment electronic interface. This will provide a common information technology environment required for GIPSA to deliver data to and collect information from our customers. The Web server farm, comprised of multiple, high performance servers, will be able to implement a wide range of Web based interactive applications, and accommodate large data transfers from customers and field locations to existing Agency computer systems.

The \$565,000 increase will ensure that GIPSA's information technology security measures are effective and meet USDA standards. This will require the addition of software, hardware, and additional servers to provide for data security, backups, and recovery capabilities. This funding will ensure that GIPSA is a full participant in USDA's IT security programs.

Finally, GIPSA has requested a \$41,000 increase to cover the cost of the Department of Labor's administrative surcharge for the Agency's FECA benefits.

The Department request reflects legislation that would fund the grain standardization and packers programs through fees. Fees are appropriate when a Federally financed activity clearly provides a direct benefit for a specific group of people. In such instances, the costs of those programs should be borne by the benefiting group rather than by all taxpayers. Both of these programs do provide a direct benefit to a specific group—by setting up standards to improve the marketing of grain and by improving the financial integrity and fair and open marketing of the livestock indus-



try. In addition, there is precedent for charging fees for these types of activities in the Agricultural Marketing Services' standardization program, and the Perishable Agricultural Commodities Act program, which also charges a licensing fee for participation.

Authorizing legislation has already been submitted for the standardization fee, and we anticipate submitting legislation for the packers licensing fee in the near future.

Conclusion

Mr. Chairman, this concludes my statement. I appreciate the opportunity to testify on behalf of the Grain Inspection, Packers and Stockyards Administration (GIPSA). I will be happy to answer any questions the Committee may have.



FOOD, NUTRITION, AND CONSUMER SERVICES

STATEMENT OF ERIC M. BOST, UNDER SECRETARY FOR FOOD, NUTRITION AND CONSUMER SERVICES

ACCOMPANIED BY:

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STATEMENT OF ERIC M. BOST

Senator KOHL. Mr. Bost, we will turn to you.

Mr. BOST. Mr. Chairman, Senator Cochran, good afternoon and thank you for having me here today. I would also like to thank you for providing me the opportunity to present FNCS's budget request for fiscal year 2003. I would like to introduce three new members of my team: Suzanne Biermann, Deputy Under Secretary; Dr. Peter Murano, Deputy Administrator for Special Nutrition Programs; and Steve Christensen, Acting Deputy Director for the Center for Nutrition Policy and Promotion.

Since this is the first time I have appeared before the committee, I would like to take a minute to introduce myself. I was confirmed last June. Prior to becoming Under Secretary, I was commissioner of the Texas Department of Human Services under then-Governor Bush, an agency which included the responsibility for administering many of the programs that I am responsible for now, in addition to the Temporary Assistance to Needy Families Program, and also long term care.

These programs mean a great deal to me personally and I also believe that this is a unique time for all of us, given that both the food stamp and child nutrition programs are going through reauthorization: food stamps in 2002; child nutrition in 2003. The Administration, and my team and I, look forward to working with you and the commission staff as we move forward to effectively and efficiently manage these nutrition programs.

We have some very clear goals, we believe. One, to simplify the programs. Two, to improve access to the programs while maintaining integrity. We want to create simple policies that make the programs understandable to those who administer them and also those persons who receive the benefits. We want to ensure full access to the programs by those who are eligible for the services, and also—this is important—sound public stewardship of the funds appropriated for these critical programs.

I say they are critical because I believe that they are. Food Stamps, WIC, National School Lunch and Breakfast, Summer Feeding Programs, all of the nutrition programs are important to

low income individuals and families who need and also want to be healthy and productive members of our society. I view my responsibility as Under Secretary in two very broad and important objectives, to ensure that those who are eligible to participate in Federal nutrition assistance programs have the opportunity to do so, and also to ensure and maintain the integrity of our programs.

#### WIC

The President's budget requested a total of \$41.9 billion in budget authority for fiscal year 2003, which supports the operations of these programs, and I would like to talk about a couple of them. First and foremost is WIC. The President's budget of \$4.8 billion for WIC reflects a growing demand for this program, and also the Administration's firm commitment to ensure resources are directed carefully to programs that make a real difference in the lives of people that we serve. The requested increase of \$364 million will support a monthly average of almost 8 million needy women, infants and children in 2003. This also includes a \$150 million contingency fund if participation exceeds current estimates.

#### FARMERS MARKET

One program Nutrition that has received particular attention is the Farmers Marketing Program. Focusing resources on the important priorities also means making very tough choices. The President's budget does not provide for the Farmers Market Nutrition Program for fiscal year 2003. We agree this is a very good program, that it supports American farmers and provides low income families access to fruits and vegetables. However, it is a program that does not operate in all States. It is not operated statewide in the States that do participate, and it provides limited benefits to only some of the participants. The Administration is making a very difficult choice in discontinuing the funding in this effort. We are attempting to focus on broad-based, more universally established programs.

#### FOOD STAMPS

Let us talk about food stamps. The President's budget request, \$26.2 billion for the Food Stamp Program, would serve an average of 20.6 million persons each month, over 3 million more than it did a year ago. Also, some of our legislative proposals would simplify the rules, support work, improve access and also improve accountability. There is also a \$2 billion reserve in this program. We expect to use the 2002 reserve, but do not expect a supplemental appropriation request.

#### CHILD NUTRITION

The Administration's budget includes \$10.6 billion for the child nutrition programs, which would continue programs that provide millions of nutritious meals to children in schools and child care settings.

## PROGRAM INTEGRITY

I would like to talk about program integrity. I mention it because I feel it is so important, especially when you look at the administration of our Food Stamp Program. For fiscal year 2000, 91.1 percent of all food stamp benefits were issued correctly, which is the best that it has ever been in the history of the Food Stamp Program.

However, it still means that 6.5 percent of food stamp benefits were over-issued and approximately 2.4 percent of the benefits were under-issued. One point I want to make about this, which I think is so important having had the experience of managing the program in Texas, one percentage point represents a \$200 million improper payment. I think this is really important in terms of our budget proposals—we need a comprehensive and balanced approach to reforming the system.

We are hoping to balance accountability with other measures such as program outcomes that discuss the services, customer service, and to address those States that have the most serious problems in administering this program. And on the other hand, the system rewards and provides a bonus of \$70 million for those folks from those States who do an outstanding job of administration of this program.

## CERTIFICATION

One of the issues that is also really important is the accuracy and the certification of the students in our school programs. There is evidence that many of the students who are certified for free or reduced priced meals, who appear to be eligible, are, in fact, not eligible. In the short period of time that I have been here, it appears that trend is getting a little bit worse. Most recent data shows that significantly more children were certified than were eligible. But I would also like to mention too that this is a very complicated issue we are attempting to address. We are taking some very definitive steps to address it, because as I said, we are interested in ensuring that we maintain a high level of integrity in all of our programs.

## PREPARED STATEMENTS

With that in mind, I would like to conclude and say thank you for your time and patience. This concludes my testimony and I am happy to address any questions you may have of me.

[The statements follows:]

## PREPARED STATEMENT OF ERIC M. BOST

Thank you, Mr. Chairman, and members of the Subcommittee for allowing me this opportunity to present our budget request for fiscal year 2003. As this is my first appearance before the Committee, I would like to introduce myself briefly.

I was confirmed as Under Secretary for Food, Nutrition, and Consumer Services (FNCS) in June 2001. Prior to that time, I served for almost four years as Commissioner of the Texas Department of Human Services, one of the Nation's largest human services agencies, under then-Governor George W. Bush. As Commissioner, I was responsible for administering State and Federal programs that served more than 2 million needy, aged or disabled Texans each month. I took that position after more than twenty years of experience managing human services agencies across the

country including Arizona, Pennsylvania, Florida, North Carolina and the District of Columbia.

With your permission I would also like to introduce three new members of the FNCS team. Suzanne Biermann, the Deputy Under Secretary for Food, Nutrition, and Consumer Services, Dr. Peter Murano, the Deputy Administrator for Special Nutrition Programs at the Food and Nutrition Service, and Steven Christensen, the Acting Deputy Director of the Center for Nutrition Policy and Promotion.

When President Bush and Secretary Veneman asked me to join the team at the Department of Agriculture, I was extremely pleased to have the opportunity to put my experience to work to effectively manage and improve the Federal nutrition assistance programs—programs that use the abundance of American agriculture to promote the nutrition and health of our Nation. I feel especially fortunate to have the opportunity to personally participate in the reauthorization of the Food Stamp and Child Nutrition Programs. All of us at FNCS look forward to working with you and committee staff to do the best job possible managing the nutrition assistance programs. Everyone here knows how important these programs are, but I would like to cite just a few facts that underscore their importance:

- We know that a poor diet is a significant factor in 4 of the 10 leading causes of death in the United States—coronary heart disease, cancer, hypertension and stroke, and diabetes;
- We know that poor nutrition and lack of physical activity account for 300,000 deaths per year;
- We know that the economic cost of poor nutrition accounts for at least \$200 billion per year in medical costs and lost productivity; and
- We know that participation in the school feeding programs leads to improved education outcomes.

Federal nutrition assistance programs have a critical role to play in promoting health and preventing diet-related health problems by ensuring access to nutritious food to those who need it, and by promoting better diets and physical activity through nutrition education and promotion to program participants. The need to improve diets to fight overweight and obesity extends to the general public. Our request also supports USDA's Center for Nutrition Policy and Promotion, which works with the Department of Health and Human Services and other agencies to promote good nutrition to all Americans.

I view the focus of my responsibility as Under Secretary in terms of two broad objectives: first, to ensure that all those eligible to participate in Federal nutrition assistance programs have the opportunity to do so, if they wish; second, and equally important to ensure the integrity of the programs through solid public stewardship. The President's Budget requests a total of \$41.9 billion in budget authority for Food, Nutrition, and Consumer Services for fiscal year 2003. This supports the operation of Federal nutrition assistance programs, as well as a number of important initiatives that should advance our program access and integrity. In the remainder of my remarks, I would like to highlight a few key components of our request.

#### HIGHEST-EVER FUNDING FOR WIC

The President's budget includes \$4.8 billion for the Special Supplemental Nutrition Program for Women, Infants and Children, the WIC program. The requested level, an increase of \$364 million over fiscal year 2002, would allow local communities to provide food, nutrition education, and a link to health care to a monthly average of 7.8 million needy women, infants and children during fiscal year 2003. The request includes a \$150 million contingency fund, which can be used as needed if food costs or participation exceed current estimates.

This request reflects the growing demand for WIC during fiscal year 2001 and continuing into this fiscal year; participation reached 7.53 million in October 2002, a record high. It also reflects a firm commitment by this Administration to ensure that resources are directed carefully to programs that make a real difference in people's lives. WIC is just such a program, with an impressive body of research showing that it is a sound investment of the taxpayer's dollar. As the President said in his January radio address that highlighted his budget, we must set priorities for the government to meet the most important needs for the Nation. Our request for WIC does just that.

#### FARMER'S MARKET NUTRITION PROGRAM

At the same time that we are focusing resources on the most important priorities, we must also be willing to make the tough choices not to fund programs that, however worthy, do not most effectively support those priorities. This, too, is reflected in our request.

The President's budget does not provide funding for the Farmer's Market Nutrition Program in fiscal year 2003. While all can agree that supporting America's farmers and providing low-income families access to fresh fruits and vegetables is a laudable goal, the FMNP is a small program that does not operate in all States, is not operated State-wide by any participating State, and provides limited benefits to only some WIC participants. While the FMNP is a worthy program, the Administration is making the difficult choice of discontinuing the funding in an effort to focus on broad-based, more universally established programs. This kind of hard choice is central to the Administration's responsibilities and we accept the need and responsibility for making tough choices.

*Maintaining the Food Stamp Program Benefit Reserve*

Our fiscal year 2003 request also sustains the full \$2 billion Food Stamp benefit reserve Congress appropriated in fiscal year 2002. As you know, one of the greatest strengths of the Federal nutrition safety net is its ability to respond to economic change. The current economic difficulties are no exception. In December 2001, the Food Stamp Program served 18.7 million people, 1.6 million more than a year ago. Nearly all States are serving more people than they did a year ago, and participation has increased in 15 of the 17 months between July 2000 and December 2001. We expect to use most of the \$2 billion reserve this year, but we do not believe we will need a supplemental appropriation. For the coming fiscal year, we recommend continuation of the benefit reserve at the \$2 billion level.

*Program Integrity Initiatives*

As I mentioned before, I view effective stewardship of Federal funds as a central responsibility for our mission area, and for me personally. I'm pleased to report on some successes in this area, but also to note substantial continued challenges. Our request includes funding to support increased program integrity activity to address a number of critically important issues:

*Food Stamp Payment Accuracy*

The Food Stamp Program is the cornerstone of our Nation's defense against hunger and a powerful tool to improve nutrition among low-income families and individuals. But for the program to be effective in serving this neediest population, it must accurately target benefits. Those who are eligible for program benefits should have easy access to them and the amount they receive should be the amount allowed under law—no more, no less.

As you may know, the accuracy of food stamp payments is at its highest level ever. In fiscal year 2000, 91.1 percent of all food stamp benefits were issued correctly. Unfortunately, this still means that States overissued about 6.5 percent more in benefits than they should have and underissued about 2.4 percent (people that should have received more benefit actually received less). The result of which is that \$1.33 billion in erroneous payments were made—\$970 million in overpayments and \$360 million in underpayments. This occurred under the existing Quality Control system, which we propose to refine and improve via proposals I helped craft in the President's budget. On a personal note, I have a good sense of how QC works at the State level, and, I am proud to point out, that as Commissioner in the State of Texas I was able to substantially improve the payment accuracy in our Food Stamp Program and for three years in a row achieved enhanced funding for maintaining an error rate well below that of the national average. However, despite Texas' achievement, and the recent progress nationally on error rates, the costs of errors are still too high. Every percentage point increase in the error rate represents about \$200 million in improper payments.

Rising overpayments, which go to a fraction of the caseload, reflect a real loss to American taxpayers and could erode support for the program and its participants. Equally important, rising underpayments reflect a real loss to low-income families and individuals who need assistance.

The President's budget proposes a comprehensive and balanced approach to reforming the current QC system that not only ensures a high degree of program integrity but also simplifies the program for States who administer the program and makes it easier for citizens to understand and comply with program requirements. The Administration's proposal would focus sanctions on States with the most serious and consistently high error rates, and replace current enhanced funding with \$70 million in annual performance bonuses that would balance payment accuracy with customer service and other measures of program outcomes.

I seek your support in reforming the QC system in a way that provides some relief to States while balancing the need to maintain and improve integrity in our program.

Food stamp caseloads are rising in response to the current recession, State administrative resources are stretched then, and with growing pressures to eliminate State budget deficits, attention to program management and payment accuracy may suffer if there is not a QC system that holds States accountable.

*Food Stamp Trafficking*

Trafficking of food stamp benefits for cash by authorized retailers remains a serious concern. While the most recent data, for 1996 through 1998, showed a substantial decrease in trafficking from previous estimates, the volume of misused benefits—estimated at \$660 million annually—is still far too high. Our request supports additional efforts to identify and take action against traffickers through the analysis of electronic benefit transfer data, and through increases in FNS retailer compliance staff.

*School Meals Certification Accuracy*

The evidence is strong that more students are certified for free or reduced-price school meals than appear to be eligible. The trend has worsened significantly in recent years. The most recent data shows that, in 1999, significantly more children were certified for free meals than survey data showed to be eligible. Although we are not certain of the exact scope of the problem including those who are eligible but not served, we are seeking a solution to address it.

While the cost of such errors is unclear, FNS is strongly committed to improving program integrity without overburdening schools or compromising access to the programs for eligible children. We are pilot-testing potential policy changes to improve the certification process. This issue is complicated because certification data is used to distribute billions of dollars in education aid, telecommunications funds and other funding. We must work with the education and other affected communities in developing a solution. Our request supports these efforts, as well as additional oversight of State and local program operations in this area.

*Child Care Integrity*

The integrity of the Child Care and Adult Care Food Program has been a focus of concern and action for a number of years. FNS has intensified management evaluations at the State and local levels, developed and trained program staff on improved management procedures, and developed legislative proposals to strengthen program management. Despite these efforts, additional resources are needed to effect lasting improvements in child care integrity, and our request supports modest increases in this area. Program integrity is fundamental to the Department's stewardship responsibilities; just as importantly, it is fundamental to the success of the programs themselves, for funds lost or misused due to poor integrity represent a lost opportunity for the program to better serve those truly in need. I know you share my commitment to program integrity, and I look forward to working with you in this important area.

I will now touch briefly on the more general programmatic components of our request:

*Food Stamp Program*

The President's budget requests \$26.2 billion for the Food Stamp Program, enough to serve an average of 20.6 million people each month. As noted before, we have proposed to maintain the \$2 billion benefit reserve appropriated last year. Our request also reflects a number of proposals for legislative changes, designed to further the goals of the program by simplifying rules, better supporting work, strengthening the nutrition safety net, and improving accountability. These proposals have a net cost of \$29 million in fiscal year 2003 and \$4.2 billion over ten years.

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

As I noted previously, the President's budget includes \$4.8 billion for WIC in fiscal year 2003, including a \$150 million contingency fund. It does not include funding for the WIC Farmer's Market Nutrition Program.

CHILD NUTRITION PROGRAMS

The budget requests \$10.6 billion for the Child Nutrition Programs, which continue to provide millions of nutritious meals to all children in schools and in child care settings every day. The budgeted increases in these programs are due to economic conditions that increase the need for assistance, rising school enrollment, and increases in payment rates to cover inflation.



*The Emergency Food Assistance Program (TEFAP)*

The budget requests \$50 million for States' storage and distribution costs and \$100 million for food purchases for this important program. We project that the current high volume of surplus commodities will continue to be available to TEFAP in fiscal year 2003. Such donations triple the amount of commodities that we purchase with appropriated funds. In addition to the \$100 million available under the food stamp account, we are requesting funds for \$50 million for States' storage and distribution costs in fiscal year 2003, the maximum amount authorized.

*Commodity Supplemental Food Program (CSFP)*

The budget requests \$95.0 million for CSFP, which also benefits from surplus donations to serve elderly people and women with infants and young children. The funds requested plus surplus donations and commodities currently in inventory will be sufficient to continue expansion in States that joined the program prior to this year. It will also allow the six States that recently initiated programs to expand their participation up to their assigned caseload, including North and South Dakota, Wisconsin, Pennsylvania, Missouri and Washington.

*Food Program Administration (FPA)*

We are requesting \$155.9 million in this account, this includes an increase of \$7 million and 58 staff years in our administrative budget, which supports the program integrity initiatives I have described, as well as pay cost adjustments. We are also requesting that \$19 million previously appropriated to other accounts be appropriated in the FPA account. This repositioning request reflects the President's initiative to show the full cost of support services, retirement and other non-direct costs with the program activities these costs support.

In sum, our request sets the right priorities to ensure access to the Federal nutrition assistance programs for the children and low-income people who need them, while maintaining and improving their integrity. Thank you for your attention; I would be happy to answer any questions you may have.

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BIOGRAPHICAL SKETCH OF PETER S. MURANO, PH.D., DEPUTY ADMINISTRATOR FOR SPECIAL NUTRITION PROGRAMS, FOOD AND NUTRITION SERVICE

Peter S. Murano Ph.D. currently serves as Deputy Administrator for Special Nutrition Programs of the Food and Nutrition Service, U.S. Department of Agriculture. Dr. Murano is responsible for the administration of 13 nutrition assistance programs including the Child Nutrition Programs, the Special Supplemental Nutrition Program for Women, Infants and Children (WIC), and the Commodity Nutrition Programs. Prior to his December 2001 appointment as Deputy Administrator, Dr. Murano was an Associate Professor in Food Science and Technology at Texas A&M University's Department of Animal Science where he taught general nutrition, food science, and food chemistry, served as undergraduate student advisor, and performed research in the area of functional food product development and testing. He also led the development of the undergraduate program in food science and technology. Under his supervision, the program enrollment more than doubled, classroom and lab space expanded, and many new student awards, scholarships, internships, and employment opportunities were secured.

Dr. Murano received the Masters and Doctorate degrees in Human Nutrition and Foods from Virginia Polytechnic Institute and State University, and then went on to perform research on irradiated meats and to teach microbiology at Iowa State University. He has published widely in professional literature such as the Journal of Food Science, National Association of Colleges and Teachers of Agriculture, and others, and has presented at international and national conferences in the areas of food irradiation, nutrition, and food toxicology. He has just completed the manuscript for a 500-page undergraduate textbook for Wadsworth Publishing, "Understanding Food Science and Technology" due for publication in the summer of 2002.

He considers it a tremendous privilege to work at USDA in serving others. He is particularly sensitive to the needs of children, for "if we neglect our children, we neglect our future."

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PREPARED STATEMENT OF GEORGE A. BRALEY

Thank you, Mr. Chairman, and members of the Subcommittee for allowing me this opportunity to present our budget request for fiscal year 2003.

The mission of the Food and Nutrition Service is to increase food security and reduce hunger together with cooperating organizations by providing children and low-

income people access to food and nutrition education in a manner that inspires public confidence and supports American Agriculture. We are requesting a total of \$41.9 billion to fulfill our commitment to provide a strong nutrition safety net and nutrition education. Our programs can be effective in helping to reduce hunger and to combat obesity and diet-related diseases such as hypertension, osteoporosis, heart disease, some cancers and stroke through nutritious food and nutrition education.

*The Food Stamp Program Responds To Changing Demands*

This budget demonstrates how the Nutrition Assistance Programs react when needed to provide a strong nutrition safety net for Americans. We estimate that the Food Stamp Program will serve a monthly average of 19.8 million people in fiscal year 2002 and use most of the \$2 billion benefit reserve that the Congress appropriated. Our budget request for fiscal year 2003 will support an increase of over 800,000 in monthly average participation and will fund the program at \$26.2 billion. Following your lead, we have included a \$2 billion reserve in our request.

*Highest-Ever Funding And Participation In The WIC Program*

As President Bush said in his radio address on January 12, 2002, WIC is one of those vital programs that have proven their value. This committee also has a history of strong support for the WIC program. We are proposing a budget of \$4.8 billion. As Under Secretary Bost pointed out in his testimony, this would enable us to provide benefits to a monthly average of 7.8 million needy women, infants and children and potentially to reach 8 million people by the end of fiscal year 2003, far more than ever before. We believe this funding will provide benefits and services to all who are eligible and wish to participate. Just in case more people than we currently estimate need and apply for benefits and services, our request includes a \$150 million reserve. This reserve will ensure that we can properly serve them. In October of 2001, WIC participation reached a record high of over 7,533,000 participants. As expected, participation has fallen since then. Historically, it is lower in the winter months than during the rest of the year. We expect program demand to grow throughout the spring and summer.

*Program Integrity*

Our mission challenges us, not just to improve food security and reduce hunger, but also to do so in a manner that inspires public confidence. In fiscal year 2001, working together with the States, we have achieved a record low food stamp payment error rate of 8.91 percent. Our plans for the coming fiscal years call for increased effort to drive the rate even lower. We are requesting an increase of 58 staff years and \$4.5 million that will enable us to work toward even lower error rates than last year's record low. The funding and staff requested will also allow us to strengthen our integrity efforts in the Child Nutrition programs. We are concerned that more students may be certified for free or reduced-price school meals than appear to be eligible. FNS is strongly committed to improving program integrity without overburdening schools or compromising access for eligible children. Therefore, we are pilot-testing potential policy changes to improve the certification process. Certification data is used not just for our programs but also to target billions of dollars in education aid, telecommunication funds, and other funding. We are working with the education community in developing solutions to this serious problem. We believe that the additional program integrity efforts we are proposing are modest investments necessary to fulfill our responsibility as good stewards of public resources.

*Food Program Administration*

Our Food Program Administration (FPA) request for fiscal year 2003 is \$155.9 million, an increase of almost \$7 million over the amount provided by this committee in fiscal year 2002 after accounting for an \$18.9 million shift of charges from other appropriations to our Agency salary and expenses appropriation. The shift reflects the Administration's cost integration legislation that intends to budget and present the full costs of Federal employees and related support costs in the accounts and programs where the Federal staff is employed. The full government share of Federal employee pension contributions and post-retirement health benefits for current civilian employees of \$7.9 million and \$11 million for rental payments are included in our \$155.9 million request. We are requesting approximately \$3.5 million for pay costs and, as I previously mentioned, \$4.5 million to fund 58 additional staff years to improve the oversight of both the Food Stamp and Child Nutrition programs. In the Food Stamp Program, the additional staff will support: (1) an augmented investigative and sanctioning capability through analysis of retailer transactions; (2) increased retailer compliance investigative capability; (3) maintenance and enhancement of the quality control system and (4) increased initiatives to re-

duce error rates. EBT is now almost nationwide and produces a wealth of information. We would use the additional staff to check retailer transactions. With these additional resources, we could use this information to successfully identify abuse and fraud. We would put the additional resources into efforts to maintain the accuracy of the Quality Control System and to increase targeted store visits where the EBT data suggested there were problems.

In the Child Nutrition Programs, FNS will devote additional staff to combating clear instances of fraud in the Child and Adult Care Food Program and safeguard the expenditure of significant Federal dollars. FNS has refocused its management evaluations to assess State-level administration of the CACFP in greater depth and will publish regulations designed to improve State-level management of the Program. In fiscal year 2003, FNS will conduct training for FNS and State staff on implementation of program changes required by new regulations and revise Management Improvement Guidance to reflect those regulations. We will conduct an in depth evaluation of the school lunch pilot projects I mentioned previously. These pilots are testing alternatives to the current school lunch eligibility determination process. The results of these pilots will be used, as appropriate, to initiate regulatory and legislative initiatives to improve the certification process. In addition, we will continue collaboration with State agencies on implementation of procedures to reduce over-certification and will utilize a contractor to identify integrity problems in the operations of the National School Lunch and Breakfast Programs at the State and school levels.

#### *Child Nutrition Programs*

For these programs, we are requesting a total of \$10.6 billion, an increase of \$489 million over the level provided for fiscal year 2002. Our projections of increases in meals to be served in the School Lunch and Breakfast programs are primarily due to increases in school enrollment. Our estimates for increases in the Child and Adult Care Food Program are based on trends that we have seen for many years. In addition to increased meal service, costs in the Child Nutrition Programs are due to increasing payment rates that rise to cover inflation.

#### *The Emergency Food Assistance Program*

We are requesting \$150 million for this program in fiscal year 2003, the maximum amount authorized. Of this, \$100 million is used for commodity purchases, and \$50 million is used for administrative costs. We project that the current high volume of surplus commodities will continue to be available to the Emergency Food Assistance Program. These donations triple the amount of commodities that we purchase with appropriated funds. Commodities from private donations are also provided to soup kitchens, emergency shelters and needy families together with those from the Federal Government. States and Emergency Feeding Organizations use the funds appropriated for storage and distribution to handle all of these commodities from the varied sources.

#### *Commodity Supplemental Food Program*

The combination of surplus donations, that partially offset the cost of purchasing commodities for distribution, and reducing inventory instead of making new purchases enable this program to serve expanding participation with a minimal budget increase. We are requesting \$95 million for fiscal year 2003 that would allow States with well-established programs to continue increasing participation and provide funding for the six States that recently initiated programs to expand their participation up to their assigned caseload. These States include North and South Dakota, Wisconsin, Pennsylvania, Missouri and Washington.

Mr. Chairman, this concludes my statement. I would be happy to answer any questions you or the other members may have.

Senator KOHL. Thank you very much, Mr. Bost. We will start our questions with you, Mr. Hawks. As you can understand, Mr. Hawks, I am seriously disturbed about the recent chronic wasting disease discoveries from my State in Dane County. Wisconsin, which is recognized as one of the top deer hunting States in the country, could suffer significant economic hardship if the chronic wasting disease spreads throughout our wildlife populations.

## CHRONIC WASTING DISEASE

I understand the Wisconsin Department of Natural Resources is currently coordinating increased sampling for chronic wasting disease in deer, from both Dane County and neighboring Iowa County. Mr. Hawks, could you please inform this Committee of your efforts to test and identify the presence of this disease and explain how it suddenly appeared in Buchanan, Wisconsin, and how to prevent it from spreading throughout Wisconsin and our country?

Mr. HAWKS. Yes sir, I would be happy to. As you know, Mr. Chairman, there were three positives out of a routine sampling or routine testing of harvested deer. What we have agreed to do is increase the sampling by 500. APHIS will do that. We are working with the epidemiologist up there to try to determine where the source of this is. We are working with the State Department of Agriculture to try to get them to restrict the movement of the captive herds there.

And so we are trying to get to the bottom of it, but the one thing that I can tell you for certain is that we are doing increased sampling. We have gone to work with the State Department of Agriculture there to make sure that we find out what transpired there. This is just as disturbing to me as it is to you.

Senator KOHL. Well, Mr. Hawks, Monday of this week our Governor wrote to Secretary Veneman requesting emergency assistance to combat chronic wasting disease in Wisconsin. Can you assure us the Department will promptly act on this request?

Mr. HAWKS. Yes, sir, we will promptly act on that request.

## IMPORTED MEAT

Senator KOHL. I thank you. Turning to Dr. Murano, I appreciate your stopping by to see me last week, Dr. Murano, to discuss some of the concerns I raised at Secretary Veneman's hearing on February 27th, regarding the safety of imported meat. As you recall, I raised this issue partially because of a Washington Post article of February 25th, which reported that several Mexican and French plants were found to have numerous sanitation and safety problems, but were still exporting meat to the United States without ever being reinspected by USDA. This article raised several red flags for me, for you, and for consumers all across the country.

So, I would like to give you this opportunity to respond to the February 25th Washington Post article publicly now, for the record. In your response, please include information on some of the suggestions you gave to me during our earlier meeting about a possible program of sending inspectors to Mexico for extended periods of time, and how you would suggest setting up such a program.

Dr. MURANO. Thank you, Mr. Chairman, I would be happy to and I thank you for the opportunity to do this. As you know and as you just stated, that article in the Washington Post was very disturbing. And as you also know, this article was written after I was interviewed by the reporter.

When I was interviewed for the article I was asked to briefly comment on our system of import inspection. I explained to the reporter our three-pronged approach in which we require an exporting country to have an equivalent system of inspection to that of

the United States. We require them to provide evidence of System equivalence, not only by producing certifying documents, but also through on-site audits conducted in these countries by our foreign program reviews to verify that equivalent public health safeguards are contained in their systems. We visit foreign plants and make our determination that way.

The second prong of this three-pronged approach is that when imported product is received at 124 import inspection houses located in the United States, we have inspectors perform a reinspection of the product. We reinspect product lots according to the volume of product being imported from a given country. Reinspection assignments are based on computer-generated statistical models that let us know how many lots to reinspect.

The third prong of the approach is that periodically, at least once a year, we go back to these countries and do audits of their plants. Having explained all of that, it was very surprising to me when I saw that article and the first thing I did was try to determine if some of the things that were written in the article were true. An example of an inaccurate statement found in that article mentioned a company in Mexico, CarnesValmo, as being a plant that had exported product to the United States even though it had actually been delisted in 1999.

We have gone through all the records, not only here in our country, but also in Mexico. There is absolutely not one pound of product that has been exported to the United States from that plant. What I found out in my investigation is that plant actually, was delisted in May of 1999, when the agency did an audit, as it regularly does. And that plant has not exported any product to us since. In fact, in 2001, Mexico did not even include Carnes Valmo on its list of companies certified to export to the United States.

That was something that I was certainly glad to find out. I will tell you this, and I told this to the reporter, that after having been a professor at Iowa State University and Texas A&M and doing many projects throughout Latin America and other countries, I know that there are certainly differences in the systems countries have in place. I take very seriously my responsibility to make sure that the countries that we approve as being able to export to the United States have an equivalent system to ours.

We have been to Mexico three times this year, in November, and two or three times last year. In November 2001, our audit of Mexican plants resulted in the delistment of three plants. At that time, I was brand new in my position at USDA. I had only been here for a month. As soon as the agency team told me that during their audit they found that three plants needed to be delisted because they were not operating with government inspectors, Mexican government inspectors, present, which they are supposed to have, not only did we delist them but immediately I contacted my counterpart, Dr. Javier Trujillo in Mexico, to make sure that he realized what was going on and that we were going to delist those three plants.

I am happy to tell you that he immediately responded and certified to us that those three plants were now going to operate with Mexican Federal inspectors. The absence of inspectors is the reason why we delisted them. As a result of this incident, we decided to

do a 100 percent reinspection of all product coming from Mexico. The philosophy of trust but verify is one that I really adhere to. Even though I know Javier Trujillo very well, I thought this is something that is too important, to make sure that we have the safest meat supply possible, whether it is domestic or imported from other countries.

To this day, we are reinspecting every meat and poultry shipment that comes from Mexico. Next month we are scheduled to make another audit visit to Mexico and we will be able to assess at that point the condition of other plants. As you also know, Mr. Chairman, 2 weeks ago today myself and two members of the FSIS team went to Mexico and we visited Dr. Trujillo and spoke about all of these issues.

We visited a couple of plants, one of which had been delisted in November because of not operating with government inspectors, and had a frank discussion with him about establishing some of the long term solutions to this problem. In that discussion we talked about some of the things that we should be doing. One of the ideas that we discussed was for a certain period of time having some of our inspection teams or audit teams based in Mexico. We are considering whether to have a team of auditors that stay there for a 3 month period or for an entire year. We will have the auditors stay as long as necessary to ensure to our satisfaction that all the plants certified to export to the United States have equivalent systems of inspection to what we have.

Senator KOHL. I thank you. Is it nevertheless accurate to say that the plant in question, the Mexican plant in question mentioned in the Post article, was in May of 1999 when USDA inspectors visited it, certified to export meat to the United States?

Dr. MURANO. Yes, sir, it was. In May when we visited it we de-certified it or delisted it.

Senator KOHL. Are you able to say with absolute certainty, Dr. Murano, that meat from that plant could never have slipped through our random border checks and ended up at American supermarkets as well as on family dinner tables?

Dr. MURANO. I can tell you that for this reason. Even if the plant changed its name, tried to sneak through if you will and we go by the establishment number, and this is something that does not change if the company is sold and it changes names. Our system of import inspection at these 124 import houses logs all product coming to the United States by establishment number. Those are the records that I am telling you let us know that we have not received any product from them.

Senator KOHL. How could you say with certainty that even though meat had not been shipped from that plant, had it been shipped from that plant, I do not believe there is any way for you to be able to say with certainty that that meat could not have wound up in American consumers' hands.

Dr. MURANO. If that plant had shipped product to the United States it would have to go through those border inspection stations. I am not sure that is what you mean or if you mean if they had already shipped product.

Senator KOHL. When they do the border inspection stations, they are inspecting 100 percent of all the meat that is coming through?

Dr. MURANO. No sir, no. They have to log it in anyway, whether they look at the shipments or not. It has got to be logged in. But, let us say, and I think this is where you are going with your question, and forgive me if I am misstating this on your behalf, if that company had already shipped product could we have caught it at the border? Maybe that is the question you are asking? Certainly because we were not doing 100 percent of the inspection we would not have possibly——

Senator KOHL. Which you are doing now?

Dr. MURANO. Correct.

#### IMPORTED PRODUCTS

Senator KOHL. With respect to imported products, as opposed to those that are domestically produced, can you tell us how much of the total meat and poultry products imported into the United States are physically inspected by FSIS personnel to the same degree as domestic products?

Dr. MURANO. To the same degree is not going to be very much, and the reason why is because in this country we are the inspectors of domestic products. Obviously, we inspect our products. Product that is produced in other countries is inspected by their inspectors according to equivalent standards to ours. We just simply do a reinspection. If we are asking the question in general are those products inspected just as much as our products, the answer would be yes, but not by our inspectors.

Senator KOHL. Can you certify that all the meat, poultry and egg products currently sold to the American consumers meet the minimum basic USDA standards?

Dr. MURANO. Yes, they have to because they have to have equivalent systems. If we find in audits that is not the case, or upon inspection we find out that is not the case, we take immediate action.

Senator KOHL. Can you tell us how many voluntary recalls were issued to meat and poultry products last year?

Dr. MURANO. I am being told 86. That is how many recalls we have conducted.

Senator KOHL. How many did you say?

Dr. MURANO. Eighty-six.

Senator KOHL. Dr. Murano, under current law USDA has no mandatory authority to remove tainted food from the marketplace, as you know. In other words, if a product on the market is found to be contaminated, USDA has no authority to force the company responsible to retrieve that product, no matter how deadly that product may be. As you know, we have to rely upon the companies for recalls.

I understand that Federal agencies can themselves go into stores and remove products found to be unsafe. But, practically, it would seem to be impossible for FSIS to get a court order deputizing agents to send them into stores to intercept products before they reach consumers. Is it your opinion that FSIS should have the authority to issue recalls when unsafe products might slip through the cracks and reach American supermarkets, if such authority would in no way diminish the liability of individual companies?

Dr. MURANO. Thank you for that question. When I think about recalls, whether they are voluntary or mandatory, there are two

important goals: one is to enact that recall as soon as possible to minimize the impact to consumers; the other is to be able to retrieve as much product as possible in that recall. Those are, I think, principles we can all agree with.

Our current system, as you said, is voluntary in the sense that we, FSIS, cannot mandate a recall. Companies have to recall their own product. But, I will tell you that in all the years that the system has been in place, there has only been one instance where a company, when FSIS recommended that a recall be issued, refused to do so. What we then did is we detained the product.

What you described, Senator, was a seizure activity, which we also have authority for. We have authority for detention and we do not need a court order for that. In this single instance I will tell you that immediately upon detaining the product they issued the recall.

#### MANDATORY RECALL AUTHORITY

Our experience has been that we have not needed to have mandatory recall authority: If there was a need to have it in spite of our detention authority. If companies all of the sudden decided they were not going to listen to us, they were not going to recall product, that is another story. But so far, history has been that our voluntary recall system works.

And philosophically, Senator, I have to tell you that I tell this to the industry when I make speeches to them—I tell them you are responsible for the food that you produce, for the safety of it. You are the ones who produce it. They have to take that responsibility, and have been doing so.

I was looking at some of the data recently in preparation for the hearing, and I know that last year, for example, about 30 percent of these voluntary recalls performed by industry were done as the result of industry itself finding that their products had a contaminant. They themselves called us and said, FSIS, the product that we just produced had such-and-such a contaminant and we are issuing a voluntary recall. It was not because of our testing. It was their testing.

Senator KOHL. Well, there is no doubt that the overwhelming majority, almost universally, of the number of companies in the United States are sensitive to the whole issue to the extent that you wish them to be sensitive. But, we only need one to produce a catastrophe. So I guess the question I ask, again, because it has come up legislatively and we have never been able to get the legislative approval to give USDA the authority: There isn't a down side to having the authority even if you used it just once in 50 years to avert catastrophe; there is no down side to having the authority.

Dr. MURANO. Certainly there would not be any down side if FSIS would not be held liable, which is what you mentioned, and you are correct.

Senator KOHL. Thank you. Mr. Bost, I was concerned to read stories in the last week that one of every five children receiving free or discounted school lunches may actually be ineligible. To correct this problem it is important to make sure that ineligible children do not receive free and reduced price lunches, but not in any way to hinder participation by those children who are eligible, many of



whom receive their only nutritious meal of the day through the school lunch program. How do you intend to work with the Department of Education to try and balance these two goals?

Mr. BOST. Thank you, Mr. Chairman, you are absolutely right. Let me provide you with just a little bit of background and then I will get to exactly what steps we are taking to address this issue. First and foremost, realize this is not something that just happened. This is an ongoing issue that I found when I got here.

The second point is that in terms of how this program operates, eligibility is determined through self declaration. Basically, kids take a form home. Parents fill the form out, and send it back to the school. Based on the form, they are eligible to receive free meals. And I think that self declaration is causing some of the issues that we are addressing now.

The third issue that is of concern is I do not know at this point to what degree over-certification is a problem. I think that the reporter took some privilege in coming up with those numbers, that we are still in the midst of trying to make a determination of exactly how serious this problem is. The parameters I have established in terms of the problem are essentially the two you spoke to.

We want to ensure every single child who is eligible does receive a free or reduced price meal. We do not want to deter folks that may be interested in the program. I am interested in ensuring that we do not put in place any significant administrative barriers for the school persons in terms of determining eligibility. They are not in the business of determining eligibility. They are in the business of feeding and educating our children. With that in mind, there are some things that we are doing.

One, we are conducting some pilot projects across the country to test some alternatives to current certification procedures. We are looking at the current certification process that we have in place in terms of requiring self declaration plus some additional financial information. We have communicated with the State child nutrition directors about my concerns and the severity of this problem.

In addition to that, you make reference to us working with the Department of Education. We are working with the Department of Education, but we are also working with the American School Food Services Association that is responsible for the food service directors and those folks for all of the schools in terms of ensuring that we work with them, and work to get those two parameters that are established. And last but not least, as I mentioned in my testimony, the reauthorization of the Child Nutrition Programs comes up next year and so we are working and looking at any possible legislation that we might need to put forward to address this issue as a part of reauthorization.

So, we are taking some very specific and definitive steps to address the over-certification problem. I would close by emphasizing this point. We do not want to deter at all, by any means, any child that is eligible to receive a free or reduced lunch.

Senator KOHL. There are some school districts that have been working on this problem for the past several years, some 22 school districts. Would you care to comment on some of their efforts and some of the successes and failures?

Mr. BOST. Well, some of the same things I said we were looking at in terms of some of the pilots. I think we are in the process now of evaluating some of the steps that they have taken relative to whether they are going to work or not, and whether they are going to be successful. I think that the real issue for me, as I said previously, was to ensure that we do not put in place overwhelming administrative paperwork burdens that they are responsible for doing. But, on the other hand, I am interested in maintaining the integrity of the programs. So, we are interested in looking at what they are doing. We will evaluate their results and tie those into all of the steps that I know, in terms of one, attempting to correct the problem, but two, preparing for reauthorizing of the child nutrition programs.

Senator KOHL. Thank you. Senator Cochran.

SUPPLEMENTAL APPROPRIATIONS FOR FSIS

Senator COCHRAN. Dr. Murano, the Department of Defense and Emergency Supplemental Appropriations Act for Recovery from the Response to Terrorist Attacks in the United States provides \$15 million to the Food Safety Inspection Service. I am curious to know whether you have put in place plans to use those funds? Have they been spent or how do you expect to spend them?

Dr. MURANO. I will be glad to, Senator. As you know, the appropriation was for \$15 million for protection of meat and poultry and egg products, which is what is under our jurisdiction. We can look at dividing it basically into two pots, one consisting of \$5 million which is concerned mainly with improving the physical security and cybersecurity of our various facilities, such as our Technical Services Center in Nebraska, our financial processing center in Iowa, and our laboratories.

As concerns in regard to the other \$10 million, we have very specific plans on utilizing those monies to educate our workforce and our laboratory personnel about new threats to the food supply, especially the very precise types of hazards that could be intentionally introduced to our meat and poultry and egg products. These funds will also be used to provide technical assistance for States and education for some of the small and very small plants that need a lot of assistance. They typically are not able to hire educational consultants and therefore do not receive the training that they need.

Part of the money will be used to expand the testing capabilities of our laboratories so that we can engage in looking for certain agents of disease we currently do not look for as they are not typically found in meat, poultry and egg products. These might be the agents that terrorists choose to utilize.

Senator COCHRAN. You mentioned in your statement to the committee this afternoon that you were targeting some small and very small plants for special assistance. I think you said you were going to spend an additional \$1.5 million to expand risk prevention and management efforts at these plants. How are you figuring out which plants are going to be eligible for these funds and how will the money actually be used?

Dr. MURANO. The amounts I talked about in my testimony had to do with education in terms of food safety programs that we have,

and sanitation and so forth. Small and very small plants need a lot more hand holding than larger plants do, and they need help improving their understanding and ability to implement sanitation procedures. We are planning to use supplemental funds also for technical assistance, except it would be in terms of biosecurity.

It is a good way for us to leverage the \$1.5 million budget request in our normal budget for assistance of small and very small plants. We will leverage that with the supplemental request we have for biosecurity. In that way we will be able to really do a more thorough job of training these folks and giving them as much assistance as possible.

Senator COCHRAN. Mr. Hawks, I would ask you a similar question. The funds that were made available in the emergency supplemental, some of those were appropriated to the Animal and Plant and Health Inspection Service. Could you tell us how those funds are being used and how much money you have to work with?

#### SUPPLEMENTAL APPROPRIATIONS FOR APHIS

Mr. HAWKS. Yes sir. The supplemental appropriation allocated \$105 million in funding to APHIS and allocated \$14.1 million for buildings and facilities. The \$14.1 million will go to the Ames facility in Iowa. We are working now within USDA through a process of identifying the specific areas that these funds are most needed. But, some of, the majority of the funds, will be used to increase our inspection, to start—to jump start, if you will—our 2003 funding request. It will give us an opportunity to move a little quicker, to start more surveillance and early detection. And rapid response in our business, within APHIS, is very important. So, that is where we are headed with those funds.

We are also looking at greater cooperation with the States, allocating some of those funds to go to the States to help them with their emergency preparedness and planning. So we are in that process. I do not know whether Dennis would like to add anything to that or not, on the budgeting process within USDA or not.

Mr. KAPLAN. You did a good job.

Senator COCHRAN. There has been a good bit of discussion and speculation about a proposal to centralize all border operations, combining the, INS, the Customs Service, the Coast Guard, and perhaps some parts of other agencies. What effect would that have on your responsibilities? You have collateral responsibilities, or you work with these agencies. How would USDA be affected by that?

Mr. HAWKS. It is our belief, within USDA, that we can obviously perform much better as a stand alone agency. I have been working very closely with Customs, with INS, with the Coast Guard, as well as others within USDA to look at all possibilities for improving our borders. And I think that is what we will be looking at, is how we improve the security of our borders. There are a lot of ways we can do that. One is obviously better reporting and cooperation. I am taking this very seriously.

Since September the 11 I have been from the northeast Maine border crossing in Canada to San Francisco in one day to look at that, at the port out there. I have been to Miami. The Deputy Secretary went to Miami with me. We toured the airport. We toured the cargo facility. I have been to Chicago's O'Hare to look at our

process there. I have been to Kennedy. I have been to Orlando. I have been to the Port of New Orleans.

And we are doing a pretty good job, I have to say, with these in coordination with Customs. We obviously need a fully integrated and fully interactive database with them in order that we can have more information. In our budget request for this year we have asked for an additional \$4 million to station veterinarians in foreign countries to improve monitoring and surveillance for foreign animal diseases. We need to look at what is going on in other countries in order to have a better idea of what to look for. Senator Cochran, I would say that we need to work smarter as well as harder.

Senator COCHRAN. Well, we appreciate your dedicated efforts. In that regard, let me ask you about a parochial issue that has been brought to my attention. I am told that at the Stennis Space Center in Hancock County, Mississippi, there is a new technology that is under development that holds promise for the detection of toxins in our food supply. There are some toxins that are lethal, of course, such as aflatoxin, that could easily be mass produced, I am told. And this technology may give us a new tool in our arsenal, a new weapon against this kind of terrorist activity. Do you consider this technology—or are you familiar with it enough to say whether it has practical application in the Department of Agriculture? What are your thoughts about it?

Mr. HAWKS. I had a briefing on it this morning. It is hyperspectral imaging and it was developed by NASA, and they have gone from the huge equipment down to, as they described it to me, an instrument the size of a loaf of bread. It certainly was a very exciting briefing that I had this morning. It certainly has promise. We are always looking for anything that we can use to rapidly detect toxins or other harmful agents. But it had a lot of promise this morning, and this morning is the first time that I had seen this. I have not had a lot of research into it, but it is still promising.

Senator COCHRAN. Mr. Chairman, I have a couple of questions for Mr. Bost, then I would be happy to yield. If I can proceed to ask them? For the WIC program, Mr. Bost, the funding requested has increased from the current year. Will the funding request be sufficient to meet all of the program costs and participation demands in your opinion?

Mr. BOST. As a part of, in terms of the President's budget request?

Senator COCHRAN. Yes, for the WIC program.

Mr. BOST. As a part of the President's budget request, this is an unprecedented budget request for WIC. I think that demonstrates a real commitment on the part of this Administration to address the needs of everyone who needs this service. I would say at this juncture, based upon our best estimation, yes the budget will meet program costs and participation demands.

Senator COCHRAN. There is a contingency fund. I noticed \$150 million included in the budget proposal for that. This is a new contingency fund. My question is, what is the benefit of establishing this fund at the beginning of the fiscal year rather than appro-

priating these funds at the outset of the year or having a supplemental when you see that it is needed?

Mr. BOST. I think it is fairly easily available to us to use because we look at tracking utilization by State almost on a monthly basis. If we see a significant increase in the number of persons who require WIC benefits, then the money is there and available for us to utilize to meet their needs. Research on the WIC program has indicated that it is one of the most successful programs in terms of early intervention and in terms of meeting the needs of women and children in this country, so it is a very important program. If the money is there and there is an identified need, then we are able to quickly respond to that need.

Senator COCHRAN. There is a supplemental that is in the works now. Has OMB, to your knowledge, included any provision for WIC funding in the supplemental that is being submitted by OMB tomorrow?

Mr. BOST. We currently have ongoing discussions on that. I do not think the final decision has been made.

Senator COCHRAN. You have in the budget request \$2 billion as a contingency reserve for the Food Stamp Program. This is the same amount that was in the fiscal year 2002 budget. How much of this \$2 billion contingency reserve do you think you will use in fiscal year 2002, and have you projected the need for \$2 billion more in 2003 already?

Mr. BOST. If we look at the current utilization in the Food Stamp Program, I think we are going to use all of that money. Let me give you an example of what has occurred. Over the course of the last several years we saw a significant decrease in the number of people in this country applying and receiving food stamps—unprecedented. In Texas alone, there was almost a 50 or 55 percent decrease.

However, during the course of the last year, from last year to now, we have seen an increase in about 1.5, 1.6 million person increase, or about 17.4 up to about 18.6 million. With a number of things going on, you have an economy, you have a number of States doing significant access and outreach, changing their applications. I think that we will continue to see a significant utilization of the Food Stamp Program in this country.

Senator COCHRAN. Senator Stevens was here earlier and indicated he had some questions that he wanted asked to you, Mr. Bost, and we will submit those to you rather than my reading them to you.

And you can just respond for the record, if you would, and furnish a copy to Senator Stevens at his office in S-146 of the Capitol? Can you do that and make a note of that?

Mr. BOST. Yes sir. We will be more than happy to do so.

Senator COCHRAN. We want to keep him happy, right?

Mr. BOST. Absolutely, and you too.

Senator KOHL. Senator Durbin.

#### VOLUNTARY RECALL

Senator DURBIN. Dr. Murano, in your testimony you talk about the efforts being made on coal mine security, and make reference to a number of new agencies that are being created: food biosecu-

rity action teams, food emergency rapid response evaluation teams, food threat preparedness network. All of these, apparently, are in response to September 11 and our fear of bioterrorism. Secretary Thompson from HHS, Secretary Veneman and others have noted the vulnerability of our food supply to sabotage or to potential harm. I wanted to ask you a question about this effort in light of the Chairman's earlier questions.

Clearly, through all of this new effort and all of these new agencies, if you established that someone had an intention to contaminate the food supply with a dangerous chemical that was life threatening, would you in that situation contact the company that had issued the product and ask them to voluntarily recall it? Or, would you in that situation seize the product as quickly as possible?

Dr. MURANO. Senator, if we had such a theoretical event there would be a number of people that would be made aware of what is taking place. The company definitely would have to be one of them, for one important reason, they are the ones who would know, where the product ended in terms of who they were selling to and what lot numbers may be implicated. We have to involve them and as a result they would be involved, very quickly, simply because we need the information they would have to provide to us.

Senator DURBIN. I am not asking about consulting the company. You are in a situation where someone has just called you and said we have an emergency on our hands. A terrorist has contaminated the food supply. We know what it is. We know what the product is. We have the company on the line. We think we know where it is. At this point you call the head of the company and say, "Would you consider voluntarily taking that product off the shelf?" Is that the response you would take?

Dr. MURANO. Basically what I would say to the head of that company is "Sir, we have evidence that the product produced in your plant is contaminated with Agent X. We need you to recall it as soon as possible." And that is exactly what I would expect to happen.

Senator DURBIN. So you would not have the authority to make that happen? You would say we expect that to happen. That is as far as you would want to go?

Dr. MURANO. It is as far as I am able to go right now.

Senator DURBIN. Let us talk about where you ought to be able to go. I think that was the line of the Chairman's questioning. I think in that circumstance I would expect you to move heaven and earth to pull that product off the shelf, not to wait for a corporate decision, a judicial order or depositions to be taken. Would not you as a person in America want your government to respond quickly with the authority to remove that product?

Dr. MURANO. Moving heaven and earth is exactly what I would do. This is the kind of a situation, obviously, where law enforcement has to be called in. Simultaneously, you have got the FBI involved and so forth. So, detaining that product and seizing it would not be something that would take a lot of time, I have been assured by law enforcement.

Senator DURBIN. Let me try to get to the bottom of this. If we are prepared to move heaven and earth, the question I am asking

is, is the Administration prepared to move Congress to give them new legal authority so that it is very clear that in that emergency, whether we are talking about intentional contamination or accidental contamination, in either instance Americans are at risk and Americans are in danger.

I hope I am not speaking for the Chairman here, but this is a line of questioning that has been raised time and again. Why is the Administration reluctant to ask for the authority to take a dangerous product off the shelf as quickly as possible?

Dr. MURANO. Well, I am going to speak about our system at FSIS, and as I explained, it is a voluntary recall system. If it is a system that does not work because the product is not recalled as quickly as possible, I would be the first person to say we need that authority. But, the voluntary recall system has been working. This is something we deal with on practically day-to-day basis, in the sense that we have to respond to outbreaks or instances where a product has contaminants that would be injurious to consumers. It is something we have experience with, as I said before, Senator, and excuse me for repeating it. We have not had, except for that one instance, and we quickly detained product in that case and the company quickly issued the recall.

Senator DURBIN. In 1999 what percent of recalled meat and poultry products were recovered by your agency?

Dr. MURANO. If you will give me a second.

Senator DURBIN. While you are looking for it, I will tell you it was 24 percent in the year 2000. What percent of the recalled meat and poultry products were recovered by your agency?

Dr. MURANO. I would imagine it was probably about that.

Senator DURBIN. Twenty-five percent. So under the current system you are recovering about a fourth of the recalled meat and poultry products that you consider to be dangerous. I think when we are talking about homeland security, intentional contamination, chemical agents that could be devastating to individuals, as opposed to a bad night's sleep, for a healthy person and worse for children and the elderly, that we want a better response.

Dr. MURANO. You had better believe it, and Senator, I will tell you this, though. If we had the authority to recall we would not get any more retrieved product. There are many reasons why we do not get as much actual product back as the amount that is actually issued on a recall. It is a complex answer to give you, but just to give you an example of part of the explanation.

There was a case several years ago where there was a large outbreak of salmonella involving ice cream. This was produced by a company that sells door to door. Because they sell door to door they knew exactly who they sold to, which is typically not the case. When you have a situation where you are selling food at a supermarket you do not know who buys it.

But in this case they knew exactly who they sold it to, so when they had to recall the product, which of course they did, they could go door to door. The company knew exactly who their clients were. The CDC conducted a survey after the fact to see how good the recall response was and what were some of the factors that affected the product being recalled. And you will be surprised, because I certainly was, to read the following.

Thirty-one percent of the households that had implicated product, this was ice cream, knew that there was supposed to be a recall and the ice cream had a contaminant. This 31 percent of households went ahead and ate it anyway, because they did not believe the recall. It is amazing. I mean, it, truly is amazing. You read that and you say, my goodness. What do you have to do, go in like Gestapo and raid their refrigerators?

So it is very frustrating to me, I will tell you, Senator, and I feel exactly as you do. I would love to retrieve every ounce of product that is contaminated.

Senator DURBIN. I just want to give you the tools to do it, then. Frankly, I want the Administration to ask for those tools because I do not think they could use them effectively without that. And I will concede no system is foolproof. No system is 100 percent.

But now that we have graduated from our last hearing, when we discussed this agency's appropriation, we have graduated into a new level of thinking here. I hope we have. And you have given us ample evidence of a lot of people sitting in your agency thinking about some terrible possibilities, as you say, to respond to attacks on the food supply.

I am not talking about naturally occurring contamination, and I just think that we have to be much more aggressive. And to be much more aggressive, you need better tools. I do not hear you saying you are not going to ask for them, but I do not hear you saying affirmatively you are going to move this up.

You have an extraordinary vitae and background in food safety. I read it again today. And what I found, after sitting for 16 years before people at this table representing the same agency, is they bring this great academic background into this institution and they start thinking institutionally. And then when they leave, they are liberated again and come back to us and say, we have got good ideas again. And I am just hoping that while you are there, that you will use some of this creative, innovative thinking to come up with some new tools.

I also hope that you will give me an explanation about your statement on the Supreme Beef case. I am not sure I understand this. Here is what you said. "Since the Supreme Beef decision, FSIS no longer relies solely on salmonella data to shut down a plant." Then you go on to say, "I must emphasize that salmonella testing has not stopped. The difference is that now we are using the performance standard data in conjunction with other measures to verify that the establishment's plant is in a sanitary standard operating procedure." Do I take it from that that even though the Administration has not come forward and asked for legislation to overcome the scrutiny, are you telling us you found a way around it, that you can enforce salmonella standards even though the court case said you could not?

#### HACCP SYSTEM

Dr. MURANO. I will be happy to explain, Senator. As a microbiologist and as someone who has done a lot of HACCP training in my day—of industry both domestically and in other countries—I know that HACCP was developed so that microbial testing would be a part of it, a very important part of it, one that would verify



if control of a hazard is being maintained by the HACCP system. And so to directly answer your question, what takes place is simply this. By testing for salmonella, as we always have and—which we are continuing to do even after the Supreme Court decision—that testing, it is our marker to say look carefully or scrutinize with more detail the HAACP plan and the sanitation plans of that operation, because something may be wrong. What we do now, and this is in contrast to what was done before Supreme Beef, we would rely on the salmonella performance standards as verification the HACCP plan is working or not working. After Supreme Beef, if there was a third set failure as we call it, testing for the third time, that is when the enforcement action was taken.

Now what we do is we are using the salmonella test as a verification, as a marker. As if you are checking your cholesterol level. If it indicates if you have a high blood cholesterol, you maybe need to do something about your diet or your exercise and so forth.

Senator DURBIN. I have heard this many times. Go ahead.

Dr. MURANO. So the same way, we use that analogy. It may not be the perfect analogy. The salmonella microbial test is our indicator, to look more closely. What we do now is when a plant—we do this test and we find that the salmonella levels exceed a certain standard that was established when the HAACP plan was first implemented, we go into the HAACP plan because HAACP and sanitation are the process controls that are going to ensure that the food will be as safe as possible.

Senator DURBIN. I follow your answer. I would like to ask as a favor if you would take a look at the legislation Senator Harkin and I introduced, S. 2013, the Meat and Poultry Pathogen Enforcement Act, which we hope will give even more tools to do this job effectively.

I have one last question. Mr. Bost, your answer to Senator Cochran's question about the adequacy of the WIC program, have you taken into consideration the increased cost to the program within the last year when you say you will be able to meet the national needs?

Mr. BOST. Yes, we believe we will, when you look at the amount that is in the contingency fund. We believe, as I said, the request can serve up to 8 million persons per month. This is unprecedented. And I would be really surprised if we hit that amount.

Senator DURBIN. The amount of \$4.387 billion for WIC, appropriated in fiscal year 2002, was supposed to support an anticipation of 7.6 million people. It now looks like it will support participation of 7.4 million because of an increase in food costs. And this falls below the January 2002 participation level, which was 7.5 million. And so I hope that as you are making these calculations, and rightfully with pride noting historic levels of funding for WIC, that you will also note that you are dealing with rising food costs and rising participation at the same time.

Mr. BOST. Absolutely. Again, Senator, I want to make sure that we are clear. I am talking about the President's proposal in terms of 2003, and that is what you are talking about?

Senator DURBIN. Yes.

Mr. BOST. Yes, I believe that I would be very surprised if we were not able to meet it.

## ADDITIONAL COMMITTEE QUESTIONS

Senator DURBIN. I hope we can keep in close contact.

Mr. BOST. Absolutely. We track this and look at those numbers, like I said, on an almost monthly basis to see where we are. And if anything changes I will be the very first to come and talk with you.

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

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

## QUESTIONS SUBMITTED BY SENATOR HERB KOHL

## TARGETED SLAUGHTER EPIDEMIOLOGICAL SURVEYS

*Question.* The President's budget proposes an increase of \$1.2 million to conduct targeted slaughter epidemiological surveys, in coordination with other Federal agencies.

What portion of the total funding for this pilot project is being provided by FSIS?  
 Answer. The \$1.2 million FSIS is requesting for the project will fund all the sampling, laboratory, and survey costs related to the project. Other agencies will incur only the incidental costs associated with the staff time by employees participating in the project.

*Question.* Please provide detailed information on the objectives, length of time, and amount needed for future years?

Answer. This project is expected to require \$1.2 million in funding each of the next 3 years. Assuming the \$1.2 million requested in fiscal year 2003 remains in FSIS's base appropriation, no additional funds will be required after fiscal year 2003.

The over-all objective of the project is to establish an integrated surveillance system with APHIS and our public health partners providing ante-and-post mortem data on animal diseases and emerging pathogens. An initial working group with APHIS will be formed this year to prioritize and determine how best to link this project with data collection systems already in place at APHIS and FSIS. First, the work group will analyze existing databases in FSIS, APHIS and CDC to determine how a coordinated information system could be developed utilizing existing surveillance and inspection systems and databases. An expert system will be designed that will provide aggregate data that can be studied in real time. Confidentiality of data will be addressed and processes to ensure that will be put in place.

During the first year the objective is to have data already collected to be able to be used in real time by epidemiologists for local, regional, national and seasonal trends in animal and human health. The first year will include a joint study with APHIS NAHMS, FDA NARHMS and CDC to plan in-plant surveys to potentially link with the next NAHMS study (which usually includes on-farm pathogen surveys). Data collected in sentinel plants for each slaughter class that NAHMS studies would enhance understanding and control of pathogens and other hazards. If successful, studies in sentinel plants for each slaughter class could be rotated on a 3-to-5 year basis in parallel with NAHMS studies to provide meaningful baseline and trend information from the farm through the to where product leaves the plant.

Project funding would be used primarily for increased sampling of animals/raw products for analyses, laboratory costs, microbial and chemical epidemiological studies of pathogens, travel, and meetings with partners and stakeholders to develop the demonstration project. The development of software to integrate Federal animal health and food safety data systems is part of the project as is epidemiological and surveillance training of field veterinarians.

The third year of the project would include an extensive evaluation process and a second NAHMS-linked study.

*Question.* Does this conflict or overlap with NARMS, NAHMS?

Answer. No conflict is intended. A Blue Ribbon Task Group that included experts from APHIS, FDA, FSIS, AVMA, and other public and private groups plus a public meeting process developed this project proposal. The project will make use of their existing databases and FSIS' data to develop an expert system. In addition, FSIS would augment their work by collecting needed diagnostic pathology, microbiology, anti-microbial resistance, residue analyses, serology and gross pathology data that epidemiologists need to provide early warning surveillance system to detect emerg-

ing animal and human pathogens, disease trends and additional animal health and food safety baseline data. Slaughter facilities are a concentrating point for monitoring food animal diseases and residue and for detecting emerging pathogens. The integrated data system would provide real-time scientific data for science-based risk analysis.

#### SCHOOL BREAKFAST START-UP GRANTS

*Question.* I worked to continue funding last year for my State of Wisconsin to encourage schools to participate in USDA school breakfast programs. Test results have shown on more than one occasion that a nutritional breakfast each morning greatly increases students' ability to learn. Please provide an update on the effectiveness of these start-up grants. How many school districts have participated?

*Answer.* In accordance with the provisions contained in the fiscal year 2001 Agriculture Appropriations Act, the Food and Nutrition Service entered into a Grant Agreement with the Wisconsin Department of Public Instruction (WDPI) to implement a breakfast program outreach project. During fiscal years 2001 and 2002, \$500,000 was provided to WDPI for grants to schools wishing to start programs. In fiscal year 2001, this funding enabled 105 new schools in 56 school districts to join the School Breakfast Program. Approximately 17 percent of the enrolled children at those schools received a breakfast on an average day.

*Question.* Does the USDA believe that the expansion of school breakfast start-up grants to other States would result in increased participation in USDA school breakfast programs nationwide?

*Answer.* While expansion of breakfast start-up grants to other States would probably result in some small increased participation in the School Breakfast Program (SBP), we do not believe that this is an effective way of reaching more children with the Program. As you know, we administered a series of breakfast outreach grants from fiscal years 1990 through 1996. During this period, a significant number of schools joined the SBP, to the end that currently approximately 77 percent of the schools that offer the National School Lunch Program (NSLP) now offer the SBP. However, since only 28 percent of the number of children participating in the NSLP participate in the SBP, we believe that efforts to bring more children into the SBP should be primarily focused on children in current SBP schools. In this regard, the Administration has identified SBP expansion as a current priority. Among our activities under this priority are partnerships with national advocacy organizations that are geared toward bringing more children into the SBP and development and distribution of informational materials for local school officials and parents.

*Question.* Please provide an update on these start-up grants. How many school districts have participated? How does the number of applications for fiscal year 2002 compare to fiscal year 2001?

*Answer.* In fiscal year 2001, the Food and Nutrition Service provided \$500,000 to the Wisconsin Department of Public Instruction (WDPI) to implement a breakfast program outreach project. This funding was, in turn, provided by WDPI to schools wishing to start programs. This funding enabled 105 new schools in 56 school districts to join the School Breakfast Program. Approximately 17 percent of the enrolled children at those schools received a breakfast on an average day.

WDPI has received requests for fiscal year 2002 funding from an additional 34 schools in 25 different school districts. WDPI is currently reviewing these requests and will be awarding funds to approved schools within the next several months.

#### WIC ELECTRONIC BENEFITS TRANSFER

*Question.* Please provide an update on the implementation of the Electronic Benefits Transfer system, funds in the President's budget available specifically for this purpose, and information on the current number of States participating or preparing for participation.

*Answer.* FNS has requested \$14 million in the fiscal year 2003 budget for multi-purpose grants to support the development of WIC State management information systems, nutrition education, breastfeeding promotion, and to continue supporting WIC State agencies pursuing Electronic Benefits Transfer (EBT). Of this amount, up to \$6 million will be dedicated to support EBT development. FNS awards annual EBT grants to WIC State agencies through a competitive solicitation and proposal process. WIC EBT grants are intended for up-front design, development, and implementation, with the understanding that on-going operations must be sustainable within the State agency's nutrition services and administration (NSA) grant. Currently there is one statewide operational WIC EBT system (Wyoming), two operational pilots (Nevada and Ohio), three State agencies with plans to launch systems in 2002 (Texas, New Mexico, and Michigan), and six State agencies in the planning

phase (Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, Rhode Island).

#### WIC CHILDHOOD IMMUNIZATION

*Question.* I worked to continue funding last year for my State of Wisconsin to encourage schools to participate in USDA school breakfast programs. Test results have shown on more than one occasion that a nutritional breakfast each morning greatly increases students' ability to learn.

Please provide information on the report requested in the fiscal year 2002 appropriations bill regarding agency responsibilities for childhood immunization. What steps have been taken to ensure that while WIC providers are playing a role in improving immunization rates among children, these activities are not interfering with the core WIC objectives?

*Answer.* In response to the Committee's directive in its report accompanying the fiscal year 2002 Agriculture, Rural Development, Food and Drug Administration and Related Agencies Appropriations Act, the Department submitted, on February 15, 2002, a copy of a WIC-Immunization Action Plan. That plan, developed jointly with the Centers for Disease Control and Prevention (CDC) and five other partner organizations, delineates agency responsibilities for carrying out activities necessary to improve immunization rates of children participating in WIC. Working collaboratively, the partner organizations are making significant progress in addressing the objectives contained in the plan.

USDA and DHHS are working together to implement this plan using existing resources. For example, as directed by the Executive Memorandum of December 11, 2000: Improving Immunization Rates for Children at Risk, a standardized procedure for immunization screening and referral using a documented immunization record will be implemented in WIC by October 1, 2002. The cost of local level assessments and referrals remain WIC-allowable costs. CDC will fund training and educational materials necessary for WIC to implement this new procedure. The training takes place this summer. CDC also funded a study that evaluated the effectiveness of WIC's new standardized procedure.

The Department has worked hard to ensure that WIC's role in immunization screening and referral activities allows WIC to effectively fulfill one of its core objectives to serve as an adjunct to health care without sacrificing other core objectives such as nutrition education. For example, WIC's new standardized procedure for screening and referral was specifically developed to be efficient in terms of time savings, simplicity, and accuracy for WIC staff. In addition, a videoconference is being developed for State WIC Directors and Immunization program managers that will identify the roles and responsibilities of WIC and Immunization programs and define key features of successful coordination. The goal of the workshop is to promote strategies that enhance the public health goals of both WIC and immunization programs, reduce barriers to service in both programs, and empower mutual program beneficiaries to achieve optimal nutritional well-being and up-to-date immunization status.

#### WIC FOOD PACKAGE

*Question.* Please provide an update on the Department's activities to develop a food prescription rule that takes into consideration ethnic and cultural sensitivities.

*Answer.* FNS is working on a proposed rule that would take into consideration, among other issues, ethnic and cultural sensitivities. We expect to publish this proposed rule sometime this fiscal year.

#### WIC FARMERS MARKET NUTRITION PROGRAM

*Question.* Please provide an update on how this program is currently being administered, including how many States are participating or have submitted applications, compared to previous years.

*Answer.* The WIC Farmers' Market Nutrition Program (FMNP) is usually administered at the State level by either the State agriculture department or the health department (WIC Program). In addition, any Federally-recognized Indian Tribal Organization is eligible to administer the FMNP. The Food and Nutrition service provides cash grants to State agencies who must administer their programs in accordance with regulations established at 7 CFR Part 248.

The FMNP is currently authorized in certain areas of 40 States: Alabama, Alaska, Arkansas, the Chickasaw Nation, California, Connecticut, District of Columbia, Florida, Georgia, Guam, Illinois, Indiana, Iowa, Kentucky, Maine, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Mississippi Choctaw, Missouri, New Hampshire, New Jersey, New Mexico, New York, North Carolina, Ohio, Oregon,

Osage Tribal Council, Pennsylvania, Pueblo of San Felipe, Rhode Island, South Carolina, Tennessee, Texas, Vermont, Washington, West Virginia and Wisconsin. In fiscal year 2001, 41 State agencies participated in the FMNP, the additional State being Louisiana. Louisiana declined to continue operations in fiscal year 2002.

Currently, five State agencies (Arizona, Five Sandoval Indian Pueblos, Hawaii, Montana, and Puerto Rico) submitted fiscal year 2002 State Plans to begin FMNP operations.

SENIOR FARMERS' MARKET NUTRITION PROGRAM

*Question.* Please provide an update on the expenditure of the \$10 million provided through CAP in fiscal year 2002. Include in your answer the number of participating States, the number of applications received, and the funding amounts requested and received.

*Answer.* The Food and Nutrition Service received 43 grant applications, of which 27 received grant awards to participate in the Seniors Farmers' Market Nutrition Program in 2002.

The information is provided for the record.  
[The information follows:]

FISCAL YEAR 2002—SFMNP GRANT APPLICANTS

[In dollars]

	Requested	Offered
Successful SFMNP Grant Applicants:		
Alabama .....	2,161,400	633,169
Alaska .....	100,000	45,316
Arkansas .....	100,000	72,288
California .....	2,000,000	906,325
Chickasaw Nation of Oklahoma .....	143,280	94,767
District of Columbia .....	280,000	129,641
Hawaii .....	378,000	342,591
Illinois .....	1,225,000	859,410
Indiana <sup>1</sup> .....	59,850	45,316
Iowa .....	560,000	282,958
Louisiana .....	672,000	311,964
Maine .....	971,000	671,405
Maryland .....	900,000	153,581
Massachusetts .....	275,000	47,781
Minnesota .....	100,000	66,760
Missouri <sup>1</sup> .....	504,000	366,558
Montana .....	99,000	40,785
Nebraska .....	495,000	147,910
New Hampshire .....	78,000	64,315
New York .....	2,000,000	1,139,018
Ohio .....	1,318,000	1,194,536
Oregon .....	1,280,000	838,351
Pennsylvania <sup>1</sup> .....	2,000,000	906,325
Tennessee .....	600,000	260,783
Vermont .....	43,000	29,270
Virginia .....	415,000	251,537
Washington .....	389,510	97,339
<b>TOTALS .....</b>	<b>19,147,040</b>	<b>10,000,000</b>
Unsuccessful SFMNP Grant Applicants:		
Connecticut <sup>2</sup> .....	111,300	0
Florida <sup>2</sup> .....	260,000	0
Grand Traverse (ITO) <sup>2</sup> .....	13,500	0
New Jersey <sup>2</sup> .....	1,000,000	0
North Carolina <sup>2</sup> .....	133,091	0
Osage Tribal Council <sup>2</sup> .....	55,000	0
South Carolina <sup>2</sup> .....	850,000	0
West Virginia <sup>2</sup> .....	1,200,000	0
Five Sandoval <sup>3</sup> .....	80,000	0
Kentucky .....	224,500	0
Nevada .....	128,250	0

## FISCAL YEAR 2002—SFMNP GRANT APPLICANTS—Continued

[In dollars]

	Requested	Offered
New Mexico .....	120,000	0
Rhode Island .....	400,000	0
San Felipe <sup>3</sup> .....	32,320	0
Wichita Affiliated Tribes <sup>3</sup> .....	35,000	0
Wisconsin .....	612,500	0
<b>TOTAL</b> .....	<b>5,255,461</b>	<b>0</b>

<sup>1</sup> New State agency for 2002.<sup>2</sup> Participated in SFMNP during 2001 pilot year.<sup>3</sup> Federally Recognized Indian Tribal Government or Organization.

*Question.* How does the number of applications and funding for fiscal year 2002 compare to fiscal year 2001? If the number of applications and funding requests has increased in fiscal year 2002, please explain the Secretary's decision to not use CCC funds to supplement the program.

*Answer.* In 2001, the Food and Nutrition Service (FNS) received 45 grant applications requesting a total of \$18.2 million, of which 36 grants were awarded totaling \$15 million. In 2002, FNS received 43 grant applications requesting a total of \$24 million, of which 27 grants were awarded totaling \$10 million. Currently, the option of using CCC funds to supplement the \$10 million in appropriated funds is still being considered.

*Clerk's Note:* Section 4402(a) of the Farm Bill (Public Law 107-171) provided an additional \$5 million in CCC funds for the Senior Farmers' Market Program.

*Question.* What are some of the expressed benefits of the SFMNP, as well as some of the expressed problems?

*Answer.* Over 400,000 low-income seniors and 3,700 farmers benefited directly from the pilot Seniors Farmers' Market Nutrition Program (SFMNP) in 2001. The SFMNP provides seniors with fresh, nutritious, unprepared locally grown fruits and vegetables. Additionally, the program provides limited financial support to small farmers at participating farmers' markets, roadside stands, and community supported agriculture programs across the country.

A major problem expressed by the SFMNP grantees is the lack of administrative funding. In addition, the program is only available on a limited basis.

## STUDIES AND EVALUATIONS

*Question.* In recent years, FNS has received funding to conduct program evaluation and operational research. In fiscal year 2002, FNS received \$3 million for this purpose. Is that amount sufficient to meet FNS' specific needs? If not, what types of projects are not being pursued, either within FNS or through other agencies, and what would the cost of pursuing those projects be?

*Answer.* The overall studies and evaluation budget, considering both FNS and ERS funding has been cut by about 50 percent in the past decade, taking into account appropriations and the effects of inflation. The \$3 million appropriated to FNS for performance measurement and program assessment in fiscal year 2002 is not sufficient to meet the needs of the nation's domestic food assistance programs by itself. In addition to the funds appropriated to FNS, Congress appropriated just over \$9 million to the Economic Research Service for studies and evaluations of food assistance programs. These funding levels are equal to the levels requested in the President's fiscal year 2002 budget. Earlier this year, as we have done in previous years, FNS identified several areas where ERS could be helpful in meeting high priority policy information and research needs, and recommended that ERS use funds from the \$9 million appropriation for this purpose. To the best of our knowledge, ERS has not yet made final funding decisions for this year, but early indications suggest that they will accept some, but not all, of FNS' recommendations.

The major priorities identified by FNS and requested of ERS include a Congressionally-requested study of the cost of preparing school meals and the adequacy of the school meal reimbursement rates, an examination of the reasons for interstate variation in the cost of the WIC food package, and an assessment of the burden and accuracy of various food stamp reporting options and redetermination strategies. To do an effective job on these studies, to provide information on which program managers can rely for decisions for each of these important topics, more funding would be needed. While these projects would address the programs' most pressing needs, there is a range of other projects that would be worth pursuing to ensure that the

Nation's multi-billion dollar annual investment in nutrition assistance is used as effectively as possible.

*Question.* I have been informed that FNS does not feel their requests to ERS to conduct program evaluation of FNS-sponsored demonstration projects, or other special projects funding with FNS grants to States, receives high enough priority by ERS. FNS feels that such projects would be more useful if they received more rigorous evaluation to test for outcomes and potential for dissemination to other locales. Do you have any suggestions for how this situation could be rectified?

*Answer.* FNS and ERS approach the research needs of the food assistance programs from significantly different perspectives. FNS is keenly interested in sharply focused studies that address specific operational and policy needs of Federal, State, and local program administrators and the clients we serve. ERS' interests are not without merit, but they frequently differ from those of the line agency responsible for policymaking and program administration.

*Question.* What sort of input does FNS provide into the ERS study and evaluation agenda for the domestic food assistance program? What sort of feedback does FNS receive from ERS on how this information has been utilized?

*Answer.* Since fiscal year 1998, we have provided ERS recommendations endorsed by the Under Secretary and the Agency Administrator identifying what we believe to be the most critical policy information and research needs for the domestic food assistance programs for which we are responsible. These recommendations are based on the cumulative experience of Agency staff, managers, and executives, as well as that of our State and local partners and other stakeholders. The recommendations typically identify a set of research questions, explain their relevance to current or potential policy discussions, and outline a suggested approach.

ERS staff has met with FNS staff to clarify our recommendations. FNS staff has also participated in periodic ERS-sponsored conferences on research priorities, along with staff from other Federal and State agencies, academic institutions, community organizations, and private research groups. FNS has not participated in ERS' decision-making process for projects to be undertaken, nor have we received more than informal feedback on the factors that affected those decisions.

*Question.* Please provide information on any gaps that FNS feels may exist in FNS related research currently underway by ERS.

*Answer.* FNS is primarily interested in study, evaluation and research results that help the nation's food assistance program managers address operational and policy issues. We have not been successful in persuading ERS to invest significant resources to assess how to improve program integrity in the Child and Adult Care Food Program and the accuracy of the school meal application and eligibility determination process. We are concerned that our inability to obtain prompt research support for these emerging issues has, at best, delayed the Agency's ability to assess current levels of performance, test alternative solutions, and implement effective controls.

#### THE CHILD AND ADULT CARE FOOD PROGRAM

*Question.* In previous years, the Agriculture Appropriations bill has included a general provision eliminating the requirement that eligible children receive Title 20 funds in order to receive the CACFP meal subsidy. This allows proprietary centers to participate in CACFP if at least 25 percent of the children they serve are eligible for a free or reduced price meal. This language has been taken out in the President's fiscal year 2003 budget.

How many children received the CACFP meal subsidy during last year prior to the aforementioned language being inserted into an appropriations bill? How many children have been served each year the Title 20 restriction has been lifted?

*Answer.* In fiscal year 2000, the year before the aforementioned language was inserted in the Agriculture Appropriations bill, approximately 372,000 children were served in child care centers that participated in CACFP because at least 25 percent of the children they served qualified for Title XX funds. Beginning in December of fiscal year 2001, for-profit centers were allowed to participate if 25 percent of the children they served were eligible for free or reduced price meals. Since that time, the number of children attending for-profit centers that participate in CACFP rose to 433,000 in fiscal year 2001 and 457,000 in fiscal year 2002.

*Question.* Please explain why the Administration chose to re-impose these restrictions in the fiscal year 2003 budget.

*Answer.* While the Department is not opposed to extending Child and Adult Care Food Program (CACFP) eligibility to for-profit child care centers, we do not believe that extending it on a year-to-year basis is in the best interest of over all program management and operations. Inherent in that approach is an uncertainty as to on-

going program availability for such centers. This results in a reluctance on the part of State administering agencies to make the significant commitment of resources necessary to outreach to these centers, properly train them and provide oversight of their operations to help ensure their successful operations, if these efforts may have only short term benefit.

#### FOOD PROGRAM ADMINISTRATION

*Question.* I have been informed that resources available for program administration have been reduced in real terms over the past several years while the Federal nutrition assistance programs have increased in both size and complexity.

What functions would be strengthened or initiated if additional resources for program administration were to be made available?

*Answer.* With additional resources, FNS proposes to undertake the following initiatives:

##### *Proposal 1. Enhanced Program Integrity in FNS Programs*

To meet the goal of improved stewardship of Federal funds, FNS would allocate \$4,500,000 to improve the oversight of both the Food Stamp and Child Nutrition programs. In the Food Stamp Program, \$3,500,000 will provide up to 45 additional staff years to support improvements in payment accuracy. In the Child Nutrition Programs, FNS will devote \$1 million for 13 additional staff years to combating clear instances of sponsor fraud and mismanagement and safeguard the proper expenditure of significant Federal dollars.

##### *Proposal 2. Financial Statement Audits*

To meet the goal of improved stewardship of Federal funds, FNS would assign \$1,100,000 to fund and administer contracts with Certified Public Accounting firms for the mandated financial statement audits of FNS programs. FNS has established a track record as one of the few agencies to achieve an "unqualified" ("clean") opinion on its financial statement audit while completing the statements and the audit on time. FNS is now ready to contract out this annual requirement formerly performed by the Office of the Inspector General.

##### *Proposal 3. Increase Financial Systems Integrity and Accountability*

To meet the goal of improved stewardship of Federal funds, FNS would devote substantial resources to FNS mission-critical systems that are dedicated to improving benefit accuracy and reducing fraud. For example, FNS would incorporate upgrades to the Agency's information systems into an integrated data warehouse/analysis system capable of providing access to both program and financial data for enhanced analysis and tracking capabilities.

#### AMS—CRANBERRIES

*Question.* Wisconsin is the nation's leading producer of cranberries. Over the past 2 years, prices have fluctuated greatly and have threatened the profitability of growers in my State and throughout the country. Can you please share with this Subcommittee what impact last year's cranberry marketing order had on prices to growers?

*Answer.* In the 2000/01 crop year, the cranberry industry, through the Cranberry Marketing Committee, used a producer allotment program authorized under its Federal marketing order and set a total allotment at 5.468 million barrels. Government purchases of cranberry products over the 2000/01 and 2001/02 crop years are estimated at more than 500,000 barrels. For the 2000/01 crop year, sales increased by 847,157 barrels, including government purchases. In addition, per capita consumption of processed cranberries increased from 1.60 pounds in 1999/2000 to 1.87 pounds in 2000/01.

A key sign that a turnaround in the industry may be occurring is the rapid reduction of inventory. This reduction in inventory is due to the producer allotment program, government purchases, and increased sales. The producer allotment program has resulted in a reduction in acres harvested from a high of 37,500 acres in 1999/2000 to 34,300 acres in 2001/02.

While prices have fallen from a high of \$65.90 per barrel in 1996 to \$17.20 per barrel in 1999, prices have improved slightly during the past two crop years when the producer allotment program was used and inventories were reduced to more manageable levels. The reported price of \$22.90 per barrel for the 2001/02 crop year is still below the estimated cost of production of about \$30-35 per barrel.

*Question.* Can you also provide this Subcommittee with information on how membership for the Cranberry Marketing Committee is selected? Included in your an-



swer will you please provide information on the names of all handlers and the percentage that each has in the national market?

Answer. Committee membership and the selection process are established under the Federal marketing order for cranberries grown in ten States, codified in 7 CFR Part 929.

There are eight members on the Committee. Each member has an alternate. Four members and their alternates represent the cooperative marketing organization that handles over two-thirds of the production during the year nominations are made. Three members and their alternates represent "independent" growers who are not members of the major cooperative. The nominated members and alternates must be growers or employees, agents, or duly authorized representatives of growers. A public member and alternate are nominated by the seven Committee members after they have been selected by the Secretary.

The 10-State production area is divided into four districts. Each district is represented by at least one member and one alternate member from that district. District 1 includes the States of Massachusetts, Rhode Island and Connecticut; District 2, the State of New Jersey and Long Island, New York; District 3, the States of Wisconsin, Michigan, and Minnesota; and District 4, the States of Oregon and Washington.

Since promulgation of the Order in 1962, Ocean Spray Cranberries, Inc., has had four members and alternates on the Committee. At least one of the four members must be from either Oregon or Washington. Ocean Spray's members are nominated by Ocean Spray's board of directors, who normally nominate one grower from each of the four districts.

The independent growers in Districts 1, 2, and 3 gather in locations central to their respective districts to elect one member and alternate representative for each district. The independent growers in District 4 may attend and participate in the District 3 meeting. District 4 growers who do not attend the meeting have an opportunity to cast mail votes for the nominee of their choice.

The nomination meetings and Ocean Spray's board meeting are held in May of every even-numbered year. The nominations, along with brief biographical information on each nominee and a statement of each nominee's willingness to serve, must be submitted to the Department of Agriculture (USDA) by July 1. The Secretary approves the nominees by August 1, the beginning of the term of office.

Ocean Spray has always handled more than two-thirds of the industry's production and, thus, has always had four members and alternates on the Committee. Last year, Ocean Spray's production fell just below the two-thirds minimum requirement to seat four members. However, the marketing order does not provide guidance on how to proceed if this should happen. The Committee has initiated a formal rule-making process to amend the marketing order. Amendments are proposed to increase membership and to provide for a "swing member" who represents the segment of the industry with 50 percent or more of the production. USDA will expedite consideration of those amendments. Until the Order is amended, USDA has determined that the current Ocean Spray members and alternates should continue to serve on the Committee. The process to nominate independent members and alternates will continue, as scheduled, in May.

Cranberry handlers are: Ocean Spray Cranberries, Inc., Northland Cranberries, Inc., Decas Brothers Sales Company, Cliffstar Corporation, Clement Pappas Co., and Hiller Cranberry Sales. Information on each handler's percentage of national production is proprietary. The six handlers listed above account for approximately 97 percent of annual U.S. cranberry production. Small growers handle the remaining 3 percent. These small growers also handle their own production.

#### CODEX ALIMENTARIUS

*Question.* In fiscal year 2002, we provided FSIS with additional funds to be used on Codex Alimentarius activities.

Please provide an update on how those funds are being spent, and how the activities being funded are expanded from previous years.

Answer. In fiscal year 2002 the U.S. Codex office continued to plan and develop educational and technical outreach activities to other nations in support of U.S. trade and food safety positions in Codex. The additional funds were folded into the existing budget for outreach activities and allowed for expanded programs.

The U.S. Codex Office developed and presented a Technical Seminar in Hong Kong for countries from the Far East on January 17–19, 2002. The workshop featured presentations on the World Trade Organization, Risk Analysis, Equivalence, Traceability, the Labeling of Biotech Foods and the General Standard for Food Additives. There were 47 participants in the session including representatives of 14

countries as well as foreign nationals employed by the Foreign Agricultural Service and Agriculture Attaches.

On February 11–13, the U.S. Codex Office hosted a strategic planning meeting in Washington, D.C., for the Codex Coordinating Committee for Latin America and the Caribbean (CCLAC). This meeting stemmed from previous U.S. outreach efforts in the region. The meeting, attended by 10 Latin countries and Canada, included extensive discussion on a strategic plan for the region and on developing closer cooperation between North and South America on Codex issues. The U.S. Codex Office is planning and anticipating conducting a Technical Seminar for South Asia in India in September. This seminar will include presentations on how to form a National Codex Committee structure.

*Question.* Please explain why funding for Codex Alimentarius decreased in this budget, including any effects this decrease will have on activities funded previously.

*Answer.* The decrease in funding available for Codex Alimentarius in the fiscal year 2003 President's Budget is attributed to the Administration's proposal to charge the full cost of Federal employee and health pension benefits to Agencies. FSIS will experience a net decrease in these costs in fiscal year 2003; for Codex this decrease amounts to \$30,000.

Salmonella A recent article in the Washington Post outlined the number of turkeys processed at various plants throughout the country that tested positive for Salmonella. The article stated that the average contamination rate in 38 plants tested by USDA last year was 13 percent. While there is an argument that turkey products aren't eaten raw, and proper cooking eliminates the risk of salmonella, USDA has set limits for chicken processors.

*Question.* What is the salmonella limit for chicken processors? Is it the USDA's belief that there is a higher percentage of raw or rare chickens eaten than turkeys of turkey products? Why isn't the salmonella limit for turkeys the same as the one for chickens? *Answer.* Chicken processors are required to have 12 or less salmonella positive samples within a set of 51 samples. Due to the timing of data made available through microbiological baseline studies for Salmonella in chicken, and the time involved in associated rulemaking, the Agency has so far only developed a standard for chicken. The article goes on to say that USDA is waiting for the National Academy of Sciences to finish a study of bacteria standards before deciding whether to set limits for turkeys.

*Question.* When do you anticipate the completion of this study? Once the study is completed, what is the time frame for USDA to make decision on salmonella limits for turkey processors? *Answer.* We anticipate that the study will be completed in April of 2003. Subsequent to the completion of the study, the time frame for a decision on establishing performance standards for salmonella in turkeys is dependent both upon the information contained in the study and the public comment requirements of the rule making process.

*Question.* Please explain the potential impact, if any, this will have on ensuring a safe meat supply to the public. Include other options available for USDA to ensure unsafe meat doesn't reach public supermarkets. *Answer.* The decision of the U.S. Court of Appeals represents a change in the way USDA uses one of its enforcement tools. While the ruling affects USDA's ability to withhold, suspend, or withdraw inspection from plants that fail to meet Salmonella performance standards, it does not restrict USDA's ability to take these actions in plants that are not producing safe products. The Salmonella performance standard continues to be part of USDA's Pathogen Reduction/HACCP inspection system. Salmonella testing in grinding plants will be used in conjunction with other information to verify that Pathogen Reduction/HACCP systems and sanitation systems are under control. If a plant fails two sample sets, USDA will immediately conduct an in-depth review of the plant's food safety systems and identify corrective actions to be taken. Failure by the plant to address any deficiencies will result in suspension or withdrawal of inspection, which would shut down plant operations.

*Question.* Is the USDA appealing the ruling? If so, please provide an update on the current situation. *Answer.* USDA has no plans at this time to appeal the ruling. The ruling should not be misinterpreted as undercutting USDA's authority to take action against plants that produce unsafe meat and poultry products. Salmonella testing in grinding operations has not stopped. FSIS continues to use Salmonella testing as one way to verify whether either the Hazard Analysis and Critical Control Point (HACCP) system or sanitation operating procedures (SSOPs) implemented by industry are successfully controlling hazards reasonably likely to occur. FSIS inspectors are charged with such verification activities. Agency inspectors use record reviews, visual monitoring of plant personnel, and testing for Salmonella as tools to determine whether HACCP and sanitation systems are working. The Agency will continue to take action against those plants that fail to produce safe product.

## FSIS AUTOMATED CORPORATE TECHNOLOGY SUITE

*Question.* As stated in your testimony, the President's budget requests an increase of \$14.5 million to implement an integrated computer system.

Please provide the estimated cost of this system over the next 5 years.

*Answer.* The budget year and out-year costs of the FSIS Automated Corporate Technology Suite are as follows:

Fiscal year 2003—\$14.5 million; fiscal year 2004—\$10.5 million; fiscal year 2005—\$10.3 million; fiscal year 2006—\$11.8 million; fiscal year 2007—\$10.5 million.

*Question.* Will this system be integrated with other systems in the Department?

*Answer.* FACTS will provide FSIS with the capability to link to other systems both inside and outside the Department.

## CATTLE TICKS

*Question.* How is APHIS utilizing the funding increase in fiscal year 2002 for the cattle tick eradication program?

*Answer.* APHIS used the funding increase in fiscal year 2002 to hire two inspector positions (1 in Brownsville; 1 in Laredo), and purchase 9 vehicles and radio equipment necessary to update the system.

*Question.* What actions are you taking in response to your workforce utilization study of Cattle Fever Tick program?

*Answer.* We are still reviewing the workforce utilization study and considering implementing several of the recommendations.

## FRUIT FLY EXCLUSION AND DETECTION

*Question.* Please provide an update on how APHIS is utilizing the additional funding provided in fiscal year 2002 to address the inequitable distribution of funds for fruit fly trapping in California and Florida and what efforts exist to address the olive fruit fly problem.

*Answer.* We will transfer the additional funds to the California Department of Food and Agriculture (CDFA). With these funds, the CDFA will increase trapping densities in counties such as Los Angeles and Orange County that are high-risk because past fly finds. They also will increase trapping densities in counties that are high-risk because of their urban-rural interface (in other words, where rural areas are being developed for urban use). To conduct these additional trapping activities, the CDFA will purchase additional traps and lures. In addition, they will direct \$150,000 of the increase toward the purchase, deployment, and monitoring of Olive Fruit Fly traps in olive production counties in California. These counties include Shasta and Tehama Counties to the north, and Tulare and Kern Counties to the south. The CDFA has met several times with industry groups to determine ideal sites for these traps and will provide oversight and technical expertise to local entities, who will actually set the traps.

## SCREWWORM

*Question.* How is APHIS utilizing the fiscal year 2002 funding increase to ensure that screwworm reintroduction into the U.S. does not occur?

*Answer.* The Screwworm increase in fiscal year 2002 was limited to covering pay costs, which allows us to continue progress in creating a barrier against screwworm far from U.S. shores. APHIS has eradicated the pest throughout Central America into Panama. The barrier will be in place before the end of fiscal year 2002, then the program will convert to maintaining the barrier in Panama to ensure that screwworm does not reintroduce itself in the U.S. The cooperative programs have left behind an infrastructure to prevent future reintroduction of the pest and to monitor for other animal diseases emerging in the region. APHIS is also supporting other countries efforts to eradicate screwworm. For example, APHIS' cooperative screwworm production facility in Mexico is selling sterile flies to Jamaica for an eradication effort there in fiscal year 2002.

## TRADE ISSUE RESOLUTION AND MANAGEMENT

*Question.* Please provide an update on how APHIS is utilizing the fiscal year 2002 funding increase to safeguard the U.S. from foreign pests and disease threats and support marketing opportunities for our agricultural products worldwide.

*Answer.* APHIS is utilizing the fiscal year 2002 increase in the TIRM line item on both trade facilitation and safeguarding initiatives. APHIS attaches overseas facilitate trade by working with host countries to remove trade barriers or work out protocols for importing U.S. products. They also are able to intervene when shipments are detained at ports of entry, resolving the issues and preventing the loss

of products. In fiscal year 2002, APHIS is placing additional personnel in Asia. A veterinarian will go to China to respond to the increasing number of trade issues affecting U.S. products there and build relationships to improve our knowledge of their pest and disease situation. We are also opening an office in Southeast Asia to better respond to emerging plant and animal health issues in this region. A single APHIS attaché in South Korea has had to respond to the myriad trade issues in 14 different countries. Adding another office will relieve some responsibility, allowing us to provide more efficient service for animal and plant health issues.

APHIS will also hire two animal commodity specialists to work with private and public sector stakeholders. These specialists will enhance export activities and will serve as resources for gathering information needed for risk assessments. We will also hire five risk analysts to conduct risk assessments at the Agency's Center for Epidemiology and Animal Health in Fort Collins, Colorado. These risk analysts will evaluate the risks associated with regionalization requests from other countries. In addition, APHIS will enhance the use of E-GOV with customers for the collection and maintenance of data and records used in the evaluation and regionalization process for import of animals and animal products from foreign countries. APHIS also will enhance harmonization efforts with international organizations and trading partners for veterinary biologics. This increased level of funding will allow APHIS to resolve export animal health trade barriers as quickly as possible and safeguard U.S. agricultural commodities.

#### AQUACULTURE

*Question.* The Congress provided additional funding in fiscal year 2002 to allow APHIS to continue telemetry and population dynamics studies on depredating species of wildlife in the Southeast. Please provide an update on these activities.

*Answer.* During fiscal year 2002, APHIS completed the second year of a satellite radio-telemetry study to determine the regional and continental movements of double-crested cormorants that impact aquaculture farms in the southeastern United States. Additionally, we initiated the first season of a multi-year satellite radio-telemetry study to determine the regional and continental movements of American white pelicans that impact aquaculture in the southeastern United States. The data from these studies will allow APHIS biologists to (1) evaluate current measures and develop new strategies for managing depredations by these two species on southeastern aquaculture farms; (2) determine the role that pelicans play in transmitting fish diseases among aquaculture ponds and farms; and (3) determine regional and continental movements of cormorants and pelicans and develop regional and flyway-based management plans for each of these species.

#### BIOLOGICAL CONTROL

*Question.* How is APHIS utilizing the fiscal year 2002 funding increase for biological control activities?

*Answer.* We requested the increase for pay costs in anticipation of the January 2001 Federal pay raise and for annualization of the January 2001 pay increase. We are using the funds to maintain the current activities which have incurred higher costs due to the Federal pay raise.

#### PEST THREATS

*Question.* Please provide an update on the status of growing pest threats in Washington State related to abandoned apple orchards; southern pine beetle infestations in Tennessee which may pose sudden and serious fire hazards; and the discovery of the Columbia Rootrot Nematode which may threaten potato exports to Mexico.

*Answer.* When apple orchards reach the end of their useful life, growers normally remove and replant them. Currently, there is an oversupply of many types of apples, and growers may not find it economically practical to replant these orchards. The costs of removing orchards is between one and two thousand dollars per acre. Therefore, growers may choose to abandon these orchards until market conditions improve. Abandoned orchards can serve as sources of insects and diseases, since normal pest management is not carried out at these properties. In many cases, pests and diseases may move from abandoned orchards to actively managed orchards and increase pest and disease problems there. At this time, we are not aware of any exotic pest problems associated with abandoned orchards. Also, we believe that this problem is best addressed by State officials.

Regarding the southern pine beetle (SPB) infestations, the Forest Service (FS) is the main USDA agency addressing that issue. In fiscal year 2001, nine States had outbreak-level populations, and losses in the southern United States were approximately \$300 million. That year, the FS funded suppression projects on State and

private lands in Alabama, Florida, North Carolina, South Carolina, Tennessee, and Virginia. The FS also funded projects on Federal lands in Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee, and Texas. The most severely affected area was the southern Appalachian Mountains from southern Virginia into Kentucky, North Carolina, and South Carolina. They expect SPB populations to remain high in 2002 and 2003, and the FS plans to spend \$1.8 million in each of these years to continue infestation treatments and other management applications. Their goal in these activities is to reduce beetle populations to a low level as rapidly as possible and to prevent further tree mortality.

In the spring of 2001, several potato shipments originating in the United States were intercepted at the Mexican border because of the presence of Columbia Rootrot Nematode. Based on this and other interceptions, we began an investigation in late 2001 to determine if there was a problem in the way we ship our potatoes to Mexico. That investigation is still in progress. Currently, Mexico is not accepting potatoes from several States because of the perceived phytosanitary risks. However, we and our counterparts in Mexico are committed to reaching a resolution that will enable resumed export of our potatoes to Mexico. In fact, Agriculture Secretaries from both countries signed a statement in a Memorandum of Understanding affirming their desire to retain the historical market access of U.S. potatoes in Mexico. Both sides hope to resolve this issue soon.

*Question.* What is the Department doing to establish new procedural and/or treatment methods to allow shipments of Hawaii fruit during winter months without jeopardizing pest introductions to mainland agriculture?

*Answer.* Currently, APHIS uses both vapor heat and irradiation to treat different types of commodities leaving Hawaii for the mainland U.S. to prevent pests from harming mainland agriculture. Using these methods, Hawaii producers can ship papayas, mangoes, and other tropical fruits during the winter months. When a shipper or treatment facility would like to add commodities they can send, we work with them to determine the best pest risk mitigation method. Any new requests must go through a thorough risk assessment, including public comment period, before APHIS will begin a program.

APHIS also is encouraging other methods to increase the quantity of fruit Hawaii can market in the U.S. For example, the Medfly is one of the pests hindering shipments of fruits from Hawaii. APHIS supports establishing a Medfly control program and establishing Medfly-free zones to allow producers in those areas to ship to the mainland without treatment.

*Question.* Please provide an update on the Departments efforts to combat Plum Pox, Pierce's Disease, Asian longhorned beetles, and Mormon crickets and grasshoppers.

*Answer.* Since fiscal year 2000, we have been working with the Pennsylvania Department of Agriculture to eradicate Plum Pox Virus in that State. Our efforts are showing excellent results. We removed all known infected orchards promptly and took steps to reduce the disease's spread. In doing so, we can assure stone fruit growers that PPV does not currently exist in the U.S. nursery system. However, emergency program activities—consisting of surveys, tree removal, site preparation, and replanting—will need to continue to verify eradication. We expect to be able to declare eradication by fiscal year 2006.

APHIS is leading a cooperative program to develop strategies that growers can utilize in managing the Glassy-winged Sharpshooter (GWSS), a vector of Pierce's Disease (PD). We initiated a pilot study in Kern County, California, in fiscal year 2001 to develop effective plant pest management strategies at the farm level. Because citrus is the primary host plant during the winter months, our strategy involves the treatment of citrus with a foliar insecticide whenever GWSS are in the groves during late winter. This combined with follow-up treatments with a systemic insecticide has maintained GWSS populations at non-detectable levels throughout the year. This GWSS population reduction is essential in the management of PD in the multicrop agricultural area. By reducing GWSS populations in citrus, there are fewer disease vectors that can return to the vineyards in the spring when the vines again become a satisfactory food source. In areas where PD has been identified in the vineyards, this reduction in GWSS helps break the disease-vector-host triangle and reduces the potential for large numbers of insects to vector the disease. Results from the initial year of work indicate that area-wide management strategies that bring growers in an area together to work in a systematic fashion can significantly reduce the incidence of this insect.

In fiscal year 2002, we will continue to monitor the impact of control strategies of GWSS in the study area and include investigations into the potential of using biological control strategies that are less intrusive in the environment. We will con-

tinue to search for softer, environmentally friendly compounds to reduce populations of GWSS. We will also focus on disease mitigation in identified vineyards to provide methods to reduce or prevent the spread of PD by the vector. Also in fiscal year 2002, we will begin transferring the strategies developed in the pilot study in fiscal year 2001 to the County Departments of Agriculture to begin the implementation of an area-wide management program. This technology transfer is being accomplished with the same cooperative spirit that characterized and contributed to the effectiveness of the earlier pilot study. We have entered into a cooperative agreement with the California Department of Food and Agriculture to conduct statewide surveys for GWSS. This effort is essential to understanding the current infestation and any new areas that may become infested. Regulatory programs are now in place that aid in preventing the spread of the insect from infested counties in the southern part of the State to those counties in the north. Also, treatment programs are in place that have successfully eradicated the insect whenever found in the urban areas in these northern counties. These new insect finds are typically associated with ornamental plants used in these urban areas. APHIS has provided funds to State and Federal scientists who are studying novel approaches to managing PD. These approaches are more long-term in nature, and are aimed at developing and providing disease resistant varieties of grapes, the possibility of treating diseased vines with a curative material, and investigating the potential for biological control of the disease with similar but competitive organisms.

We are continuing an Asian Longhorned Beetle (ALB) eradication program in New York State (NYS) and Illinois. Since this program began in fiscal year 1997, we have drastically reduced ALB populations in areas that had been heavily infested and the tree removal effort has made outstanding progress. Our goal is to eliminate the ALB from the U.S. and prevent future introductions without jeopardizing the \$116 billion trade market between the U.S. and China. However, the beetle continues to spread in metropolitan areas and infested trees continue to be found in the regulated areas. By fiscal year 2006, we expect the program to consist almost exclusively of surveys to ensure that we have eradicated this pest. We plan to achieve eradication in Illinois in 2008 and in NYS in 2009.

In fiscal year 2002, APHIS will continue to focus services on technical assistance and evaluation surveys on rangelands in all or part of the 17 Western States. This will include providing technical expertise and maps based on survey results. We will conduct Grasshopper and Mormon cricket treatments in Utah, as necessary, under the cost-share provisions contained in the Plant Protection Act. In all other States, the focus of treatments will be on Federally managed lands, to be funded either by APHIS or the Federal land management agency. We will give priority to rangeland areas that border cropland. APHIS plans to publish a final Environmental Impact Statement in May 2002 that examines the environmental effects of suppression alternatives available to the agency, including the use of insecticides and a no-action alternative. We will use it for planning and decision making and to inform the public about the environmental effects of APHIS' rangeland grasshopper and Mormon cricket suppression activities. Now that that process has been completed, site-specific environmental assessments will be required for all programs. In addition, APHIS must prepare a biological assessment (BA) in accordance with the provisions of the Endangered Species Act, to determine whether a proposed action is likely to adversely affect listed species, proposed species, or designated critical habitat. APHIS is also fulfilling its obligations under the Endangered Species Act by consulting with the responsible Federal Agencies on almost 300 species. This consultation is expected to last through the fiscal year.

#### GOLDEN NEMATODE

*Question.* How is APHIS utilizing the fiscal year 2002 funding increase for golden nematode control efforts in New York?

*Answer.* We are using the fiscal year 2002 funding increase for golden nematode control efforts in several ways. First, we have increased the cooperative agreement with Cornell University to accelerate development of potato varieties resistant to the Ro2 race, to develop a DNA probe to rapidly identify golden nematode Ro2 suspect cysts, develop a Polymerase chain reaction (PCR) test to determine resistance in new potato varieties. Second, we have increased survey efforts for the Ro2 race of golden nematode. Lastly, we are replacing equipment and making badly needed repairs to the Westhampton, New York, facility where we provide space to our State cooperators. Equipment includes a tractor for soil sampling, a dual-wheel pickup truck, and an equipment trailer. Repairs include replacement of a heating and air conditioning unit; doors, windows, and repairs to two buildings, perimeter fencing, and electrical system repairs.

## IMPORTED FIRE ANT

*Question.* How is APHIS utilizing the fiscal year 2002 funding increase for imported fire ant control management and eradication?

*Answer.* In fiscal year 2002 APHIS is providing funds to 18 States to conduct surveys that locate imported fire ant (IFA) infestations. The States are as follows: Arizona, California, Delaware, Hawaii, Kentucky, Maryland, North Carolina, New Mexico, Nevada, Oklahoma, Oregon, South Carolina, Tennessee, Texas, Utah, Virginia, and West Virginia. In addition, we are providing funds in fiscal year 2002 to 13 States situated entirely or partially within the IFA quarantine area (Alabama, Arkansas, California, Florida, Georgia, Louisiana, Mississippi, North Carolina, New Mexico, Oklahoma, South Carolina, Tennessee, and Texas) for quarantine enforcement.

We are also working with the States to prevent further IFA spread by enforcing the Federal Quarantine and cooperating with IFA-infested States to regulate articles such as nursery stock and soil-moving equipment. In fiscal year 2002, we will work with State cooperators to jointly conduct road enforcement blitzes in Tennessee, North Carolina, and other States to inspect nursery material moving out of the quarantine area. If shipments are found to be in violation of the quarantine, we will return them to their point of origin, or treat or destroy them. Violators will be subject to a fine. We will work with State cooperators to conduct nursery compliance agreement oversight in fiscal year 2002. In addition, we are revising the regulations in 7 CFR 301.81 to add fipronil as an approved treatment for nursery stock and grass sod. APHIS is also working with States to mass-rear and release phorid flies, a promising biological control agent. We expect to have sufficient phorid flies available to carry out releases in three States in May 2002, and in eight additional States by September 2002.

## NOXIOUS WEEDS

*Question.* Please update the Committee on how the fiscal year 2002 funding increase for noxious weeds is increasing the availability and distribution of biological control organisms used in the integrated weed management system.

*Answer.* APHIS is devoting the entire increase to establish a cooperative agreement to work with the Nez Perce Bio-Control Center (NPBC) to increase the availability and distribution of biological organisms used to control such invasive weeds as yellow starthistle (*Centaurea solstitialis*), spotted and diffuse knapweeds (*C. maculosa* & *C. diffusa*), Dalmatian toadflax (*Linaria dalmatica*), and additional invasive rangeland plants. NPBC is operated by the Nez Perce Native American Tribe, located in Lapwai, Idaho.

Through the agreement, NPBC will carry out the following major field activities: (1) continue ongoing efforts to establish rearing nurseries to increase the availability of biological control organisms to be used alone or in integrated weed control programs, (2) provide regional technology transfer seminars to Cooperative Weed Management Area (CWMA) partners in Idaho and to other cooperators throughout the region, (3) work to distribute biological control organisms throughout targeted weed infestations on privately managed lands, and (4) monitor target and nontarget effects at selected release sites to document the impact of biological controls. NPBC also will function as a centralized clearinghouse for information and other resources, and will develop and manage a standardized biological control agent release and tracking system database. Work under the agreement began in the second quarter of fiscal year 2002 and will continue through the second quarter of fiscal year 2003.

## PINK BOLLWORM

*Question.* Please provide an update on how APHIS is utilizing additional funding provided in fiscal year 2002 for pink bollworm eradication activities in support of sterile moth release in the San Joaquin Valley of California and in Texas and New Mexico.

*Answer.* With an increase of approximately \$300,000, we have increased our cost-share for the Texas Pink Bollworm (PBW) Eradication Program from 10 percent in fiscal year 2001 to 23 percent in fiscal year 2002. The total funding level for the Texas program will be the same as in fiscal year 2001. This program consists of heavy-density trapping, pheromone trapping, planting *Bacillus thuringiensis* (Bt) cotton, and applications of PBW pheromones for mating disruption. Also in fiscal year 2002, we have redirected approximately \$330,000 from eastern States to begin funding trapping and control activities in New Mexico. This was based on a survey conducted over the last couple of years that indicated an absence of PBW populations in Eastern States while infestations continue to be extremely high in Western

States. In addition, our sterile release program continues to successfully protect cotton in the San Joaquin Valley (SJV) of California. Our trapping of fewer native moths in SJV in fiscal year 2001 as opposed to fiscal year 2000 demonstrates a reduced risk to cotton in that area. Also, we will continue to monitor the over 10,000 traps in the SJV to detect any new PBW introductions.

*Question.* How will the fiscal year 2003 requested funding decrease for pink bollworm affect eradication programs in Arizona, California, New Mexico, and Texas?

*Answer.* The requested funding decrease will not significantly affect eradication programs in Arizona, California, New Mexico, and Texas. We can afford to absorb this slight reduction because we have improved our rearing efficiency and maintained production using less diet material, thereby reducing cost. Despite this decrease, we will still be able to sufficiently protect cotton and control the pink bollworm population in the San Joaquin Valley through the cooperative sterile release program, as well as cultural practices (crop rotation, stalk destruction, alternate planting dates, and irrigation restrictions).

#### WILDLIFE SERVICES OPERATIONS

*Question.* What is the status of the national rabies management plan?

*Answer.* During fiscal year 2001, several States, including Vermont, New York, Pennsylvania, Ohio, and West Virginia, participated in a coordinated oral rabies vaccination program—ORVP. The objective of the ORVP was to prevent raccoon rabies from spreading into uninfected areas in the Midwest and further into Ontario and Quebec. Our current strategy consists of the distribution of fish-scented baits, mostly by air, that contain vaccine effective in orally immunizing raccoons in defined barriers. To prevent raccoon rabies from spreading beyond the barrier, immune barriers were created at strategic locations along the leading edge of the current distribution of raccoon rabies.

In fiscal year 2001, we assisted cooperators by distributing approximately 3 million oral rabies vaccine baits over an 8,500 square mile area in Ohio, West Virginia, Pennsylvania, New York, and Vermont. To date, these oral vaccination efforts show good promise for containing raccoon rabies. Additionally, in fiscal year 2001 we participated in several smaller raccoon ORVP and rabies surveillance projects in Florida, Alabama, Virginia, Maryland, and Massachusetts. APHIS continues to cooperate with the State of Texas to prevent the canine strain of rabies from re-emerging in coyotes in the U.S. The Agency is also an important funding and operational partner with the Texas Department of Health in ORVP efforts to contain gray fox variant of rabies in west central Texas.

In fiscal year 2001, we completed several key steps toward formulating a viable National Rabies Control Plan. We completed a programmatic environmental assessment with no negative public comment on the preferred alternative which relies on strategic use of oral vaccination to control terrestrial wildlife rabies. We also completed a comprehensive business plan for the next three years. To complete phase one of the rabies control plan, we will establish a barrier in Alabama, Florida, and in Maine. This would result in a vaccination barrier integrated with land features to contain the spread of raccoon rabies. Once contained, we will begin work toward eliminating the raccoon strain along portions of the existing ORV barrier in Ohio, West Virginia, Pennsylvania, and New York. The program will continue to push the gray fox variant back to the Rio Grande and provide spot treatment if reinfection occurs from Mexico.

*Question.* How much do you plan to spend for rabies control efforts in fiscal year 2002?

*Answer.* In fiscal year 2002, APHIS will use \$11.75 million in appropriated funds for rabies control efforts and an additional \$6.6 million in emergency funds. This will allow us to control gray fox rabies in Texas; skunk rabies in Wyoming and California; and raccoon rabies in Florida, New York, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia, and Vermont. In fiscal year 2002, we must continue to extend the barrier in West Virginia south through western Virginia, terminating at the higher elevations of the Appalachian Mountains in eastern Tennessee. In addition, we must extend the northern portion of the barrier from Vermont into New Hampshire, and including parts of eastern Maine, to protect the eastern terminus of the existing barrier; failing to do so will compromise the current ORV barriers leading to the westward spread of raccoon rabies through mountain gaps or through river valleys that serve as high risk movement corridors for the disease.

*Question.* Please provide an update on additional funding you received in fiscal year 2002 to complete an environmental impact statement for blackbird control in North Dakota and operations in South Dakota and Louisiana.



Answer. With the increase, we developed and distributed a scoping document to approximately 500 agencies, organizations, and individuals in December 2001. We will use scoping information to write a draft Environmental Impact Statement (EIS). We expect to complete a final EIS in the fall and publish a record of decision by the end of December 2002.

*Question.* How is APHIS utilizing additional funding provided in fiscal year 2002 for predator control activities in Montana, Wyoming, and Idaho?

Answer. We are using this increase to maintain the additional permanent and temporary employees hired for predator control work; to buy additional vehicles, equipment and trapping supplies; and increase aerial operations to enhance our ability to respond to predator attacks on livestock in Montana, Idaho, and Wyoming.

*Question.* What is the status of APHIS' efforts to increase the safety of its aerial operations?

Answer. In fiscal year 2002, APHIS continued to comply with the recommendations set forth in the 1998 Aviation Program Safety Review. We are using the \$1 million increase to convert piston-driven helicopters to turbine engine helicopters; modify agency-owned aircraft to bring them into air worthiness compliance; and acquire additional leased aircraft. We continue to standardize pilot salaries and grades; provide aviation management training for managers; increase flight crew training; and conduct recurrent check rides and safety inspections. In addition, we are implementing the revised Aviation Operations Manual, paralleling Federal Aviation Administration's (FAA) Part 135 regulations, and are developing an aviation safety program.

The review committee estimated that the total cost of replacing equipment and training personnel will be more than \$4 million, excluding recurring annual costs such as maintenance and monitoring. The fiscal year 2002 Appropriations Act included an additional \$1 million for aerial safety (for a total of \$3.2 million) and the fiscal year 2003 President's Budget includes an increase of \$1.6 million (for a total of \$4.8 million) that will allow APHIS to fully implement the recommendations of the Aviation Operations' activities. We will complete the committee's recommendations by December 2002.

All Agency and contract aerial operations will then parallel FAA regulations and standards, which include mandatory safety, training, and maintenance personnel; written and approved operations and training manuals; hazardous training materials; specific aircraft maintenance, and modification standards; and specific requirements for aerial crew training and check rides. Aerial operations are critical to oral rabies vaccination, predation management efforts including those involving wolf capture activities, migratory bird surveys, and activities to protect threatened and endangered species. APHIS' first priority is to ensure employee safety while conducting these activities.

*Question.* How have you utilized the additional funding provided in fiscal year 2002 for wildlife management activities in Texas?

Answer. We will use the additional funding to reduce the inequity of Federal funding versus cooperative funding. To increase the Federal cost share, we will reimburse cooperative employees monthly travel expenses.

We also will establish two Assistant District Supervisor positions. We plan to fill these positions on or about June 1, 2002, in our College Station and Fort Worth districts. We also plan to fund a minority student in the wildlife management curriculum at Texas A&M at Kingsville, TX. This program would begin in the summer of 2002, and is dependent upon student qualifications and availability. We will use the remaining funds for the purchase of new computers, replacement vehicles, and miscellaneous other new and replacement equipment. The additional funds reduced the inequity of the Federal funding versus cooperative funding ratio.

*Question.* What actions have you taken to meet the growing demands of controlling predatory, nuisance, and diseased animals in South Dakota?

Answer. In South Dakota (SD), APHIS provides a grant to reimburse SD Game, Fish, and Parks (SDGFP) for expenditures involved with delivering wildlife damage management services. Our funding in this program was increased in fiscal year 2002 from \$300,000 to \$600,000. All wildlife damage management activities in SD are carried out under the direction of SDGFP with its own employees and equipment and additional funding provided by the State of SD. It is anticipated that the Federal funding increase in fiscal year 2002 will enhance the State's ability to control predatory, nuisance, and diseased animals in SD.

*Question.* What actions has APHIS taken to establish a beaver control cost share program with interested parish governments in Louisiana?

Answer. The Louisiana Wildlife Services program has amended all existing cooperative agreements for beaver control with Parish governments to cost share 25 percent of the project costs, including purchases of new beaver control equipment, sup-

plies to replace outdated equipment, and salary increases to bring employees up to national standards. Wildlife Services is also in the process of notifying other Parish governments who have expressed interest concerning beaver control efforts. The directed Federal funds will cover approximately seven full-time Parish beaver control projects. Additional funds would be needed to expand the cost sharing program for beaver control to other Parishes or to cost share the maximum authorized amount of 50 percent with Parish governments.

*Question.* Please provide an update on how APHIS is using additional funding provided in fiscal year 2002 to improve the wildlife services facilities near Stuttgart, Arkansas.

*Answer.* APHIS will use the funds for improvements to existing office/storage facility near Stuttgart District Office. Our office is located on property owned by USDA Agricultural Research Service (ARS). Presently, we are negotiating a long-term interagency agreement between ARS and APHIS before initiating the improvement project.

*Question.* Will these improvements be complete in fiscal year 2002?

*Answer.* If the interagency agreement is completed, and there are no complications with the subsequent bidding process, we anticipate that the appropriated funds will be obligated and construction implemented prior to the end of fiscal year 2002. The project could be completed within 4 to 6 weeks after construction begins.

*Question.* What actions has APHIS taken to address increased bird strikes to aircraft in Florida?

*Answer.* Florida has over 76 airports for which we provide limited technical assistance. Florida airports have the second highest rate of reported wildlife strikes in the nation and these strikes have increased annually, more than quadrupling over the last 10 years. At present, APHIS lacks the resources to specifically assign employees to work exclusively with airports; therefore, we are limited in responding to requests for assistance in a timely manner.

*Question.* The fiscal year 2003 budget proposes a decrease of almost \$10 million for Wildlife Services Operations to allow cooperators to assume a larger share of the cost of wildlife management programs. How, specifically, will this decrease affect ongoing activities?

*Answer.* The budget request calls for cooperators to assume a larger share of the cost of wildlife management programs such as predator damage to livestock throughout the United States, migratory bird and other wildlife damage to crops and aquaculture, invasive species damage, property damage, and protection of threatened and endangered species. If the cooperators assume the larger share, the ongoing activities would continue, but through cooperator rather than Federal funding. If cooperators do not assume a greater share, we would reduce 218 staff years to implement the \$10 million reduction and reduce program activities accordingly.

*Question.* What will be the impact for providing resolutions to wolf/livestock conflicts, as well as to resolutions to other human/wildlife conflicts that Wildlife Services provides on private lands in Wisconsin?

*Answer.* Unless cooperators assume a larger share of the cost of wildlife management programs such as predator control damage to livestock throughout the United States, ongoing program activities that Wildlife Services provide would be reduced.

*Question.* What is the comparison of Federal funding to cooperative funding for the Wildlife Services Operations program, by state? Please provide total dollars spent for each State in fiscal year 2001, along with the Federal and cooperative percentages of total program costs for each State.

*Answer.* The following table contains the amount of net Federal appropriated funds provided to States and State cooperator funds contributed in fiscal year 2001. The Federal dollars fund Congressional directives, human health and safety work, protection of endangered species, migratory bird work, and basic program infrastructure costs. The Federal amounts listed do not include agency support costs, program investment activities—such as management information systems and certain agreements, regional office support, and field program delivery charges—such as National Finance Center costs, directly paid at the headquarters level.

[In dollars]

State	Fiscal year 2001		Percent of state/ program cost
	Federal	Cooperative	
Alabama .....	\$334,502	\$200,402	37.5
Alaska .....	187,651	666,179	78.0
Arizona .....	485,347	590,440	54.9
Arkansas .....	256,673	267,336	51.0

[In dollars]

State	Fiscal year 2001		Percent of state/ program cost
	Federal	Cooperative	
California .....	1,466,235	4,318,816	74.7
Colorado .....	745,013	470,306	38.7
Connecticut .....	8,844	1,500	14.5
Delaware .....	1,822	0	0
District of Columbia .....	75	0	0
Florida/Puerto Rico .....	327,552	510,579	60.9
Georgia .....	648,850	151,161	18.9
Guam .....	173,555	2,021,067	92.1
Hawaii .....	439,382	1,256,747	74.1
Idaho .....	1,251,668	628,123	33.4
Illinois .....	111,033	498,068	81.8
Indiana .....	95,781	69,870	42.2
Iowa .....	18,220	34,504	65.4
Kansas .....	73,543	101,317	57.9
Kentucky .....	161,648	348,310	68.3
Louisiana .....	394,418	389,946	49.7
Maine .....	137,362	284,161	67.4
Maryland .....	214,334	97,446	31.3
Massachusetts .....	178,604	113,948	38.9
Michigan .....	830,043	271,998	24.7
Minnesota .....	239,700	62,022	20.6
Mississippi .....	854,591	784,943	47.9
Missouri .....	383,091	221,994	36.7
Montana .....	1,430,363	1,785,566	55.5
Nebraska .....	331,883	441,688	57.1
Nevada .....	773,891	931,310	54.6
New Hampshire .....	520,240	200,217	27.8
New Jersey .....	127,432	172,672	57.5
New Mexico .....	1,232,293	1,019,658	45.3
New York .....	858,311	414,230	32.6
North Carolina .....	197,103	1,248,883	86.4
North Dakota .....	777,549	528,793	40.5
Ohio .....	1,034,159	121,419	10.5
Oklahoma .....	746,175	1,863,786	71.4
Oregon .....	939,705	1,204,729	56.2
Pennsylvania .....	158,038	239,875	60.3
Rhode Island .....	3,287	4,700	58.8
South Carolina .....	179,865	612,018	77.3
South Dakota .....	321,896	1,120,104	77.7
Tennessee .....	161,649	721,683	81.7
Texas .....	4,478,608	6,701,024	59.9
Utah .....	935,580	1,026,649	52.3
Vermont .....	626,041	54,175	8.0
Virginia .....	348,703	962,706	73.4
Washington .....	547,722	1,531,117	73.7
West Virginia .....	2,178,464	298,332	12.0
Wisconsin .....	525,505	1,293,903	71.1
Wyoming .....	1,238,322	596,567	32.5
TOTALS .....	30,692,321	39,456,987	56.2

*Question.* How does APHIS propose to enforce cooperating agencies and individuals to assume a larger share of the costs for projects that are currently underway?

*Answer.* If cooperators do not assume a greater share, APHIS would reduce its program contribution to more closely match that of the States. At the full \$10 million level, assuming no increase in cooperative funding, we would reduce 218 staff years.

#### WOLF CONTROL

*Question.* Depredating wolves pose a significant threat to the U.S. livestock industry.

What is the status of growing wolf populations in the U.S., and APHIS' actions to address them?

Answer. Wolf populations continue to expand across the northern United States from the Great Lakes region to the Pacific Coast. In addition to naturally occurring populations moving south into the United States from Canada and east from Minnesota into Wisconsin and Michigan, the Federal government has reintroduced wolves into portions of the northern Rocky Mountains and into New Mexico and Arizona. APHIS has increased efforts to address increasing wolf populations on livestock. We have active programs in Minnesota and the Northern Rocky Mountains to reduce wolf depredation; however, more wolves in Wisconsin and Michigan and reintroduction into Northern Rocky Mountain region, New Mexico, and Arizona have outdistanced our capacity to adequately address wolf impacts.

*Question.* Please provide the Committee with information on various regional problems with wolves, such as gray wolves in the Northern Rockies, timber wolves in the upper Midwest, and Mexican wolves in the Southwest.

Answer. Wolves in the upper Midwest are expanding at a rate that has led the U.S. Fish and Wildlife Service (FWS) to consider removing them from the Federal endangered and threatened species list. FWS has taken regulatory actions to reduce the protection status of wolves in Wisconsin and Michigan from "endangered" to "threatened." Until the protection status changes, the wolf population will continue to grow in Minnesota with significant numbers of wolves moving east primarily into Wisconsin with a secondary movement into Michigan.

APHIS cooperates with the FWS by providing wildlife damage support to Mexican wolf recovery efforts in New Mexico and Arizona. The entire Mexican wolf population, approximately 30 animals in New Mexico and Arizona, is comprised of reintroduced animals and resulting pups. We are not providing direct assistance to livestock producers in New Mexico and Arizona; however, with the continued implementation of the Mexican wolf recovery program and its potential impact to livestock producers, we anticipate increased demand for our wildlife service programs in these States. During fiscal year 2001, we responded to approximately 30 requests for assistance involving Mexican wolf-human encounters and livestock predation.

*Question.* How does the number of livestock killed by wolves and the number of wolf complaints that you have received in the Great Lakes States compare to the Western States over the last 10 years?

Answer. The gray wolf in the Great Lakes region is naturally occurring and expanding. The number of livestock killed or injured by wolves in the Western Great Lakes States over the last 10 years was 8,211 animals, compared to 1,932 in the three western States of Idaho, Montana and Wyoming. The number of complaints in the three Great Lakes States over the last 10 years that required WS technical assistance was 1,072, compared to 188 in the three western States.

*Question.* If the numbers lean heavily toward the Great Lakes States, why is there so much funding disparity between these two geographic regions for Wildlife Services to respond to wolf depredation on livestock?

Answer. Unless funds are in the form of a Congressional Directive with specific language, WS does not have a line-item for wolf control in our budget. The budget increase for WY, MT, and ID (\$1 million in fiscal year 2001 and \$300,000 in fiscal year 2002) were directives from Congress earmarked for predator control in general, and not specifically for wolf depredation on livestock. Although some of these funds are being used to address wolf damage to livestock, overall they are being used to deal with other major predators of livestock in these three States (i.e., coyotes, mountain lions, bears).

*Question.* The Committee understands that the Wildlife Services program in Wisconsin has a Federal budget of \$5,000 to address wolf depredation to livestock. What is your long-term strategy for addressing the problem of wolves killing livestock in Wisconsin?

Answer. With a Federal budget of \$5,000 to conduct wolf depredation management activities in Wisconsin, the Wildlife Services program is providing statewide technical assistance to citizens experiencing wolf damage. The Wisconsin WS' office long term goal is to work cooperatively with the State and local producers to determine the most cost-effective strategy to alleviate livestock damage while ensuring public acceptance of wolves, resulting in support of wolf recovery.

*Question.* What efforts has APHIS made to evaluate the distribution of funds for wolf depredation activities in all States?

Answer. Because APHIS cannot fund new projects out of existing funding without negatively impacting other parts of the program, new programs are encouraged to seek additional funding from other sources. In Idaho, Wyoming, and Montana, Congress has recognized that additional funds are needed to off-set the impacts wolves have on livestock and other routine programs and has provided additional funds for "predator control", including wolves. These additional funds were directed for those States so as not to negatively impact the other State programs. In some States the

Department of Interior has chosen to provide limited funding for this purpose (New Mexico/Arizona—\$100,000, and Idaho/Wyoming/Montana—\$100,000). These funds help cover APHIS' efforts in controlling wolves.

#### INVASIVE SPECIES

*Question.* The Committee is concerned about the number of invasive species that continue to threaten American agriculture. Please identify the most significant invasive species threats facing Wisconsin and what the Department is doing to eradicate or manage these species?

*Answer.* The most significant invasive species threats facing Wisconsin are zebra mussel, multiflora rose, purple loosestrife, garlic mustard, small hive beetle, gypsy moth, and Asian longhorned beetle. APHIS conducts work there for the following species:

*Purple Loosestrife.*—Purple loosestrife was brought to the U.S. from wetland areas in Europe in the early 1800's, most likely because of its ornamental value. It crowds out the native plants that support bird and animals populations in marshy areas. It got its start in New England and spread rapidly north into Canada, south into Virginia, and west through the States bordering the Great Lakes. Currently, it can be found throughout the U.S. and is menacing the wetlands in the Northeast and upper Midwest.

APHIS is releasing leaf-feeding beetles with the intent of establishing an insectary. During 1999–2001, APHIS shipped 37,000 *Galerucella* leaf-feeding beetles to Wisconsin as well as several biocontrol organisms in fiscal year 2002.

In fiscal year 2001, APHIS conducted natural enemy releases and evaluated release sites. We visited researchers at New York's Cornell University to observe and document rearing techniques. APHIS may partner with Cornell University to increase the number and availability of natural enemies for project participants in 15 States.

*Small Hive Beetle.*—The small hive beetle is a native of South Africa and is a widespread pest of honey bees. It was first detected in Florida in 1998. The beetle has spread to seven States, including Georgia, North Carolina, Minnesota, Ohio, Pennsylvania, New Jersey, and South Carolina. In 2001, we found the small hive beetle in four additional States: Alabama, Maryland, Massachusetts, and Vermont.

APHIS provides funding from the Cooperative Agricultural Pest Survey (CAPS) to the Wisconsin Department of Agriculture for survey of wood boring beetles, like Asian longhorned beetle and small hive beetle. There is no control or regulatory program in Wisconsin since we have detected no noticeable damage. The cold climate probably limits the beetle's ability to function.

*Gypsy Moth.*—Gypsy Moth was introduced in Massachusetts in 1869. It is the most important hardwood defoliator in the United States. Twenty-two States, including Wisconsin, are either partially or totally regulated. Historically, APHIS has conducted control programs cooperatively with States and other Federal agencies using contingency funds.

APHIS works collaboratively with the State of Wisconsin to control and minimize the artificial movement of gypsy moth from regulated counties to other parts of the State, and the nation that are not regulated. APHIS also cooperates with Wisconsin and the U.S. Forest Service to slow the natural spread of gypsy moth and thereby delay the impact this insect has when it establishes itself beyond the current infested areas. The U.S. Forest Service conducts yearly suppression work in front of the natural gypsy moth line in approximately 10 States. APHIS provided the Wisconsin Department of Agriculture with a grant of \$35,000 in 2001 and \$40,000 in 2002 from its contingency fund to conduct regulatory control activities.

*Asian Longhorned Beetle (ALB).*—The ALB was first discovered in 1996 in the Greenpoint neighborhood of Brooklyn, NY. We believe that ALB entered the United States inside solid wood packing material from China. In 1998, despite USDA's National Asian longhorned beetle pest alert campaign, a separate infestation was discovered in the Ravenswood area of Chicago. This discovery prompted APHIS to amend its existing quarantine of wood movement in infested areas and place additional restrictions on the importation of solid wood packing material into the United States from China and Hong Kong.

APHIS is working to prevent the spread of the ALB to new areas. Since we began eradication activities in fiscal year 1997, we have drastically reduced ALB populations in areas that had been heavily infested and our tree removal effort has made outstanding progress. In addition, our regulatory program is effectively minimizing the risk of ALB introductions into uninfested areas such as Wisconsin. Currently, we are eradicating the beetle where we know it to exist and conducting surveys up to 25 miles around infestations to reduce chance of spread. These activities and ALB

moving naturally less than 1.5 miles per year should prevent any introductions in new areas such as Wisconsin.

*Question.* Please describe USDA efforts to work with foreign nations to help avoid the introduction of these species.

*Answer.* APHIS has personnel worldwide to provide their counterparts with assistance in monitoring outbreaks of invasive pests and to control them. This helps ensure that they do not inadvertently enter the U.S. from these countries. APHIS has programs working with foreign countries and international organizations on specific pests that are particularly harmful to U.S. agriculture.

APHIS has cooperative agreements with Mexico and Guatemala to prevent outbreaks of Medflies in the U.S. To control Medfly populations, the trilateral Moscamed program uses bait applications and the sterile insect technique. In Mexico, most serious Medfly outbreaks occur in the South. APHIS participates in trapping, bait applications, and sterile fly production there. To further move Medflies from U.S. shores and make the border more secure, APHIS has heightened the program in Guatemala. The goal of the program, using bait applications and sterile Medflies, is to establish a Medfly barrier at the border of Guatemala with Honduras and El Salvador.

The screwworm program is another example of a successful program to prevent an invasive species from entering the U.S. APHIS has worked with the governments of Mexico, Central America, and Panama to eradicate the pest from all of Central America into Panama. The program educates local farmers to control individual outbreaks and releases sterile flies to completely remove the pest from the area. Now the program is establishing a barrier in Panama and then will focus on maintaining that barrier. The program has also left an infrastructure in Central America to prevent reintroduction of the pest.

The tropical bont tick (TBT) program is another example of a successful invasive species program overseas, this one involving the Food and Agriculture Organization (FAO). The Caribbean program has been eradicating TBT from islands whose proximity to the U.S. cause an unacceptable risk of transferring the pest to U.S. islands, Puerto Rico, and possibly the mainland. The TBT carries heartwater, an important disease in cattle which could have devastating effects on U.S. industry. Through education and a series of bait applications followed by monitoring and surveillance, the FAO program has been able to declare four of the nine islands provisionally free of TBT.

#### NONLETHAL PREDATOR CONTROL METHODS DEVELOPMENT

*Question.* In fiscal year 2001, the Committees advised APHIS to begin a pilot program within its wildlife services division to demonstrate the effectiveness of nonlethal methods to control predating species. Please provide a status of this project.

*Answer.* In fiscal year 2001, in cooperation with the Humane Society of the United States (HSUS) and Defenders of Wildlife, APHIS completed a protocol for pilot studies to evaluate the relative effectiveness of currently available nonlethal predator management methods only versus the integrated wildlife damage management approach APHIS uses.

APHIS pursued cooperators in California, Idaho, and West Virginia to participate in the pilot studies. We cooperated with the HSUS to create a small compensation fund to defray the cost of predator losses for cooperators who solely used nonlethal assistance during the first year of the study. Because the study would last several years and require additional compensation funds, we explored the possibility of using commercial insurance policies as a method for covering losses. APHIS planned to have National Wildlife Research Center scientists direct the project with three to five specialists involved in each of the three States. However, we decided to postpone the studies due to lack of adequate funding to conduct them in a scientifically sound manner. We are considering pursuing these activities as part of our fiscal year 2004 budget request.

*Question.* Please update the Committee on how you are utilizing increased funds in fiscal year 2002 to address infrastructure deficiencies at the National Wildlife Research Center and nonlethal predator control methods development.

*Answer.*

*Infrastructure deficiencies.*—We are using the fiscal year 2002 appropriation increase to correct the most urgent operating and maintenance deficiencies. These included replacement or repair of roofs, windows, and ventilation; purchase of building security devices; implementation of energy conservation measures; and coverage of rising facility utility costs.

*Non-lethal Predator Control Methods Development.*—NWRC is developing and testing several promising new non-lethal predator control methods, such as surgical

sterilization to reduce depredation associated with animals provisioning their young; animal activated frightening devices that inhibit movement of predators into areas with vulnerable livestock; and several capture devices that could reduce reliance on padded foothold traps. We are investigating attractant systems, including visual, sound, and odor applications, necessary to support field use of these methods. We make all research results accessible to the public via the APHIS and Wildlife Services web sites.

*Question.* What is the current status of the infrastructure deficiencies at the NWRC?

*Answer.* We are using the fiscal year 2002 appropriation increase to correct the most urgent operating and maintenance deficiencies. These included replacement or repair of roofs, windows, and ventilation; purchase of building security devices; implementation of energy conservation measures; and coverage of rising facility utility costs.

The new wildlife research pen complex in Fort Collins, Colorado will be completed in July 2002, and will more than double the potential output of methods for managing wildlife damage and risks. Current research priorities and ongoing research projects require all currently available financial and scientific staff resources.

#### EMERGENCY MANAGEMENT SYSTEM PROGRAM

*Question.* How has APHIS used increased funding for the Emergency Management System Program provided in fiscal year 2002 to respond to crisis that threaten the economic health of the animal industry?

*Answer.* For fiscal year 2002, APHIS expects to place emergency managers in 5 of the 10 Federal Emergency Management Agency (FEMA) regional offices throughout the United States. These managers will serve as FEMA liaisons and will deal with emergency management issues at each region. Currently, we are reviewing and classifying these positions. APHIS will continue the emergency management grants program begun in fiscal year 2001. In fiscal year 2001, APHIS awarded 38 grants. Of these 38 grants, APHIS awarded 31 to States, 6 to Tribal Nations, and 1 to a University. The objective of the grant program is to assist States with meeting and exceeding the National Animal Health Emergency Management System (NAHEM) State Standards. These standards were established to identify critical issues in emergency animal health preparedness. APHIS has recently begun the process for distributing the awards for fiscal year 2002.

#### UNIVERSAL ANIMAL IDENTIFICATION AND DATABASE RETRIEVAL SYSTEM

*Question.* Please provide an update on the Department's pilot project with the Wisconsin Animal Health Consortium to create a universal identification and database retrieval system for tracking the movement of animal and animal-based food products.

*Answer.* APHIS is working with the Wisconsin Animal ID Consortium to draft a cooperative agreement. The group has met, established a board, elected officers, and selected a Chief Operating Officer.

#### BRUCELLOSIS

*Question.* What actions is the Department taking to coordinate Federal, State, and private activities to eliminate brucellosis from bison, elk, and other wildlife in the Greater Yellowstone area?

*Answer.* In fiscal year 2001, the Departments of Agriculture and Interior signed a Record of Decision (ROD) for a bison management plan for the State of Montana and the Yellowstone National Park (YNP). The State of Montana also published a ROD, incorporating the same bison management plan. While the plan does not actually focus on eradicating brucellosis from the Greater Yellowstone Area (GYA), it does focus on managing bison to minimize the risk of brucellosis transmission. APHIS' next step is to work with involved agencies to develop a brucellosis elimination plan for the GYA. For fiscal year 2002, APHIS will assist the States and the National Park Service (NPS) with liaison activities, planning, bison capture, sampling and testing, and laboratory support. In addition, APHIS is collaborating with the State of Montana and the NPS on several research projects including ones on brucella viability and fetal disappearance. The findings from these projects are expected to be useful in developing an elimination plan.

## JOHNE'S DISEASE

*Question.* Please provide an update on the Department's coordinated efforts with the National Johne's Working Group and the States to develop national programs to ensure greater uniformity and equity among Johne's disease State programs.

*Answer.* APHIS is continuing to participate on the National Johne's Working Group (NJWG). The working group consists of members from the Federal and State governments, universities, and biologic and livestock industry organizations. The NJWG has developed national programs to ensure greater uniformity and equity among Johne's disease State programs. APHIS has developed State standards for these programs. Program officials are using these standards to identify negative herds, establish positive herds interested in eliminating the disease, and develop criteria for herd testing.

By fiscal year 2002, producers had enrolled 1,950 herds in State control program and 514 herds in State certification programs. Of the herds enrolled in State certification programs, 140 advanced within their programs to higher levels of assurance for test negative status. Of the 50 States, 39 have established advisory committees for Johne's disease with Federal representation. Eleven States are actively using APHIS resources including Florida, Illinois, Indiana, Kansas, Maine, Minnesota, New Jersey, New York, Ohio, Pennsylvania, and Wisconsin. By fiscal year 2003, we expect to more than double the number of herds advancing in Johne's certification programs.

## TUBERCULOSIS

*Question.* The spread of bovine tuberculosis could be devastating for U.S. cattle farmers. Please provide an update on the Department's survey and eradication efforts for bovine tuberculosis in Michigan and Texas for fiscal year 2002.

*Answer.* To address bovine tuberculosis in Michigan, program officials have tested all 300 thousand dairy cattle in the State. In addition, officials are in the process of testing the State's beef cattle population consisting of 1 million animals. This past winter season, we assisted the Department of Natural Resources (DNR) with collecting and testing samples from the 2001/2002 hunter-killed deer survey in Michigan. In addition, we are working with Michigan to develop split State requirements. Split-state status allows a portion of the State to declare itself free from disease while the other portion remains under quarantine or modified accredited status. In February 2002, the State of Michigan submitted its application to APHIS for split-state status. We are reviewing the application.

In addition, the Agency will provide technical and operational assistance to Michigan producers to prevent or reduce the transmission of tuberculosis between cattle and wildlife. Examples include exploring fencing designs that may separate livestock from wildlife and removing wildlife that present a threat to livestock. The Agency's National Wildlife Research Center is researching a model to evaluate management practices and potential barriers to minimize the interaction between wildlife and livestock.

Presently, no herds are under quarantine for tuberculosis in the El Paso, Texas milkshed area. However, based on past experience, we anticipate at least one of the large dairy herds in this area to be reinfected within 3 to 5 years. For this reason, APHIS will remove the high-risk dairy herds in this area to create a buffer zone between the United States and Mexico. APHIS is in the process of finalizing regulations to purchase high-risk herds. Our current authority allows us to purchase only infected and/or exposed animals. The State of Texas is actively pursuing legislation that will disallow others from starting up dairy operations in the area and will allow the affected dairy producers to have a tax extension on capital gains. Presently, we are in the regulatory process of reclassifying the status of the remaining portion of Texas (excluding Hudspeth and El Paso Counties). This portion of Texas will be losing its accredited free status because we identified two epidemiologically independent infected cattle herds in less than a 24-month period. State officials have since depopulated the two infected herds and have conducted complete investigations. Potentially, the State could regain the status for this area within 2 years. APHIS will work with the State to ensure it regains its status as quickly as possible.

*Question.* The fiscal year 2001 Status of Program indicates that the most serious barrier to the success of the bovine tuberculosis eradication project is infection in wildlife and in susceptible species that could transmit disease to domestic livestock; what actions is the Department taking to address this problem?

*Answer.* To address this problem and others in the tuberculosis program, the Secretary of Agriculture transferred \$60 million from the Commodity Credit Corporation (CCC) to APHIS in fiscal year 2001. APHIS is using a portion of these funds



to specifically address the disease in the wild white-tailed deer population in Michigan. We must control the outbreak in Michigan because domestic livestock can become infected by exposure to infected wild animals such as deer. APHIS has identified artificial feeding as the main source of disease transmission from deer to deer. As a result, program officials have banned artificial feeding. Since the emergency declaration, program officials have tested approximately 300 thousand dairy cows in Michigan and are beginning to test the State's beef cow population, estimated at 1 million animals. We have also assisted Michigan officials with testing more than 20 thousand samples from the 2001/2002 hunter-killed deer survey.

We are also continuing to provide technical and operational assistance to Michigan producers including developing and implementing activities to benefit local producers such as exploring fencing designs and depopulating white-tailed deer which present a threat to livestock. In addition, we are continuing to conduct research at the Agency's National Wildlife Research Center to evaluate management practices and test potential barriers to minimize the interaction between cattle and wildlife. If funding continues at the requested level, APHIS expects to control the situation in Michigan's wildlife population within the next several years.

#### VETERINARY BIOLOGICS

*Question.* American farmers, ranchers, and veterinarians need the necessary tools to prevent and control animal disease. The Committee has expressed concerns in the past that the USDA Center for Veterinary Biologics loses valuable personnel necessary to adequately review and approve veterinary biologics to serve this purpose and provided increased funding in fiscal year 2002 to support enhancement of the center. What steps is the Department taking to ensure that this center is adequately equipped to support timely and consistent review of submissions from the biologics industry?

*Answer.* To ensure that the Center for Veterinary Biologics is adequately equipped to support timely and consistent review of submissions, the Department will use the fiscal year 2002 funding increase to fill several vacant positions for biologics specialists, veterinary medical officers, and a statistician. In addition, APHIS has hired four reviewers, one specifically to review transgenic plant submissions. In addition, APHIS has replaced some obsolete laboratory equipment this year. APHIS expects that the filling these positions and purchasing equipment will enhance the services provided to the biologics industry.

#### INSPECTION SERVICES

*Question.* What is USDA doing to promote flexible hiring staff deployment arrangements in Hawaii to provide cost-effective inspection services to agricultural shippers?

*Answer.* APHIS uses a mix of full-time, permanent inspection officers as well as temporary employees to inspect cargo in Hawaii. We constantly review the program's needs to determine the most cost-effective mix. We plan to convert a portion of the temporary positions to permanent because that will likely reduce overtime costs and save money. To make services more cost-effective, APHIS recognizes a shipper or a treatment facility with a history of compliance. In that case, we would only do spot checks on that facility. APHIS currently has this arrangement with many treatment facilities and cut flower shippers' costs and the time they need to get full clearance for their products.

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#### QUESTIONS SUBMITTED BY SENATOR TOM HARKIN

##### SUPREME BEEF AND PATHOGEN STANDARDS

*Question.* In light of the Fifth Circuit's Supreme Beef decision, does the USDA still believe that it needs statutory authority to enforce pathogen reduction performance standards? If not, why? If so, will the Department support efforts to restore USDA's authority to set and enforce pathogen reduction standards?

*Answer.* The court's ruling in the Supreme Beef case did not impact the Department's ability to use the pathogen reduction performance standards as a way to measure the effectiveness of food safety programs within plants, nor did it impair USDA's ability to close plants that do not meet the statutory and regulatory requirements of the law for processing meat and poultry. FSIS continues to use Salmonella performance testing as one way to verify whether either the Hazard Analysis and Critical Control Point (HACCP) System or sanitation standard operating procedures (SSOPs) implemented by industry are successfully controlling hazards reasonably likely to occur. FSIS inspectors are charged with such verification activities. Agency

inspectors use record reviews, visual monitoring of plant personnel, and testing for Salmonella as tools to determine whether HACCP and sanitation systems are working. The Agency will continue to take action against those plants that fail to produce safe product.

#### LISTERIA MONOCYTOGENES IN READY-TO-EAT PRODUCTS

*Question.* What are your agencies doing today to protect consumers from Lm-contaminated foods? What are the current monitoring programs for Listeria monocytogenes in the products your agencies regulate? Dr. Murano, what are you doing to speed the rulemaking process? What, if any, regulatory action is FDA considering to reduce the risk to consumers from food that may contain Listeria?

*Answer.* FSIS conducts microbiological testing as a part of its pathogen reduction program for meat, poultry, and egg products. Thousands of samples are collected by inspectors each week and analyzed at FSIS' three laboratories. FSIS uses screening tests to reduce the resources needed to analyze samples. A screening test indicates if a sample is potentially positive for a pathogen. If a sample tests negative for a pathogen screening test, no further analysis is done. If the screening test indicates a potential positive, further testing is done to confirm the screen results.

FSIS is planning to evaluate a new HBAX method to screen ready-to-eat products for Listeria monocytogenes. The evaluation will determine if the new test is comparable to FSIS's current screening methods. The evaluation is part of the Agency's ongoing process of evaluating procedures to shorten the time it takes to obtain test results, while maintaining analytical quality.

FSIS also conducts a variety of public education programs to clarify technical and regulatory issues involving food safety. This outreach involves the use of backgrounders, technical papers, issue papers, and other educational materials that explain the complex, technical aspects of Salmonella performance standards, "zero" tolerance for E. coli O157:H7 in ground beef and Listeria monocytogenes in ready-to-eat products, product recalls, and Agency enforcement issues.

The Food Safety and Inspection Service (FSIS), has been working to educate pregnant women on the risks associated with Listeria monocytogenes. Working in partnership with the Food and Drug Administration, the Centers for Disease Control and Prevention, the International Food Information Council Foundation, and the Association of Women's Health, Obstetric, and Neonatal Nurses, FSIS developed a patient education sheet, Listeriosis and Pregnancy: What is Your Risk? The sheet provides much needed information on how to reduce the risk of Listeriosis for pregnant women and their unborn babies. Listeriosis and Pregnancy: What is Your Risk is being distributed by obstetricians and other healthcare providers that work with pregnant women.

With respect to Agency's pending rule on Listeria in ready-to-eat products, FSIS already has adopted a zero tolerance policy regarding this pathogen in ready-to-eat products and is in the process of evaluating outstanding data needs identified during the proposed rule's comment period before proceeding with the publication of a final rule. These data needs include analysis of Listeria contamination of ready-to-eat hotdogs by the Agricultural Research Service; reevaluation of the Listeria risk assessment to take into account contamination during processing and in-plant mitigation strategies; and assessment of the effectiveness of HACCP verification sampling by FSIS. The Agency is working diligently to respond to all the comments received on the proposed rule and to develop a sound scientific basis for the final rule.

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#### QUESTIONS SUBMITTED BY SENATOR TIM JOHNSON

##### COUNTRY OF ORIGIN LABELING

*Question.* On Friday March 15th, you were quoted in the Washington Post as saying "country of origin labeling doesn't matter". This came after a statement that you have declined offers from lawmakers to expand your legal authority to close plants, recall tainted meat products or require labeling on foreign meat.

Virtually every single farm, ranch and consumer group in the country supports country of origin labeling on meat products. Arthur Jaeger, Associate Director of the Consumer Federation of America, stated in a letter to the Washington Post editor, that while country of origin labeling is not a food safety program, it provides consumers important information about the source of their food. I don't think the issue of labeling has ever been considered a food safety issue. But when the largest consumer groups indicate that consumers would rather purchase domestic products over imported goods, I think it is clear where the public is on this issue.

In addition to supporting the basic label, they further their position to support a “born, raised and slaughtered” standard for products receiving the “USA” label. Your comments on labeling are specifically regarding meat. I am curious as to why you and the Department have singled out meat as not worthy of labeling.

So I offer the following questions:

Were you representing the views of the Department in saying “country of origin doesn’t matter?” Or is this a personal view you hold?

Answer. The full context of my remarks was not captured in that article. What I have maintained is that because all imported meat shipments are reinspected upon arrival at U.S. ports of entry prior to being allowed to continue on to a U.S. plant for further processing, country of origin labeling in no way affects the safety of imported product. The inspection it receives is the same as domestic product. The determinations as to whether it is fit or unfit for human consumption are the same. So country-of-origin is not a food safety issue; it is a marketing issue.

*Question.* Why do you think consumers do not have the right to know the origin of the food they feed their families when virtually all other consumer item bears a country of origin label?

Answer. That is not my view. As a matter of fact, voluntary labeling of domestic product does exist under FSIS meat and poultry regulations, however, there has not been a single company that has taken advantage of that program.

*Question.* What is your explanation to the American public, who has asked for country of origin labeling, yet are being ignored by the Department?

Answer. The public is not being ignored by the Department. FSIS already requires country-of-origin labeling on all meat carcasses, parts of carcasses, and retail packages entering the United States. Imported individual retail packages or consumer size packages must be labeled, in English, with the country of origin, establishment number, and name or descriptive designation of the meat products so consumers know the origin of the product. Furthermore, on August 7, 2001, FSIS published an Advance Notice of proposed Rulemaking (ANPR) entitled, “Product Labeling: Defining United States Cattle and United States Fresh Beef Products.” FSIS requested comments on whether these beef products should bear labeling claims that are different from those permitted under current Agency policy. Those comments are now being reviewed.

#### SCHOOL MEAL REIMBURSEMENTS

*Question.* As I stated earlier, I have some concern about the adequacy of school meal reimbursements. It’s my understanding that the Department has not conducted a comprehensive cost assessment for the school meal programs in a decade. I do not want to say that conditions in this industry have changed significantly since then. Last year we asked about a cost study, and were told that the Agency did not have the resources to do it. With Congress reauthorizing child nutrition programs next year, this would be very valuable information. My question is three fold. Initially, does the Agency have any data to indicate whether we are providing enough resources to schools to meet the nutrition standards and meal pattern requirements of the program? How much would it cost to conduct such a study? And finally, how quickly could you report back to us with the results?

Answer. The last comprehensive study that examined the cost of producing reimbursable meals in the National School Lunch Program and School Breakfast Program collected data in School Year 1992–93. At that time, the combined Federal subsidy for free lunches and breakfasts covered the cost of producing these meals. While it is true that conditions may have changed since then, the annual reimbursement rates attempt to accommodate these changes by making adjustments based on changes in the Food Away From Home series of the Consumer Price Index for All Urban Consumers.

The Agency does have data to suggest that most schools are able to offer meals that are consistent with the Dietary Guidelines for Americans with their existing resources. Data collected in School Year 1998–99 for the School Nutrition Dietary Assessment Study—II, indicate that 82 percent of elementary schools and 91 percent of the secondary schools offered students the opportunity to select lunches that provided no more than 30 percent of calories from fat over the course of a week. However, only 21 percent of the elementary schools and 14 percent of the secondary schools met the program standards for total fat for the average lunch served. The study does not examine the relationship between meeting the program standards and financial resources available to those schools.

To develop national estimates of the cost of producing reimbursable meals in the National School Lunch Program and School Breakfast Program (SBP) would require significant time and money. The cost of the previous meal cost study was about \$1.8

million and it did not examine the relationship of meal cost to nutrient content of meals. The time needed to select an evaluation contractor, select a nationally-representative sample of schools, obtain OMB clearance on the design and data collection instruments, collect and analyze the data, and write a final report would take about 3 years. A replication of the previous meal cost study would cost at least \$2.5 million today and would not provide answers to the question about the relationship of meal costs to meeting nutrition standards.

Examining the relationship of meal costs to nutrient content of meals would require a much larger study. Integrating the data collection needed for an analysis of meal costs with the nutrient content of school meals offered to students is a more efficient use of scarce research funds. Such a study today would cost approximately \$4–5 million and could be expanded to include an examination of after school snacks for which there is currently no meal cost data available.

It is expected that a large study examining the nutrient content of school meals offered to students will be conducted in 2005. The USDA Strategic Plan 2000 to 2005 seeks improvement in the nutritional quality of meals, commodities and other program benefits. Performance measures will be needed to determine if the targets established for schools meals (i.e., meeting the School Meals Initiative nutrition standards) are met by 2005. The new nutrition standards maintain long-standing goals of providing one-third (lunches) and one-fourth (breakfasts) of students' daily needs for calories and key nutrients as well as goals for fat and saturated fat content that are consistent with the USDA/HHS Dietary Guidelines for Americans recommendations.

#### INCREASES IN OBESITY RATES

*Question.* Studies by the Department of Agriculture and other outside associations have shown a steady increase in obesity in this country, especially in children. I understand that the Department has taken notice of this rise, held symposiums, and released studies, but given that this trend does not show signs of changing, what steps does the Department plan to take in the next year, and upcoming years, to address this disturbing trend, and what resources does it need from this Subcommittee in order to do so in an effective way?

*Answer.* There is no question that obesity and overweight are critical public health issues, with significant consequences for our Nation's future. We are committed to taking action using all available opportunities and resources to promote healthy weight and prevent overweight and obesity.

FNCS responsibilities related to overweight and obesity are in two areas: the effort to promote healthy weight among the general public, led by the Center on Nutrition Policy and Promotion (CNPP), and efforts to encourage healthy eating and physical activity among those served by Federal nutrition assistance programs, managed through the Food and Nutrition Service (FNS).

CNPP is developing an initiative to help change consumer's eating behaviors through focused, individualized messages and a multifaceted and long-term educational campaign that not only emphasizes what constitutes a healthy diet but also actually puts that knowledge into practice. The focus of this initiative is to identify real-life solutions and practical approaches that will help Americans make sensible food choices. Specific projects recently completed or in the planning stages include:

- Forums. Breaking the Barriers: Practical Approaches to Improve Americans' Eating Behaviors and Breaking the Barriers.*—Helping Americans Eat Smaller Portions. Experts in nutrition, behavior, the media and potential partners in this effort were invited to advise USDA at two forums. In addition, these forums inform these experts about the initiatives that USDA is promoting to improve health and reduce obesity in America, as well as to begin to define roles and contributions of potential partners. The discussion at these forums is being used to plan new USDA initiatives.
- Consumer brochure. How Much are You Eating.*—A consumer friendly brochure to help consumers become more aware of how much food is on their plate and to link the amount they eat to Food Guide Pyramid recommendations. The brochure will be released in April 2002, and made available on the CNPP website as well as through print copies.
- Media campaign.*—Organize press conferences, appearances, and media events to raise the public's awareness through the media. Media opportunities include USA Weekend, Parade Magazine, and other monthly women's magazines.
- Promotion and education materials.*—Consumer-friendly materials are being developed to increase awareness of food choices, and offer practical tips on making sensible decisions in real life situations such as snacking, fast foods, and restaurants.

- Conference on portion awareness.*—To present the scientific evidence on portion sizes, awareness by individuals of how much they are eating, the impact of these on obesity, and to increase media interest in the subject. Noted speakers will discuss different aspects of portion awareness.
- Food Label Initiative.*—Collaborate with the food industry to design and implement nutrition education information on the food label to help consumers relate the amount of food they're eating to the recommendation in the Food Guide Pyramid.
- Interactive Food Guide Pyramid.*—Develop a computer based interactive food guide pyramid to help consumers personalize their food choices and build their own pyramid. This would link with the Interactive Healthy Eating Index (IHEI) and provide consumers with more information about their food choices.

The Center plans to continue collaboration with potential partners to leverage CNPP resources to reach the largest possible audience with our messages. CNPP will strive to initiate a number of private/public partnerships to promote the Dietary Guidelines, 2000. FNCS is also involved in developing collaborative partnership efforts such as 5-A-Day with the Centers for Disease Control (CDC) and the National Cancer Institute (NCI), to promote consumption of fruits and vegetables.

FNS is working to better address obesity through Federal nutrition assistance programs by improving program standards and nutrition education, and expanding partnerships and collaborations. Key activities include:

- The Food Stamp Program (FSP).*—Is developing educational and promotional materials for low literacy and Spanish language groups that will support maintaining a healthy weight and adherence to the Dietary Guidelines.
- Updated nutrition standards in the school meals programs that have contributed to dramatic improvements in the number of schools offering students the opportunity to select a low-fat lunch; FNS is working to support further improvements through:
  - An action kit, Changing the Scene: Improving the School Nutrition Environment, to help schools provide students with skills, opportunities and encouragement to adopt healthy eating patterns;
  - Improvements in the nutritional quality of commodity foods, including lowering fat levels and increasing the quantity and variety of produce for schools; and
  - Team Nutrition Grants and cooperative agreements to support comprehensive school-based efforts to promote healthy eating and physical activity.
- Activities in the WIC Program to address overweight and obesity include:
  - Revitalizing Quality Nutrition Services (RQNS) in WIC by revising nutrition services standards and promoting effective nutrition education strategies;
  - Consistent program nutrition risk criteria to identify infants and children at risk of becoming overweight and to facilitate early intervention; and
  - FIT WIC Demonstration Grants to State Agencies to identify ways that WIC might be changed to help prevent childhood overweight and obesity.

*Cross-program activities.*—That support healthy eating and physical activity are also underway, including the EAT SMART. PLAY HARD.™ campaign designed to improve long-term health by encouraging behaviors consistent with the Dietary Guidelines and the Food Guide Pyramid, and new educational resources in English and Spanish to help make good dietary practices and physical activity easy for parents and children.

Recognizing the need to set priorities, USDA is working within existing resources to address overweight and obesity. However, policy changes could improve our ability to use resources effectively. In late 1999, FNS submitted a report to Congress, "Promoting Healthy Eating: An Investment in The Future," which outlined a framework for nutrition education to enable the Agency and its State partners to reach all potential eligible persons across program lines. The framework's components include:

- Authorized funding for cross-program coordination.*—To allow FNS and States the flexibility to direct nutrition education to potential participants across program lines.
- A funding mechanism to support sustained nutrition education for all programs.*—Ensuring that such efforts are a regular part of annual budgets and work plans.
- Cross-program coordination of messages and materials.*—To ensure that all programs use consistent, science-based nutrition education materials and messages that are accessible and appropriate for the FNS population.
- Expanding the reach of nutrition education by offering grants and State incentives.*—To better reach FNS target and special populations.

- Leveraging Federal resources with public-private partnerships.*—That could result in greater opportunities to encourage healthy dietary behavior and promote American agricultural products using multi-dimensional public and private sector strategies.
- Investing in evaluation.*—Of nutrition education delivery and infrastructure, as well as participant nutrition behaviors, to ensure the effectiveness of current efforts, address gaps and improve services.
- Partnership activities.*—That advance sound dietary practices, such as 5-a-Day Partnership with CDC and NCI to promote increased consumption of fruits and vegetables.

USDA VETERINARIAN OVERTIME PAY

*Question.* In early January, I wrote a letter to the Department regarding USDA veterinarian overtime pay and the Poultry Products Inspection Act. Many of my constituents who are veterinarians for USDA are required to work overtime at the request of the specific industry receiving inspection. At this time of heightened security and greater security around our borders. I am concerned that we are expecting the protectors of our borders to increase their output, while not adequately compensating them.

The Secretary has the authority to set the reimbursed per hour rate through rule making, which is allowed under the Meat Inspection Act and the Import Export Inspection Act. However, the Poultry Products Inspection Act does not contain this provision. My office has yet to receive a response to my correspondence, so I will take this opportunity to seek prompt attention to this matter with the following questions.

What is the Secretary doing to ensure those responsible for inspections are being adequately compensated for their contributions?

Answer. Federal employees who are not covered by the Fair Labor Standards Act receive compensation under Title 5 of the U.S. Code. For this group of Federal employees, which includes FSIS veterinarians, the overtime rate is capped at one and one-half times the GS-10, Step 1, hourly rate. The Title 5 cap means that veterinarians at the higher steps of the GS-12 grade are paid at an hourly overtime rate that is less than their hourly rate of basic pay. The Secretary of Agriculture is authorized by Title 7, section 394, of the U.S. Code to pay employees performing inspection under the FMIA for overtime work at such rates as the Secretary may determine. However, no comparable provision exists for employees performing inspection under the PPIA. Therefore, in fairness to all our employees, the authority to establish overtime pay rates in excess of the Title 5 limitation has not been used for veterinarians providing inspection services under the FMIA.

*Question.* Will the Secretary advocate for the Poultry Products Inspection Act to contain the provision allowing her office to set the reimbursed per hour rate?

Answer. Legislation has been introduced to address the issue of overtime pay for veterinarians. H.R. 3390 seeks to “provide consistent treatment of overtime, night, and holiday inspection and quarantine services performed by employees of the Department of Agriculture.” Currently, FSIS is reviewing this and other options on the issue of overtime pay for FSIS veterinarians. The Agency acknowledges the need to address pay reform and equity issues across the diverse array of Federal job occupations, and supports pay reform and equity among personnel performing like regulatory inspection work.

*Question.* Can I receive a commitment from you today to work with me in looking into this discrepancy?

Answer. We look forward to working with Congress on this issue.

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QUESTIONS SUBMITTED BY SENATOR THAD COCHRAN

FOOD SAFETY AND INSPECTION SERVICE (FSIS)

*Question.* In a Washington Post article on Friday, March 15, 2002, entitled “U.S. Vows Tougher Inspections of Imported Meat”, Homeland Security Director Tom Ridge is quoted as saying “one of the questions we need to answer is—whether or not we need multiple agencies dealing with food safety responsibilities.”

How would you answer that question?

Answer. As you know, the Administration’s report, Food and Agricultural Policy: Taking Stock for the New Century indicates that where possible, Federal policies and programs must be coordinated and integrated to reduce duplication of effort, regulatory burdens, and program costs. This is especially important where several

agencies share regulatory responsibilities or have a role in research, development, and implementation of food safety policies.

*Question.* Is the work FSIS conducts duplicative of any work done by FDA or any other Federal agency? If so, is this appropriate?

Answer. FSIS is responsible for ensuring that meat, poultry, and processed egg products are safe, wholesome, and accurately labeled. FSIS enforces the Federal Meat Inspection Act, the Poultry Products Inspection Act, and the Egg Products Inspection Act, which require Federal inspection and regulation of meat, poultry, and processed egg products prepared for distribution in commerce for use as human food. The Food and Drug Administration (FDA) of the Department of Health and Human Services (HHS) has jurisdiction over all other food products. This structure is a reflection of these different missions, as well as the different statutes formulated at different times for different reasons. However, FSIS and FDA have had a Memorandum of Understanding in place since 1999 to exchange information on an on-going basis about establishments that fall under both of our jurisdictions. As a result, both agencies have worked together on several cases in which we were jointly able to ensure the safety of specific food products.

*Question.* Should Federal food safety inspection activities be streamlined so that we don't have multiple government agencies working on different aspects of food safety, but rather a cohesive unit working to ensure the safety of America's food supply?

Answer. FSIS is committed to engaging in substantive discussion with FDA and other agencies with food safety responsibilities about other areas where cooperation can and should be utilized. USDA has actively engaged in efforts to increase inter-departmental and agency cooperation between itself and the Department of Health and Human Services (HHS). The Department is committed to ensuring efficient use of resources between food safety regulatory agencies in an effort to maximize the safety of the U.S. food supply and protect the public health.

USDA is pursuing the concept of inter-departmental cooperation and has set as one of the Department's highest priorities the need to work together across department and agency jurisdictions. USDA has aggressively engaged in steps to enhance cooperation, communication, and efficiency in the food safety arena through the establishment of the Food Threat Preparatory Network (Prep-Net). This group, which includes USDA and HHS officials, was established to coordinate both preventive and crisis response efforts throughout the Federal government to food safety issues.

The President's fiscal year 2003 budget includes a new licensing fee proposal to make funds available in fiscal year 2004 and subsequent years for FSIS to invest in food safety technology. A new licensing fee would require legislative action by the authorizing committee, the Committee on Agriculture, not this appropriations subcommittee.

*Question.* What plans has FSIS made to pursue this new licensing fee?

Answer. We are currently reviewing the overtime fee structure to identify whether there are inequities in the assessment of overtime fees. We are also reviewing options for the imposition of an annual licensing fee that all plants would pay, the revenue from which would be used by the Agency to invest in and upgrade food safety inspection technology.

*Question.* To whom would the licensing fee apply?

Answer. It is likely that all establishments would be assessed the licensing fee.

*Question.* How does the food safety technology FSIS plans to invest in differ from the food safety technology the agency currently uses?

Answer. Revenue generated by the fee would be used to expand and accelerate the Agency's existing program for pilot testing new food safety technologies, as well as to support their development through cooperative agreements with universities and other research institutions.

*Question.* How will food safety technology needs be met prior to introduction of the licensing fee, or in the event that the licensing fee is not authorized by the Agriculture Committee?

Answer. These needs are now met on a limited basis through the funding of pilot projects to test new food safety inspection technologies in meat and poultry establishments. Revenue from the licensing fee would support an expansion of these activities.

Also included in the budget is a plan to replace the existing overtime fee structure for meat, poultry and egg products inspection with revised structure to reduce overtime rates and include a charge for inspections for during second and third shifts.

*Question.* Can you explain the revised overtime fee structure proposed?

Answer. The Federal Meat Inspection Act (FMIA), Poultry Products Inspection Act (PPIA), and the Egg Products Inspection Act (EPIA), provide for mandatory Federal inspection of livestock and poultry slaughter at official establishments, and

meat and poultry processing at official establishments, and of egg products processing at official plants. FSIS bears the cost of mandatory inspection provided during all regularly scheduled and approved shifts of operation. Establishments and plants pay for inspection services performed on holidays or on an overtime basis. They also pay FSIS to perform a range of voluntary inspection, certification, and identification services to assist in the orderly marketing of various animal products and byproducts. FSIS also recovers the cost of certain laboratory services provided at the request of industry.

The 2003 budget for FSIS includes a proposal to review how overtime fees are currently applied to determine which types of establishments receive inspection services beyond one eight hour daily shift without reimbursing the Government, and those that have to pay fees. If this review identifies inequities in the assessment of overtime fees, then a revised structure would be considered that would charge establishments equitably for inspection services provided outside one eight hour daily shift.

*Question.* I understand there will be no budget impact in fiscal year 2003. What is the estimated impact in future years?

*Answer.* The future budgetary impact is dependent upon the implementation of the proposed fee structure, which is not anticipated to be complete in 2003.

The Administration proposed an increase of \$14.5 million to improve FSIS' information technology infrastructure.

*Question.* Will there be additional out-year costs associated with this system upgrade? *Answer.* The budget year and out-year costs of the FSIS Automated Corporate Technology Suite are as follows:

Fiscal year 2003—\$14.5 million; fiscal year 2004—\$10.5 million; fiscal year 2005—\$10.3 million; fiscal year 2006—\$11.8 million; fiscal year 2007—\$10.5 million.

The President's fiscal year 2003 budget requests an increase of \$1.2 million to conduct targeted slaughter epidemiological surveys. It is my understanding that this funding will be used to conduct an analysis of current animal-based databases and to develop a pilot project focusing on the specific needs of a public health surveillance system.

*Question.* What plans have been made for this pilot project? How extensive will it be? How long will it last?

*Answer.* The over-all objective of the project is to establish an integrated surveillance system with the Animal and Plant Health Inspection Service (APHIS) and our public health partners providing ante-and-post mortem data on animal diseases and emerging pathogens. Current plans are based on a project time frame of 3 years. An initial working group with APHIS will be formed this year to prioritize and determine how best to link this project with data collection systems already in place at APHIS and FSIS. First, the work group will analyze existing databases in FSIS, APHIS and CDC to determine how a coordinated information system could be developed utilizing existing surveillance and inspection systems and databases. An expert system will be designed that will provide aggregate data that can be studied in real time. Confidentiality of data will be addressed and processes to ensure that will be put in place.

During the first year the objective is to have data already collected to be able to be used in real time by epidemiologists for local, regional, national and seasonal trends in animal and human health. The first year will include a joint study with APHIS NAHMS, FDA NARHMS and CDC to plan in-plant surveys to potentially link with the next NAHMS study (which usually includes on-farm pathogen surveys). Data collected in sentinel plants for each slaughter class that NAHMS studies would enhance understanding and control of pathogens and other hazards. If successful, studies in sentinel plants for each slaughter class could be rotated on a three-to-five year basis in parallel with NAHMS studies to provide meaningful baseline and trend information from the farm through the to where product leaves the plant.

Project funding would be used primarily for increased sampling of animals/raw products for analyses, laboratory costs, microbial and chemical epidemiological studies of pathogens, travel, and meetings with partners and stakeholders to develop the demonstration project. The development of software to integrate Federal animal health and food safety data systems is part of the project as is epidemiological and surveillance training of field veterinarians.

The third year of the project would include an extensive evaluation process and a second NAHMS-linked study.

*Question.* Will there be additional costs in future years associated with this pilot project?

*Answer.* This project is expected to require \$1.2 million in funding each of the next three years. Assuming the \$1.2 million requested in fiscal year 2003 remains



in FSIS's base appropriation, no additional funds will be required after fiscal year 2003.

#### AGRICULTURAL MARKETING SERVICE (AMS)

*Question.* In its prepared testimony, the Agriculture Marketing Service points out that it has taken preventive steps to upgrade the security for operations and facilities to make sure that services to the agricultural sector are not interrupted. A few of the precautions that are noted include surveillance, physical security, and emergency power systems as well as emergency alternate headquarters locations all without the request for any additional funding to provide for these new safety measures. How are these costs being met? Are the emergency supplemental appropriations provided to the Department by Public Law 107-117 being allocated to cover these costs?

*Answer.* The Agricultural Marketing Service has already begun to improve the security of its operations and facilities by upgrading cyber-security and physical security, and by restricting access to laboratory facilities. Some upgrades were relatively inexpensive such as securing alternate access points to facilities by locking side and rear doors, using single access points that are continuously monitored by existing personnel, and replacing old locks with high security locks. Existing facilities outside Washington, D.C., were identified as emergency headquarters locations. Those facilities are already equipped with most of the equipment needed to assume command and control of field operations. AMS will use additional funding received under Public Law 107-117 for the installation of more expensive upgrades such as emergency power systems, video surveillance systems, and contract security guards.

#### WIC PROGRAM PARTICIPATION

*Question.* Is WIC program participation linked to unemployment or any other economic factor? Has any analysis on this been done by the Department? If so, what has it indicated?

*Answer.* We do not have a model for projecting future demand for WIC based on economic projections. Since program participation has been constrained by funding for most of WIC's history, little historical data is available upon which to build a model.

USDA is working to improve its estimates of the WIC eligible population and WIC participants. In fiscal year 2002, USDA provided funding to the National Academy of Sciences (NAS) to develop alternative estimation procedures. This effort will build on an earlier report issued by NAS that identified parts of the estimation methodology for which improvements could be made.

*Question.* The fiscal year 2003 budget request for WIC would support an average monthly participation of 7.8 million women, infants, and children, an increase of approximately 300,000 higher than the projected fiscal year 2002 participation level? What is the basis for that estimate?

*Answer.* It is very difficult to forecast demand for the WIC program with a high degree of precision. The President's Budget, recognizing WIC's strong track record of success, seeks to remedy this situation. The program has been shown to reduce infant mortality, premature births and low birth weight and has helped reduce anemia rates and increase childhood immunization rates. Given WIC's proven effectiveness, the President is committed to ensuring that adequate funds are provided to WIC to meet program demand. The request includes a \$150 million contingency fund, which could be used to support additional participation if demand in fiscal year 2003 is greater than current projections. Adequate and stable funding for WIC is a vital part of the President's commitment to set priorities to meet the nation's most important needs.

#### WIC VENDOR MANAGEMENT STUDY

*Question.* The fiscal year 2003 proposal for WIC includes a \$2 million increase to conduct a WIC vendor management study. The final report on 1998 WIC vendor management study was just submitted to this Committee in August 2001. What is the need for this additional study?

*Answer.* The WIC program spends about \$5 billion per year in over 45,000 retail grocers (vendors) throughout the country. Although we have recently completed a study of WIC vendor management, given the size and scope of the program, there is a need to continually update this information.

More importantly, this study is needed to allow us to examine the effects of the Food Delivery Systems final rule that was published on December 29, 2000. This rule strengthens vendor management in retail food delivery systems by establishing mandatory selection criteria, training requirements, criteria to be used to identify

high-risk vendors, and monitoring requirements, including compliance investigations. In addition, the rule strengthens food instrument accountability and sanctions for participants who violate program requirements. It also streamlines the vendor appeals process.

Finally, the new vendor management study will allow us to examine areas that have not been examined in previous WIC vendor management studies, such as trafficking in the WIC program.

*Question.* Why is this study proposed to be funded through the WIC program account rather than as part of the nutrition studies and evaluation program funded through the Food and Nutrition Service "Program Administration" appropriation.

*Answer.* In the past, studies and evaluations conducted by FNS have been funded out of the program to which the benefits of the work accrue. As you know, the WIC statute in Section 17(g)(5) authorizes up to one-half of 1 percent of the appropriation, up to \$5,000,000 a year, to be used for evaluating WIC performance, health benefits, participant characteristics and providing technical assistance. While Congress has in recent years generally prohibited the use of funding in the food assistance program accounts for study and evaluation work, it has authorized the use of these funds for specific projects. We view projects of this kind as a necessary and appropriate cost of operating these programs effectively. The FNS Program Administration request does not include funds to support this study.

#### WIC-IMMUNIZATION ACTION PLAN

*Question.* In its report accompanying the fiscal year 2002 Agriculture, Rural Development, Food and Drug Administration and Related Agencies Appropriations Act, the Committee directed the Secretary of Agriculture to consult with the Secretary of Health and Human Services to delineate departmental financial and operational responsibilities necessary to promote the objectives of the Executive Memorandum of December 11, 2000, for improving immunization rates for children. In response to that directive, the Department submitted to the Committee a copy of its recently developed "WIC-Immunization Action Plan". The letter indicates that the WIC-Immunization Action Plan is a working document that will be revised and updated as necessary. Can the Committee expect to receive copies of revisions and updates to the plan as they are made?

*Answer.* We will be pleased to provide the Committee revised and updated versions of the WIC-Immunization Action Plan demonstrating progress being made on the goals and objectives outlined in the plan. Updated copies will be sent to the Committee on a bi-annual basis.

*Question.* When can the Committee expect to receive the report it requested as to how the Departments of Agriculture and Health and Human Services have delineated financial and operational responsibilities for carrying out this plan?

*Answer.* The WIC-Immunization Action Plan previously submitted to the Committee is intended to serve as the document that delineates financial and operational responsibilities for carrying out the plan. It outlines goals, objectives, responsibilities, and a timeline for completion of collaborative activities designed to improve immunization rates for children participating in WIC.

*Question.* In the interim, what is the Department of Agriculture's current agreement with the Department of Health and Human Services regarding the financial and operational responsibilities of the two departments in carrying out the goals of the Executive Memorandum?

*Answer.* USDA and DHHS are working together to implement this plan using existing resources. For example, as directed by the Executive Memorandum, WIC now has a standardized procedure for screening the immunization status of children using a documented procedure. The cost of local level assessments and referrals remain WIC-allowable costs. The Centers for Disease Control and Prevention (CDC) will fund training and educational materials necessary for WIC to implement this new procedure. The training takes place this summer. CDC also funded a study that evaluated the effectiveness of WIC's new standardized procedure.

#### WIC INFRASTRUCTURE GRANTS

*Question.* The fiscal year 2003 WIC request also includes a \$4 million increase from the fiscal year 2002 level for infrastructure grants. What is the need for this additional funding and which additional projects would be funded if this increase is provided?

*Answer.* The two primary areas that would receive additional funding should FNS receive the \$4 million increase to the WIC multi-purpose funding are: 1) general infrastructure funding, which provides grant monies to WIC State agencies primarily for management information systems; and 2) electronic benefit transfer (EBT) devel-

opment. Currently, funding requests from States in both of these critical program areas exceed funds available for these purposes.

#### REIMBURSEMENT RATES IN CHILD NUTRITION PROGRAMS

*Question.* The Child Nutrition Programs are up for reauthorization next year, and one item that has been brought to my attention by constituents in Mississippi is the inadequate reimbursement rates for school meals. It is my understanding that the intent of the reimbursement rates is to cover the full costs of the food, actual production or preparation of the meal, and the labor involved. Currently the rate of reimbursement for a free lunch in the continental United States is \$2.09 (this figure is slightly higher in Alaska and Hawaii, while the average cost of a school lunch in Mississippi is \$2.20. How is the reimbursement rate determined?

*Answer.* Reimbursement rates for lunches served under the National School Lunch Program are established in sections 4 and 11 of the Richard B. Russell National School Lunch Act. Section 4 authorizes a flat per-meal reimbursement that is provided for all meals served under the Program; section 11, an additional amount for meals served free and at a reduced price. In all cases, the statute establishes a base rate for each meal type and requires the Department to annually adjust these rates to reflect changes in the "series for food away from home of the Consumer Price Index for all Urban Consumers" published by the Bureau of Labor Statistics. Section 12 of the Act authorizes the Department to make adjustments to the established rates to reflect higher costs associated with providing meals in Alaska, Hawaii, Guam, American Samoa, Puerto Rico, the Virgin Islands and the Commonwealth of the Northern Marianas. In addition, meals receive a per meal commodity reimbursement, which in the upcoming fiscal year will be 15.6 cents per meal.

*Question.* Although reimbursements are made for Alaska and Hawaii, how can each of the 48 contiguous States be expected to survive on the same reimbursement rate with such varying economics?

*Answer.* Historically, program statutes have provided for single, program-wide reimbursement rates for free, reduced price and paid school lunches. The only exceptions to these rates (also established in the statute) exist for needy schools that are entitled to an additional two cents per lunch and additional funding for breakfasts, as well as for the non-contiguous States and territories where the Department may provide higher rates to reflect the greater cost of producing a lunch.

The current system of using a single national reimbursement rate for the contiguous States has been successful in achieving high levels of participation by schools in the National School Lunch Program and providing nutritious meals to school-aged children. However, this method of reimbursement clearly does not take into account the numerous variables that cause these rates to be adequate or inadequate to cover the cost of preparing meals in different States, cities or school districts. We believe that it would be useful to once again study the costs of providing school lunches to get an overall sense of how things may have changed since the last study. However, given all the variables involved, we feel that it would be extremely difficult to establish differing reimbursement rates that sufficiently accommodate these variables.

*Question.* In preparation for reauthorization of the Child Nutrition programs, would you agree that a study should be conducted regarding the reimbursement rates for school meals and the adequacy of those rates on a state-by-state basis?

*Answer.* The Agency agrees that it is time to reexamine the adequacy of reimbursement rates for school meals and perhaps even examine the adequacy of cash reimbursements for after-school snacks. However, the results would not be available in time for reauthorization. The last comprehensive study that examined the cost of producing reimbursable meals in the National School Lunch Program and School Breakfast Program collected data in School Year 1992-93. That study developed national estimates, excluding Alaska and Hawaii based on data from 540 schools in 98 school districts. It did not develop state-level estimates. It took about three years to complete and cost about \$1.8 million. Clearly, if a similar study were to be conducted, the results would not be available for upcoming discussions on reauthorization of the Child Nutrition Programs.

Determining the adequacy of reimbursement rates for school meals on a state-by-state basis will entail significant time and costs. Samples would have to be sufficiently large in each State to ensure that the state-level cost estimates of producing reimbursable meals were of adequate precision to be meaningful. This would make the study very expensive. In addition, it is unclear how useful these state-level estimates of the cost of producing reimbursable meals would be in determining the adequacy of the reimbursement rates. While there may be considerable variability in the school meal costs across individual States, there is probably just as much varia-

bility within States. Calculating a meal cost estimate for the State of New York may not provide much insight into whether the reimbursement rates are adequate in Ithaca, NY or Long Island, NY. Similarly meal costs in and around Jackson, Mississippi may not help estimate costs in Corinth or Tupelo, Mississippi. It may not be cost effective to spend valuable research resources to develop state-level estimates on a recurring basis. The current system of utilizing a single national reimbursement rate for the continental U.S. has been successful in achieving high levels of school participation in the National School Lunch Program and providing nutritious meals to school-aged children.

LEGAL IMMIGRANTS IN THE FOOD STAMP PROGRAM

*Question.* The Senate-passed version of the Farm Bill includes a provision to allow legal immigrants who have been in this country for five years or more to apply for food stamps. Is this identical to the President's fiscal year 2003 budget proposal, and is full funding for this provision included in the fiscal year 2003 and each subsequent fiscal year? What are those out-year costs?

*Answer.* The Senate-passed provision to extend food stamp eligibility to legal immigrants after five years of residence and the President's budget proposal are substantively the same. The President's budget request fully funds the immigrant proposal. In the first year this costs \$66 million; over ten years, this proposal costs \$2.099 billion.

*Out-year costs for President's immigrant proposal*

	[In millions]	
2003 .....		\$66
2004 .....		130
2005 .....		195
2006 .....		205
2007 .....		219
2008 .....		232
2009 .....		245
2010 .....		259
2011 .....		271
2012 .....		277
Ten year total .....		2,099

COMMODITY SUPPLEMENTAL FOOD PROGRAM ADMINISTRATIVE FUNDING

*Question.* The President's budget decreases funding for the Commodity Supplemental Food Program (CSFP) administrative expenses by \$4 million. The Senate-passed version of the Farm Bill reauthorizes the CSFP and includes a provision for a grant per caseload slot for administrative expenses incurred by State and local agencies operating the CSFP. If this provision is retained in the final version of the Farm Bill, will the President's budget support the grant for the 2003 caseload? If not, what percentage of the 2003 caseload could be served given the President's proposal?

*Answer.* If the Farm Bill provision basing CSFP administrative expense grants on a per caseload slot formula becomes law, the resources requested in the fiscal year 2003 budget may not be sufficient to support the proposed caseload and participation levels.

Assuming that the provision's administrative funding per caseload slot would be adjusted upward with inflation, as proposed, from \$50.00, as cited in the Bill, to \$51.50 for fiscal year 2003, the incremental cost to the program might be as great as \$6.5 million at a caseload of 495,683. CSFP resource management is very dynamic and is effected by a variety of factors that are difficult to anticipate.

To the extent that caseload utilization rates and food cost inflation are lower than assumed in the budget request or there are more commodity donations than currently projected, the need for additional funds to support the costs of the Senate Farm Bill provisions may be offset.

Given the assumptions for fiscal year 2003 in the budget, if the program is to absorb this additional cost and stay within the requested amount, participation could be supported at 93 percent of the level cited in the budget.

*Question.* How much additional funding would be needed to fully support the 2003 caseload if this provision becomes law?

*Answer.* Up to an additional \$6.5 million may be required to fund the Senate Farm Bill provision and maintain planned program participation. This estimate is based on the fiscal year 2003 budget request and the assumption that the provi-

sion's administrative funding per caseload slot would be adjusted upward with inflation, as required by the provision, from \$50.00, as cited in the Bill, to \$51.50.

To the extent that caseload utilization rates and food cost inflation are lower than assumed in the budget request or there are more commodity donations than currently projected, the need for additional funds to support the costs of the Senate Farm Bill provisions would be less than this estimate.

*Question.* Would the Department be willing to recommend that OMB submit a budget amendment if necessary to cover the additional funding needs? If not, what would be the consequences to the CSFP?

*Answer.* The Department does not anticipate the need to submit a budget amendment for CSFP at this time. Estimates of the incremental cost imposed on the program by the Farm Bill's administrative cost provisions are conservative—abiding strictly by the program performance assumptions of the fiscal year 2003 budget. However, CSFP resource management is very dynamic and is effected by a variety of factors that are difficult to anticipate. To the extent that caseload utilization rates and food cost inflation are lower than assumed in the budget request or there are more commodity donations than currently projected, the need for additional funds to support the costs of the Senate Farm Bill provisions may be offset. The Department intends to maintain continuity of CSFP operations, within the fiscal year 2003 request, whether or not the Farm Bill provisions are enacted.

#### FOOD PROGRAM ADMINISTRATION

*Question.* Within the Food Program Administration account, the budget requests an increase of \$4.5 million for program integrity for Food Stamp and Child Nutrition Programs. How will this funding be distributed between the two programs?

*Answer.* The Food and Nutrition Service will distribute \$3.5 million to the Food Stamp Program and \$1.0 million to the Child Nutrition Program.

*Question.* Within each program, how will this funding be allocated? What are the guidelines or activities for testing program integrity?

*Answer.* For fiscal year 2003, FNS has requested \$3,500,000 in additional funding and up to 45 additional staff years for enhanced Food Stamp program integrity efforts. Approximately half of the resources would go to payment accuracy and quality control efforts aimed at reducing erroneous payments to recipients. The other half would be devoted to retailer integrity.

The error reduction resources would support a new headquarters unit focused exclusively on payment accuracy and expanded program integrity efforts within FNS regional offices. The newly formed payment accuracy unit would: (1) encourage States to focus on error causes that are in their control; and (2) address program management issues. The outcome of this effort will be an improved stewardship of Federal dollars. The new resources would spearhead in-depth analyses of error causes, promote problem-solving techniques, and act as a catalyst to achieve changes in the way States do business. This renewed focus will highlight two major problems: (1) State agencies' failure to act on known information; and (2) their failure to utilize resources that offer assistance in determining recipients' initial and ongoing eligibility.

Retailer integrity resources will be devoted to better analysis of electronic benefit transfer (EBT) data and increased investigator capacity to identify and remove fraudulent retailers from the program. They would also be used to augment retailer investigative and sanctioning capability through analysis of data provided by the Anti-fraud Locator using EBT Retailer Transactions (ALERT) system, and increase retailer compliance investigative capability. Using average production figures for the last five years, each additional compliance investigator would result in 103 more stores investigated each year, of which approximately 44 would be found violating and 12 trafficking.

The guidelines/activities for testing program integrity regarding erroneous payments are regulations, handbooks and policies that support the Food Stamp Program Quality Control System. Under that system, State personnel perform second party reviews of a sample of cases and a sub-sample is reviewed by Federal personnel. The results of those reviews are used to develop statistically valid State error rates. With regard to retailers we have two measures that will be used. The first is a measure of trafficking. FNS has done two studies and is now doing a third to estimate the rate of trafficking. These studies, done over time, give us an indication of the extent of trafficking and the effectiveness of what we are doing to address this problem. In addition, the agency is looking at other measures of retail integrity that, if proven, could give us an indication of the size of the issue and whether progress is being made at confronting it.

The request for the Child Nutrition Programs is \$1 million and 13 staff years. The additional resources would be used to conduct intensive, focused program evaluation and oversight reviews of State and local program operators which target the most pressing management improvement problems. The structure of the reviews will be based on existing review procedures for individual CN programs, such as the Coordinated Review Effort for the National School Lunch Program and the Management Improvement Guidance for the Child and Adult Care Food Program, with modifications as necessary to conform procedures to new regulatory requirements and to provide greater scrutiny of identified program integrity problems. Information developed from these reviews will be compiled and analyzed to evaluate the effectiveness of regulatory and policy changes aimed at improving program integrity and to identify areas in which further policy, regulatory, or statutory changes may be required.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

FOOD AND DRUG ADMINISTRATION

STATEMENT OF LESTER CRAWFORD, DEPUTY COMMISSIONER

ACCOMPANIED BY:

**DR. MURRAY LUMPKIN, PRINCIPAL SENIOR ASSOCIATE COMMISSIONER**

**JEFF WEBER, SENIOR ASSOCIATE COMMISSIONER FOR MANAGEMENT AND SYSTEMS**

**KERRY WEEMS, ACTING DEPUTY ASSISTANT SECRETARY FOR BUDGET**

Senator KOHL. Thank you very much. Our last panelist today is Dr. Lester Crawford, who is the newly appointed Deputy Administrator for the Food and Drug Administration. Before you begin your statements, I just want to inform you that one of our major interests is the high cost of pharmaceutical drugs, and the degree to which the FDA is or is not in a position to make a positive impact on this problem in our society.

But it is such a complicated issue all by itself, and so many different angles to it, we are considering a separate hearing on it, on pharmaceutical prices and the FDA's role in that. And we hope very much that if we call this hearing you will make yourself available to respond to our questions and some of our thoughts, as well as to give us your thoughts. Having said that, we would love to hear a summary of your testimony here today.

STATEMENT OF LESTER CRAWFORD

Dr. CRAWFORD. Thank you, Mr. Chairman, and members of the subcommittee. Good afternoon. Allow me to introduce myself. I am Lester Crawford, Deputy Commissioner for Food and Drugs, an agency of the Department of Health and Human Services. This is my fourth stint at FDA. I also served as Administrator of the Food Safety Inspection Service from 1987 to 1991.

I am joined at the table by Dr. Murray Lumpkin, who is Principal Senior Associate Commissioner; Mr. Jeff Weber, who is Senior Associate Commissioner for Management and Systems; and by Mr. Kerry Weems, who is Acting Deputy Assistant Secretary for Budget. Mr. Chairman and members of the subcommittee, I am honored to be here to discuss the President's budget for the Food and Drug Administration for fiscal year 2003. Speaking for myself, I have always firmly believed in this process and believe that it is a commitment to the taxpayers as to what we will do in the coming year.

I am pleased to say the document before us fully meets this test. The origins of the Food and Drug Administration go back to the Food and Drug Act of 1906, which expressed the will of the Congress to protect Americans against misbranded and adulterated

food, drinks and drugs in interstate commerce. That was but the first step.

Over the years, Congress saw fit to enlarge the FDA's public health mandates to cover not only 80 percent of the national food supply, but also all human drugs, vaccines, blood for transfusion and blood products, tissues for transplantation, medical devices and devices that emit radiation, cosmetics and all food and drugs for animals. Today our agency is responsible for the safety and effectiveness of \$1 trillion worth of products on which Americans depend daily for their lives, nutrition and good health.

The FDA's overall success in performing this mission is reflected in the traditionally well protected public health and the high quality of life that are among America's most widely admired hallmarks. In this sense, the international reputation and leadership of FDA are without parallel. The more specific recent achievements of the agency are discussed in my written testimony, which describes some of the agency's actions to meet its considerable responsibilities in the last year. It is a record we are proud of, especially those accomplishments relating to FDA's rapid and effective responses to terrorist attacks last September.

It is a record that I believe measures up to the confidence that Congress has placed in our agency. Among other subjects, my written testimony briefly outlines FDA's contribution to the continually improving safety and security of the Nation's food, FDA's important role in the system of safeguards against bovine spongiform encephalopathy, or mad cow disease, and the agency's actions to prevent the development of antimicrobial resistance and protect human participants in clinical trials.

The document also lists some of the hundreds of highly complex and innovative health care products that the FDA last year approved for marketing: drugs, biological medications and medical devices that have tremendous potential to relieve human suffering as well as stimulate our economy.

It is on this record of accomplishment that the President has based this budget request of \$1.7 billion, \$295 million of which is in user fees, for the FDA in the next fiscal year. Our budget seeks resources to maintain our counterterrorism efforts, fully fund the proposed pay increase for our employees, expand our efforts at patient safety and generic drugs, and continue funding for a new financial management system.

Mr. Chairman, members of this subcommittee, as taxpayers as well as civil servants, we at FDA fully appreciate the importance of maintaining strict budgetary discipline. We are also conscious of the imperative of protecting the health of the American people in an environment that is constantly evolving. As we look ahead, we must complete a number of significant projects, projects that are vital to this Nation of ours.

We must continue to improve our counter terrorism preparedness. That means insuring the safety of the products the FDA regulates, and safeguarding the availability of vaccines and other medications that can mitigate the potential impact of terrorism in America. We must satisfy the high expectations of American consumers. They demand and deserve effective public health protec-



tion, and ready access to health related information even as their demographic and consumption patterns are becoming more diverse.

We must prepare for the coming arrival of a new generation of efficacious medical products. These new drugs and devices can transform the practice of medicine and bring unprecedented health benefits to millions. But first, their safety and effectiveness must be assessed by our agency. We must continue in a comprehensive and open manner our evaluation of genetically modified food products. The technology is increasingly used to make American food yet more available and plentiful. But, international acceptance of this technology is not yet complete.

We must make sure that our public health activities are in harmony with the new world of international trade. These are meaningful goals and I can assure you that the FDA will address them thoughtfully and effectively. Our most effective instrument, as always, will be science, which is a firm, factual and objective ground on which the FDA places its product evaluations, its regulations and its public health policies. And our most critical need, as always, will be a steady resource commitment and continued support from the United States Congress.

We are grateful for the support this committee has provided in recent years. The FDA looks to you, Mr. Chairman, your subcommittee and Congress to sustain our efforts to provide the American people with public health protection that is the envy of the world. In closing, let me also mention that FDA fully ascribes to the one HHS policy of Secretary Thompson. This assures that our resources and expertise will be enhanced by a seamless system of cooperation and coordination with the CDC, the NIH and the Office of the Surgeon General, as well as the other public health resources of the Department of Health and Human Services.

#### PREPARED STATEMENT

My colleagues and I will be pleased to respond to your questions. Thank you.

[The statement follows:]

#### PREPARED STATEMENT OF LESTER CRAWFORD

Good afternoon Mr. Chairman and Members of the Subcommittee. My name is Lester M. Crawford, D.V.M, Ph.D. I am the new Deputy Commissioner for the Food and Drug Administration. Some of my previous positions include Director of the Center for Food and Nutrition Policy at Virginia Tech, Administrator of the U.S. Department of Agriculture Food Safety and Inspection Service, and Director of the Center for Veterinary Medicine at the Food and Drug Administration. I am honored to be with you here today to discuss public health and the President's fiscal year 2003 budget for the Food and Drug Administration.

As we lay the groundwork to address the challenges of this new century, we need to understand where we have been, what has been accomplished, how much has changed and how much still remains to be done. For FDA, the events of September 11, 2001, and subsequent incidents involving anthrax contamination underscored the importance of our role in protecting the public health, and reinforce the fundamental principles required for public health protection. The events of the past year have highlighted to all of us that the products FDA regulates—human and animal foods, drugs, biologicals and medical devices—could be used intentionally to cause widespread harm. This situation has raised our awareness of the challenges being faced in the public health sector, including:

- Increasing consumer anxiety about the safety and security of FDA-regulated products;

- Increasing expectations of consumers with changing demographics and consumption habits to easily obtain medical, research and risk-related information;
- Continuing rapid transformation and complexity of the science and technology that generates the products FDA must regulate; and
- Expanding and evolving composition of global trade and production.

Let me assure you, FDA is deeply committed to our 100 year public health mandate—to provide the U.S. citizen with the world's best public health promotion and protection. Today, more than ever, in order for FDA to continue to fulfill the public's expectations of safe and effective medical products and a safe food supply, FDA needs a strong science foundation.

Science will always play a defining role in our Agency's work. The U.S. continues to lead the world in an era of extraordinary scientific achievements in research, product development, and collaboration—all of which can yield unprecedented advancements for health and nourishment. We continue to marvel at scientific achievements in fields as diverse as cell and gene therapy; genomics-based drugs; state-of-the-art surgical robotics; medical devices that reduce trauma to patients; and bioengineered plants and animals. These achievements represent an enormous potential for saving lives, improving the quality of life and stimulating economic growth. I caution that along with the potential benefits, there exists the possibility for harm if these new technologies and products are not appropriately monitored by well trained investigators who understand the risks involved as well as the potential rewards.

It is important to mention that for many of these innovative products, the most significant hurdle to their acceptance is not the technology itself, but consumers' distrust of unfamiliar features, and the newness itself. The public expects that food, from farm-to-fork, will be safe and wholesome; that new medical products will be accessible and available in a timely manner; will have scientifically demonstrated real benefits that outweigh their known risks; and that product information and labeling will be accurate, and understandable.

As an Agency, FDA has always been proud of its commitment to maintain high standards which helps us maintain consumer trust and confidence. Maintaining that trust requires constant vigilance. Responding to the new dangers we face is a job that requires time, resources, and careful planning. We will not rest on the accomplishments of the past and we realize the enormity of the job that lies ahead of us.

With that in mind let me discuss some of our recent accomplishments and summarize our budget request which speaks to the immediate and long-term challenges that we face.

#### ACCOMPLISHMENTS—COUNTER TERRORISM

Public health agencies have long assumed that a terrorist attack targeting the U.S. food supply was possible. Given the September 11, 2001, events, and the supplemental funding of \$151 million in fiscal year 2002, it is gratifying to know that we have the resources to better equip ourselves to prepare for, and respond to, a terrorism attack. I want to thank you for the additional resources provided to FDA in the fiscal year 2002 Emergency Supplemental Appropriation.

Responding to emergencies is not new to the FDA. Our Office of Emergency Operations responds to all types of emergencies and is routinely working behind the scenes on a day-to-day and hour-by-hour basis on public health crises. FDA staff has well-established experience on a wide range of emergencies, from outbreaks of foodborne illness to product tamperings and now, to deliberate exposure to anthrax.

Counter Terrorism resources recently provided by Congress will allow our Agency to hire 218 staff to pursue the work required to fully support the regulation of the development and licensure of new drugs, vaccines, medical devices, and radiological products for protection and treatment against terrorism-related diseases. Toward that end, we are working to develop new bioterrorism tools by accelerating the availability of medical products necessary to ensure public health preparedness. One such element is the expeditious development and licensing of products to diagnose, treat or prevent outbreaks from exposure to the pathogens that have been identified as bioterrorist agents. This process is extremely complex and early involvement by staff is crucial to the success of the expedited review process. These products must be reviewed and approved prior to the large-scale productions necessary to create and maintain a stockpile. Staff must guide the products throughout the regulatory process, including the manufacturing process, pre-clinical testing, clinical trials, and the licensing and approval process. Experts in these areas are needed to expedite the availability of these products.

The supplemental funding also will support our efforts to enter into various research contracts and Interagency Agreements (IAGs) with other Federal agencies, such as the Department of Defense (DOD), the National Institutes of Health (NIH), and the Centers for Disease Control and Prevention (CDC), to develop protocols, conduct animal studies, and define reference databases on treatment and alternative therapies for infectious diseases caused by the intentional use of biological agents. In addition we plan to use a portion of the resources to improve internal scientific knowledge and capabilities, conduct research to assess in vitro diagnostic technology used to detect biothreat agents, conduct a market assessment to identify potential device shortages, and educate health professionals and consumers on the use of medical biowarfare products. We have high expectations that our efforts to target Agency resources simultaneously toward research and risk assessment; an expanded science base; and education, outreach, and consultations to customers will help maximize and leverage our work efforts effectively.

Thus far FDA has developed strategies to strengthen the protection of all regulated products against willful contamination, and to improve the availability of medical products for the prevention or treatment of injuries caused by biological, chemical or nuclear agents. For example, FDA took the initiative to issue a notice which clarified that the antibiotics doxycycline and penicillin G-procaine are effective and approved for use in treating all forms of anthrax infections. This notice included explicit dosing based on FDA's review of scientific literature and data that had been used to support the August 2000 approval of ciprofloxacin for anthrax. The assurance that the three drugs are effective against all forms of anthrax infection eased the public's concerns about a potential shortage of medication for victims of the mailed anthrax powder. Further we stepped up work on measures to encourage the development of new drugs to counter the toxic effects of chemical, biological, radiological and nuclear weapons.

FDA is working closely with industry and other government agencies in an effort to assure an adequate supply of products for immunization against anthrax, smallpox and other substances that might be used by terrorists, and to evaluate adverse experiences reported after administration of anthrax vaccine in order to optimize its safe use.

FDA contributed to the development of methodology for the detection of biological agents for potential use by terrorists, and cooperated with the National Institutes of Health in developing a guidance on the use of potassium iodide to reduce the risk of thyroid cancer in radiation emergencies.

FDA is increasing its emergency response capability by reassessing and strengthening its emergency response plans. For example, we targeted certain FDA activities to better support the protection of regulated products (food and animal feed, radiologic devices, the blood supply, drugs, and vaccines) from contamination and tampering and shifted resources to ensure the availability of medical products necessary for public health preparedness and for use against anthrax and other biological, chemical, or nuclear agents. We revisited how best to communicate with manufacturers to ensure the availability of products needed to treat biological agents. We have expedited our efforts to develop strategies to seize illicit or contaminated products and to provide regulatory and scientific guidance to government agencies responsible for the use of medical products in a public health emergency. We have met with key staff from the medical device and electrical manufacturers associations to identify potential device shortages and to ensure an adequate and safe supply of medical products nationwide. We have had numerous discussions with industry representatives, manufacturers, and innovative technology developers to discuss product design for devices that can detect biological and chemical weapons and agents.

The supplemental funding also will enable FDA to enhance its surveillance of imported and domestic foods thus allowing us to strengthen our deterrence and prevention capability. These resources will allow the Agency to hire 673 investigators, laboratory analysts, compliance officers and support staff. The additional import investigators will increase our ability to monitor food as it enters the U.S. We plan to increase physical examination of imported foods four fold from 12,000 to 48,000 line-entries per year. In addition, we will increase the number of investigators to survey critical product safety points in the domestic food production and distribution system, and the added laboratory support will increase the number of food samples tested for possible contamination. A portion of the supplemental funding will enhance the capability of the Operational and Administrative System for Import Support, (OASIS), system to better identify those imports warranting closer scrutiny with both—initial and follow-up inspections and other surveillance activities and provide better access to data in other Agency systems. We need to continue to improve the OASIS system, which has an impressive track record for detecting the admission of contaminated food.

In conjunction with our Counter terrorism Initiative, we intend to take a comprehensive approach that addresses all food safety hazards—including dietary supplements microbiological, chemical, and physical—for products under FDA’s jurisdiction. We also expect to continue to provide guidance on food security and preparedness to industry and other Federal agencies.

#### FOOD SAFETY

The American food supply continues to be among the safest in the world. Great strides have been made in recent years that have strengthened the Federal food safety system. The Federal food safety program includes new surveillance systems, stronger prevention programs and faster outbreak response. These programs are supported by a new risk-based inspection strategy, better coordinated and focused research and risk assessment activities, and enhanced education. Food safety agencies are working together more closely than ever before. Thanks to the budgetary support provided by Congress, this multi-agency effort has successfully built a strong foundation for a state-of-the-art, science-based food safety system and has promoted partnering among the key Federal agencies, States, academia, industry, and consumers. We now have in place newer surveillance systems such as Foodnet, PULSENET, NARMS and pilots for eLexnet. Stronger preventive controls implemented by the Federal agencies, such as good agricultural practices for produce and HACCP systems for seafood, meat and poultry and juice, have already shown results. The numerous interagency and Federal/State partnerships have demonstrably improved the efficiency of our outbreak response systems.

Recent accomplishments in research and risk assessment include the establishment of a microbiology laboratory especially designed for rapid throughput of imported food samples collected for microbiological analysis at FDA’s Northeast Regional Laboratory in New York. Using specialized methods and equipment, this laboratory was able to cut analysis time from over 20 hours to less than 8 hours per sample. We intend to expand this concept to other field microbiology laboratories. We also installed new mass spectrometry equipment in our field pesticide laboratories, and trained analysts in the use of a method developed by one of our scientists which can detect over 100 pesticides, previously undetectable by older methods.

The diversity and types of scientific expertise and knowledge are ever-expanding. Consequently, we recognize that we must leverage both academia and industry expertise through cooperative agreements or consortia. The National Center for Food Safety and Technology (NCFST) at the Illinois Institute of Technology is devoted to research and evaluation of better food processing and packaging technology. The Joint Institute for Food Safety and Nutrition at the University of Maryland is devoted to risk assessment, agricultural practices and education, such as international Good Agricultural Practices training programs, and establishment of the Center for Risk Analysis and clearinghouse for risk assessment.

The University of Mississippi and FDA are collaborating in the area of the safety of dietary supplements. The University’s Center for National Products Research will help strengthen our science base in this emerging field. At the same time, the New Mexico State University’s Physical Science Laboratory and FDA continue their second year of collaboration to conduct method evaluation of rapid testing methods of fresh fruits and vegetables for microbial contamination. In addition, we continue to work with the Interstate Shellfish Sanitary Commission (ISSC) to promote educational and research activities related to shellfish safety in general, and *Vibrio vulnificus* in particular. We are committed to assuring the safety and quality of shellfish and development of shellfish regulation. FDA will work to strengthen these existing collaborations and will develop additional partnerships with other universities that have strong food safety and security research programs.

In the extramural area, we have strengthened our scientific foundation by providing over \$24 million through extramural research grants. These grants have gone to over 30 States to support research in the areas of Bovine Spongiform Encephalopathy, produce safety, egg safety, HACCP system validation, food service or retail practices, antimicrobial research and consumer practices. Our association and reliance on these grants have continued to provide our Agency a tremendous resource to improve our scientific expertise.

Food safety education programs have also been greatly enhanced. In fact, the National Academy of Television Arts and Sciences Mid-Atlantic Region awarded an Emmy to FDA and the National Science Teachers Association’s for their video “Dr. X and the Quest for Food Safety.” The video, part of the curriculum in “Science and Our Food Supply”, competed in the Outstanding Children’s Program category.

## BOVINE SPONGIFORM ENCEPHALOPATHY (BSE)

We must continue to carry out effective steps to keep the agent of BSE out of the American food supply. The cost of not doing so is far greater than we realize. Let us not forget the European and Japanese experiences and the costs they have incurred. In 2001 "Mad Cow Disease", more properly known as Bovine Spongiform Encephalopathy (BSE), cases continued to occur in a number of Western European countries, e.g. Finland recently discovered its first case followed by a similar announcement by Austria. Outside Western Europe, in September 2001, Japan announced its first confirmed case of BSE. First identified in the U.K. in 1986, the brain-wasting disease is fatal to animals and is believed to be transmissible to people who consume infected beef products. World-wide, there are just over 100 people known to suffer this disease, with no cases documented in the U.S. There is a great deal that is not known or understood well about BSE and other Transmissible Spongiform Encephalopathies, TSEs, hence the important emphasis on the science/research aspect of this disease. With this in mind, inspection of feed and import monitoring for BSE continues to be a top priority for our Agency.

The Department of Health and Human Services, (HHS), the U.S. Department of Agriculture, USDA, and other partners have spearheaded comprehensive efforts to safeguard the nation's food supply and strengthen protections already in place. We continue to try to ensure that the feed comply with the bans on the use of sheep and cattle proteins in feeds, and that contaminated material is not imported. We have begun to accelerate oversight of bovine derived products used in drugs, vaccines, medical devices, food products, dietary supplements, and cosmetics. Resources provided in this year's budget have helped intensify these efforts.

The Department BSE/TSE action plan outlines steps to improve scientific understanding of BSE and other TSEs. The DHHS action plan outlines four areas of responsibility-surveillance, protection, research and oversight. This effort will be coordinated with other government agencies, the private sector, and the international community to contain this epidemic and assist those affected by it. The plan incorporates a comprehensive approach to further strengthen surveillance, increase research resources within the FDA budget level, and expand existing inspection efforts to prevent BSE from entering or taking hold in the U.S. This plan lays out a course of action to expand our understanding of the underlying science of TSE and their potential for transmission to humans.

Protecting our borders against banned import products is a full time enforcement and compliance activity. To meet this challenge, we reinforced the existing import ban, in collaboration with USDA/APHIS, with more specific product information on FDA-regulated products, including food products, dietary supplements and cosmetics that contain bovine materials from BSE-identified countries, so that we can better identify and detain prohibited potentially harmful products. As the result of funding received in fiscal year 2002 from Congress we are also hiring additional investigators to reinforce our responsibilities in this area.

With regard to the U.S. animal feeding industry, we designed a new database and data entry procedures for BSE inspections as well as a new BSE inspection checklist to better target firms for re-inspections and for collection of better data from both FDA & FDA State-Contract inspectors. By the end of fiscal year 2001 we had inspected over 12,000 firms since 1997 for compliance with our BSE related feed regulations.

In terms of our outreach and education efforts, we conducted two training sessions for Federal and State investigators on BSE to enhance the conduct and quality of domestic inspections, ensure timely and accurate reporting of inspectional findings, and provide updates on the science of BSE and animal protein detection methods. And, we held a public meeting in Kansas city to get public input regarding ways to further improve the feed ban regulation and compliance with the rule.

Regarding some strides made in the research area, we are in the final stages of developing a test which will provide a quick yes/no answer on whether there is a potential animal derived material of concern in a sample of ruminant feed.

## ANTIBIOTIC RESISTANCE

The prevention of antimicrobial resistance is another longstanding effort by FDA to promote stronger and better public health within our food chain from farm-to-fork. The link between antibiotic resistance in human foodborne bacterial pathogens and the use of antimicrobials in food-producing animals continues to be documented by an increasing amount of scientific evidence. The focus between the use of antimicrobial products in food-producing animals and human food safety is necessary because foods of animal origin are frequently identified as the source of foodborne disease in humans.

Due to concerns that people are acquiring resistant infections from foods because of the use of these drugs in livestock and poultry, we continue to monitor this work very carefully and scrutinize the most up-to-date scientific findings available. For example, FDA recently published a notice of opportunity for a hearing (NOOH) to withdraw approvals of new animal drug applications (NADAs) for use of the fluoroquinolone antimicrobial enrofloxacin in poultry due to new evidence that the product has not been shown to be safe. This is an excellent example of how FDA has addressed the dangers of antibiotic resistance in response to refined and updated scientific research and findings.

We are committed fully to leveraging with other agencies in our battle to tackle public health concerns regarding antimicrobial resistance. For example, the recently completed work on our annual interagency agreements with the U.S. Department of Agriculture's Animal Research Service (USDA/ARS) and Centers for Disease Control and Prevention's National Center for Infectious Diseases (CDC/NCID) continues to provide funding for conduct of animal and human isolate testing. The two arms of the National Antimicrobial Resistance Monitoring System (NARMS), human and animal, are an integral component of this monitoring system. FDA used the data to track the changes in susceptibility among isolates from both sources. We have also expanded NARMS to include monitoring resistance emergence in retail food and animal feed.

We continue to rely on FoodNet, a data gathering tool to expedite our access to large amounts of information that assist our work on antimicrobial resistance. We added a third testing site for NARMS at FDA to test samples from retail meats to determine the prevalence and antimicrobial resistance patterns of foodborne bacteria in commonly consumed meats.

#### BIOTECHNOLOGY—MEDICAL PRODUCTS

Biotechnology is fundamentally transforming the practice of medicine. For example in February of this year, scientists from FDA and the National Cancer Institute, (NCI) reported research findings that may lead to a new way to determine the presence of ovarian cancer through a simple finger stick blood screening.

The research behind this advance depends on two disciplines—proteomics and computer intelligence. The diagnostic test relies on software that can detect patterns of key proteins in the blood. Using a sophisticated artificial intelligence computer program, scientists were able to “train” the computer to tell the difference between patterns of small proteins found in the blood of cancer patients versus control samples. Also, we are actively engaged in exploring the use of the new technologies of genomics, proteomics, and information technology to provide better biomarkers to help us track and avert adverse health effects, to rapidly identify micro-organisms that may reach FDA products via intentional or adventitious routes, and to provide better and more rapid diagnostic tests.

In July of last year, FDA approved two new medical tests which use biotechnology techniques to diagnose infection of the hepatitis C virus. The hepatitis C virus chronically infects several million Americans and causes hepatitis C and other liver diseases in many people. The devices, the Amplicor and COBAS Hepatitis C Virus tests, are the first tests approved to use nucleic acid amplification to diagnose hepatitis C infection and monitor therapy. These highly accurate tests use genetic material from the patient's blood along with enzymes to produce the information needed for a reliable laboratory diagnosis.

#### GENERIC DRUGS

Generic drugs provide Americans with safe and effective lower-cost alternatives to brand name prescription drugs. The American public can be confident that when a generic drug product is approved by the Agency, it has met the rigorous standards established by FDA with respect to identity, strength, quality, purity, and potency.

Over the years, FDA has approved several thousand generic drugs that have been used successfully by millions of patients. The Congressional Budget Office reported in a study completed in 1998 that the purchase of generic drugs reduced the cost to the public of prescription drugs (at retail prices) by roughly \$8 to \$10 billion. The most recently approved generic drugs are for anxiety, heartburn, depression, and pain management. Given that the cost of prescription drugs has continued to rise over the last decade, many retired Americans, living on fixed incomes, have continued to face affordability issues for medications on which they depend.

Congress has continued its support and increased funding for the generic drug program. We have continued to make improvements in the process itself and to educate the public in the safe and effective use of generic drugs. We have started to recruit and hire additional medical officers and scientists to help reduce the ap-

proval time for abbreviated new drug applications (ANDAs) and increase the efficiency of bioequivalence assessments.

#### PATIENT SAFETY/MEDICAL ERRORS

This past year the media paid a great deal of attention to human clinical trials—both favorable and not so favorable. Thus, an important focus of the Department's activities in 2001, was the strengthening of patient protections through programs and measures designed to enhance the ethical standards of clinical trials and the safety and effectiveness of approved health care products. We acknowledge that the Agency has a very important oversight role to protect patients involved in clinical trials. We must ensure the accuracy, safety and effectiveness of the data gathered from these trials and submitted in product applications. We have made important strides to address some of these limitations. FDA's Office for Good Clinical Practice (OGCP) is responsible for improving the conduct and oversight of clinical research and ensuring the protection of participants in FDA-regulated clinical research. We are committed to ensuring that the data and reported results are credible and accurate and that the rights, safety and well being of trial subjects are protected. We require that the biomedical research that we regulate conform to Good Clinical Practice, (GCP) standards as articulated the FDA regulations. GCP standards address all aspects of clinical research submitted to the Agency in support of product applications and serve to enhance the integrity of such applications. We also published draft guidance for clinical trial sponsors on the operation of data safety monitoring committees. In addition to promoting the protection of human research participants, and supporting the quality and integrity of clinical trials and applications submitted to FDA, OGCP works with our international colleagues in support of global harmonization.

FDA issued an interim rule to provide additional safeguards for children participating in clinical studies. The new rule provides specific criteria, such as an assurance of informed consent by the children and their parents, which have to be maintained by the Institutional Review Boards that oversee the trials. In addition, FDA proposed a regulation covering the methods, facilities and controls used to manufacture human cellular and tissue-based products. Another new measure, which is of particular significance for people with AIDS, is an agreement between FDA and the Department of Veterans Affairs (VA) to improve clinical knowledge of adverse effects of drugs used to treat HIV infections. Recipients of blood products will be better protected thanks to FDA's licensing of the first nucleic acid test systems intended for screening of plasma donors by permitting earlier detection of HIV and HCV infections in donors.

The safety of hospital patients has been improved by two new measures. One of them is FDA's requirement of evidence that all but the lowest-risk reprocessed single-use medical devices—such instruments as laparoscopy scissors and balloon angioplasty catheters—are as safe and effective as the original products. The other new measure is an FDA guidance for the safe use of bed rails, which have been involved in nearly 400 reported accidents in hospitals, nursing homes and home use.

In addition, FDA awarded several contracts that will enable FDA to access commercial data bases on the actual use of marketed prescription drugs in adults and children. The information, which does not reveal the identity of patients, helps FDA determine the public health significance of reports it receives through its Adverse Event Reporting System (AERS).

Last year, FDA announced the creation of a new Drug Safety and Risk Management Subcommittee to the Advisory Committee for Pharmaceutical Science. The new subcommittee, which consists of nationally-recognized experts in areas related to risk perception and management, pharmacology and other related disciplines, will advise FDA on general and product-specific safety issues.

In 2001, FDA and the Department's Office of Women's Health awarded two contracts to study labetalol and atenolol, medications that are used by pregnant women to treat high blood pressure despite scant clinical data on the use of these products in this patient population. The studies are to determine appropriate dosages of greatest benefit and least risk for pregnant women and their babies. Correct and appropriate guidance on drug usage is critical to our efforts to decrease the number of medical errors. To support these efforts, we have proposed a new prescription drug labeling rule. The proposed new labeling will reduce practitioners' time spent looking for information, decrease the number of preventable medical errors, and improve treatment effectiveness.

An example of FDA's strong commitment to department-wide coordination and information sharing is FDA's active participation in the Patient Safety Task Force established within DHHS. FDA helps integrate medical error data collection efforts;

coordinates research and analysis efforts, and develop strategies to implement patient safety programs. We also worked to develop plans to utilize existing vaccine and blood event reporting systems to reduce medical errors and improvement of patient safety.

#### SAFE BLOOD

Safe and accessible blood is essential to our American health care system. Recent terrorist attacks have shed light on the need to increase our efforts to protect, maintain, and ensure access to a safe blood supply. The Blood Safety Action Plan begun in 1997, is currently being implemented among other agencies of the Department, CDC, NIH, and the Centers for Medicare and Medicaid Services, (CMS). Our goal is to strike a careful balance between increasing the safety of the blood supply while ensuring that life-saving blood and blood products remain available.

FDA's Blood Safety Action Plan specifically addresses issues of how to increase speed, efficiency, and coordination of an FDA response to an emergency affecting the blood safety. To that end, we have continued to work with the Department to enlist national philanthropic and other private sector organizations to take a lead role in promoting blood donations during times of shortage. These and other similar efforts are designed to improve the ability to predict and respond to blood shortages and increase the availability and elasticity of the blood supply. We have also made strides to reduce the number of exemptions to outdated regulations as well as the number of guidance documents lacking enforceability through regulations. Further, we have targeted our efforts to increase industry's compliance with published standards, improved execution of GMPs and quality assurance. A current database of potential threats to the blood supply has been developed and includes appropriate teams to address each threat which has allowed us to make improvements to streamline coordination among the Department's agencies and to address emerging infectious diseases and the prevention of transfusion of transmitted diseases.

#### GENE THERAPY

FDA, with primary lead role being performed by its Center for Biologics, Evaluation and Research, (CBER) is developing a Gene Therapy Patient Tracking System, (GTPTS), to supplement and/or replace current systems for assessing and promoting the safety of gene therapy human subjects/patients. The system is designed to provide oversight with regard to what information should be collected, how best to collect that information, how to store the data, how to analyze the data, and how to report and use the data. The system will consist of many components including databases, procedures, policies, and guidance. Additionally, FDA and the National Institutes of Health (NIH), Office of Biotechnology Activities (OBA), are jointly developing a database application, the Genetic Modification Clinical Research Information System (GeMCRIS), to facilitate the evaluation and analysis of human gene therapy clinical information. This joint database application is a component of the GTPTS.

#### NEW PRODUCTS APPROVED

As part of its public health mission, FDA last year evaluated and approved many new pharmaceutical products and medical devices that advanced the frontiers of modern medicine. FDA's Center for Drug, Evaluation and Research, (CDER) approved 66 new drugs, 24 of which were new molecular entities (NMEs) which are drugs containing active ingredients never before marketed in the U.S. Ten of the 66 new drugs (7 of the NMEs) received priority review status and were reviewed and approved in the median time of 6 months. CBER reviewed a total of 16 complex biological license applications (BLAs) in the median time of 13.8 months and approved them in the median time of 20.3 months. Two of the BLAs, which were classified as priority products, were reviewed in the median time of 11.5 months and approved in the median approval of 13.2 months. Most of the products approved by CBER were designed to detect or treat infectious diseases. The Center for Devices and Radiological Health, (CDRH) was no different, they approved 54 premarket approvals (PMAs), of which 24 were for devices with novel technologies or new uses. The median total approval time for the 54 products was 11.3 months.

These major product approvals are expected to benefit a large number of different groups of clients and include breakthrough medicines for patients with cancer, heart disease, diabetes and certain infectious diseases.



## CANCER PATIENTS

Again this year, several newly approved products contribute to the prevention, early diagnosis or treatment of cancer—the second deadliest disease in the United States. One of FDA's most important approvals last year was Gleevec (Imatinib Mesylate), a new oral treatment for patients with chronic myeloid leukemia, a rare life-threatening form of cancer. Gleevec was developed for use in a U.S. patient population below 200,000, and was therefore designated by FDA as an "orphan drug." Sponsors of such products receive inducements that include seven-year marketing exclusivity, tax credit for the product-associated clinical research, research design assistance by FDA, and grants of up to \$200,000 per year. FDA reviewed the drug in 2½ and approved it under a special procedure that permits the marketing of important therapies on the basis of their effect on surrogate markers. In addition FDA approved a new biological product, Campath (alemtuzumab), for the treatment of patients with B-cell chronic lymphocytic leukemia.

For women, FDA approved two breast cancer products. One is a combination of two drugs, Xeloda (capecitabine) and Taxotere (docetaxel). The other approval was a new indication for Femara (letrozole) as a first-line treatment for advanced or metastatic breast cancer in postmenopausal women with hormone receptor positive or unknown disease.

FDA also cleared a new device that can facilitate early detection of cancer of the small intestine. The Given Diagnostic Imaging System is a swallowable capsule containing a tiny camera that snaps pictures twice a second as it is moved by natural muscular waves of the digestive track through the small intestine. The device enables the physician to see areas that are not reachable by endoscope.

## HEART PATIENTS

FDA approved five highly advanced medical devices for heart patients. One important device was for children. The Heartstream FR2 AED is the first automatic external defibrillator system for use on infants and young children who experience cardiac arrest. The device is designed to restore normal heart rhythm by using conductive adhesive pads to administer an electric shock through the chest wall.

Two of the devices are new, one-of-a-kind pacemakers. The Biotronik Home Monitoring System, the first implanted pacemaker that includes a tiny transmitter capable of automatic, remote data transmission. The device can be programmed to collect data on the patient's heart condition and at certain intervals automatically send them to the patient's physician. The second pacemaker, is the InSync Biventricular Cardiac Pacing System, is a new type of pacemaker that sends specially timed electrical impulses to the heart's lower chambers to treat the symptoms of moderate to severe congestive heart failure. The impulses are generated by an implanted pulse generator and delivered to the heart by three wires.

Another first-of-a-kind product is the WCD System, a vest like device that is worn under clothing to monitor and treat abnormal heart rhythms in people at risk of dying from sudden cardiac arrest.

FDA also approved PercuSurge, a device consisting of balloon and aspiration catheters. The device is used to collect and remove blood clots and other debris created by angioplasty and stenting of a blocked bypass vein graft.

One important new drug approved last year for cardiac patients is Natrecor (nesiritide) injection for the treatment of acute congestive heart failure. The medication, which was developed with the use of recombinant DNA technology, is a synthetic version of a human hormone that dilates veins and arteries.

## INFECTIOUS DISEASES

Five new products to fight infectious diseases were approved by FDA last year. The first, biologic treatment Xigris, was approved for the most serious forms of life-threatening sepsis, which claims 225,000 lives in the U.S. each year. The new treatment is a genetically engineered version of a naturally occurring human protein, Activated Protein C, which interferes with some of the body's harmful responses to severe infection. PEG-Intron (peginterferon alfa 2b) injection was approved for the treatment of patients with chronic hepatitis C, an infectious disease responsible for as many as 10,000 deaths per year in the U.S. A new combination vaccine was approved that protects adults against diseases caused by the hepatitis A virus (HAV) and the hepatitis B virus (HBV). The vaccine, called Twinrix, combines two already approved vaccines, Havrix (Hepatitis A Vaccine, Inactivated) and Engerix-B [Hepatitis B Vaccine (Recombinant)] so that people at high risk for exposure to both viruses can be immunized against both at the same time. Twinrix is recommended for travelers who are at high risk for HBV, and who are visiting countries where

there is a substantial incidence of both HAV and HBV disease. A new anti-fungal medication Cancidas (caspofungin acetate) intravenous infusion was approved for patients not responsive to or unable to tolerate standard therapies for the invasive form of aspergillosis. This is the first approval in a new class of drugs called echinocandins, which are believed to work by disrupting the formation of fungal cell walls. Another novel product approved last year is Viread (tenofovir disoproxil fumarate), a new anti-viral drug for the treatment of HIV-1 infection in combination with other antiretroviral medicines. Viread is the first nucleotide analog approved for HIV-1 treatment.

#### DIABETES

The number of people diagnosed annually with diabetes has increased more than sixfold from 1.6 million in 1958 to 10 million in 1997, according to the CDC. Today, some 16 million people have the disease—making it a leading cause of death in the United States. About 2,200 people are diagnosed with diabetes every day, and that close to 800,000 will be diagnosed with the disease this year, according to the American Diabetes Association (ADA). Many people don't know they have diabetes until they develop a serious complication such as blindness, kidney disease, nerve disease requiring amputation, heart disease, or stroke.

The FDA's Office of Women's Health, the ADA, the National Association of Chain Drug Stores, and 80 other organizations nationwide are planning a campaign that will focus on the early identification and control of diabetes. The campaign will highlight the fact that about 8.1 million women in the United States have diabetes. Diabetes is a unique condition for women. When compared with men, women have a 50 percent greater risk of diabetic coma, a condition brought on by poorly controlled diabetes and lack of insulin. Women with diabetes have heart disease rates similar to men, but more women with diabetes die from a first heart attack than do men with diabetes.

Diabetes-related brochures, wallet-sized calendars, and recipe cards for nutritious meals will be distributed at grocery stores and pharmacies in several cities: Atlanta, Baltimore, Chicago, Dallas, Detroit, Indianapolis, Los Angeles, Miami, New Orleans, Philadelphia and Phoenix.

FDA also is funding ongoing diabetes outreach through the Indian Health Service (IHS). "Portion control is an important message to get out to women in order to impact the escalating diabetes and obesity rates among American Indians and Alaska Natives," says Sandra Dodge, an IHS women's health coordinator. IHS is developing culturally-appropriate handouts to help American Indian women with diabetes manage portion sizes for meals. The project will target certain urban areas, as well as American Indian reservations. The overall prevalence of Type 2 diabetes is just over 12 percent in Native Americans versus 5 percent of the general population. In some tribes, half of the population has diabetes.

In addition, new technology for monitoring glucose levels in people with diabetes is moving ahead rapidly, and FDA has been working with a number of companies to help bring it to market. A novel device approved last year is the GlucoWatch, a wristwatch-like device that provides adult diabetics with more information for managing their disease. This device is one of the first steps in developing new products that may one day completely eliminate the need for daily finger-prick tests. The Gluco-Watch extracts the wearer's fluid every 20 minutes by sending out tiny electric currents, and sounds an alarm if the glucose level reaches dangerous levels. FDA also approved a new device to aid diabetics with foot ulcers. The Dermagraft is a skin substitute made from human cells, which helps replace and rebuild damaged tissue in diabetic foot ulcers that have been present for more than 6 weeks and extend deep into the skin. The Dermagraft can remain on a shelf for up to 6 months, a major advantage over similar types.

#### GLOBAL TRADE AND GLOBAL PRODUCTION—INTERNATIONAL STANDARDS AND HARMONIZATION

Working closely with international organizations to harmonize technical requirements and standards for products regulated by our Agency remains an important priority. This work recognizes the international nature of our regulated industries. Equally important is the recognition of our collective need to share expertise concerning new products throughout an entire life cycle. We cannot allow international borders to stem the flow of information as foodborne pathogens, adverse events, and terrorist activities have no boundaries.

For example, our Agency, along with USDA, and Mexico's Secretary of Agriculture signed a cooperative agreement in September 2001 to enhance existing food safety measures through expanding programs, sharing information and coordinating spe-

cific activities. The agreement will allow us to share information on the sources of fresh produce and to investigate the causes of any contamination of these imported food products. These efforts are expected to ensure that borders remain open and that safe products continue to flow freely between the countries. The arrangement, in conjunction with other cooperative measures, will help reduce the incidence of foodborne illnesses on both sides of the border. The agencies will also collaborate on other specific projects to achieve common understanding on issues of mutual concern.

We have also continued a project with Mexico on a monitoring system for antimicrobial resistance in *Salmonella camphylobacter* and *E. coli*. The increase in international trade in food has increased the risk from cross-border transmission of foodborne pathogens and underscores the need to use international surveillance systems to monitor the prevalence of resistance to antimicrobials of importance to human medical therapy. A cooperative agreement was signed in the Fall of 2001 with human hospitals and veterinary medical schools in four agricultural States in Mexico to develop a monitoring system compatible with NARMS.

FDA has established itself as a preeminent leader in international food safety harmonization efforts as exemplified via our association and work with Codex Alimentarius. Codex is sponsored jointly by the United Nations World Health Organization (WHO), and the United Nations Food and Agricultural Organization (FAO). We helped plan and participated in the Global Forum of Food Safety Regulators, a conference designed to enhance communication among food safety regulators worldwide that was held in Morocco in January. The intent is to increase the level of food safety as well as food security, which will result in safer products being exported to the U.S.

Other Federal agencies look to FDA for guidance and input that promote public health policies consistent with our mission. In particular, we provided advice and analysis to the Office of the U.S. Trade Representative, the Department of Commerce, and the USDA Foreign Agriculture Service on a broad range of trade negotiations and issues, pursuant to the Food and Drug Administration Modernization Act (FDAMA) to further U.S. trade objectives in ways that would not compromise FDA's health and consumer protection mandate. We continued efforts to eliminate potential barriers in the global marketing of products that are approved for use in the U.S. These efforts facilitate the Agency's efforts to promote mutual recognition and international harmonization aimed at approval systems as well as product surveillance. Our leadership on the Global Harmonization Task Force provides oversight and technical expertise in the development of international guidance of the premarket review and post market patient safety of medical products. We have also worked with the European Union to train qualified auditors to conduct FDA quality inspections for products purchased by the U.S. consumer.

#### CHALLENGES

Each year we find ourselves confronted with more challenges to the way we do our business. As we have seen, some of these challenges present a higher degree of risk and harm to the general public if not addressed. Issues are increasingly complex and the breadth of FDA's responsibility ever expanding. Whereas, many of our constituents primarily focus on the product marketing application review process, it has become clear FDA attention must oversee and regulate the full life cycle of all the products that we regulate. We continue to see the changes and challenges that are outgrowths of the successful mapping of the human genome. We continue to explore a new and uncharted scientific frontier that promises to deliver the hope that we will be in a position to transform the diagnosis, treatment, and even prevention of diseases that afflict groups within our society. The pipeline of new genetic information remains immense. Genome research is only in its infancy and of the hundreds of genetic tests in development and available in the U.S., still only a few have been submitted to and approved by our Agency. We continue to refine how we coordinate drug and genetic diagnostic development together. Products will need to evolve from the research laboratory to the well-characterized therapeutics with established safety and effectiveness. To make these critical decisions, we need to ensure that our scientists remain on the leading edge in their specific scientific disciplines.

The fiscal year 2003 Budget lays out proposed funding levels for the President's initiatives, identifies resources that can be redirected to higher priority activities, and highlights some potential opportunities for management and financial reform and streamlining. The President is proposing a total budget for the FDA of \$1.7 billion that includes \$1.4 billion in budget authority and \$286.7 million in user fees. Counter terrorism funding includes \$159.048 million of the total funding and

annualizes the generous supplemental funds received from Congress in fiscal year 2002. The request also includes increases of \$28.552 million for pay related inflationary costs; \$5.0 million for patient safety/medical errors; \$4.582 million for generic drug review; and \$5.2 million for continued development of the Department's Unified Financial Management System.

#### OUR MOST VALUABLE RESOURCE

Our Agency work is a blending of science and law directed at protecting consumers by focusing on patient, food and consumer safety. The public trusts us to ensure that food on the family table will be safe and wholesome; new medical products, drugs, biological products, and medical devices are available in a timely manner with demonstrated benefits that outweigh risks; and, product information is useful and understandable. FDA's ability to maintain the public's trust is dependent on having a high performing science-based professionals carry out its mission. FDA is always challenged to make sure we have the personnel in the scientific disciplines needed. The aftermath of the September 11 tragedy is a perfect example of changing needs and increased human resource levels needed in specific scientific disciplines. Approximately 45 percent of FDA's workforce are dedicated to "front line" efforts, such as import monitoring and inspections, coordination with States' efforts, and cooperative education programs with industry, States and consumers.

The \$28.5 million requested will fund the mandatory pay increase. This increase for base resources focuses on pay adjustments because personnel are so essential to accomplishing the Agency's mission. These resources will enable FDA to maintain current levels of performance, and to continue to improve the drug review process. Payroll increases are needed to cover about half of the staff involved in the drug application review process not supported by PDUFA user fees; to improve the ability to assure the safety of regulated products; to inspect and investigate domestic and foreign manufacturers; and, to participate in harmonization efforts with countries to establish global standards for foods, pharmaceuticals and devices. We need now, more than ever, your continued support to assure FDA is ready to respond to the challenges of counter terrorism as well as a new medical age.

#### COUNTER TERRORISM

The Counter Terrorism request of \$159 million reflects the President's commitment to promote and protect the public health by ensuring that safe and effective products reach the market in a timely way, and to monitor products for continued safety after they are in use. Funding will continue the activities begun in fiscal year 2002 for the safety of imported foods through expanded inspection and surveillance of imports; and activities related to medical products, including measures to help patients exposed to terrorist agents such as anthrax, smallpox and plague. In some cases, we expect to reframe existing Agency strategies to anticipate possible terrorist threats that may translate into risk situations that FDA has not yet addressed.

The tragedy of the attacks of September 11 and subsequent national events resulted in an accelerated and intensified need for attention to activities related to Counter Terrorism. A combination of public health and law enforcement responsibilities requires FDA involvement in preparedness for and response to a terrorist act. FDA's responsibilities encompass both the civilian and military sectors of the population. FDA activities include surveillance, investigation and laboratory support for detection and management of product contamination; provision of regulatory guidance to manufacturers and other government agencies to assure the availability of medical products, including blood; and establishment of a communications network that optimizes emergency preparedness within FDA and across the Federal Government.

Our Counter Terrorism initiative prescribes a strategic blueprint for protecting the U.S. citizens in the event of future terrorist attacks. The Initiative will be supported by a Counter Terrorist Action Plan that will more specifically outline the blueprint. We have structured the Agency's Counter Terrorism Initiative with the following four goals:

- Protection of regulated products;
- Medical counter measures;
- Preparedness and response; and
- Radiation safety.

Today our world is faced with new and more complicated challenges. In our endeavors to address Counter Terrorism issues, our time and resources will be thoroughly engaged on threat and vulnerability assessment to guide and target our risk-based strategies; integrated intelligence and how to identify, gather, assess, and

react to the data; effective collaboration and the ability of multiple organizations to share information in a timely and accessible manner; and appropriate intervention to reduce threats as well as a validation and performance assessment tool to determine output measures and success rates.

*Counter Terrorism—Food Safety*

In the aftermath of September 11, we realize how our role to ensure a safe U.S. food supply has become exponentially more important and complex. It is important to state that we have no credible information identifying food as a target of terrorist activity. But we know that it is possible, and that food could be a vector making people sick shaking public confidence.

Thus our efforts to address emerging public health threats must now include not only unintentional agents but intentional as well. We have heightened our awareness to the repercussions and impact of the latter and our workforce and resources are being reframed accordingly. We will be challenged to make sure that our role is appropriate for the anticipated and unforeseen possibilities.

FDA's Counter Terrorism strategy for foods is three-fold. First we must try to anticipate threats by collecting better information. Second, we must be prepared to respond should an outbreak occur. Most importantly, we must expand our inspectional presence particularly at the border so we can deter terrorist activity. Prevention will be our best long-term solution.

FDA's food security responsibilities extend throughout the food chain, and employ research and risk assessment and prevention strategies through a nation-wide inspection and surveillance partnership program with the States. To protect the nation's food supply, we address aspects of food production, manufacture, and transport in the country of origin, at the U.S. port of entry, and in domestic commerce. We must continue to enhance the frequency and quality of imported food inspections, and modernize our import data system to enable better detection and detention of contaminated food.

We know that further food safety successes require us to work hand-in-hand with our partners to ensure the quality and safety of our nation's food supply. The main results of this cooperation—more effective prevention programs, new surveillance systems, and faster foodborne illness outbreak response capabilities—have already enabled FDA to protect the safety of our food supply against natural and accidental threats. Every significant element of our Counter Terrorism Initiative will require successful collaborative efforts between our staff and other organizations, including other health, scientific, and law enforcement agencies operating at international, Federal, and State levels.

Although investigators will continue their role in protecting the public health, the Agency's relatively small number of personnel will limit the effectiveness of efforts that rely only on people. Key to the Agency's Counter Terrorism Initiative will be FDA's ability to gather and assimilate pertinent information about products, hazards, establishments, suspect individuals, distribution and consumption patterns and then bring the right combination of information and resources to crucial decision points.

*Counter Terrorism—Medical Product Safety*

Those of us in the field of science know too well that this discipline does not fit neatly into a square box with four well-defined walls. If one factors into the science equation suspect actors with terrorism on the agenda, then the ability to predict outcomes becomes more difficult. Preparedness for and response to an attack involving biological agents are complicated by the large number of potential agents (some of which are rarely encountered naturally), their sometimes long incubation periods and consequent delayed onset of disease, and their potential for secondary transmission. In addition to naturally occurring pathogens, agents used by bioterrorists may be genetically engineered to resist current therapies and evade vaccine-induced immunity. Pathogens that have been identified as potential biological warfare agents include those that cause smallpox, anthrax, plague, botulism, tularemia, and hemorrhagic fevers.

We must ensure sufficient availability of safe and effective medical products and a safe blood supply to support the development, maintenance, and deployment of stockpiles of medical countermeasures, as well as support post-event follow-up and data collection initiatives for these products, some of which may be investigational. The challenge will be to identify all of the respective threats and vulnerabilities assessments and then use intelligence and collaboration to fully understand the most dangerous intersections of the two and how best to respond. All of this entails a great deal of planning, dedication, and execution on our part to reframe our fundamental principles used to protect the public health mandate. As I have mentioned

before, we are committed to our public health mandate and will continue to play a pivotal role in counter terrorism preparedness and response via a combination of regulatory and law enforcement responsibilities.

*Counter Terrorism—Physical Security*

Congress also provided us critical resources to enhance and tighten our Agency's physical security by expanding existing service contracts for facility guards and augmenting equipment to safeguard building access, laboratory equipment, and protect proprietary research and information. FDA personnel and facility locations are dispersed throughout the U.S. We must ensure that our employees have access to secure and safe locations and that they are able to pursue their work responsibilities under an ideal work environment without fear for their well being.

PATIENT SAFETY/MEDICAL ERRORS

Our fiscal year 2003 increase request of \$5 million builds on the growing momentum from last year's work to further enhance the identification of risks associated with the use of medical products and to reduce the occurrence of adverse events. This initiative, which also provides for the enhancement of the adverse events data system and linkages with other health care systems, is a growing initiative that requires ongoing support to tap into the volume of information within a large and extremely diverse public health community.

As an Agency, we have to achieve better ways to communicate with the growing universe of people impacted by FDA regulated products—education, outreach, information technology, or what is most likely a heightened combination of all elements. Many patient deaths and injuries are associated with the use of FDA-regulated products. We believe that as many as half of these could be avoided by fully implementing its strategies to prevent Medical Errors.

In light of the rapid scientific advancements and the increasing volumes of sheer medical information, our ability to effectively oversee these products must be maintained. The rapid transformation of the science and technology that generate the products we must regulate has a direct correlation on the growing workload in our Agency—both on the premarket as well as postmarket oversight. Systems have to be arranged to capture, track, monitor, and process the growing pockets of information. All of these issues must be weighed against the increasing expectations of consumers with changing demographics and consumption habits, and then these issues must be factored into the expanding and evolving composition of global trade and production which will further necessitate greater coordination and sharing of information.

FDA sees firsthand the technological advances in healthcare as new medical devices are reviewed and cleared for marketing. FDA must have quality information about post market problems with devices, especially how they are used in the clinical setting. FDA has planned designed, and is implementing a pilot program that will lead to a national surveillance network, called the Medical Product Surveillance Network (MedSun), composed of well-trained clinical facilities, to provide high quality data on medical devices in clinical use. There are currently 50 hospitals enrolled in the program. Recruitment will continue over the next 2 years, with a target final complement of 225 facilities enrolled in the pilot program.

GENERIC DRUGS

The costs and availability of affordable pharmaceuticals will always be a concern for the consumer. The safety and effectiveness of the drugs, as well as costs issues, will always be a concern for our Agency. We recognize that bridging of these concerns for all stakeholders is a complicated and delicate process and consumer expectations are difficult to easily measure.

Advancements in the Generic Drug Program are a product of Congressional support, additional resources, and high quality FDA staff. The requested increase of \$4.6 million will provide for improvements to the generic drug review program and allow FDA to review and act upon 75 percent of fileable original generic drug applications within 6 months.

PRESIDENT'S MANAGEMENT AGENDAS

The President's Management Agenda provides an outline for our Agency to pursue the five presidential initiatives. The challenges for us will be to tailor these initiatives to FDA's unique public health mandate with the goal to further enhance our citizen focus and bring us closer to the consumer on a day-by-day basis. Given that our Agency is overwhelmingly labor intensive, the ability to successfully connect 100 percent of the time with our external customers will be daunting.

FDA's first step to helping the Department improve program performance and service delivery is to manage more strategically human capital and to ensure that resources are directed toward national priorities. To this end, FDA is realigning functions to achieve efficiencies. For example, during fiscal year 2003, 25 administrative/management positions will be eliminated resulting in \$2.6 million in efficiencies. Additionally, the fiscal year 2003 budget shows the consolidation of staff associated with public affairs and legislative affairs functions at the Department level, for \$7.3 million in efficiencies. FDA has also begun a study of the current organizational structure to identify opportunities to consolidate and streamline other administrative functions.

As a part of the FDA Revitalization Act, we have embarked on a multi-year plan to relocate the major portion of its headquarters personnel to White Oak, Maryland. This project, coupled with on-going efforts to reduce supervisory ratios, consolidate administrative functions and delayer headquarters staff, will afford FDA maximum flexibility to move resources closer to the day-to-day "front line" programmatic work of the Agency. In the meantime, we recognize that there will be temporary work interruptions during transition periods.

The Agency is integrating information systems and databases, where possible, with related DHHS systems, and external stakeholders, such as health providers, academia, other government agencies, regulated industry, and consumers. This is an ambitious but necessary schedule that requires a great deal of coordination and planning.

Maintaining a high standard of excellence and then trying to improve upon that during a time of change requires patience. We are aiming high in terms of expediting FDA's product review processes by ensuring sponsors know what is required, eliminating unnecessary requirements, and soliciting proposals and nominations for consensus standards from manufacturers to use to satisfy some review requirements.

#### PDUFA III

FDA has collected significantly less in PDUFA fees than estimated due to a reduced number of new drug applications and an increased proportion of submissions whose fees were waived. The Agency has been able to meet nearly all of the PDUFA performance goals so far. The Agency's efforts to meet the PDUFA II goals may have had an unintended impact on approval times of standard new drug and biologics applications. Preliminary data indicates that approval times have begun to increase because more applications require multiple review cycles to reach approval. The Agency is watching this situation closely. However, for PDUFA to continue its strong record of success it must be on a sound financial footing.

FDA is also concerned about the safety of new drugs and biologics following approval and marketing. In recent years fully 50 percent of all new drugs world-wide have been launched in the U.S., and American patients have had access to 78 percent of the world's new drugs within the first year of their introduction. More rigorous safety monitoring of newly approved drugs in the first few years after a product is on the market could help to detect unanticipated problems earlier.

To protect American patients, FDA needs to strengthen its ability to carry out post-market drug surveillance and other non-user fee functions it carries out in conjunction with PDUFA. The Agency will continue to work with industry, the Congress, and all other stakeholders on a reauthorization of the PDUFA program that will continue to bring benefits to American consumers by bringing important new therapies to market quickly without compromising scientific review standards.

#### CLOSING

I thank you for the opportunity to share with you the breadth of FDA's responsibilities. FDA touches the life of every citizen through the medicines we take or feed for our animals, the blood products we may need one day, through the food we eat, the cosmetics we use, and, the medical devices in use today. Americans expect FDA to remain vigilant, to promote their health and well being, and to protect them from unacceptable hazards to our population at large, and to assure that they are adequately informed about the myriad hazards about which they will have to decide as individuals whether or not they are willing to accept. Significant investments must be made to keep this Agency strong and at the forefront of the science upon which its regulatory mandate is based. The returns on that investment will be an Agency that is equal to the challenges it faces and able to keep the confidence and trust of the American public. A strong FDA is clearly good for the consumer and industry alike, which in turn is good for the economy and health of our great nation. Thank you once again for the opportunity to express our views and for your interest

in the Food and Drug Administration and its mission of protecting the public health. I appreciate your interest and continued support of the Agency and its public health mission. I expect this year to be another exciting one for the Agency and I look forward to working with you as we face the challenges ahead. I welcome any questions you may have.

#### PEDIATRIC RULE

Senator KOHL. We thank you, Dr. Crawford. Dr. Crawford, I will read the first sentence of an article that appeared in yesterday's Washington Post: "The Bush Administration plans to suspend the Federal requirement that drug makers test their products to determine whether they are safe and effective for children." In this article, a number of people long associated with public health, including a former FDA Commissioner, stated that this action is unfortunate and will put children at risk for pharmaceuticals that may actually in fact place their lives in danger.

Anyone who reads this article will think that the Government is taking action that is harmful to children; I think it is important that you respond. So, let us get to the heart of this issue. If this rule is lifted, will FDA lose any of its current authorities to make sure that drugs our children take are safe? And what actions do you intend to take to make sure that child safety is never compromised?

Dr. CRAWFORD. Thank you, sir. We have been, as you know, in constant contact with your staff and with others in dealing with this, what we believe to be a misperception. HHS is taking action based on the issue that you mentioned to remove any doubt about its determination to make sure that children's medications are safe and used properly. The health of America's children is a top priority of the Administration, and having drugs that are properly studied for use in children is an integral part of assuring that our children receive the safe and effective medical care they deserve.

The Department has reiterated its commitment to implementing all provisions of the Best Pharmaceuticals for Children Act, or BPCA, which was passed by the Congress and signed by the President in January of this year. We are going to do that as quickly as possible, including the new provisions regarding the funding of studies involving important drugs that do not benefit from other types of pediatric development incentives. The Department believes Congress, with this legislation, has provided the Government with a very important new tool to address the specific pediatric needs.

With this new law and its tools now available, questions have been raised regarding the continued need for and the legality of the so-called Pediatric Rule, which was promulgated by FDA in 1998. The Department is aware of certain parts of the rule that have been instrumental in assuring that the needs of children are evaluated during the drug development process so that decisions about further development can be made. To date, however, FDA has not found it necessary to enforce all the parts of that rule.

To clarify the situation now that Congress has provided the new tools in the BPCA, or the Best Pharmaceuticals for Children Act, the FDA will be reviewing the present rule over the next few weeks and will be announcing thereafter its findings for which parts of the pediatric rule should be retained to cover potential gaps not ad-



dressed in the present legislation, and which parts of the rule should be abandoned as unnecessary now. So, we had in effect a law that came in supplanting part of this regulation that we have had for some years. Then we also had a lawsuit challenging the validity of the regulation.

So, we have to harmonize all of that. But, I can assure you that the protections that children have enjoyed under the regulation, and that we believe they will enjoy under the law, will continue to be sustained by FDA. We are sorry for any misperceptions that may have occurred in the media reports based upon a court filing that was placed on Monday of this week.

#### DECISIONS ON PEDIATRIC RULE

Senator KOHL. I appreciate your comments, Dr. Crawford. But, naturally at this time you can understand how many of us are concerned that in place of a requirement in the law on the pharmaceutical companies, we now are hearing something much less, that you say will accomplish the result and that we should, in effect, trust that you will do the right thing. And, of course, we do trust. But as one President said, we trust and we verify, and that is our job, and I am sure you understand that. And I think I heard you say that you are in the process of thinking this problem through?

Dr. CRAWFORD. Yes, sir.

Senator KOHL. And you are going to be making some concrete decisions very soon?

Dr. CRAWFORD. Yes, sir.

Senator KOHL. And I would like to request that you get back to this committee with those concrete decisions 2 weeks from now. Is that reasonable?

Dr. CRAWFORD. We certainly will be able to make a progress report and I can assure you we will have thought it through and can tell you what we intend doing in a couple of weeks. Yes, sir.

#### NARMS ACTIVITIES

Senator KOHL. Okay. As you mentioned in your statement, Dr. Crawford, the link between antibiotic resistance in humans and the use of antibiotics in animal feed continues to be documented with scientific evidence. Every American, especially parents, are watching this story closely and warily. They want and need to know what the FDA is doing to keep necessary antibiotics effective. The National Antimicrobial Resistance Monitoring System, funded through the FDA, monitors the link between antibiotics in animal feed and antibiotic resistance in human beings. So, would you describe the current activities of NARMS and submit for the record information on funding proposed for NARMS activities in the President's budget?

Dr. CRAWFORD. Yes sir. We will submit that information. The National Antibiotic Resistance Monitoring System (NARMS) has been in place for some few years. The notion of it, the philosophy of it, is that we need a benchmark to know whether antibiotic resistance is actually increasing, or whether it decreases some years and increases others. And this is, I think, a very effective means of assessing that. Antibiotic resistance is one of the big medical

problems that is facing this country, Europe and virtually the whole world.

We probably have researched virtually all of the naturally occurring antibiotics that exist. We are down now to creating some synthetic antibiotics or antibiotic-like substances in order to deal with this terrible problem of antibiotic resistance. It comes from multiple sources and we are dealing with those in an effective manner. Physician misuse is a problem as well as the perception, at least, of misuse on farms and in horticulture and a variety of other ways. There is a right way and a wrong way to use these antibiotics and it is up to the FDA to pave the way for what is called approved usage, and we are committed to that.

Senator KOHL. I thank you, Dr. Crawford. Senator Cochran.

#### PROGRESS ON COUNTERTERRORISM SUPPLEMENTAL

Senator COCHRAN. Dr. Crawford, congratulations on your new responsibilities. We appreciate your presence here today presenting the fiscal year 2003 budget request to our subcommittee. In the written testimony you have submitted, you indicate how FDA is using the \$151 million in supplemental emergency appropriations funding which was provided to the agency for homeland security. Most of the money, I understand, is being used for increased staffing. My question is, how far along are you in that process?

Dr. CRAWFORD. We have done the interviewing, hired some people and made offers to approximately half of the people we will be hiring. Our goal and commitment is to get all of them on board by the end of this fiscal year. It will be done much quicker than that because we are already half way there.

It is important, as you would know better than I, to get the right people because this is a large infusion of agency resources. Our numbers will increase about 10 percent as a result of this. And this is, in very real ways, the future of FDA.

A lot of the people we are hiring are younger than in the past. They also are what we call consumer safety officers, which means they have a college degree, and they will move throughout FDA into positions of responsibility over the next quarter of a century or so. And we have to be very careful about it, but our personnel office has risen to meet the challenge and we are about halfway there. And we will keep this committee posted with each benchmark we make.

#### SURVEILLANCE AND COUNTERTERRORISM

Senator COCHRAN. There was some concern too about using funds in the supplemental for strengthening the surveillance of drugs and medical devices, following the events of September 11. Are there any new procedures that have been put in place in this connection?

Dr. CRAWFORD. There are, but I would like to ask my colleague Dr. Lumpkin to respond to that if I may.

Dr. LUMPKIN. I think in answer to your question, Senator, we obviously in the world of patient safety—from the products we oversee as far as drugs, human drugs, human biologics, human devices—are involved in several initiatives to try to improve several aspects of that. One is improving our knowledge of what is going

on in the outside, expanding our ability to get information, not only from the traditional passive system, the passive reporting system of adverse events that we have had in the past, but also looking at other epidemiological ways of getting information in a much more active sense, looking at cohorts over time to see if indeed we can look at what is happening as far as the use patterns of products and how that reflects on the safety information that comes from that.

I think we also, in respect to the question you asked about the events of September the 11, obviously we have a very keen interest in what happens with products that we use in bioterrorism, and products that we have had to bring to the forefront as bioterrorism products, and what kinds of safety profiles those will have. And those, obviously, are a very different kind of situation. Those are products that we all hope and pray we never have to use. And yet, we need to develop them and we need to have them. And so they are presenting us with interesting challenges on how you develop the safety information both before the products become available and then if, like we have had to with the anthrax situation, how you follow up after that, to see if indeed you not only did a good thing by treating people who had been exposed, but what kind of safety concerns might have arisen from that.

So, those are the kinds of things we have been focusing on since that point in time.

#### INTERNET SALE OF DRUGS

Senator COCHRAN. There had been some interest and concern with Internet drug sales a couple of years ago. Have the events of September 11 had any effect on that concern? Is there anything new that FDA is doing in that connection relative to enforcement of rules or regulations?

Dr. CRAWFORD. We have a difficult time—we have always had some problem with drugs being brought into the country. With the Internet, though, this has taken on an entirely different perspective because it is possible now to buy drugs from all over the world by way of the Internet and have them shipped here. And FDA needs a new and more inventive strategy to deal with that, because some of these drugs are approved in the United States, but the formulation that might be exported to this country may not be approved. The dosage directions may not be understandable. They do pose a risk to our people. It is not something that we can get more people at the border to stop.

So, what we are going to have to do is take some rather severe actions. One of our problems is that each time we take action against these kinds of products, we have to give the perpetrators the opportunity for a hearing. And you would understand very quickly that we just do not have the resources to give all of these kinds of hearings. We probably need to consult with this committee and others about some kind of legislation or tweaking of existing law in order to enable us to deal with this problem of having to grant these hearings. And if I might offer, I would like to work with your staffs on that possibility, because we do have a developing problem that could break out and embarrass all of us. It is getting more and more severe all the time.

## STOCKPILES OF PRODUCTS

Senator COCHRAN. We appreciate your concerns and also your efforts to look at the law and help us understand how we can be more helpful to you in this regard.

What about current stockpiles of blood and medical products? Are they adequate? What if anything else needs to be done in that connection and what is your role in that?

Dr. CRAWFORD. Well, our role is considerable. May I ask Dr. Kathryn Zoon to come to the table? She is the director of our Center for Biologics and is directly involved in that process.

Dr. ZOON. Thank you. One of the areas—I will address blood first because obviously that is one that we are focusing on. On September 11 a number of events required a number of actions we are continuing to work on right now. We needed to prepare emergency guidance for giving relief, for training and transport of blood, not to affect the safety and quality of blood, but to allow the facilitation of blood collection and the very quick training of people to collect blood in an emergency situation. This worked very well to move the blood into New York very quickly. What we found is that there were additional areas we need to focus on, particularly in the blood arena, which involve transport and interactions with the Federal Aviation Committee and other agencies, etcetera to deal with transport.

Also, the issue of supply has actually been an ongoing issue over the years. And having an adequate supply, especially in the absence of an emergency, has been with a very small margin of overage. In fact, we have been working with the Department, HHS, to develop a surveillance system that works with 26 surveillance sites and trying to get critical parameters on the adequacy of the blood supply, and also working with the Department and encouraging blood donations, both increasing the number of blood donors as well as increasing the number of donations per donor.

In the medical supply area, I can speak to biologics, and particularly our responsibility in smallpox vaccine and anthrax vaccine and related products, immunoglobulin products. We have been working with a number of the manufacturers and the Department to look at the stockpiles of this, which are key to the public health and safety. This has been a primary action that we have focused on over this past year. We have spent an enormous amount of resources in trying to facilitate the development of these products, both conventional vaccines as well as the development of new vaccines, and are committed to do so until we get the problem solved.

## PHYSICAL SECURITY ENHANCEMENTS

Senator COCHRAN. Thank you very much. Some of the supplemental funds are being used to enhance physical security at FDA. What enhancements have been made so far and do you have plans to establish new procedures relative to people who work at FDA, doing background checks and that kind of thing?

Dr. CRAWFORD. May I ask Mr. Jeffrey Weber to respond to that, please?

Mr. WEBER. Thank you. Yes, we are revising our background procedure. We are hiring additional guards to monitor our facilities.

The department has instituted new procedures for monitoring select agents and protecting select agents in our laboratories. We have done an inventory of all of our facilities to determine what type of additional security procedures are needed at them, and we are in the process of contracting for things like bollards in the parking lots, additional locks on refrigerators where we store select agents, additional cameras, etcetera. So we are improving the security of all of our facilities that handle those select agents.

#### BACKLOG OF PRODUCT REVIEW

Senator COCHRAN. In terms of the application and review performance there has been some concern in the past about the gaps between the statutory requirements and the reality of approving applications in a timely way. There has been a backlog of food and color additive petitions, of animal drug applications. I have heard about that from constituents. What is the status of the effort to deal with these backlog problems?

Dr. CRAWFORD. Starting first with the Center for Veterinary Medicine, this past year they had an initiative to try to cut the backlog considerably. They were able to reduce it by about 50 percent. And they have a new commitment this year, with some new personnel in place, to continue to whittle it down. It is going to be difficult for them to sustain that with present resources, but I am committed to doing what I can as Deputy Commissioner to help them in that process, and I applaud what they have done.

Senator COCHRAN. What progress has FDA made in reducing the review times for medical devices?

Dr. CRAWFORD. We do have an initiative on that also, and I would like to ask Dr. David Feigal to come forward if I could.

Dr. FEIGAL. Thank you for the question. There are actually at this present time no backlogs in medical devices. The average review time, total time, is as good as it has been in a decade. But there are definitely areas where we are committed to improving. One of the areas that has been identified by industry is the treatment of products which are designated for expedited review. These have not moved particularly quicker than our other products. The average is about a year to a year and a half from the application to market. And we have begun working with industry to find ways to work together to improve the application process so that those particular products which are breakthrough products will come to market more quickly.

#### MEDICAL DEVICE AND ANIMAL DRUG USER FEES

Senator COCHRAN. Have there been any discussion with the medical device and animal health industry with respect to user fees to help deal with this?

Dr. CRAWFORD. Yes, we have met with the Animal Health Institute, which represents the animal health industry, and they informed us just this past week that they are interested in the user fee concept based somewhat on the Prescription Drug User Fee Act that has been successful for both FDA and, we believe, for consumers.

The medical device industry, I believe it is correct to say there are some elements of it that favor user fees, and some that have

not yet committed. And I think it is fair to say with them, if Dr. Feigal agrees, that the debate and discussions have just begun and we do not know where that is going to go. But, with animal drugs it appears that the notion of user fees is popular and that it will be pressed.

#### BSE INSPECTIONS

Senator COCHRAN. One of the issues that is topical because of the recent foot-and-mouth disease scare in Kansas and the terrorist attacks on the United States is the BSE feed and import monitoring for these animal diseases. It has been an FDA priority, as I understand it. In your testimony, you indicate that FDA has inspected over 12,000 firms since 1997 for compliance with its BSE-related feed regulations. How many firms have not been inspected and what is FDA doing to monitor the compliance of those firms already inspected?

Dr. CRAWFORD. Thank you for the question. I would like to ask Dr. Steve Sundlof to come forward and respond to that. He has monitored this effort and directed it ever since it began. He was on board when the first cases of the human form of BSE occurred, then was instrumental in putting this process in place. He is the Director of our Center for Veterinary Medicine.

Dr. SUNDLOF. Thank you and thank you, Senator Cochran. In terms of how many have not been inspected, we have inspected—to our knowledge—we have inspected all of the firms with the exception of the individual farms, which represents millions of farmers. But, we made a commitment that we would inspect 100 percent of firms that, in any way, handle the prohibited material, and we have done this.

We are in the process now, with the appropriations we received in 2002, to dramatically increase the inspection force for BSE, and we will be inspecting again all 100 percent of the firms that handled the prohibited material that, if incorporated in feed, could produce mad cow disease.

We are going back in a priority manner such that people who were not found to be in compliance on the last inspection are the first people that are going to be inspected this time. Furthermore, we are looking at “for cause” inspections on the farm where we believe that, through our intelligence, that there may be use of prohibited animal feed in cattle. So, we have really ramped up the inspection for BSE. We have also increased our inspection at the borders so that any material that might be imported into the country that could spread the BSE agent is being looked at much more closely. In our program right now we are really starting to get to the point where it is going to be very much self sustaining.

#### BSE FUNDING

Senator COCHRAN. We added \$15 million to the funding level in 2002 for these BSE activities. What is the total proposed funding level for these activities for 2003?

Dr. SUNDLOF. In terms of increasing the amount for BSE, I do not believe, I think we are staying at that same level or very close to that level for 2003. But, this will get us to our goal of 100 percent inspections every single year, so every firm will be inspected

at least once every single year. And again, we have really increased the surveillance at the border. That \$10 million bought 100 inspectors that are out there now that we did not have before.

Senator COCHRAN. But you are going to keep them? You are proposing to keep them?

Dr. SUNDLOF. Yes, we are going to continue that. In addition, we have increased our contracts with the States so that the States are now funded to do more of the inspections for us. And that is very important because a lot of these feed mills are in places where it is hard for FDA district inspectors to get to because they may be in remote parts of the State. So, having the States out there working with us has really helped us. In fact, they are doing about 80 percent of the inspections.

#### DIETARY SUPPLEMENTS

Senator COCHRAN. My last question has to do with botanical dietary supplements. Has there been a study done to assess the overall quality of dietary supplements that are being sold in the U.S.?

Dr. CRAWFORD. We regulate those under the Dietary Supplements and Health Education Act, and Mr. Joe Levitt is Director of our Center for Food Safety and Applied Nutrition, and I would like to ask him to talk about any such studies as he may be aware of, those and those that might be planned.

Mr. LEVITT. Thank you. There is no single, comprehensive study. There are a number of areas that are being looked at at the universities. We are also working very closely now with the University of Mississippi to get better data on what is out there in dietary supplement products, with the Center for National Products Research at the University of Mississippi.

Senator COCHRAN. Do you think the Food and Drug Administration will be able to take advantage of partnerships such as this where there is expertise in these research areas?

Mr. LEVITT. Yes, we are very excited about collaborations such as these. We can take the expertise, we at the FDA can really combine that in a positive, synergistic way with expertise in academia. So we see this as vital to the future of us having a strong scientific foundation to regulate this group of products.

Senator COCHRAN. Do you foresee the possibility of having FDA scientists located in these research facilities as well?

Mr. LEVITT. There is nothing in this year's budget that addresses that. We do have a collaboration in Chicago on food processing, food safety that does have FDA employees on site as part of that facility. And that is a model we are looking at in terms of how can we take and apply that model elsewhere.

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

#### ANTIBIOTIC RESISTANCE

Senator KOHL. Thank you, Senator Cochran. Just one last question. Going back to the link between antibiotic resistance in humans, and the use of antibiotics in animal feed, I have received many letters from people in my State of Wisconsin regarding the use of one particular antibiotic, the drug Baytril in food additives. It is my understanding this drug is similar to Cipro, the drug used

to combat several food-borne illnesses, and as we know now, anthrax.

Due to a significant increase in resistance among humans a drug similar to Baytril was approved in 1995 to treat chickens. The FDA proposed in October of 2000 to ban this class of antibiotics from use in poultry. And now I have been informed that this ban is being challenged. Could you comment on that please?

Dr. CRAWFORD. Yes sir. The state of that situation is that the FDA did in fact move to question the antibiotic Baytril, which is a fluoroquinolone, which is of the same family, as you pointed out, as ciprofloxacin comes from. And two companies marketed these particular products for chickens. And what FDA did was publish a notice of an opportunity for a hearing to have the company come in and explain why their product should stay on the market or, in effect, defend its license.

#### ADDITIONAL COMMITTEE QUESTIONS

One of the companies did not wish to avail themselves of that possibility and voluntarily withdrew that poultry drug from the marketplace. The second company has chosen to contest FDA's findings and have asked for a hearing. And a notice of a hearing has been sent to that company. And as you know, this means that in time it will be heard by an administrative law judge. Then the administrative law judge will submit his findings to me and we will evaluate that and take the appropriate action.

[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 HERB KOHL

##### ANTIMICROBIAL RESISTANCE/NARMS

*Question.* There have been several news stories recently about the decrease in antibiotic use by the poultry industry. This has been fueled, at least in part, by the refusal of some corporate consumers, such as McDonald's and Wendy's fast food restaurants, to buy chicken treated with certain antibiotics, due to evidence regarding the links between antibiotic overuse and drug-resistant bacteria, and public awareness of this issue.

To what extent has FDA played a role in promoting the reduction of antibiotics fed to healthy chickens?

*Answer.* FDA supports judicious use of antimicrobials. Further, in fiscal year 1977 FDA published a prohibition against extralabel use of fluoroquinolone to ensure the drug is used therapeutically.

Since there has been concern about the use of antibiotics in agriculture, other approaches are being evaluated to minimize contamination of animal products with foodborne human pathogens. Reducing colonization of animals by pathogenic bacteria by using competitive exclusion treatments, phage therapy, vaccines and farm hygiene is being considered as an alternative to antimicrobial feed additives.

Competitive exclusion products must adhere to FDA regulations that the bacterial mixtures be well defined. For commercial use, competitive exclusion preparations for poultry must be free from all known human and avian pathogens and from any microorganisms with unusually high resistance to antimicrobials. The FDA has approved a competitive exclusion product designed to prevent the colonization of chicken intestines by pathogenic bacteria, such as *Salmonella* spp., *Campylobacter* spp., and *E. coli*, and also to reduce the use of antibiotics and the spread of antibiotic-resistant genes. Researchers in the Division of Microbiology have standardized a quick and accurate *in vitro* assay for determining the efficacy of potential competitive exclusion products. In addition, researchers have characterized vancomycin-resistant isolates from a competitive exclusion product. Our studies indicate that FDA



will need to standardize the identification techniques used to characterize the components of competitive exclusion products.

*Question.* What do you believe is an acceptable level of antibiotic use in food animals, taking into consideration the most recent information gathered by NARMS? Do you believe that the reduction of antibiotics by major poultry producers will lower the level of antibiotic resistance in humans to this acceptable level?

*Answer.* The science behind the issue of antimicrobial resistance resulting from the consumption of food animals is complex and requires a multi-faceted approach by all stakeholders, including the Federal government, industry, veterinarians and food animal producers, in order to be successful.

FDA currently does not have accurate estimates as to the amounts of antimicrobials consumed by food-producing animals. FDA requires the submission of certain drug sales information as part of the annual drug experience report for approved drug products. However, the information submitted is limited and difficult to interpret; for example, many products are used in both food animals and companion animals yet only total amounts of drugs produced are reported. The Framework Document identifies the need for the pharmaceutical industry to submit more detailed antimicrobial drug sales information as part of its annual report. The goal of this additional monitoring is to obtain objective quantitative information to evaluate usage patterns by antimicrobial agent or class, animal species, route of administration and type of use, that is therapeutic or growth promotion, in order to better evaluate antimicrobial exposure. More comprehensive data are essential for risk analysis and planning, can be helpful in interpreting resistance surveillance data obtained through NARMS, and can assist in the response to problems of antimicrobial resistance in a more precise and targeted way than is currently possible. FDA is developing new requirements for antimicrobial drug use information through a notice and comment rule-making process.

*Question.* What efforts have been made to decrease antibiotic use in animals other than poultry? Have these efforts been successful, and if not, what steps are being taken by FDA, alone and in conjunction with other non-governmental and government agencies, to enhance these efforts?

*Answer.* FDA has taken an active role in educating veterinarians and food animal producers by funding AVMA efforts to develop prudent drug use principles and disseminating the resulting guidelines. Guidelines for prudent or judicious use principles have been developed for beef, dairy, swine and poultry practitioners and for poultry and swine producers. FDA recently printed these principles in booklet form and produced two videotapes for educational purposes and distributed the educational items to appropriate veterinary practitioners. Additional booklets designed to provide beef and dairy food animal producers the background to the judicious use principles are under development. In addition, two projects on prudent drug use activities on dairy farms were supported in California and Michigan and similar projects in swine at Tufts University and The Ohio State University were funded in late 2001.

FDA believes that development and dissemination of prudent drug use principles, is an essential first step, to ensure that the principles are followed in practice. FDA intends to continue monitoring development of antimicrobial resistance through the National Antimicrobial Resistance Monitoring System, NARMS, as one means to determine if the prudent use principles are effective in slowing or stopping the development of resistance in foodborne pathogens. Another method to assess the success of prudent drug use initiatives is to monitor the use of antimicrobial drugs in food-producing animals, as described above. The data gathered from the enhanced reporting by drug sponsors on antimicrobial drug use can be used to evaluate the effectiveness of mitigation strategies implemented in response to trends of increasing resistance and to assess the success of prudent drug use initiatives.

It is important to recognize that there have been notable changes during the past several years within the Federal government's public health infrastructure in the approach to addressing the antimicrobial resistance problem. The Federal Public Health Action Plan, promising a coordinated focus on, among other areas, education, surveillance, research, and product development, was published in January 2001. FDA has served as co-chair of the Interagency Task Force, which developed the plan. The Task Force is now overseeing the implementation of the plan and expects to have a report completed by June 2002 on progress made to date. Copies of this plan are available at the Centers for Disease Control and Prevention website, <http://www.cdc.gov/drugresistance/actionplan/>.

*Question.* Please provide information on the current activities of NARMS, including all funding proposed for NARMS activities in the President's budget and its' proposed uses. What was the total funding FDA spent or anticipates spending on

NARMS activities in fiscal year 2001 and fiscal year 2002? What is the status of the report requested by the Subcommittee on NARMS that is due May 1?

Answer. FDA expended \$8.3 million on NARMS in fiscal year 2001 and expects to expend the same amount in fiscal year 2002 and fiscal year 2003. There is no new funding included in the fiscal year 2003 President's Budget. The National Antimicrobial Resistance Monitoring System is a surveillance tool that monitors change in susceptibilities to antimicrobial drugs of pathogens from human and animal specimens. Surveillance includes non-typhoidal Salmonella, Escherichia coli O157, Campylobacter and Enterococcus isolated from human stool samples, animals at slaughter, and retail meat, as well as human isolates of Shigella, Vibrio, Listeria and Salmonella Typhi. NARMS is integral to our strategy of reducing antimicrobial resistance, and is a collaboration between the FDA, the Centers for Disease Control and Prevention, and the United States Department of Agriculture. Early identification of emerging resistance will facilitate management of the problem, initiate appropriate educational efforts and promote judicious use, prolonging the effectiveness of approved drugs for humans and animals.

The NARMS program includes partners from 27 State and local public health laboratories that represent 63 percent of the U.S. population. NARMS consists of three testing sites, or arms, all using identical isolation, identification, and susceptibility testing procedures, and each testing site has the expertise of a molecular biologist to facilitate associated analytical microbiological research on the isolates, including molecular characterization such as pulsed-field gel electrophoresis, polymerase chain reaction, ribotyping, or other appropriate method. The three arms include human, animal, and retail meats.

In fiscal year 2001 NARMS was greatly expanded to include additional bacterial pathogens and to improve the usefulness of the program by giving more capability to monitor changes in antimicrobial susceptibilities and increase the statistical robustness of the program. This included adding retail meat testing. Retail meat represents the point of exposure that is closest to the consumer and, when combined with data from slaughter plant samples, provides a more representative picture of the prevalence of resistant pathogens in products derived from food-producing animals.

In fiscal year 2002 FDA expanded NARMS to the retail meat program by adding five testing and collection sites in Connecticut, Georgia, Maryland, Minnesota and Tennessee for retail meats. The collection sites have adopted a standard method to isolate Campylobacter, E. coli, Salmonella and enterococci from a sample of meat and poultry from selected grocery stores in the participating States, and cultures each sample for the presence of Salmonella and Campylobacter. In addition Georgia, Maryland and Tennessee culture for E. coli and enterococci. These cultures are then sent to the FDA Center for Veterinary Medicine's Office of Research for antimicrobial susceptibility testing, using the same procedures as those used at the CDC and USDA NARMS testing sites.

In addition, a 3 year cooperative agreement was signed on September 29, 2001 with investigators from four agricultural States in Mexico to establish an antimicrobial resistance monitoring program comparable to NARMS. This program will use surveillance to detect resistance among Salmonella, Campylobacter, and Escherichia coli collected from humans, animal derived food products and live farm animals. Finally, each NARMS testing site now has the expertise of a molecular biologist to facilitate associated analytical microbiological research on the isolates, including molecular characterization such as pulsed-field gel electrophoresis, polymerase chain reaction, ribotyping, or other appropriate method.

Since its inception, NARMS data have been used to identify public health threats and initiate responses. Federal agencies undertake joint field investigations of outbreaks of illness marked by pathogens that display unusual antimicrobial resistance patterns. FDA has used NARMS data to assess the human health impact of fluoroquinolone use in poultry. All the participating agencies have used the data to improve knowledge of risk factors associated with the development of resistance and to stimulate research in the molecular characteristics of resistance emergence and transfer. The program has also triggered broader research projects relating to prudent antimicrobial use in animals and the role of the environment in the emergence and spread of antimicrobial resistance.

The NARMS report to Congress is expected to be delivered to Congress by May 1, 2002. The draft report is currently under review.

*Question.* What portion of NARMS funding is transferred to USDA?

Answer. In fiscal year 2002 FDA plans to spend \$8.3 million on the NARMS program. The NARMS program is a joint effort between FDA, the Department of Agriculture, or USDA, and the Centers for Disease Control and Prevention or CDC. In fiscal year 2001 \$1,340,000 went to USDA and \$1,550,000 went to CDC through

interagency agreements and supplies/services contracts. In addition, USDA and CDC contribute resources to NARMS. In fiscal year 2001 CDC contributed approximately \$1,100,000 and USDA's Agriculture Research Service contributed \$950,000.

*Question.* There have been concerns raised about the scientific validity of NARMS data, since the specimens studied are taken from a limited sampling base. There have also been concerns raised regarding using NARMS data as the basis for regulatory action. How would you respond to these concerns?

*Answer.* The NARMS program is integral to FDA's strategy of enhanced pre-approval assessment, post-approval surveillance, and regulatory controls in order to better characterize and control the development of antimicrobial resistance. Early identification of emerging resistance will facilitate management of the problem. For more information on the operations of NARMS, we are preparing a comprehensive NARMS report which is expected to be delivered to Congress by May 1, 2002.

The NARMS was substantially expanded under the National Food Safety Initiative, which resulted in a very robust, statistically valid sampling plan for the human arm of NARMS. Ten additional State public health laboratories are submitting human isolates in 2002, for a total of 27 sites that represents approximately 63 percent of the U.S. population. The animal arm of NARMS is a robust and scientifically valid source for Salmonella isolates. These isolates originate from raw products collected from federally inspected slaughter and processing establishments. Salmonella was selected as the target for pathogen reduction efforts by the USDA Food Safety and Inspection Service in implementing the—Pathogen Reduction: Hazard Analysis and Critical Control Point, or HACCP, Systems—Final Rule that published on July 25, 1996. Salmonella testing includes carcass samples from cattle, swine and chicken, as well as raw ground samples from beef, turkey and chicken. As long as USDA continues to do Salmonella testing in federally inspected slaughter and processing plants, NARMS will have a valid and robust source of Salmonella isolates for susceptibility testing. For pathogens other than Salmonella, however, the animal arm of NARMS is not sufficiently robust.

In order to correct this problem, retail meat testing was added to NARMS in 2001 as a pilot program in Iowa. Retail meat represents the point of exposure that is closest to the consumer and, when sufficient samples are collected from a variety of product categories, provides a representative picture of the prevalence of resistant pathogens in meat. In fiscal year 2002, FDA has expanded the retail meat program by adding five testing and collection sites in Connecticut, Georgia, Maryland, Minnesota and Tennessee. The collection sites have adopted a standard method to isolate *Campylobacter*, *E. coli*, *Salmonella* and enterococci from a sample of meat and poultry from selected grocery stores in the participating States, and cultures each sample for the presence of *Salmonella* and *Campylobacter*. In addition, Georgia, Maryland and Tennessee culture for *E. coli* and enterococci. These samples are sent to the microbiology laboratory at FDA's Center for Veterinary Medicine's Office of Research where all pathogens present in the sample can be isolated. The FDA laboratory follows the same protocols and testing procedures as the human and animal arms of NARMS. We anticipate that the retail food arm of NARMS will become a very important source of antimicrobial resistance information on pathogens other than *Salmonella*, such as *Campylobacter*, *E. coli*, and *Enterococcus* species.

In addition, each NARMS testing site now has the expertise of a molecular biologist to facilitate associated analytical microbiological research on the NARMS isolates, including molecular characterization. This work better enables FDA to determine the source of the resistant pathogen. FDA has also added an animal feed component to NARMS in order to provide additional information as to possible sources of resistant pathogens at the farm level and may serve as an area to focus mitigation efforts. In 2002, FDA field representatives are sampling animal feed at U.S. rendering plants and the Office of Research in the Center for Veterinary Medicine is isolating and susceptibility testing the organisms.

*Question.* If there are problems with the scientific validity of NARMS data, what would be needed to make NARMS statistically valid, including samples collected and analysis costs?

*Answer.* Maintaining the funding of each of the three testing sites, human, animal and retail meat, is necessary for maintaining a robust program. FDA is expanding the retail meat arm of the program. This arm of NARMS has the potential to be the most resource intensive because of the need for a valid sampling scheme and the large numbers of pathogens that may be isolated for susceptibility testing. We anticipate there could be additional needs for this expansion but the Agency currently is in the early stages of developing this arm of the program.

*Question.* Please provide information on the NARMS pilot projects in Mexico monitoring antimicrobial resistance in *Salmonella*. Are other international NARMS

projects currently under consideration? If so, please provide information on them, including the objectives of all international pilot projects.

*Answer.* A 3-year cooperative agreement was signed on September 29, 2001 with investigators from four agricultural states in Mexico. The primary objective is to establish an antimicrobial resistance monitoring system for foodborne pathogens in Mexico comparable to NARMS. The long-term objective is to improve the understanding of the epidemiology of Salmonella, Campylobacter, and E. coli isolates in the four Mexican states and to better define the susceptibility patterns of the pathogens and the risk factors associated with drug resistance. This project will aid in the development of an international database that will have similar and eventually standardized testing methodologies with NARMS and other international monitoring programs. Such a database will allow comparison of trends observed among countries and enhance food safety activities globally. A multinational surveillance program will allow improved detection of epidemics and earlier responses to identified emerging pathogens on an international scale and provide greater public health protection against multi-drug resistant pathogens. A potential long-term benefit of this grant is the ability to design and implement data-driven prudent drug use practices in the United States and Mexico based on information gained in the study. There are no plans for additional international NARMS projects at this time.

*Question.* Has the Agency sought or received public input in the past year concerning the NARMS program, and specifically, the international expansion of NARMS?

*Answer.* The Food and Drug Administration held a two day public meeting on March 15 and 16, 2001 to discuss the results from the National Antimicrobial Resistance Monitoring System and related antimicrobial resistance research. One of the topics presented and discussed was the Resistvet Project, which is the US-Mexico Antimicrobial Resistance Monitoring Program for Foodborne Pathogens.

The next NARMS meeting, hosted by the United States Department of Agriculture—ARS, is tentatively scheduled for November, 2002. This will be an opportunity to get additional input concerning the NARMS program.

#### ANIMAL CLONING

*Question.* There has been much attention in the media recently about the latest cloned animal, CC the cat. Obviously, this adds fuel to the already raging cloning debate. There have been articles in the Milwaukee Journal-Sentinel, and other newspapers, regarding the patent disputes surrounding cloned animals. One such article was published in a recent Boston Globe, and stated that the FDA is likely to allow clone-derived meat and dairy products to be sold as soon as this spring. The article also reported that over twenty cloned dairy cows, with the ability to produce milk at a much more efficient rate, have been sold in anticipation of this ruling.

When was an application first received by the FDA in regard to the safety of clone-derived meat and dairy products? When is a ruling on this, and all other similar applications, expected?

*Answer.* FDA has been considering the suitability of clones of animals of high genetic merit for food and feed production since it became apparent in late 2000 that some commercial firms intended to market such animals for use in breeding and food production programs. FDA met with firms conducting research and producing clones of cattle, hogs, sheep, goats, and chickens during 2001 to learn of their business models, the types and numbers of clones that they planned to produce, and to encourage the firms to publish as much data as possible relating to the safety of these animals and their progeny for use in food production. FDA also identified this issue as the highest priority for a National Academy of Sciences/National Research Council, NAS/NRC, expert committee to consider. The NAS/NRC report is expected in June 2002. A determination by FDA on what, if any, safety concerns exist with regard to clone-derived meat and dairy products incorporating the NAS/NRC recommendations and any additional scientific data available is projected by the end of calendar year 2002.

Until an FDA finding has been issued, clone companies have agreed to withhold all cloned animals, food derived from them and their progeny from the food and feed supply.

*Question.* Please provide a timeframe and summary of steps that FDA has taken to conclude whether these products are safe for human consumption. Taking into consideration that animal cloning is still in relatively early stages, have possible long-term health risks been considered?

*Answer.* FDA is in the information gathering stage for science-based decision making on the safety of food derived from clones of animals that are not genetically

engineered. FDA began this process in late 2000, contracting with National Academy of Sciences/National Research Council, or NAS/NRC for an assessment of risks associated with cloning, in addition to other animal biotechnology products. In 2002, FDA will receive the NAS/NRC recommendations, determine whether any additional data are available that would be useful in an assessment of safety concerns, and release its findings. FDA also is in the planning stages to co-sponsor a public meeting this fall on animal cloning that might gain additional information.

As part of any food safety assessment at FDA, possible long-term health risks are considered as a matter of course.

*Question.* Has the agency taken into consideration the possible need to label products derived from cloned animals?

*Answer.* The need to label food products derived from cloned animals will be considered as part of any FDA finding as to the safety of these products and the appropriate level of regulation warranted, based on the science. Food labeling is generally based on whether there is a difference in food qualities or safety that warrants a label.

*Question.* Has the agency received applications for approval of clone-derived pharmaceuticals? If so, please provide the status of these applications. If not, please provide information on what FDA is doing to prepare for the receipt of such applications, and whether the same procedures will be used to study the safety and efficacy of clone-derived pharmaceuticals as opposed to other pharmaceuticals.

*Answer.* A clone derived pharmaceutical includes a variety of products. One such product might involve xenotransplantation. FDA has not received any applications for xenotransplantation products that are derived from cloned animals. A cloned animal is not derived by mating, that is, by sperm plus egg, but rather by injecting all of the genetic material of the founder animal into an enucleated—host egg, that is an egg with of its genetic material removed. This procedure results in offspring that are nearly genetically identical to the founder animal. Some U.S. companies are attempting to produce cloned animals for xenotransplantation products in order to reduce the host's immune response, product rejection and the need for immunosuppressive agents. Currently, FDA is not doing anything different to prepare for the receipt of such applications, and the same procedures will be used for the study of safety, purity and potency of xenotransplantation products from clone-derived animals as those derived from wild type or transgenic animals. For many years, FDA has had a guidance document on biologics produced in transgenic animals and our expectations for the industry.

#### DIETARY SUPPLEMENTS

*Question.* In fiscal year 2002, the Committee provided increases for FDA's Dietary Supplement Adverse Event Reporting System and the National Center for Natural Products Research.

Please provide an update on the effectiveness of the Dietary Supplement AERS, and the activities of the National Center for Natural Products Research. What has been accomplished due to the funding increase provided in fiscal year 2002?

*Answer.* I would be happy to answer that for the record.  
[The information follows:]

#### FDA'S DIETARY SUPPLEMENT ADVERSE EVENT REPORTING SYSTEM

Fiscal year 2002 funds are being used for the design, development, implementation, and maintenance of the CFSAN Adverse Event Reporting System (CAERS). The FDA intends to use fiscal year 2002 funds for:

- Scanning and redaction of adverse event reports;
- Data entry of adverse event reports;
- Alert letters to manufacturers;
- Design and development of the CAERS database;
- Migration of legacy adverse event data into CAERS;
- An electronic link to the FDA Office of Regulatory Affairs Field Accomplishment Compliance Tracking System (FACTS); and,
- CFSAN thesaurus development.

CAERS is currently undergoing user acceptance testing, training, and some technological improvements.

In September 2001, FDA implemented a cooperative agreement with the National Center for Natural Products Research (NCNPR). This agreement between FDA and NCNPR created a partnership that allows for more efficient use of resources to identify and analyze specific components in botanical dietary ingredients, thereby enhancing overall public health by ensuring that botanical dietary supplements are safe and their labeling is not misleading.

The NCNPR cooperative agreement for fiscal year 2001 was awarded on September 28, 2001. Since the total Project Period is 5 years, the additional 4 years of funding up to \$1 million per year will depend upon acceptable performance and the availability of future fiscal year funding. In accordance with the procedures for supplementing cooperative agreements, FDA must announce its intent, through a Request for Application (RFA), to increase funding up to an additional \$1 million to the NCNPR cooperative agreement in the Federal Register. Once announced, NCNPR must submit a grant application to demonstrate how it will meet the objectives of the RFA. The application will go through a dual review process and FDA anticipates completing this process and awarding the money to NCNPR in September 2002.

To date, the awarded monies (from fiscal year 2001) have been used to collect a number of authenticated botanical species for chemical profiling and characterization. The species include ephedrine alkaloid-containing species (e.g., ephedra, ma huang), aristolochic acid-containing botanicals, comfrey, germander, and blue and black cohosh. The NCNPR scientists are collaborating with FDA scientists to ensure usefulness for evaluating potential safety issues and to coordinate related FDA and NCNPR research activities. In this regard, FDA and NCNPR scientists have jointly presented results of their scientific collaborations at a professional meeting and are currently preparing co-authored scientific manuscripts for publication in peer-reviewed journals. The NCNPR is also completing plans for a scientific workshop on authenticating botanical ingredients for use in dietary supplements. The workshop will be held in August 2002 and will provide a basis for scientists from academia, government and industry to discuss the scientific issues involved in the authentication of botanical ingredients. The issues discussed in this workshop will have broad relevance for research, manufacturing and regulatory applications.

*Question.* What activities does FDA take to inform the public of all possible health effects of dietary supplements, such as the anti-anxiety herb kava, which has recently been reported as the cause of serious liver problems? What further effective steps could FDA take with increased funding?

*Answer.* With available resources, FDA's ability to inform the public of possible adverse health effects associated with the use of dietary supplements is limited to the most serious risks presented to the public. Consumer advisories, MedWatch Safety Alerts, letters to health care professionals, and information papers are several tools FDA uses to inform the public of important health information. For example, FDA issued an advisory on March 25, 2002, informing consumers of the potential risk of severe liver injury associated with the use of kava-containing dietary supplements.

With respect to further steps that FDA could take, in January 2000, FDA published a Dietary Supplement Strategic Plan. Built on law and science, the Plan sets out clear program goals for a science-based regulatory program, that will fully implement DSHEA, thereby providing consumers with a high level of confidence in the safety, composition, and labeling of dietary supplements. The Plan identifies activities in six areas: safety, labeling, boundaries, enforcement, science-base and outreach. The outreach section addresses, among other things, the Agency goals with respect to communicating information about potential adverse effects associated with dietary supplements to the general public. In response to a request from Congress, the Agency is developing a report detailing the cost of implementing our Dietary Supplement Strategic Plan.

#### FDA COMMISSIONER

*Question.* Taking into consideration the fact that last year over 20 percent of all the money spent by American consumers was on products regulated by the FDA, I believe it is safe to say that this agency has an incredibly important mission. Also, taking into consideration the events of September 11, the agency has been thrust into the spotlight like never before because of the important role FDA plays in protecting America's homeland, and ensuring the products we use and the food we eat is safe. Finally, when we consider the wide variety of issues facing the FDA in today's society, ranging from the importation of pharmaceuticals, to bioterrorism, to the approval of cloned-animal products, to the influx of potential medical breakthroughs as a result of doubled NIH funding, it seems that this is definitely an agency that would benefit greatly from having a Commissioner. We are over a year into this Administration, and it doesn't seem that a nominee is even on the horizon.

What effect has the lack of a Commissioner had on the activities of the FDA, and what functions will be improved once a Commissioner has been named?

*Answer.* We at the Food and Drug Administration have been very fortunate to have within our ranks, incredibly competent and gifted managers who are out-

standing leaders in their respective areas of expertise. It is because of the foresight of previous FDA Commissioners, that even during an extended period where the position of Commissioner is vacant that one among our ranks can be called upon to successfully lead and guide our Agency. As Deputy Commissioner of the Agency, I meet with the Secretary regularly.

The Agency has not suffered at all from the lack of a Commissioner. All responsibilities and activities of the Agency have continued, focused on the Agency's mission to protect the public health from impure, misbranded, adulterated, or ineffective products. Once a new Commissioner is selected, he or she, will come to an Agency that has continued to operate in an efficient, effective manner; responding to the needs of our stakeholders, and continuing to enforce the highest standards for regulated industry.

*Question.* What information can be provided on the search for a new Commissioner, and when one might be nominated?

*Answer.* The search for a Commissioner for FDA is a priority for the Administration. However, there is no timetable for submitting a nomination at this time.

#### GENERIC DRUGS

*Question.* Why was the decision made to request such a significant increase for Generic Drugs? How are these funds proposed to be spent?

*Answer.* The Generic Drugs Program has the primary responsibility for approving new generic drug applications. According to the Congressional Budget Office, generic drugs save consumers an estimated \$8 to \$10 billion a year at retail pharmacies. Even more is saved when hospitals use generic drugs. With the requested increase of \$4,582,000, FDA plans to hire additional reviewers and other staff to accelerate the review and approval of Abbreviated New Drug Applications; improve the review of ANDAs without sacrificing product quality to allow the Agency to reach its goal of reviewing 75 percent of ANDAs within 6 months after submission; hire additional inspectors to increase inspections of domestic and foreign firms associated with generic drug production, an activity critical to reducing total approval times; and, increase coverage of imported generic drugs to better monitor the quality of finished drug products and bulk drug substances from overseas. Additionally, the increase will also be used to conduct research that will allow us to address specific scientific questions regarding bioequivalence and chemistry of generic products. This research will be directed at evaluating ways to enable approval of generic drugs in areas that currently lack generic alternatives, such as inhalational or topical products.

*Question.* Congress provided specific funds to be used for Generic Drug Education in fiscal year 2002. How have these funds been spent? What is the total amount of funding spent by the FDA on Generic Drug education? In what forms, and to what States, is information provided? Could more funds be used to improve this effort?

*Answer.* In fiscal year 2002, FDA has been charged with funding \$400,000 for generic education. FDA believes this funding is sufficient to support the program. The work for fiscal year 2002 is building upon plans established in fiscal year 2001 to develop a standard message for the public. Plans are underway for using physician focus groups to determine attitudes and knowledge gaps about generic drug products in that community. Based upon that information, continuing medical education programs will be developed. Pharmacy continuing education in coordination with the Association of the State Boards of Pharmacy, is also planned.

Standard messages for the public will be communicated through media such as print ads, radio public service announcements and convention exhibit booths. The material will also be distributed nation wide. Some of the professional education will involve staff travel to professional organization meetings to present information on the generic drug approval process that assures the quality of the drug products. Experts in the field will also be contracted to provide educational information on these topics.

#### BLOOD SAFETY

*Question.* There is a \$5 million increase for Blood Safety activities in the President's Budget. Please explain how these funds, if approved by Congress, will be used, and how they will supplement current activities.

*Answer.* FDA will continue to provide oversight of the U.S. blood system to include updating the blood regulations and addressing emerging infectious diseases in addition to responding to emerging potential threats to the blood supply in a timely and coordinated approach. We will be happy to provide specific information for the record.

[The information follows:]

FDA has requested funding of \$5 million for blood safety issues as part of the overall fiscal year 2003 Biologics Program funding request for counter terrorism. The following needs have been identified:

*Fiscal Year 2003 Request for Blood Safety*

- Develop possible responses to disruptions in the blood supply;
- Assure rapid testing and release of licensed products;
- Evaluate current plasma therapies for use in terrorist attacks;
- Evaluate current supplies of botulinum immune globulin;
- Interact with blood organizations and establishments to develop contingency standard operating procedures;
- Work with establishments to develop means to handle single large influxes of donors; and,
- Interact with other government agencies to allow shipment of samples for testing during times of limited distribution methods.

PEDIATRIC EXCLUSIVITY

*Question.* On December 12 of last year, the Senate passed legislation by unanimous consent to extend until October of 2007 the current law granting pharmaceutical companies an additional 6 months of exclusivity on a drug, in addition to any patent rights, if the company conducts at least one clinical investigation studying the effects of the drug on children. While many people feel this is an effective incentive for pharmaceutical companies to ensure the safety and efficacy of their products on children as well as adults, the true beneficiaries of this law have also been questioned. According to a recent CATO article, the FDA recently estimated that drug manufacturers will earn an additional \$30 billion over the next twenty years as nearly 100 new drugs receive additional market exclusivity for conducting clinical trials involving children. My calculations show that this averages to approximately an additional \$300 million per drug due to market exclusivity.

What is the average cost of a clinical trial studying the effects of a new pharmaceutical on children?

*Answer.* We do not have precise data on study costs as this is not information typically obtained by FDA. However, we do know that the costs vary depending on the type of study, number of children participating in the study, and the type of drug under study. The General Accounting Office, or GAO testimony on May 8, 2001, before the Senate Committee on Health, Education, Labor and Pensions estimated some of these costs. The GAO estimated that a safety and efficacy study may cost between \$1 million and \$7.5 million, while the cost of a pharmacokinetic, or PK study can range from \$250,000 to \$750,000 per age group. In addition, the GAO indicated that limited data provided by the Pharmaceutical Research Manufacturers of America, or PhRMA suggested higher study costs, ranging from under \$5 million to more than \$35 million. In addition, the GAO found that another study, *The Pediatric Studies Incentive: Equal Medicines for All*, Christopher-Paul Milne, Tufts Center for the Study of Drug Development, published in April 2001, indicated that, based on a survey of drug companies, the cost of pediatric studies can average \$3.87 million per written request. We will be happy to provide a table for the record that shows the number of different types of pediatrics studies we have requested as of March 1, 2002.

[The information follows:]

TYPES OF PEDIATRID STUDIES REQUESTED <sup>1 2 3</sup>

[As of March 1, 2002]

Type of study	No.	Percent
Efficacy & Safety .....	197	34
PK & Safety .....	169	30
PK/PD .....	56	10
Safety .....	96	17
Other .....	50	9
<b>Total .....</b>	<b>568</b>	

<sup>1</sup> 568 studies (241 Written Requests issued).

<sup>2</sup> No. of studies which specified # of patients to be studied: 325.

<sup>3</sup> Projected total # patients in requested studies: 33,055+.



*Question.* How many products that have received this market exclusivity are developed solely for use in children? Please provide information on these products.

*Answer.* As of March 31, 2002, we have issued 241 Written Requests for pediatric studies under the pediatric exclusivity program and sponsors have submitted completed studies in response to 63 of the studies. Of the 63 drugs for which studies were submitted, 56 were granted pediatric exclusivity, and 7 were denied exclusivity. For the record, we will provide a table that identifies the 56 drugs that have received pediatric exclusivity.

[The information follows:]

PRODUCTS GRANTED PEDIATRIC EXCLUSIVITY

Drug (active moiety)	Sponsor
Abacavir .....	Glaxo Wellcome, Inc.
Amlodipine .....	Pfizer
Ammonium lactate .....	Westwood-Squibb
Atorvastatin .....	Pfizer
Azelastine .....	Asta Medica
Bisoprolol .....	Wyeth Ayerst
Brimonidine .....	Allergan
Buspirone .....	Bristol-Myers Squibb
Busulfan .....	Orphan Medical
Calcitriol .....	Abbott Laboratories
Cetirizine .....	Pfizer
Cromolyn .....	Pharmacia and Upjohn
Didanosine .....	Bristol-Myers Squibb
Enalapril .....	Merck
Etodolac .....	Wyeth Ayerst
Famotidine .....	Merck
Felodipine .....	Astra Zeneca
Fluoxetine .....	Lilly
Fluvoxamine .....	Solvay Pharmaceuticals
Gabapentin .....	Parke-Davis
Ibuprofen .....	McNeil Consumer Products Co.
Ibuprofen .....	Whitehall-Robbins Healthcare
Insulin glargine .....	Aventis
Isotretinoin .....	Hoffman-La Roche, Inc.
Ketorolac .....	Allergan
Lisinopril .....	Astra Zeneca
Lisinopril .....	Merck
Lamivudine <sup>1</sup> .....	Glaxo Wellcome, Inc.
Loratadine .....	Schering Corporation
Losartan .....	Merck
Lovastatin .....	Merck
Metformin .....	Bristol Myers Squibb
Midazolam .....	Hoffmann-La Roche, Inc.
Milrinone .....	Sanofi-Synthelabo
Mometasone .....	Schering Corporation
Montelukast .....	Merck
Nabumetone .....	SmithKline
Nevirapine .....	Boehringer Ingelheim
Omeprazole .....	Astra Zeneca
Oxaprozol .....	Searle
Oxybutynin .....	Alza
Pemirolast .....	Santen
Pimecrolimus .....	Novartis
Propofol .....	Zeneca Pharmaceuticals
Ranitidine .....	Glaxo Wellcome, Inc.
Remifentanyl .....	Abbott Laboratories
Ribavirin/Intron A .....	Schering Corporation
Sertraline .....	Pfizer
Sevoflurane .....	Abbott Laboratories
Simvastatin .....	Merck
Sotalol .....	Berlex Laboratories
Stavudine .....	Bristol-Myers Squibb

## PRODUCTS GRANTED PEDIATRIC EXCLUSIVITY—Continued

Drug (active moiety)	Sponsor
Tramadol .....	R.W. Johnson

<sup>1</sup>Active Moieties Granted Second Period of Pediatric Exclusivity Also, note that 2 drugs granted exclusivity have not yet been approved, therefore, we cannot disclose their names.

None of the 56 drugs granted exclusivity were developed solely for use in children. However, Elidel (pimecrolimus), for atopic dermatitis, was developed primarily for use in children. Also, one of the yet unapproved drugs that was granted exclusivity was also primarily studied for an indication that occurs in children. Both of these drugs were new molecular entities (NMEs).

*Question.* How many products that have received this market exclusivity have been prescribed to children on a broad scale prior to conducting the clinical trial resulting in the market exclusivity?

*Answer.* Although we do not have specific information on each of the 56 drugs that have been granted exclusivity, I can tell you that in preparing our January 2001 Report to Congress, and in responding to the U.S. General Accounting Office in May 2001, we developed the following information on 28 of the 56 drugs granted exclusivity based on data from IMS HEALTH data. We will provide the information for the record.

[The information follows:]

**Drugs Granted Exclusivity Based on Data from IMS HEALTH Data**

IMS Health Data(Outpatient Data) National Disease and Therapeutic Index™ 1994 though 1999		
Drug	Age Range	# of Drug Appearances
Abacavir	3 months – 12 years	N/A – Pediatric information included at the time of initial approval
Ammonium lactate	2 years – 16 years	518,000
Azelastine	4 years – 12 years	135,000
Bisoprolol	0 – 16 years	27,000
Buspirone	6 years – 17 years	421,000
Calcitriol	≥2 years - <18 years	100,000
Cromolyn Sodium	2 years - 6 years	2,375,000
Enalapril	0 - 16 years	366,000
Etodolac	6 years - 16 years	277,000
Famotidine	0 – 12months**	352,000
Fluoxetine	6 years – 17 years	2,891,000
Fluvoxamine	7 years - 17 years	390,000
Gabapentin	0 - 12 years	126,000
Ibuprofen	6 months - 2 years	8,576,000
Insulin glargine	6 years – 15 years	No records
Lamivudine	0 – 3months*	2,000
Loratadine	2 years – 5 years	1,517,000
Metformin	8 years - 16 years	46,000
Midazolam	6 months - 16 years	568,000
Omeprazole	0 – 16 years	657,000
Oxaprozin	6 years - 16 years	274,000
Pemrolast	3 years – 16 years	No records
Propofol***	0 - 16 years	24,000
Ranitidine	0 - 1 month	1,483,000
Remifentanyl	0 – 2 months*	No records
Sevoflurane	< 1 month - <12 years	No records
Sotalol***	0 - 16 years	16,000
Tramadol	0 - 16 years	135,000

\*The National Disease and Therapeutic Index™ (NDTI) database is a compilation of statistical and demographic information about the patterns and treatment of disease encountered in office-based practice. These data reflect the projected number of drug uses for the product groups and age-ranges identified during a patient (diagnostic) visit. These data are not the projected number of prescriptions dispensed. These data are from the time period 1994 through 1999.

NDTI age codes:

- \* Assigned age of 000 includes 000 through 011 months.
- \*\* Assigned age of 001 year includes 012 months through 23 months.
- \*\*\* Generally used only in a hospital setting or initiated in a hospital based program

*Question.* Does the market exclusivity apply solely to the pediatric formulation of the drug, for which the clinical trial was performed?

Answer. Section 505A of the Federal Food, Drug, and Cosmetic Act, the Act, does not limit the pediatric exclusivity to a pediatric formulation. Under section 505A of the Act, pediatric exclusivity assumes the character of the type of exclusivity to which it attaches. The 6-months of pediatric exclusivity is added to any of the sponsor's listed patents or previous non-expired grants of exclusivity on drug products containing the active moiety that was studied. We believe that this interpretation is the most consistent with the language and purpose of the pediatric exclusivity provision. The statutory provision did not limit the exclusivity. The exclusivities that existed prior to pediatric exclusivity had not resulted in the pediatric studies the Agency desired, so FDA determined that the pediatric exclusivity had to provide an adequate incentive. Since pediatric exclusivity attached to all existing exclusivities and the 5 year exclusivity under Waxman-Hatch applies to the active moiety, this result was most consistent with the statute. As a necessary corollary of this interpretation, we have construed the provision to permit the Agency to include within a single Written Request pediatric studies on any drug products containing the active moiety, if such drug products have significant uses in the pediatric population.

FDA ORANGE BOOK

*Question.* In the Conference Report of last year's appropriations bill, the Committee expressed concern regarding the possible abuse of patent extensions by pharmaceutical companies with regard to the FDA "Orange Book." While the FDA has little expertise in patent law and patent determinations, orange book listings do have a direct effect on the length of time a pharmaceutical company can potentially prohibit a generic drug from entering the market. With this in mind, we requested that the Secretary instruct FDA to work with the Federal Trade Commission to prepare a report relating to pharmaceutical industry practices relating to patent law and extensions.

Has the FDA begun any preliminary work with the FTC on such a report? Please provide an update on any action that has been taken to date, as well as any planned actions.

Answer. During the past year, the FDA's Office of Generic Drugs within the Center for Drug Evaluation and Research, provided the Federal Trade Commission, FTC, with data on numerous occasions to help them prepare this report. The FTC also participated in a forum the FDA Office of Chief Counsel coordinated to obtain information from the innovator and generic pharmaceutical industry on their interpretation of the applicable statutes, including Orange Book issues.

*Question.* It is my understanding that FDA guidelines require any generic firm, when introducing a new product, must certify to FDA that their drug would not infringe on a patent listed in the Orange Book. For a more specific study of the Orange Book listings themselves, the Committee requested a report by March 1, 2002 on the best methods to collect and disseminate information on the nature of patent extensions that have been granted on products appearing in the Orange Book, the effect those extensions have had on the cost of pharmaceuticals, and a societal cost/benefit analysis in regard to those extensions. We anticipate that the contents of this report will be helpful in studying potential ways to lower the cost of pharmaceuticals. Could you please provide the status of the report at this time?

Answer. The report is under administrative review and will be provided to the committee within the next several weeks.

*Question.* Will the contents of this report enable FDA to perform a comprehensive study to determine whether patents listed in the "Orange Book" are related solely to the chemical makeup of the drug, as opposed to patent extension for changes such as the size, shape, or method of delivery of the drug?

Answer. Under the Food, Drug and Cosmetic Act, we are required to publish patent information for approved drug products upon receipt of that information from the sponsor of the new drug application. The statute does not assign FDA any independent action with respect to patent submissions or otherwise direct it to look beyond the face of the submitted patent information. Instead, generic and innovator firms must resolve any disputes concerning the patent or patent coverage in private litigation. With regard to exclusivity, there is also no statutory requirement that FDA consider the costs to consumers or the societal benefits accrued in granting the extensions. FDA's public health mission is to evaluate the safety and effectiveness of drug products presented for marketing approval. At the time the different exclusivities, for example Waxman-Hatch, Orphan, Pediatric, were enacted into law, there was debate and consideration of the costs to consumers and societal cost/benefit issues. The resulting exclusivities and extensions were considered to be justified in order to achieve the goals of the particular programs such as greater development

of drugs to treat orphan diseases, better labeling for pediatric treatment and knowledge of pediatric use, and to promote a balance between new drug innovation and generic drug competition. The Administration is concerned about the cost of pharmaceuticals and FDA will certainly participate in efforts that involve matters within the Agency's jurisdiction and authority.

PERSONAL IMPORTATION AND INTERNET DRUG SALES

*Question.* What actions is FDA currently taking to prevent and monitor the sale of pharmaceutical and pharmaceutical products over the Internet? Is the FDA working with any other private or government entities in this effort? What oversight authorities do you have, or need, in order to most effectively deal with this problem?

*Answer.* The growth of the Internet in recent years has enabled many consumers to purchase medicines online. More than half of all U.S. homes now have an Internet subscription. There are online pharmacies that provide legitimate prescription services. Unfortunately, there are also questionable sites that make purchasing medicines online risky.

In order to assess Internet drug sales and monitor the sale of these products, FDA established an Agency-wide triage team that meets monthly to prioritize Internet-related enforcement activities on unapproved new drugs, health fraud, and prescription drugs sold online without a valid prescription. This year, FDA has evaluated over 500 web sites for possible regulatory or criminal action, resulting in 11 Warning Letters, 1 seizure, 22 untitled letters, and 57 cyber letters. In October and November 2001, the Agency issued 11 cyber letters to foreign web sites marketing unapproved ciprofloxacin, the generic name for Cipro, to American consumers. Of the 11 web sites issued cyber letters, 8 have stopped selling Ciprofloxacin. FDA is working with foreign regulatory authorities to address the other sites.

FDA also has established another working group which meets regularly to address public education on Internet sales, and FDA and the Federal Trade Commission are working together to protect the public from those who try to take advantage of Internet consumers through a program known as Operation Cure All. This partnership includes Health Canada, the Canadian Federal health department, and various state attorneys general and state health departments, and combines a law enforcement effort with a consumer education campaign. The effort focuses on web sites that offer products with false or deceptive claims about treating or curing cancer, HIV/AIDS, arthritis, hepatitis, Alzheimer's disease, diabetes, and many other diseases. The objectives of Operation Cure All are to educate businesses making serious disease claims on the Internet that such claims must be truthful, nondeceptive, and substantiated, and that the drugs they sell to treat these diseases must be FDA approved. The program seeks to deter future violations by such businesses, educate consumers to be wary of curative claims concerning serious diseases and medical conditions, and identify targets for possible enforcement actions. To ensure that consumers are offered FDA-approved medicines by properly licensed retailers, the Agency must be enabled to increase surveillance and enforcement activities; leverage resources with other Federal and State agencies; and continue to engage in public outreach and education.

*Question.* Please explain FDA's importation policy and how, if at all, it has changed over the past 2 years. Has FDA seen an increase in people buying pharmaceuticals outside of the US? What effect has the internet had on this situation?

*Answer.* FDA's current personal importation policy was created in 1954 to address importation through the mail. At that time, the size and number of personal imports was significantly smaller than it is today. The policy was expanded in 1977 for personal baggage and again in 1988 to respond to the unavailability of treatments for AIDS patients.

In recent years, consumers increasingly have been purchasing and importing lower-priced medications from foreign countries. Under the Federal, Food, Drug, and Cosmetic Act, FDA may refuse importation of any unapproved drug when offered for importation into this country. However, FDA staff may use enforcement discretion to allow the importation under certain conditions of particular unapproved drugs into the U.S. There are several factors that FDA personnel consider when determining whether to exercise enforcement discretion. First, when the intended use of the unapproved drug is to treat a serious condition for which effective treatment may not be available domestically. Secondly, there is no known commercialization or promotion to persons residing in the U.S. by those importing the drug. Thirdly, the unapproved product is considered not to represent an unreasonable risk. Finally, the person seeking to import the unapproved drug affirms in writing that it is for the person's own use, generally not more than a 3-month supply, and provides the name and address of the doctor licensed in the U.S. responsible for his or her

treatment with the product, or provides evidence that the product is for the continuation of a treatment begun in a foreign country. Consumers are also increasingly using the Internet to order prescription medications from foreign pharmacies, which are sometimes available without a prescription or by doing nothing more than filling out an online questionnaire. This concern only increased after September 11 when consumers began ordering Cipro for prophylactic use. FDA and the US Customs Service continue to work together to address issues of concern regarding imported drugs. It is important that we work to develop better ways to address this important public health issue. FDA will also explore additional consumer education efforts in this area.

#### HOMELAND SECURITY

*Question.* I was pleased to see in your testimony a relatively detailed explanation of some of the activities you have undertaken with the use of the \$151 million in supplemental funding provided to you last year.

How many total new employees will eventually be hired as a result of the supplemental funding, what will their functions be including their location, and have their positions been annualized in the President's fiscal year 2003 request?

*Answer.* FDA expects to hire all 832 personnel—655 personnel for FDA's field component, the Office of Regulatory Affairs, ORA, and 177 personnel for those non-field components—associated with the fiscal year 2002 Counter Terrorism supplemental budget. FDA annualized all 832 positions in the fiscal year 2003 Congressional Justification. As of March 18, 2002, ORA has hired 365 of the 655 authorized by the supplemental budget. I would be happy to provide a breakout of these personnel.

[The information follows:]

#### HIRING ACTIVITIES

A total of 655 personnel will be hired in ORA to support FDA's counter terrorism efforts in the field. The breakout of the 635 personnel for Food Safety efforts in the field is primarily split between import and domestic operations. 433 employees will be assigned to help assure the safety of imported products. These employees consist of import consumer safety officers, import laboratory analysts, and criminal investigators. 212 domestic compliance officers and domestic investigators will be available to go to district offices to follow-up on import enforcement needs and support domestic inspections. The remaining field personnel will be responsible for supervisory and/or coordination efforts associated with the increased responsibilities related to counter terrorism.

The initial training provided to the Import Consumer Safety Officers will concentrate on specific import/border duties. These duties include working with Customs personnel; learning how to collect, package and ship samples; fill out collection reports; and conduct field examinations of shipments, including such activities as visual inspections for the appearance or smell of a product, swollen can seams, etc. These employees should be able to contribute to basic assignments within 2 months.

The domestic compliance officers and investigators will work with industry to assist them in identifying potentially vulnerable access points in their manufacturing processes for possible terrorism acts, and work with them to develop procedures and guidelines for minimizing vulnerability.

Laboratory analysts assigned to both domestic and import operations will be available to support increased sample analysis functions, including analysis for chemical and microbiological contamination. Employees hired for these positions include chemists, microbiologists, and physical science technicians.

Thirty employees, within the total of 665 personnel assigned to Food Safety efforts, will be utilized by the Center for Food Safety and Nutrition and the Center for Veterinary Medicine to conduct risk assessments, develop compliance policy for imported animal drugs and feeds, and foods, collaborate on the development of new methods, and conduct risk assessments of the results of laboratory analyses of imported products.

144 new personnel will be hired in science based positions to address the need for safe and effective medical products, specifically to expedite FDA's work relating to vaccines, drug therapies, diagnostic tests, development of computational techniques to strengthen detection and response capabilities, and consultation with other governmental agencies and private industry.

Three new personnel to monitor security standards at all facilities, develop plans for improved security measures and procedures, and assure effective coordination with all FDA components and building managers.

*Question.* Please outline the other activities that are being carried out with last year's supplemental funding, including the impact of this funding on food safety.

*Answer.* The September 11 terrorist attacks and subsequent incidents involving anthrax contamination raised the frightening prospect that, in this new world, products regulated by the FDA—human and animal food and drugs, biological products, and devices—could be used intentionally to cause widespread harm to U.S. citizens. The American public will have to depend on the Agency now, more than ever, to safeguard their public health interests. FDA is in the process of developing a Counter Terrorism Strategic Plan and Action Plan that outlines ways FDA will reduce the potential for threats to the Nation's supply of food and medical products, and ensure that appropriate emergency and medical countermeasures are in place to minimize the effects of terrorist attacks.

FDA is currently engaged in numerous Counter Terrorism activities with the support of the Supplemental Funds. Of 655 new hires in FDA's field operations, 635 are authorized for food safety activities in the field with 600 for the foods program, and 35 for the animal drugs and feeds program. FDA will also enhance the Operational and Administrative System for Import Support, OASIS, to include real-time screening with multi-agency import databases to help target inspection resources. The Agency will increase import filer evaluations to ensure integrity of importers and import entry data, increase collections of samples for laboratory analysis; and increase use of field physical examinations of imported products to ensure safety. The Agency will expand the Electronic Laboratory Exchange Network or eLEXNET, to provide better nationwide access to information on food pathogens and select agents. FDA will also enhance the capacity for, and develop, rapid methods that can be used for rapid analysis of suspect foods for select agents or toxins.

FDA's efforts to ensure the safety and effectiveness of medical products cover human drugs, biologics including vaccines and blood, and medical devices and radiological health. FDA must review and give approval, at least on a temporary basis, to every new drug, therapeutic, vaccine, anti-toxin that is to be administered to humans and every diagnostic tool that is to be used clinically must be reviewed and approved by FDA. Since this regulatory process is lengthy, complex and fraught at times with the unforeseen, it is essential, and in the interest of national security and public health, that FDA engages in the process as early as possible with sponsors and organizations that are developing the therapeutics, vaccines and rapid diagnostics. This means that FDA must maintain a pro-active role and work with other organizations from the very outset, starting with outlining the individual steps that must be taken to obtain FDA approval, through pre-clinical toxicity testing, the development of protocols for conducting the clinical trials, to the review and analysis of the trial results, review of the proposed manufacturing procedures, inspection of the manufacturing process to assure compliance with Good Manufacturing Practices and post-marketing surveillance of adverse events. FDA must also participate in exercises related to responding to a bioterrorist attack.

In the Biologics program, funds will be used to expedite work on bioterrorism vaccines, and in support of blood safety activities. For vaccines FDA will provide consulting services to other Federal agencies and industry, accelerating emergency vaccine lot releases, and preparing to evaluate new vaccines whose efficacy cannot be tested by exposing people to the pathogen. In the blood safety area, FDA will expedite licensure issues related to storing of blood and expedite release of test kits and reagents use for blood screening and reviewing and processing expedited lot releases. These activities are accomplished through the regulation of the development and licensure of new vaccines, therapeutics, and blood products for protection and treatment against bioterrorism-related threat diseases. The personnel hired will be targeted toward the range of disciplines necessary to accomplish the activities described above and include biologists, chemists, consumer safety officers, medical officers, microbiologists, compliance officers/technicians, public affairs specialists/technicians, computer systems analysts, management analysts, personnel specialists/technicians and program support personnel.

In the Human Drugs program, funds will be used to assure product availability through an expansion of the drug shortage program as well as plans to develop protocols for the study of alternative therapies for biological agents. The latter will be conducted through contractual work to define animal model programs for relevant diseases such as smallpox, pneumonic, plague, that provide early and proactive regulatory guidance to develop data for potential drug therapies. In addition, the Agency will need to develop a framework for addressing future regulatory applications that use a combination of vaccine and drug.

The drug program's new hires will closely match the current mix of employees in the review process—Medical Officers, Epidemiologists, Microbiologists, Pharmacokineticists, Mathematical Statisticians, Biologists, Consumer Safety Offi-

cers—CSOs, and other related disciplines. However, the recruitment process will need to focus on finding employees with specialized training in infectious diseases, neuropharmacology, and radiologic products. Veterinarians with experience with primates and animal modeling will also be hired. The program plans to enter into various research and development contracts and Interagency Agreements, IAGs, with other Federal agencies, such as Department of Defense, DOD, National Institutes of Health, NIH, and Centers for Disease Control and Prevention, CDC, and private sector entities to develop protocols, conduct animal studies, and define reference databases on treatment and alternative therapies for infectious diseases caused by the intentional use of bioterrorist threat agents.

The Device and Radiological Health program will accelerate review of new diagnostics testing for biological and radiological agents. This program will hire personnel to respond to terrorist threats and attacks. This involves recruiting and training staff to review new devices, participating in standard development and recognition, developing guidances, predicting device shortages associated with an emergency response, and developing an outreach program focused on educating health professionals, consumers, and industry on using medical devices to counter terrorism. Funds will be used to improve internal scientific knowledge and capabilities, conduct research to assess in vitro diagnostic technology used to detect biothreat agents, conduct a market assessment to identify potential device shortages, and educate health professionals and consumers on the use of medical device biowarfare products.

Lastly, FDA's National Center for Toxicological Research, NCTR, expects to improve detection of the virulence, toxicity, and antibiotic resistance of pathogens, and diagnostic tools for food contaminants. The Center plans on recruiting and equipping personnel with additional expertise as computer scientists, protein chemists and microbiologists. Due to the Center's research responsibilities, it expects to upgrade designated laboratory facilities at NCTR to a BioSafety Level 3, BSL-3, to support microbial bioterrorism research. BSL-3 facilities have containment capability that allows work with indigenous or exotic agents that may cause serious or potentially lethal disease such as potential bioterrorist agents. By utilizing the expertise of a contractor, the upgrade of designated laboratory space can be expedited thus allowing microbial bioterrorism research to proceed within fiscal year 2002. Additionally, the Center will outfit upgraded laboratory facilities with infrastructure to include containment hoods, and appropriate filtering and monitoring devices. This will allow identification and rapid detection and assignment of terrorist agents such as bacterial strains of pathogens and chemicals. To conduct these studies, FDA will acquire biological agents, chemicals and laboratory supplies that will allow researchers to characterize multiple strains, construct a library or database of constituent proteins and test the library or database to find toxin related markers.

The impact of the fiscal year 2002 supplemental funding for food safety will result in numerous productive actions in addressing the safety and security of the nation's food supply. FDA will strengthen current import and domestic surveillance systems so that a greater percentage of high-risk food products and adverse events associated with their consumption can be assessed using state-of-the art technology. Rapid field test methods will be developed to identify hazards that may have been released by terrorists. The PulseNet System will be enhanced to quickly apply DNA fingerprinting over a wider range of biological threats. In the event of an identified threat, FDA will deploy disaster response teams who can work with other Federal, State, and local agencies to eliminate or contain the hazard and reduce public health risks. In addition, FDA will work with HHS and other government counterparts to ensure that consumers get up-to-date information about risks if an incident occurs.

*Question.* Where do you think is the biggest threat to the Nation's food supply?

*Answer.* FDA does not believe there is an inherently greater risk in either imported or domestically produced goods—human and animal food and drugs, biological products, or devices. Rather, FDA is committed to ensuring that regulated products, regardless of where they originate, are safe, secure, authentic, of the highest quality, properly labeled and are approved and/or licensed, where required. FDA will be vigilant in all operations, including domestic operations.

*Question.* How many food import inspections will FDA do in 2002? How much has this number increased due to the supplemental funding provided by Congress last year?

*Answer.* FDA classifies import coverage as a combination of import field examinations and import laboratory analyses, which are both physical evaluations of the product offered for entry. Import coverage is the sum of these two activities as a percent of the number of line entries. Import field exams are physical examinations performed at the entry point. In fiscal year 2001, FDA performed about 12,000 food

import field exams and analyzed nearly 15,000 import samples. So for fiscal year 2001, the Agency conducted physical examinations on 0.6 percent of the foods offered for import into this country of the total line entries of 4.6 million. In fiscal year 2002, we will begin to see real gains in our import coverage because of the increased funding. The counter-terrorism funding will permit the field to double the number of import field examinations and increase the number of samples analyzed by nearly 50 percent in fiscal year 2002. In fiscal year 2003, when the new investigators are more fully trained and the number of food imports is expected to increase to 5.4 million line entries, the number of import field exams will increase to 48,000. Import coverage will then increase to approximately 1.3 percent of the total food entries.

*Question.* Last year, you told us that it would cost \$270 million to get to 10 percent coverage of food imports—how much coverage is provided in this year's budget request? How much could you reasonably be expected to do with more funds?

*Answer.* In fiscal year 2001 food import coverage was 0.6 percent. With the addition of counter-terrorism resources it is expected to increase to 0.9 percent in fiscal year 2002 and 1.3 percent in fiscal year 2003 if food line entry growth remains at 10 percent per year.

In fiscal year 2003 and beyond, FDA's import strategy needs to be a flexible blend of the use of people, technology, information and partnerships to protect Americans from unsafe imported products. Thus, the current FDA import strategy is to inspect food products at ports of entry; increase physical examination and scientific analysis of products sampled at the border; increase cooperation with other Federal, State and local agencies, and foreign governments involving information exchanges; continue foreign inspections and assessments; and, enhance the automated entry review process or OASIS, through efficient interfaces with other Agency systems, and improve the integrity of imported product data submitted to Customs and FDA through increased evaluations of filers for imported shipments.

The long term solution to a higher level of confidence in the security and safety of imported food products lies in information technology that will merge information on products, producers and intelligence on anticipated risks to target the products for physical and laboratory examination. The greater use of information technology relies on data integrity activities that reduce the opportunity for products to be incorrectly identified at ports. It also relies upon cooperation from producers so that FDA can identify sources that are unlikely to need physical testing. Even with such specific targeting of risks, improvements are limited by the available methodologies for assessing threat agents and our ability to predict which tests ought to be used.

*Question.* How is FDA improving border activities? Does this include improving communications with other Federal and State agencies?

*Answer.* Initially, FDA's goal is to provide a greater import presence than we have been able to provide in the past. An increased presence can enhance our capacity and capability to perform our normal import operations such as sample collection and analysis, field examinations, inspections and also will provide a deterrent effect.

Our first priority is to perform more of these basic operations, particularly import field examinations and sample analyses, which are critical in detecting problems in the products we regulate. In addition, we have emphasized those types of examinations that will increase the likelihood of detecting intentional acts of potential terrorism, such as looking for inconsistencies between shipping documents and the physical product, evidence of tampering, substitution, or counterfeiting, or suspicious or damaged merchandise. Not including the new counter-terrorism efforts, much of the additional basic operations work will be similar to our already designed workplan assignments. It will include data integrity checks through filer evaluations and entry review where aspects of the data being reviewed are checked against existing information within the Agency.

Additional samples will be collected with the additional resources that have been allocated towards counter-terrorism measures. Analyses will be performed to detect toxins, poisons and microorganisms. As additional screening methods are developed in our labs and other labs, a greater array of analyses can be applied to samples collected. For example, FDA's Forensic Chemistry Center plans to adapt an FDA toxin screening method for application as a surveillance tool.

Physical checks of samples will be increased with a greater presence at the borders. Exams will focus on evidence of manipulation of shipments, verification against declaration, substitution, and out of the ordinary physical conditions. During import filer audits, we will be working with the regulated industry to ensure its attention to potential terrorist activities, especially as they relate to raw material receipt, inventory quarantine procedures, sourcing of foreign products or ingredients, and vulnerable operations.



In the future, we will increase the level of sophistication that we employ in our import operations, to include better information, better examination techniques, and more powerful analytical tools.

FDA is increasing its cooperation and coordination with Federal and State agencies on several different fronts. The Federal Government's response to Counter Terrorism resulted in increased reciprocal training between FDA and U.S. Customs. This training is expected to improve product integrity of goods offered for import and increase enforcement actions by Customs to deter willful violations of U.S. laws and regulations. FDA and USDA jointly chair the newly formed PrepNet, the Food Threats Preparedness Network. With monthly meetings, PrepNet works to improve coordination among agencies in non-crisis times to prepare for terrorist threats and activities related to human foods. Other participating parties include the Environmental Protection Agency, the Center's for Disease Control and Prevention, Department of Defense, and New York State, the State Advisor. FDA also works heavily with its State partners. FDA interacts regularly with State feed control officials, both individually on an as-needed basis and collectively through the Association of American Feed Control Officials. FDA's Office of Criminal Investigation, OCI, will work closely with the FBI and other agencies in the conduct of criminal investigations, including the intentional contamination of FDA-regulated products. In addition, OCI will use its established lines of communication with the intelligence community and international law enforcement—in cooperation with the FBI—to gather information and follow leads in other countries.

*Question.* What kind of vaccine work is planned to counter-terrorism in fiscal year 2003?

*Answer.* The Biologics program will use the funds to help ensure the safety of approved vaccines, support the continued development, maintenance and deployment of stockpiles, and expedite the product evaluation process, including lot release activities, inspection of manufacturing facilities, assessment of product availability, and surveillance and compliance activities. FDA will continue efforts to facilitate the development of biological products, including anthrax vaccine, smallpox vaccine, and other vaccines such as botulism anti-toxin, plaque vaccine, tularemia vaccine, and vaccines for filoviruses and arenaviruses. Emphasis will be placed on programs to develop and improve novel testing methods for evaluation of vaccines in order to help ensure their safety, purity, and effectiveness. FDA will also place emphasis on determining the types of non-clinical data that may be acceptable for product licensure if pre-licensure clinical studies are not feasible or ethical to treat human diseases caused by exposure to a biological weapon.

*Question.* Finally, the President's FDA budget request for fiscal year 2003 provides significant increases for counter-terrorism activities, partially to annualize some of the activities funded in the supplemental. While this is a completely understandable use of funds during this time, we must ensure that these increases do not come at the expense of other FDA programs and activities. How would you respond to a consumer with these concerns?

*Answer.* As you have noted, FDA's fiscal year 2003 Congressional budget request annualized nearly all of the costs associated with Counter Terrorism activities begun in fiscal year 2002. Consumers should understand that we requested these funds for two reasons—one, that Counter Terrorism is one of our highest priorities in protecting the consumer from potential contamination of foods and medical products, and two, that a continuation of the funds would prevent the Agency from having to sacrifice the current measures in place to protect consumers from injury or harm. The Agency acknowledges that it did have to temporarily devote time and effort in review of counter terrorism measures following the events of September 11, 2001 and subsequent terrorist activities, but the fiscal year 2002 Supplemental Appropriation provided the financial support to negate the need to reprioritize existing activities and corresponding resources.

#### BSE

*Question.* Dr. Crawford, I'm sure you are aware that along with the introduction of Foot and Mouth Disease, there might be nothing more harmful to the U.S. cattle industry than evidence of BSE (Mad Cow Disease) in this country. So far, we have been fortunate. But our global economy and substantial borders do not provide an easy, sure-fire, safeguard that contaminated feed or livestock products will never cross our borders. FDA import inspections, feed regulations, and other practices are the best assurances we have that U.S. consumers can feel confident that BSE will remain a foreign disease. A recent letter to the editor of a newspaper far removed from Washington, D.C. asked the question, "If mad cow disease struck the U.S., would we ever know?" I suppose the answer to that question is yes, but the better

question might be "When would we know?" Please give us an update on the import inspection practices at FDA to guard against the importation of any materials that might include BSE contamination. How have you reinforced the existing import ban, as your statement indicates, and how many additional investigators will ultimately be hired for this effort?

Answer. FDA continues to work to reduce the risk that imported items could introduce BSE into the United States. We have placed screening criteria in FDA's import data system, to flag imported products that may contain animal protein. We request that the importer provide information about the nature and origin of the product and to identify if any ingredients may be of ruminant origin. If it appears that a product contains ruminant material from a "BSE-affected" country, we refer the entry to USDA's Animal and Plant Health Inspection Service, APHIS, for review and possible regulatory action under USDA's authority.

In addition to reviewing imported product and ingredient information, FDA may also physically examine the product and its labeling for any indication that it contains ruminant material. FDA has issued a field assignment to its district offices to sample shipments of animal feed and feed ingredients from BSE-affected countries for the presence of undeclared animal product ingredients. We are also providing intensive line entry and label review of an anticipated 175,000 import line entries for use in domestic commerce for the Animal Drugs and Feeds Program.

In the fiscal year 2002 budget Congress provided 98 FTE to increase Field efforts to prevent the occurrence of BSE in the country. These resources are increasing import surveillance at ports of entry, the information technology used to monitor imports and domestic activities, collaboration with the States, and training for FDA staff, State Officials and import filers and brokers. Although these FTE are not split exclusively for import and domestic activities, I estimate that more than 50 percent are devoted to improving import controls. FDA is instructing all investigators working on import controls to monitor imports for BSE, rather than devoting investigators exclusively to BSE activities.

*Question.* You also note in your statement that FDA has taken steps to improve BSE inspections in the U.S. animal feeding industry. Has the FDA stepped up its review of domestic feed mills, or taken any enforcement actions against firms that have been not following prescribed practices to guard against BSE contamination?

Answer. Yes, FDA has stepped up its review of domestic feed mills. FDA has prioritized the inspection process so that any firms found to be out of compliance in their last inspection are placed in first priority to be re-inspected. Firms that continue to be in violation will be considered for appropriate enforcement action to correct the problem. In addition, FDA will conduct yearly BSE inspections of all known renderers and feed mills handling prohibited material, and for-cause inspections, that is as a result of a sampling assignment. Contracts for State inspections were increased and FDA and the States will conduct inspections of randomly selected processors that are not using prohibited material to ensure compliance with the regulation by this segment of the industry.

In support of the domestic BSE inspection plan, during fiscal year 2002 FDA has conducted two training sessions for Federal and State investigators in order to enhance the conduct, quality, timeliness and accuracy of inspection findings and reporting; and provide updates on the science of BSE and animal protein detection methods. FDA is also implementing a new BSE inspection checklist, data entry procedures and database in order to facilitate better, more timely collection and distribution of data; the development and validation of detection methods for prohibited mammalian protein in ruminant feed, in collaboration with experts and foreign scientists; the development of a domestic sampling plan which will collect and analyze 600 domestic feed and feed component samples for BSE-related contaminants; the development of a BSE feed ban Compliance program that will provide clear inspection and enforcement guidance to the FDA field staff for conducting BSE feed ban inspections and appropriate follow-up and enforcement; and two workshops for FDA and State inspectors to provide training on the new Compliance program and updates on BSE inspection and compliance.

*Question.* What percent of the industry do you expect to cover this year, including work contracted out to the States? What percent of the work will be done by FDA, and what percent will be done by the States?

Answer. Starting in fiscal year 2002, FDA will conduct yearly inspections of all known renderers, protein handlers, and feed mills handling prohibited material. FDA also has prioritized the inspection process so that any firm found to be out of compliance in their last inspection are placed in first priority to be re-inspected. In addition, FDA will conduct for-cause inspections, that is as a result of a sampling assignment, and FDA and the States will also conduct inspections of randomly selected processors that are not using prohibited material to ensure compliance with

the regulation by this segment of the industry. Currently the States do approximately 80 percent of the domestic feed mill inspections. Many of the inspections handled by the States are located in places that are remote from our district offices, and it is imperative that we have people to get out to the remote areas of the State to ensure the safety of the animal feed.

The Agency has also implemented a domestic sampling plan to collect and analyze 600 domestic feed and feed component samples for the presence of mammalian protein which additional inspection may determine to be prohibited from use in ruminant feed.

*Question.* Finally, you outline some of the ways FDA has been coordinating with USDA on the prevention of BSE in this country. Please elaborate on those efforts, and explain how they are funded in the Administration's fiscal year 2003 budget.

*Answer.* FDA works closely with the U.S. Department of Agriculture, USDA, the Food Safety Inspection Service, FSIS, the Animal Plant and Health Inspection Service, APHIS, the Department of Defense, DOD, and State agricultural and veterinary agencies regarding BSE issues. This includes implementation of the Bovine Spongiform Encephalopathy regulation and controlling imported products that might introduce BSE into the United States.

The US Department of Agriculture, USDA has and enforces regulations governing products of animal origin which pose a risk of harboring animal disease agents for FDA regulated products with BSE-related concerns. FDA issues import alerts and bulletins, carries out import inspections at the border and airports, and inspects domestic manufacturers. FDA also worked closely with the USDA in developing the import alerts and bulletins issued by FDA to ensure all animal products that might contain the BSE agent are identified and listed in the alerts or bulletins and are prevented from entering the United States.

FDA, APHIS, and Customs have coordinated their response to the potential importation of BSE-related products. After APHIS issued their prohibition on the importation of BSE materials on December 7, 2000, FDA issued Import Bulletin 71B-02 requesting that FDA's field offices notify their local APHIS offices of any import suspected of containing BSE material. FDA issued a new Import alert on January 20, 2001, and a new Import Bulletin on March 1, 2001. These import documents provide a detailed system for identifying at the ports products about which FDA has potential BSE concerns.

FDA also coordinates with USDA through an interagency working group on BSE. This group was started in 1996 and is comprised of representatives from USDA's APHIS, FSIS, Agricultural Research Service, or ARS, FDA, NIH, CDC, and DOD. This group shares information, evaluates ideas and issues, and makes recommendations to participating agencies.

With the increased resources provided in fiscal year 2002 and continuing into fiscal year 2003, FDA will enhance its working relationship with USDA. With resources available at this time, FDA intends to continue BSE activities mentioned above and also plans to update Federal and State inspectors on USDA/APHIS authority and approach to BSE; reinforce the existing import ban, in collaboration with USDA/APHIS, with more specific product information on FDA-regulated products, including food products, dietary supplements and cosmetics that contain bovine materials from BSE-identified countries, so that banned products do not enter the U.S.; and coordinate with APHIS and FSIS the testing of FDA's BSE Contingency Plans for use in the event that BSE is discovered in the U.S.

#### PRESIDENT'S MANAGEMENT AGENDA

*Question.* As you have stated, the Administration's FDA budget request for fiscal year 2003 reflects a decrease in some of the administrative functions performed by the FDA. Specifically, the budget reflects a \$2.6 million decrease due to the elimination of 25 administrative and management positions, and a \$7.3 million decrease as a result of moving FDA's Public Affairs and Legislative Offices to DHHS. I must admit, due to the sensitive and scientific nature of many of FDA's activities, I wonder what effect these funding decreases will have, specifically the consolidation of FDA's Public Affairs and Legislative Offices to the Department. I'm not certain that when competing with subjects as broad and equally important as Medicare and mental health parity, FDA activities and the issues we examine in this Subcommittee will receive the attention they deserve.

Please explain the benefits of consolidating the public affairs and legislative affairs functions at a Department-wide level. Do you feel that this consolidation will enhance the ability of FDA to respond quickly and accurately to Congressional and public requests for information?

*Answer.* In fiscal year 2003, FDA will transfer the public affairs and legislative affairs functions to the Department to improve communications and achieve cost savings. Advantages of the consolidation will ensure a streamlined and efficient hierarchy that is more efficient and effective. This will free personnel to focus on the customer service efforts of the Agency. The consolidation will permit the Agency to speak with one voice as a Department so that information provided is clear and consistent.

*Question.* The Agency's restructuring plan appears to be centralizing resources that have been recently de-centralized. What are the reasons for this latest approach? Have you determined your overall cost savings as a result of this centralization? Does this plan mean that FDA will reduce its resource needs in these areas?

*Answer.* This proposal is part of an HHS initiative aimed at efficiency in the operation of our Department. A key objective of the President's Management Agenda is a responsive, more citizen centered, Federal government. In few Federal agencies is the need for organizational reform more acute than at HHS, where a long history of decentralized decision-making has produced a Department with 13 operating divisions, functioning with relative autonomy. As a result, a complex web of ever-proliferating offices has distanced HHS, from the citizens it serves and has produced a patchwork of uncoordinated and duplicative management practices that hinder its efforts to accomplish its mission efficiently. The Administration supports and is committed to solving this problem through Secretary Thompson's One Department initiative, which will eliminate unnecessary layers of bureaucracy and consolidate duplicative functions into unified offices. Streamlining efforts in 2003 will focus on HHS' human resources, public affairs, legislative affairs, and building and facilities management functions.

In fiscal year 2002 we plan to study the current organizational structure to identify opportunities to consolidate and streamline administrative functions. An administrative study services contract was awarded in January 2002. The study is to evaluate all of our administrative functions. The study will generate a comprehensive plan to meet the requirements of the President's Management Agenda, the Secretary's desire to implement management improvements, and the Agency's goal of improving service to its customers. Thus the cost savings and resource needs are still being identified.

*Question.* Besides the ones already proposed in this year's budget request, are there plans to consolidate other administrative functions at the Department? What are the advantages besides the cost savings in the fiscal year 2003 budget? Have you determined out-year cost savings?

*Answer.* Personnel operations will be streamlined from six offices to one, and EEO complaints management functions are being considered for consolidation at the Department. The consolidation initiatives will enable the FDA to more effectively carry out its mission of protecting the health and safety of the U.S. citizen and will free personnel to focus on the customer service efforts of the Agency. Out-year cost savings have not yet been determined.

*Question.* Does FDA expect to re-program GSA rent funds at the end of fiscal year 2002 as was done in the previous 2 years? Please explain.

*Answer.* No. There are several reasons why the Agency does not anticipate having excess GSA rent funds which would be available for reprogramming. First, there are rent increases for several locations due to inflation adjustments by GSA, or because FDA has moved its offices within the same metropolitan area. Second, FDA is in the process of acquiring a number of new offices around the country due to our increased staffing in the Field, and the costs for some of these locations will impact on our fiscal year 2002 costs. Also, the Center for Food Safety and Applied Nutrition occupied its new building in College Park, Maryland, in October of 2001, and the rent on this facility is higher than the rent FDA was paying in fiscal year 2001 for Federal Building 8 in Washington, which is being vacated by FDA.

#### MEDICAL GAS

*Question.* In fiscal year 2002, this Subcommittee strongly encouraged the FDA to reconsider its approach to AS validation requirements through an enhanced good guidance process that would include extensive industry input and interaction and formal response by FDA to all significant comments. I understand that FDA representatives and the Compressed Gas Association (CGA) recently met to initiate this effort and that it was agreed that the FDA and CGA would undertake a series of meetings to facilitate an in-depth exploration of ASU validation issues and a better understanding of the views of the regulated community. At the conclusion of this process, FDA will issue a draft guidance that would then provide the basis for fur-

ther comment and refinement. Is my understanding of the procedural status of this matter correct? Have any of the meetings mentioned above been scheduled to date?

Answer. Yes, the Agency is currently in the process of developing draft guidance on medical gas Current Good Manufacturing Process, or CGMP, that addresses Air Separation Units, or ASU, validation requirements. The guidance development process will be consistent with the Agency's good guidance practices and will allow for extensive industry input and interaction. The Agency did meet with the Compressed Gas Association, or CGA, on March 7, 2002, to discuss ASU validation issues, and we are trying to arrange meetings for April, May, and June to continue that discussion. Once a draft guidance is issued, there will be a comment period, and the Agency will review and seriously consider all comments received during the comment period before finalizing the guidance.

*Question.* I have also been informed that FDA will, in the near future, be issuing a draft guidance on medical gas issues other than ASU validation matters, and that it will allow for extensive industry input and interaction on this draft guidance, address and respond to each significant comment received as it would in a rulemaking process, and refine this draft guidance as necessary in response to those comments. Is this an accurate assessment of the situation? Please provide an update on the status of this draft guidance.

Answer. Yes, the Agency is also currently working on draft guidance for the medical gas industry on CGMP requirements relating to issues others than ASU validation. Again, there will be ample opportunity for comment before the guidance is finalized, and the Agency will review and seriously consider all comments received during the comment period.

*Question.* Please provide for the record the amount of funds utilized by the FDA in fiscal years 2001 and 2002, and the amount of funds projected to be utilized in 2003, for activities related to medical gas oversight, regulation and enforcement. How does this amount compare to other pharmaceutical regulation activities performed by FDA?

Answer. I would be happy to provide the Agency resources used and projected for oversight, regulation, and enforcement of manufacturing quality requirements for medical gas products. In fiscal year 2001 the Agency expended about \$2 million in this area. It is estimated we will expend about the same amount in fiscal year 2002 and fiscal year 2003.

The vast majority of FDA activities with respect to general pharmaceutical regulation can be categorized as pharmaceutical oversight, regulation, and enforcement. Funds utilized for field activities related to oversight, regulation, and enforcement of other pharmaceutical regulation activities include domestic drug process inspections, foreign drug process inspections, domestic drug surveillance including sampling, import drug surveillance, and pharmacy compounding and laboratory methods. In fiscal year 2001, the Agency expended about \$27 million for these activities. It is estimated we will expend around \$35 million in fiscal year 2002 and 2003.

#### STAFFING

*Question.* Can you explain what progress FDA has made in all areas with regard to hiring of new personnel for increases included in the fiscal year 2002 appropriation, as well as the fiscal year 2002 supplemental?

Answer. FDA expects to hire all 832 personnel—655 personnel for FDA's field component or Office of Regulatory Affairs, ORA, and 177 personnel for those non-field components—associated with the fiscal year 2002 Counter Terrorism supplemental budget by the end of the 2002 fiscal year. As of March 18, 2002, ORA has hired 365 of the 655 authorized by the supplemental budget.

*Question.* At what point will you notify Congress if you find you are unable to hire the number of personnel planned? Do you plan to ask to reprogram any of those funds?

Answer. The Agency expects to fully utilize the full-time equivalent employees, or FTE, requested in the budget through the use of full-time, part-time, and intermittent employees. It is not anticipated, at this time, that a request to reprogram funds will be made.

*Question.* If there are lapsed funds, what does the Agency plan to do with them?

Answer. The Agency anticipates a lapse rate in hiring staff, and intends to use these resources for information technology equipment and other equipment needs of the Agency.

## MQSA

*Question.* Can you tell us from a public health perspective what the recent articles on mammography effectiveness mean? What is FDA's position on the information contained in the articles?

*Answer.* FDA would defer to the National Cancer Institute, NCI, which has the epidemiological and research expertise, to appropriately address the specific statistical issues raised by recent articles on mammography effectiveness. However, we would like to point out that NCI data shows that the mortality rate from breast cancer has decreased significantly since the widespread use of screening mammography became commonplace. This is likely due to a combination of factors, including mammographic detection of earlier cancers, changes in women's lifestyles, and better treatment methods. Since the recent media attention, NCI has reaffirmed its support for screening mammography.

FDA fully supports HHS Secretary Tommy G. Thompson's recommendation as stated by the U.S. Preventive Services Task Force, USPSTF, that calls for screening mammography, with or without clinical breast examination, every one to 2 years for women ages 40 and over. The USPSTF's recommendation is largely based on the review of eight randomized controlled trials of mammography—four of mammography alone and four of mammography plus clinical breast examination—that have reported results with 11 to 20 years of follow up.

## PDUFA

*Question.* What is the status of your discussions with industry?

*Answer.* During the past 18 months, FDA has conducted a fair and balanced effort to hear from all parties that have a viewpoint about the Prescription Drug User Fee Act (PDUFA). In preparation for submitting the Administration's PDUFA III proposal to Congress, the Agency engaged in a comprehensive initiative to involve all PDUFA stakeholders—consumers, health providers, patient groups, and the manufacturers of drugs and biologics—in the development of PDUFA III proposals. This process included two public hearings; Listening sessions with consumer and patient groups; consumer roundtables where PDUFA was a major topic of discussion; and, meetings with drug and biologic manufacturers.

At our public hearings, FDA received 12 hours of testimony. Of the total of 28 witnesses who provided testimony, 23 were representatives from consumer, patient and health provider groups. Seventy-five consumer, patient and health provider groups were also represented at the "listening" sessions and roundtables. This is evidence of the broad representation that served as a foundation for the Administration's PDUFA III proposal and the development of the PDUFA III performance goals.

These discussions allowed FDA to develop a draft reauthorization proposal for PDUFA. The Administration forwarded this proposal to the Congress in March, 2002.

*Question.* Please explain how the new PDUFA will be different from the current PDUFA, including why the changes are necessary and the effect they will have.

*Answer.* The most significant change in PDUFA is that it will generate substantially more revenue to support the FDA drug review process. With the additional revenue provided FDA should be able to substantially strengthen its review program and improve the working conditions and training opportunities in its drug review operations. The additional revenue provided should enable the agency to employ about 195 additional staff for drug review in fiscal year 2003, and that number will increase to a little over 450 additional staff in fiscal year 2006 and 2007. This will allow us to continue to meet the PDUFA II performance goals and some additional new goals agreed to for PDUFA III. Assuming continuation of appropriations at a level that sustains the half of the drug review program funded by appropriations.

We are pleased that the proposed changes will also permit FDA to spend fee revenues on risk management activities that span the approval process and include the first 2 to 3 years after a product is approved. The resources provided should permit the agency to double the size of its current headquarters product safety staffs now about 100 FTE.

To further respond to your question I will submit for the record a narrative explanation of most of the changes that are being proposed to the financial provisions of PDUFA.

[The information follows:]

## CHANGES IN FINANCIAL PROVISIONS FOR PDUFA III

## PDUFA II REVENUE MODEL AND WORKLOAD ADJUSTER

Under PDUFA II, application fee amounts were set in statute and were increased each year by an inflation adjustment. The number of applications that would pay fees was estimated at the beginning of each year, based on an analysis of the number of fee-paying applications received since PDUFA was initiated. Total application fee revenue was then estimated at the beginning of each fiscal year by multiplying the amount of the statutory application fee, adjusted for inflation, by the estimated number of fee-paying applications FDA would receive.

The estimated amount of application fee revenue then became the revenue target for the amount FDA would collect for both product fees and establishment fees. The number of fee-paying applications thus became the de-facto workload adjuster—the surrogate for all FDA review workload. But FDA experience has identified two major problems with this approach.

*Problem 1: Fee-Paying Applications are Not a Good Surrogate for FDA Workload*

Much of FDA's workload in reviewing applications is not captured by this surrogate. A large and growing portion of FDA's review workload occurs before a marketing application is ever submitted. The number of investigational new drug (IND) documents submitted to FDA has grown substantially and consistently each year since 1993, and they were not captured by the PDUFA II workload adjuster. Further, many of the goals under PDUFA II require additional work that FDA must do at the IND review stage. This additional IND work includes:

- increase the number, complexity and timeliness of several kinds of FDA meetings with industry,
- more rapid completion of action on complete responses from industry on holds FDA placed on clinical investigations, and
- protocol assessments.

In addition, the number of manufacturing supplements submitted by industry has been growing rapidly each year, and starting in 1998 these submissions were also subject to PDUFA performance goals. A workload adjuster is needed that takes these aspects of FDA's review workload into consideration, as well as the number of marketing applications submitted to FDA—whether or not an application is exempt from fees or the fees are waived.

*Problem 2: PDUFA II Over-adjusts after a Decline in Applications*

Based on experience from 1993 through 1997, when the number of fee-paying applications increased consistently from year to year by 7 percent, both FDA and industry expected that fee-paying applications, and product and establishment fee revenues, would increase consistently each year through 2002.

In fact, however, in two of the four years of PDUFA II, the number of fee-paying applications fell significantly. In years when fee-paying applications fall, FDA faces a double financial penalty. The experience of fiscal year 2001 is a good example of this.

- At the beginning of fiscal year 2001, based on a linear regression analysis of past fee-paying applications, FDA projected a total of 164 fee-paying applications that would produce a total of \$51 million in application fee revenue. As the fiscal year progressed, however, fee-paying applications dropped precipitously, due in large part to an increase in the number of applications exempt from fees. By year-end FDA had received only 108 fee-paying applications that generated only \$33 million—a shortfall of about \$18 million.
- At the beginning of fiscal year 2001, linear regression analysis projected that FDA would receive 171 fee-paying applications in fiscal year 2002. This would provide \$53 million in application fee revenue and \$159 in total revenue—since product and establishment fees would each be set to generate the same amount of fees that applications generate. But the 108 fee-paying applications were factored into the linear regression analysis at the beginning of fiscal year 2002, revised projections forecast only 146 fee-paying applications in fiscal year 2002, generating \$46 million from application fees, and a total of \$138 million from all fees. This was \$21 million less than earlier forecasts.

The projection of an additional drop of \$21 million in PDUFA revenue in fiscal year 2002, on top of the \$18 million loss in fiscal year 2001, causes a total drop of \$39 million over two years—all in response to the drop in fee paying applications in fiscal year 2001. Both FDA and industry agree that this drop in revenues is out of proportion to any change in workload. Revenues have been too volatile under PDUFA II. Both FDA and industry support a change in how revenues and workload are structured beginning in fiscal year 2003.

## PROPOSED REVENUE MODEL FOR PDUFA III

The proposed statutory language uses a revenue model that incorporates aspects of both PDUFA I and PDUFA II, but that would eliminate the problems with the volatility of revenues that occurred in PDUFA II. The major elements include:

- Setting the revenue levels in Section 736(b) for each year, not the amounts of application fees
- Keeping the current inflation adjuster and applying it to the statutory revenue levels.
- Incorporating a new workload adjustment provision that accounts for the major components of FDA's review work—(1) new marketing applications, whether or not they pay fees, (2) efficacy supplements, whether or not they pay fees, (3) commercial investigational new drug submissions, and (4) manufacturing supplements. This is a major improvement over using fee-paying applications as a surrogate for workload as was the case in PDUFA II.

## WORKLOAD ADJUSTER

Section 736(c)(2) provides for annual revenue adjustments for changes in review workload, after inflation adjustments are made. The adjustment is to be determined by the Secretary, based on a weighted average of the changes in the total number of:

- Human drug applications
- Commercial investigational new drug applications
- Efficacy supplements, and
- Manufacturing supplements.

The Secretary shall publish in the Federal Register the fees resulting from this adjustment and the supporting methodologies.

Each of the 4 components is a defined category of applications that FDA currently counts. Each component will be given a weighting factor that corresponds to its percent of FDA review workload. The percent of FDA review workload assigned to each of the components in a study recently completed study by KPMG is:

- 44.4 percent for human drug applications, whether or not they pay fees;
- 40.2 percent for commercial investigational new drug submissions;
- 6.2 percent for efficacy supplements; and
- 9.2 percent for manufacturing supplements.

These are the weights that the Secretary would use in calculating the workload adjuster, and the percents that have also been disclosed by FDA soon after they were initially reported to them by their contractor, KPMG.

The workload adjuster envisioned for each component has as its base the average number of applications of each particular type that FDA received over the 5-year period of PDUFA II. It requires that a rolling average of submissions also be calculated each year for the latest five-year period that ends on June 30 before the end of each fiscal year beginning on or after October 1, 2002. The percent change in the latest 5-year average, compared to the base year, is then multiplied by the weighting factor for that component. Then all 4 components of the workload adjuster are added together, and the total percent that results is the workload adjuster that will be used to further adjust the inflation-adjusted statutory revenue levels each year after fiscal year 2003. Use of 5-year rolling averages in this process dampens the impact of revenue fluctuations—both up and down.

The revenue adjuster will never result in revenues lower than the inflation-adjusted statutory revenue levels. The reason for this is that in years when fee-paying applications fall below projections, FDA will automatically experience a shortfall in revenues as a result of that shortfall in fee-paying applications. Further downward adjustment of the revenues would over-compensate for such a decline in workload. This is a lesson learned from experience from 1998 through 2002.

If such a model had been in place for the past 5 years, revenues during PDUFA II would have been much more predictable year to year rather than exhibiting the volatility FDA experienced. Industry and FDA both support this concept. Attachment I is a worksheet that shows how this workload adjuster would have performed if it had been in effect for the past five years. Both FDA and industry staff support this approach to adjusting workload for revenues in PDUFA III.

## CHANGE IN DUE DATE FOR ANNUAL FEES TO OCTOBER 1

The date annual fees are due and payable is being changed from January 31 to October 1, the first day of the fiscal year. Currently PDUFA specifies that two-thirds of the fees are due January 31, 4 months into the fiscal year. This has necessitated carrying forward funds from a previous year to sustain operations for the



first 4 months of each new fiscal year. By changing the date for annual fees to be paid to FDA, the necessity of carrying forward these large cash surpluses from year to year is eliminated. Also, by making this change, FDA will have access to revenue as early in fiscal year 2003 as it can issue invoices and collect fees rather than having to wait until January 31 to collect funds. This is especially important for FDA operations in fiscal year 2003 because the agency does not expect to have any appreciable carryover funds at the end of fiscal year 2002.

Making this change necessitates several other changes in the law. In the past annual inflation adjustments were keyed to the higher of the Federal pay raise applicable for employees in the fiscal year for which the fees were set or the CPI for the previous year. In order to collect fees on October 1, FDA will have to set fees and issue invoices in August of each year, well before the pay-raise determination for the next fiscal year is made. For this reason the inflation adjustment factors are changed to the higher of the Federal pay raise for employees in the Washington DC area for the previous fiscal year, or the change in the CPI for the 12 month period ending June 30 before fees are set for the following fiscal year, whichever is higher. Both of these figures will be available in August when fees must be set. As was the case previously, these inflationary changes will continue to be cumulative and compounded.

Making the fee due and payable on October 1 necessitates a few other changes as well. The word "assessed" is changed to "retained" in section 736(f)(1) and the word "collected" is changed to "retained" in section 736(g)(2)(A). Both of these changes are made to permit FDA to issue invoices and collect fees before an appropriation is actually made for the fiscal year. The change in wording keeps the original intent of these two provisions intact, however, by asserting that the conditions originally specified in each of those sections must be fulfilled when all appropriations for the fiscal year, including any supplemental appropriations, are enacted. If the conditions are not fulfilled, FDA may not retain the fees it collects.

#### FINAL YEAR ADJUSTMENT

A new subsection (c)(3) also allows FDA to make a one-time increase in fees in fiscal year 2007, if necessary, to assure that the agency will have no less than 3 months of operating reserves on hand at the end of fiscal year 2007 when this legislation will expire. This will allow the agency to operate for up to 3 months in fiscal year 2008 if there is any delay in reauthorization of PDUFA at the end of fiscal year 2007. Further, delaying this payment from industry until fiscal year 2007 minimizes the need for FDA to carry large balances over from year to year, reducing industry outlays until they are necessary to support operations.

#### ADDING TOLERANCE TO THE TRIGGER GOVERNING SPENDING FROM APPROPRIATIONS

Currently the provision in Section 736(g)(2)(B) dissolves FDA's authority to collect and spend fees in any year that FDA fails to spend from appropriations as much as it spent in fiscal year 1997, adjusted for inflation. Under spending by even \$1 causes the whole user fee program to cease operation, presenting serious difficulties for the drug review program. This would force FDA into a reduction-in-force and other drastic actions.

The trigger is based on the amount FDA spends from appropriations on the drug review process each year. FDA's accounting system measures spending by organization component. Spending on the drug review process, however, is usually only a portion of spending of organization components in CDER, CBER and ORA. That determination can only be made definitively by merging information from FDA's accounting system, after the close of the fiscal year, with results from the time reporting system that reflect the percent of time each organization component spends on the drug review process. This provides the total dollar figure that FDA spent on the drug review process. From this total, FDA subtracts the amount of fee revenue that was spent to determine the amount of spending on the process that came from appropriations. Since this process does not finally identify exactly how much was spent from appropriations until after the end of the fiscal year, FDA always overspends to be sure that the agency is not in peril of spending less than the trigger requires and causing the program to collapse.

The table below shows the amount of spending, in excess of the amount required by the law, since PDUFA began in 1993:

Fiscal year	Minimum spending required by section 736(g)(2)(B)	Actual spending from appropriations	Difference	Percent difference
1993 .....	\$120,057,253	\$126,515,577	\$6,458,324	5
1994 .....	123,380,438	129,337,138	5,956,700	5
1995 .....	126,958,144	139,830,318	12,872,174	10
1996 .....	124,302,476	152,289,387	27,986,911	23
1997 .....	125,872,166	147,959,689	22,087,523	18
1998 .....	147,959,689	151,836,635	3,876,946	3
1999 .....	150,083,954	159,669,575	9,585,621	6
2000 .....	153,508,177	167,646,122	14,137,945	9
2001 .....	158,213,295	162,691,657	4,478,362	3

An addition is proposed to section 736(g)(2)(B) to provide FDA a margin of error in its effort to meet this requirement of the law. This section is being modified so that if FDA's spending is within 5 percent of the amount required by this provision of law, the requirement of this section is considered satisfied. If FDA under-spends by 3 percent or less, there is no penalty. If FDA under-spends by more than 3 percent but not more than 5 percent, FDA will be required to reduce collections in a subsequent year by the amount in excess of 3 percent by which FDA under-spent from appropriations. The intent is to relieve FDA of the need to overspend from appropriations each year, as it has done consistently since 1993, to assure that this trigger is met. Spending from appropriations on the drug review process each year is still expected to be at or very close to the amount specified by this trigger, and may never be more than 5 percent less than the trigger amount.

#### CHANGES TO IMPROVE EFFICIENCY OF BILLING FOR PRODUCT FEES

Amendments are proposed to allow the Secretary to use the Prescription Drug Product List (the active portion) in the "Approved Drug Products with Therapeutic Equivalence Evaluations," (Orange Book) as the basis for identifying which products should be considered to be prescription drug products for fee assessment purposes. These proposed changes should lead to a more efficient, less burdensome, billing procedure. Under current law, any product eligible for drug listing is subject to product fees. Determining eligibility for listing is administratively complex and sometimes resource intensive. In addition, listing is often controlled by a re-packer or distributor rather than by the sponsor, but the sponsor must pay the product fee. The use of the Orange Book, which is found on FDA's Internet site, as the basis to identify products for user fee assessment purposes should not be construed to affect the legal status of the book or the products in the book. The purpose of using this method is merely a tool for the Secretary to provide a public, efficient billing process. It also provides sponsors an easier way to remove products from the list that is the basis for billing. Also, the addition of the reference to the list of products approved under human drug applications under section 351 of the Public Health Service Act created and maintained by the Secretary refers to the current FDA method of identifying biological products considered to be prescription drug products for fee assessment determinations. This is not intended to be a change in practice; rather it documents FDA's current practice. The list is to be provided on FDA's Internet site.

The proposal to delete the clause "does not include a large volume parenteral drug product approved before September 1, 1992" would mean that any large volume parenteral (LVP) product is a prescription drug product and subject to a fee. However, coupled with a corresponding change proposed to section 736(a)(3)(B), all LVP's would be exempt from product fees in PDUFA III, including ones that were approved after September 1, 1992. This change is intended to decrease FDA's administrative burden in determining which products should be billed.

#### MINOR CHANGES IN THE DEFINITION OF PRESCRIPTION DRUG PRODUCTS

Amendments are proposed to Section 735(1)(A) and (B) that would eliminate reference to 505(b)(1) and 505(b)(2) under the definition of what is considered a human drug application for user fee purposes. The change would state that any application submitted for approval under section 505(b) would be considered a human drug application. The changes in these sections mean that all new drug applications, whether they are a 505(b)(1) or a 505(b)(2), would be subject to user fees unless otherwise exempted. This technical change would greatly decrease the Agency's administrative burden in the collection of fees and would eliminate any controversy over whether any 505(b)(2) application is fee liable. Further, since the non-fee paying 505(b)(2)

applications have been reviewed under the same rigorous performance goals as the fee paying applications (505(b)(1)'s and 505(b)(2)'s), this change would create a level playing field for all new drug applications. It is expected that this technical change would not significantly increase the revenue for the Agency because most of the 505(b)(2) applications have already been assessed fees. The elimination of section 735(1)(B) would also mean that all 505(b)(2) applications would be subject to product fees (unless otherwise exempted).

This change would also allow FDA to collect application fees for 505(b)(2) supplements to 505(j) applications (see 21 CFR 314.54) that require clinical data for approval. This change to the statute would create a level playing field so that any supplement that requires clinical data for approval would be subject to a fee.

**Attachment 1**

**Workload Adjuster Demonstration Calculation**

How Proposed Workload Adjuster would have performed in PDUFA II  
Using the Average Number of Submissions from 1993-1997 as the Base Year

**Five-Year Rolling Averages**

Determine the Average Number of Submissions for Each Five-year Period

Category	Five-Year Rolling Average Number of Submission by Type				
	Base Year Avg. Number 1993-1997	1999 Avg. Number 1994-1998	2000 Avg. Number 1995-1999	2001 Avg. Number 1996-2000	2002 Avg. Number 1997-2001
NDA's and BLA's	120	126	132	133	129
Commercial IND's	544	570	584	617	626
Efficacy Supplements	98	110	123	143	156
Mfg. Supplements	1395	1507	1681	1785	1905

**Percent Changes from Base Year**

Calculate the Percent of Change in the Average Number of Submissions Each Year as Compared to the Base Year

	Percent Change from Base Year				
	1998	1999	2000	2001	2002
NDA's and BLA's	0%	5%	10%	11%	8%
Commercial IND's	0%	5%	7%	13%	15%
Efficacy Supplements	0%	12%	26%	46%	59%
Mfg. Supplements	0%	8%	21%	28%	37%

Base year numbers for this demonstration are assumed to be the PDUFA I averages from 1993 to 1997. For PDUFA III the base year numbers used would be the 5-year average number of submissions from 1997-2001.

**Calculating the Adjustment Factors**

Multiply the Percent Change in the Appropriate Row and Column Above by the Weighting Factor, and Add Results for Each Year

	Weighting Factor	Adjustment Factor Components and Total by Year				
		1998	1999	2000	2001	2002
NDA's and BLA's	44.4%	0	2.2%	4.4%	4.8%	3.3%
Commercial IND's	40.2%	0	1.9%	3.0%	5.4%	6.1%
Efficacy Supplements	6.2%	0	0.8%	1.6%	2.8%	3.7%
Mfg. Supplements	9.2%	0	0.7%	1.9%	2.6%	3.4%
	100%					
<b>Workload Adjuster Each Year:</b>		<b>0%</b>	<b>5.6%</b>	<b>10.9%</b>	<b>15.6%</b>	<b>16.4%</b>

Weighting factors are based on information developed by KPMG and reported to the agency in February 2002.

*Question.* What will be the effect if PDUFA is not re-authorized this year?  
Answer. If PDUFA is not reauthorized promptly the effect would be serious long-term harm to the drug review program. FDA currently has about 2,400 staff-years devoted to the drug review process, and half of the funds to support them come from PDUFA Fees. FDA will have virtually no carryover PDUFA funds available to pay our employees when the fiscal year ends on September 30, 2002.

That means that FDA will not have funds to pay about 1,200 of our current employees working on drug review after September 30. No reauthorization by then could lead to a furlough or reduction in force at that time, and notices to employees of that possibility would have to go out in advance. As we learned when PDUFA II was about to expire, the atmosphere of uncertainty caused by the notice of a possibility of a furlough or reduction in force will result in FDA losing many well-trained employees who will be difficult to replace.

To avoid this unfortunate outcome, we are hopeful that Congress will reauthorize PDUFA as soon as possible. This would enable us to avoid having to send notices to our employees that will certainly cause distress and trigger an acceleration of turnover. Your help in this effort will greatly advance the public health mission of our Agency and will be sincerely appreciated.

#### LOS ANGELES LABORATORY

*Question.* What is the status of the Los Angeles laboratory?

*Answer.* Phase II completes the mechanical and electrical infrastructure and completely fits-out both the laboratory and the office at an estimated cost of \$23.0 million. The total estimated construction cost of the project is \$43.0 million.

The contract for Phase II construction was awarded on November 29, 2001. The Los Angeles Laboratory project is on schedule with a completion date of June 8, 2003, and the scheduled move-in is to begin in August, 2003. As of March, 2002, the total project is approximately 45 percent complete.

Currently, operating and maintenance costs at the present location are estimated at \$779,000 for fiscal year 2002. When the Los Angeles Laboratory project is completed and fully operational, we expect the operating and maintenance costs to increase.

#### ARKANSAS REGIONAL LABORATORY

*Question.* Why is work at the Arkansas Regional Laboratory being "paused?" When will the construction be completed? What effect will this have on FDA activities? What amount of funds is necessary to fully complete this project?

*Answer.* The first two phases of construction for Building 50 completed exterior demolition, structural work, roofing repair, installation of an elevator and installation of a new exterior brick facade. The interior architectural fit-out of the space has not been completed nor has the installation of mechanical and electrical infrastructure. Once funds have been appropriated, the remaining phases will be completed within one year. The estimated buy-out cost in fiscal year 2003 for completing Phase III of ARL is \$4.2 million. This amount was not included in the fiscal year 2003 request as higher Counter Terrorism priorities took precedence.

#### BAR CODING INITIATIVE

*Question.* Please describe FDA's bar coding initiative.

*Answer.* In 2000, in response to the Institute of Medicine—IOM—report titled, "To Err is Human: Building a Safer Health System," the Secretary of Health and Human Services instructed FDA to explore possible regulatory approaches to reduce preventable medication errors. Medication errors are a subset of the wider category of medical errors. Medication errors are defined by the National Coordinating Council for Medication Error Reporting and Prevention as—any preventable event that may cause or lead to inappropriate medication use or patient harm while the medication is in the control of the healthcare professional, patient, or consumer. Such events may be related to professional practice; healthcare products, procedures, and systems, including prescribing; order communication; product labeling, packaging, and nomenclature; compounding; dispensing; distribution; administration; education; monitoring; and use.

Medication errors can lead to adverse drug events. It is estimated that 770,000 adverse drug events leading to injury or death occur yearly in U.S. hospitals alone, and that between 28 and 95 percent of these are preventable, that is, they can be defined as errors. Computerized hospital medication use and monitoring systems could prevent many of these medication errors.

Errors related to dispensing and administration can be minimized through the use of bar codes. For example, if a health professional could use a bar code scanner to compare the bar code on a human drug product to a specific patient's drug regimen, the health professional would be able to verify that the right patient is receiving the right drug, at the right dose, and at the right time. Bar code advocates have recommended that the bar code contain a unique numerical code that is dose specific to identify the manufacturer, product, and package size or type, lot number, and expiration date.

The availability of bar codes for pharmaceuticals would also facilitate other patient safety initiatives, for example, automated drug prescribing or ordering, automated monitoring for drug toxicities in hospitals, and as a component of the automated medical record. Automation of the drug prescribing and ordering system, if linked to a bar coding system, has the potential to not only minimize drug mix-ups, but also to make sure prescribers have access to crucial information at the point of prescribing.

We are considering whether to require human drug products, including certain biologic products, to be bar coded. The bar code would contain certain information about the product, such as a dose-specific individually identifying number. We are considering whether to require the bar code to contain other information, such as the drug product's expiration date and lot number, to make it easier to identify expired drugs and recalled drugs that may not be safe and effective for use. The bar code, when used in conjunction with bar code scanners and computer equipment, will enable health professionals to decrease the medication error rate. We are also exploring issues surrounding bar codes on medical devices.

We are planning to hold a public meeting this Summer to discuss the technical issues regarding the development and implementation of a possible bar code label. We anticipate that discussions will include presentations from invited speakers as well as from members of the public.

Once we have received this public input, we plan to proceed on proposing a rule that will go through the formal procedures of notice and comment rulemaking on the use of barcodes on labeling. At the same time, FDA is working with a contractor to obtain cost estimates for a possible bar code requirement that should be complete around mid-2002.

As additional background information, the IOM report released in 1999 cited research that there are an estimated 100,000 deaths in the United States every year from preventable medical errors in hospitals alone. The range of deaths reported, between 44,000 and 98,000 deaths, was based on the 1984 Harvard Medical Practice Study and confirmatory studies done in Colorado and Utah. These numbers reflect the entire area of medical errors—including, for example, surgical errors, iatrogenic infections, medication errors, and incorrect medical product use. Of the projected 100,000 deaths, we believe that approximately 30 percent to 50 percent are associated with errors involving FDA-regulated medical products, that is, drugs, devices, blood and blood products, or vaccines. In addition to the human cost of errors involving drugs, there are also significant economic costs. An article published in 1995 estimated the direct cost of preventable drug-related mortality and morbidity to be \$76.6 billion, with drug-related hospital admissions accounting for much of the cost. Another article published in 2001, used updated cost estimates derived from current medical and pharmaceutical literature to revise the \$76.6 billion estimate to exceed \$177.4 billion; of which hospital admissions accounted for \$121.5 billion in costs, and long-term care admissions accounted for another \$32.8 billion.

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#### QUESTIONS SUBMITTED BY SENATOR TOM HARKIN

##### METHYLMECURY

*Question.* How many seafood samples did FDA take last year for its mercury monitoring program? What types of species were sampled? In addition to its consumption advisories, how will FDA revise its regulatory strategy for methylmercury or take other actions to prevent tainted seafood from reaching consumers?

*Answer.* FDA did no sampling in fiscal year 2001 for methylmercury monitoring. The public health question relating to methylmercury focuses on how much methylmercury consumers accumulate from consumption of seafood over time. This question requires data on both how much seafood people are consuming and how much methylmercury are in commercial species. There is already considerable knowledge on both points.

FDA recognizes the long term importance of upgrading and adding to its database on average concentrations of methylmercury in commercial fish and is planning on collecting and analyzing additional samples for this purpose. The timing of this sampling program is subject to FDA's overall sample collection and analysis priorities, including those related to food security. Fortunately, our experience has been that methylmercury concentrations in commercial species are stable over time, so the need to accumulate new data is regarded as prudent but not immediate.

FDA is committed to reviewing its overall public health strategy for methylmercury. FDA developed an action level for methylmercury in the late 1970's. Since then, a considerable amount of new data have become available, both from

epidemiological studies that provide insight into the effects of methylmercury in humans, and from exposure data that indicate how much methylmercury is in fish and how much fish U.S. consumers are eating. The Agency is taking advantage of these new data by re-examining its entire public health strategy for methylmercury, including the action level.

In addition, FDA has announced that it will soon schedule a meeting of its Food Advisory Committee to review issues surrounding methylmercury in commercial seafood, including a re-examination of the consumer advisory.

#### LISTERIA

*Question.* What are your agencies doing today to protect consumers from Lm-contaminated foods? What are the current monitoring programs for Listeria monocytogenes in the products your agencies regulate? Dr. Murano, what are you doing to speed the rulemaking process? What, if any, regulatory action is FDA considering to reduce the risk to consumers from foods that may contain Listeria?

*Answer.* The FDA conducted a draft Listeria monocytogenes (Lm) risk assessment in collaboration with the U.S. Department of Agriculture's Food Safety and Inspection Service, USDA/FSIS and in consultation with the Centers for Disease Control and Prevention, CDC. The draft risk assessment estimates the potential relative risk of listeriosis from eating certain ready-to-eat foods. The draft risk assessment and a draft action plan designed to reduce the risk of foodborne illness caused by Lm were issued Jan 19, 2001 for public comment.

The comment period for the draft risk assessment and action plan closed July 18, 2001. We anticipate issuing the revised risk assessment in 2002. I will be happy to provide you more specific information for the record.

[The information follows:]

#### HIGHLIGHTS OF THE DRAFT RISK ASSESSMENT AND ACTION PLAN

Consumer and health care provider information and education efforts have been expanded through outreach to:

- Medical and health professionals through a continuing medical education program developed in cooperation with the American Medical Association, Diagnosis and Management of Foodborne Illnesses—A Primer for Physicians, which includes a reproducible patient handout alerting at-risk persons, especially pregnant women, to the importance of avoiding foods that may be a source of Listeria monocytogenes. Released in January 2001, approximately 36,000 physicians and other health professionals have received copies of the Primer;
- Some 50,000 State and local public health department health educators, extension agents and school nurses across the country who receive the FDA/USDA National Food Safety Education Month (September) Consumer Education Planning Guide, which included a reproducible Listeria monocytogenes consumer education handout in 2001 and will again in 2002;
- Consumers, via release in June 2001, with USDA, CDC and the International Food Information Council, of a consumer/patient handout distributed through physicians' offices, public health departments, and FDA and USDA field staff; and,
- The mass media through a media release and follow-up distribution beginning June 2001 of a "drop-in" feature story on Listeria monocytogenes which to date has generated 204 newspaper articles with a potential readership of more than 15 million.

The following action items are completed, in progress, or are being initiated:

- FDA Processor Guidance has been drafted for public comment
- Revision of the FDA Food Code (2003)
- Develop computer-based training for industry and food safety regulatory employees (fiscal year 2002).
- Enforcement and regulatory strategies have been reviewed and redirected and include microbial product sampling as appropriate (FDA high risk food inspections, soft cheese surveillance program, fiscal year 2002)
- FDA and FSIS are seeking the advice from the National Advisory Committee on Microbiological Criteria for Foods on developing a scientific framework for the establishment of safety-based "use by" date labeling. Expected completion in 2003
- Enhance disease surveillance and outbreak response through case control studies (fiscal year 2002)
- In fiscal year 2001 the National Food Processors Association completed a prevalence study of Listeria monocytogenes in select, ready-to-eat foods at retail fund-

ed by FDA. Data from this study will be incorporated into the next version of the risk assessment.

—An FSIS/FDA collaborative study to develop *Listeria monocytogenes* detection and enumeration methods for concentrations of *Listeria monocytogenes* less than 1cfu/gm (fiscal year 2002).

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QUESTIONS SUBMITTED BY SENATOR RICHARD J. DURBIN

GENE THERAPY TRACKING SYSTEM

*Question.* I believe the FDA is planning on modifying their gene therapy proposal so that it meets the congressional intent of tracking patients rather than merely being an adverse events monitoring system. Is that correct?

*Answer.* FDA is pursuing the development of a comprehensive Gene Therapy Patient Tracking System—GTPTS—to help ensure the appropriate oversight and safe development of these therapies. The GTPTS is a system for the collection, analysis, and reporting of information pertinent to the safety of gene therapy recipients. Far more than an adverse event database, it represents a comprehensive, integrated collection of procedures, policies, programs, databases and report structures pertinent to the conduct of studies; the collection of short-term and long-term outcomes information from recipients; the transmission of information to FDA; the storage of information in electronic databases in an accessible and analyzable format; and the analysis and use of the information to make informed regulatory decisions and to increase the understanding of researchers, subjects, and the public. The GTPTS is to supplement or replace current systems for assessing and promoting the safety of gene therapy so that the oversight system will be optimized for dealing with some of the issues specific to gene therapy.

Many types of outcomes and health status data were considered for collection in the GTPTS database. Determination of which data to include requires careful consideration of several factors. The GTPTS should focus on capturing data that are important to safety assessment and that can be collected with an adequate degree of reliability and completeness. Collection of unnecessary data not only may be costly, but also can make it harder to recognize critical findings. Collection of unreliable or substantially incomplete data would impair the validity of the analyses.

Most gene therapy patients have serious underlying diseases and receive a variety of therapies, drug and otherwise, in addition to the gene therapy. Each patient typically experiences many adverse events as a result of disease, other therapies, and concomitant illnesses. The collection of all such events, while creating a tremendous burden on patients, sponsors, and investigators, would create a huge amount of irrelevant data potentially obscuring important information. For these reasons, it was decided that the GTPTS would only include adverse events associated with treatment. Data regarding adverse events that are deemed by the sponsor and investigator to have no reasonable possibility of having resulted from the therapy would not be included in the database. In addition, for each patient there is a vast amount of health status data that comes from medical history, physical exam, laboratory testing, medical imaging, etc. When not rising to the level of an adverse event, such data, that is normal laboratory findings, symptoms related to a disease not under therapy, can only be interpreted in the context of the individual patient and would add little or no value to the gene therapy database. This type of clinical information will not be included in the gene therapy databases.

Long-term clinical data collection is an important and relatively unique aspect of gene therapy assessment. Storage and facilitation of analysis of such data is a critical function of the gene therapy databases. This is particularly true because current medical and regulatory systems were not originally designed to identify late-occurring treatment-related toxicities, that is, years later, or to examine the causal association of these toxicities with gene therapy.

FDA did substantial background work investigating the types of long-term concerns, the classes of gene therapy products to which they apply, and the feasibility of various approaches to collecting such data. In these efforts, we gave careful consideration and deliberation not only to the safety issues that need to be addressed, but also to the practical difficulties in reliably collecting such data.

In considering these data, FDA sought the advice of its Biological Response Modifiers Advisory Committee—BRMAC. In its deliberations, BRMAC advised that the most significant risks associated with gene transfer studies include treatment-related cancers, and hematologic, neurologic, and autoimmune disorders. The Committee concluded that in most cases, these conditions are expected to develop months or a few years after initial administration of gene transfer product; however,

potential risks existed for initial presentation of second cancers and some other treatment-related toxicities, 10 years or longer after therapy. The Advisory Committee recommended that sponsors of gene transfer trials collect specific clinical information on all subjects for at least 15 years. However, the Committee also repeatedly cautioned that FDA must take care to simplify long-term data collection and focus it on critical information in order to have successful data collection. Based on the recommendations of the BRMAC, the GTPTS will be expanded to capture the necessary long-term clinical monitoring information.

*Question.* Will the gene therapy tracking system track health status information, so that a Data System Monitor Board like entity can use it to assess risk from specific protocols and vectors?

*Answer.* Through experience in the review and regulation of gene therapy products, FDA has identified several concerns and issues raised by gene therapy products that differ from those typically raised by more traditional products. FDA agrees that public discussion of summary safety information stemming from the GTPTS will promote awareness among gene therapy study sponsors, research investigators, and the general public of emerging issues in the medical, scientific, and ethical aspects of clinical gene therapy research.

In the past, FDA has used existing systems to prepare summary safety reports for presentation at FDA advisory committees—BRMAC—the Recombinant DNA Advisory Committee—RAC—and various public forums including the Drug Information Association—DIA—annual meetings and a special satellite broadcast co-sponsored by DIA and FDA; the annual meetings of the Society of Toxicology, the American College of Toxicology and the International Society for Genetic Anticancer Agents; meetings of the Pharmaceutical Research and Manufacturer's Association; and the annual meetings of the American Society of Gene Therapy. In the future, FDA intends to use the GTPTS in preparation of periodic gene therapy safety reports intended both to solicit expert feedback from FDA advisory committees and to disseminate information. Furthermore, FDA will take part in a Gene Transfer Safety Assessment Board—GTSAB, a working group established under the auspices of the NIH Recombinant DNA Advisory Committee—RAC—by the NIH Office of Biotechnology Activity-OBA. The GTSAB's specific functions will include reviewing in closed session relevant safety information and analyses; identifying significant trends or single events; reporting aggregated data and assessment to the RAC; and, facilitating the dissemination of safety information among gene therapy investigators and participants. This Board is expected to enhance overview of gene therapy safety and improve public understanding and awareness of the safety of human gene transfer research studies as well as inform the decision-making of potential trial participants.

*Question.* Given the problems with reporting by researchers of adverse events, the tracking of health status information should be carried out by FDA rather than by the clinical trial sponsor. Does the FDA understand that it is the agency who has oversight responsibility here and that such responsibility should not be delegated?

*Answer.* FDA is responsible for the regulatory oversight of gene therapy clinical trials. In particular, 21 CFR 312.22 (a) states—FDA's primary objectives in reviewing an IND are, in all phases of the investigation, to assure the safety and rights of subjects, and, in Phase 2 and 3, to help assure that the quality of the scientific evaluation of drugs is adequate to permit an evaluation of the drug's effectiveness and safety.”

*Question.* When can the committee expect that FDA to actually provide us with a full budget and detailed implementation plan for the gene therapy individual patient tracking system ?

*Answer.* The Gene Therapy Patient Tracking System detailed implementation plan and cost estimate is under administrative review and will be provided to the committee within the next several weeks.

#### REUSE OF MEDICAL DEVICES

*Question.* Given the fact that multiple Senate offices including requests from the staff of the Chairman and Ranking Member of the HELP committee asked the agency to refrain from extending the deadline for compliance with the reprocessing rules for 510(k) devices, it is curious that the FDA decided to ignore these requests. Does the FDA not agree that the public deserves better than to be exposed to devices of questionable safety and efficacy?

*Answer.* Protecting the American public from harmful, unsafe medical products is a part of our mission at FDA. We initially declined the third party reproprocessors' request to extend the deadline for obtaining clearance for their Class II reprocessed single use devices. The DHHS received over 50 letters from reproprocessors, healthcare



professionals, hospitals, elected officials, and from several members of the U.S. Senate and the House of Representatives, urging FDA to extend the February 14, 2002, deadline. The letters from healthcare professionals and hospitals stated that if FDA did not extend the deadline, hospitals would face a medical device shortage problem which could result in a serious financial hardship if the hospitals were suddenly required to purchase large volumes of new single use devices. The letters from the State officials reminded the Agency that many employees risk immediate unemployment if the commercial reproducers were forced to shutdown if the February due date was not extended. The letters from members of Congress encouraged FDA to consider extending the deadline if the reproducers had demonstrated "good faith effort" in meeting the Agency's original due date.

After further deliberation, FDA granted a 6-month extension for active enforcement of premarket notification submission requirements for Class II single use devices until August 14, 2002. It is important to note that the extension was granted with three very stringent caveats. These caveats are that the reproducer must have submitted a 510(k) by August 14, 2001; have not received a not substantially equivalent determination; and, provide timely responses to FDA's requests for additional information about their device in accordance with 21 C.F.R. § 807.87(1).

Like members of Congress and their staff, FDA believes that the American people should not be exposed to devices of questionable safety and efficacy. The Agency does not believe there is any significant risk to the public from the limited extension for firms that have already submitted their applications and are providing timely responses to the Agency's information requests in accordance with 21 C.F.R. § 807.87(1).

*Question.* In the case of Class II reprocessed devices, the agency has been meeting its statutory review time and in fact has approved many devices prior to the original deadline of Feb.14, 2002. Only submissions that were incomplete were still unapproved by the time of the deadline. Why would the agency grant an extension for a product whose submission was incomplete and for which the agency required more data?

*Answer.* Many of the Class II single use devices that FDA has thus far cleared for marketing are lower risk Class II devices that, in general, are less complicated than other devices sharing the same classification grouping. For this reason, FDA may require additional information for more complex Class II devices. In addition, FDA is aware that preparing 510(k) submissions is a new undertaking for single use device reproducers. FDA acknowledges that there may be a learning curve for commercial reproducers as they become familiar with FDA's requirements as to what constitutes a "complete" 510(k) submission.

*Question.* Some of these submissions were still incomplete as of the deadline, yet FDA allowed them to stay on the market without any indication that their submission was even forthcoming. Can the agency assure Congress that it will not extend these deadlines any further and will ensure that patients are no longer exposed to reused devices of questionable safety and efficacy?

*Answer.* The Agency wishes to assure Congress and the American public that it intends to continue to fulfill its mission to protect public health by only approving or clearing medical devices for which reasonable assurance of safety and effectiveness has been established, regardless of whether they are reprocessed single use devices or devices manufactured by original equipment manufacturers. FDA recently denied a third party reproducer's request to extend the premarket application submission deadline for reprocessed Class III devices.

*Question.* Is FDA actively enforcing the premarket regulations against hospitals and third party reproducers that reprocess Class III devices?

*Answer.* Yes, FDA is actively enforcing the premarket regulations for hospitals and third party reproducers that reprocess Class III devices. Shortly after implementation of FDA's reuse policy, the Agency issued assignments to a cadre of field investigators who were specifically trained to perform inspections of single use device reproducers. These investigators visited 35 hospitals. The inspections revealed one hospital that was actively engaged in in-house reprocessing of single use devices despite FDA's new reuse policy. The investigator issued a FDA 483 or Notice of Adverse Findings to the hospital's Chief Executive Officer who assured the Agency that the hospital would immediately cease all reprocessing activities.

FDA also intends to issue assignments to the District Offices to do follow-up inspections of the four commercial reproducers who submitted premarket applications, PMAs, for Class III cardiac ablation catheters on August 14, 2002, but were unable to obtain FDA approval for these devices by February 14, 2002. The purpose of these inspections will be to ensure that these reproducers have ceased reprocessing and distributing reprocessed cardiac ablation catheters.

*Question.* Does FDA plan to investigate whether hospitals who have reprocessed devices like ablation catheters in the past (and have testified to Congress that they reprocess these devices) have discontinued this practice?

*Answer.* Yes, FDA does plan to investigate whether hospitals that have reprocessed devices like ablation catheters in the past have discontinued this practice. FDA has learned that six hospitals may possibly be engaged in in-house reprocessing of invasive cardiac catheters despite the publication of FDA's reuse policy on August 14, 2000. The Agency has prepared high priority assignments to the District Offices requesting that field investigators visit these six hospitals.

*Question.* When can we expect to see the first strong FDA enforcement action against entities not complying with the FDA's premarket policy for reprocessed devices?

*Answer.* The Agency cannot predict when such actions will take place. FDA wishes to assure Congress that we plan to take appropriate enforcement action against any reprocessor that is not in compliance with FDA's reprocessing and reuse policy for both premarket and postmarket requirements.

#### TISSUE AND BLOOD SAFETY

*Question.* How much have you set aside in this budget request for the implementation of the new tissue rules?

*Answer.* There are many competing priorities to consider in developing the Agency's budget request. The proposed increase of \$123 million or nearly 8 percent above the fiscal year 2002 estimate reflects the Agency's central role in the Nation's defenses against the threat of terrorism, as well as FDA's strong performance as the gateway for medical products. The Agency's fiscal year 2003 budget does not contain a specific request to fund the implementation of the proposed approach for the regulation of human tissues for transplantation.

*Question.* I sent a letter asking for this budget information in January 2001, when do you think FDA is likely to respond?

*Answer.* FDA and DHHS staff met with members of your staff on March 18, 2002 to discuss issues related to the Agency's proposed approach for the regulation of human tissue cells and cellular and tissue-based products. During that meeting information, was provided in response to budget information raised in your January 2001 letter to the Agency. If there is additional information needed on this issue, we would be happy to provide it. We appreciate your support and interest in this important public health issue.

*Question.* As you know Brian Lykins, a 23 yr-old student in Minnesota, died due to contaminated tissue. There have also been several infections recently from a disease called Chagas disease and one such infection led to a death. Given these tragic events, is FDA moving quickly to finalize both the donor suitability and the good manufacturing practice rules?

*Answer.* FDA has been moving to finalize both proposed rules. The proposed rule, Suitability Determination for Donors of Human Cellular and Tissue-Based Products, published on Sept. 30, 1999, with a 90 day public comment period. In response to requests for an extension, FDA re-opened the comment period on April 18, 2000, for an additional 90 days. FDA received over 500 comments to the docket, many of them about scientifically controversial issues. FDA met with industry groups to clarify their concerns and brought several issues to its advisory committees. Another proposed rule, Current Good Tissue Practice for Manufacturers of Human Cellular and Tissue-Based Products; Inspection and Enforcement, published on Jan. 8, 2001, with a 120-day comment period. FDA received 47 comments to this proposed rule. FDA is proceeding with the necessary steps to finalize and publish the final rules.

FDA is investigating recent reports of allograft-associated bacterial infections. FDA recently issued a guidance, Validation of Procedures for Processing of Human Tissue Intended for Transplantation, in March 2002 for immediate implementation to remind tissue banks about current FDA regulations for validation of procedures to prevent contamination and cross-contamination during tissue processing.

The three cases of Chagas disease reported in the recipients of organs are also of concern to FDA, but please note that organ transplantation is not regulated by FDA, but rather by the Health Resources Services Administration, HRSA. There is currently no FDA-approved test for donor screening for infection with Chagas disease. Because of the shortage in organ donors, HRSA and the Centers for Disease Control and Prevention, CDC have been reviewing the appropriateness of donor screening questions in the organ transplant setting. According to HRSA, the United Network for Organ Sharing, UNOS, the organization under contract with HRSA to operate the nation's Organ Procurement and Transplantation Network, is working with the Centers for Disease Control and Prevention on drafting recommendations

for screening potential donors for *T. cruzi* infection. There have been no reported cases of transmission of Chagas disease by transplanted tissues, although the parasite has been found in liver, spleen, cardiac, smooth and skeletal muscle, nerve tissue, intestinal mucosa, skin, gonad, bone marrow, and placenta.

*Question.* Are the rules that were previously proposed sufficient to ensure the health and well being of tissue recipients or do the screening and manufacturing requirements need to be strengthened in the light of these recent illnesses and tragic deaths?

*Answer.* FDA believes that the proposed rules, when finalized, will strengthen public health protection. In general, the FDA's proposed regulations are written in broad language, for two primary reasons. One, they can be flexibly applied to account for new scientific knowledge and future technological advances. Two, establishments can tailor control measures to their particular circumstances to meet standards contained in the regulations.

It is important to note that FDA review, inspection, and compliance activities to monitor and enforce compliance with the regulations are an integral and critical aspects of Federal oversight. These activities are resource intensive.

*Question.* The Agriculture Appropriations conference report contained language expressing our concern with the pooling of tissue during processing. Given the lack of a detection system for the detection of prions, can the FDA assure the Committee that they will not grant any tissue processor a waiver from the pooling prohibition, when the GMP rule is made final?

*Answer.* FDA's proposed Good Tissue Practice, GTP, rule, which published on January 8, 2001, proposed prohibiting pooling of tissue from two or more donors. FDA received comments about pooling, some of which supported an absolute prohibition, and others that did not. FDA recognizes the possibility that, as technology and scientific knowledge advance, new methods may be developed that could be used in the manufacture of human cells, tissues, and cellular and tissue-based products or other unanticipated circumstances may arise that warrant a departure from an approach detailed in the proposed regulations. The proposed GTP rule, section 1271.155, included a provision that would permit establishments to apply for an exemption or alternative from any of the requirements in subpart C or D of part 1271. As proposed, such an exemption could be granted if it is consistent with the goals of preventing the introduction, transmission, and spread of communicable disease, and if the information submitted with the request justifies the exemption. FDA recognizes the need to encourage development of validated procedures to address contamination and cross-contamination with TSE-associated prions. The FDA intends to bring this issue for public discussion before its Transmissible Spongiform Encephalopathies Advisory Committee.

*Question.* Would the agency support legislative language that further strengthens the legal authority of the agency to safeguard the public from defective or contaminated tissue?

*Answer.* We would be pleased to discuss with you possible actions to strengthen this authority while maintaining the flexibility to regulate human cells, tissues, and cellular and tissue products appropriately according to risk.

*Question.* Voluntary blood recalls have increased over 4.5 fold since 1994. Can the agency explain some of the reasons for this increase? Can you also provide us with a break out the numbers with respect to Class I, II and III violations?

*Answer.* I would be happy to provide that for the record.  
[The information follows:]

BIOLOGIC RECALLS CLASSIFIED

MFR type	Fiscal year							
	1994	1995	1996	1997	1998	1999	2000	2001
Blood .....	400	592	669	1,423	1,524	1,202	1,196	1,817
Source plasma .....	27	19	23	27	38	36	28	105
Blood derivative .....	8	3	4	26	4	11	4	7
IVD .....	7	18	5	14	8	6	4	16
Vaccine .....	1	0	1	2	0	1	0	3
Therapeutic .....	0	0	0	3	0	4	2	5
Allergenic .....	10	0	0	6	4	13	22	16
Device .....	13	11	2	16	15	6	9	3
Tissue .....	3	5	3	2	5	19	24	34
<b>Total .....</b>	<b>469</b>	<b>648</b>	<b>707</b>	<b>1,519</b>	<b>1,598</b>	<b>1,298</b>	<b>1,289</b>	<b>2,006</b>

It is clear that there has been a significant increase in blood recalls during this time frame. There are a number of reasons for these increases. Between the years 1993–1997, a number of firms in the blood area entered into Consent Decrees with the FDA. These Consent Decrees mandated correction of donor suitability records, resulting in increased reporting and recalls. FDA investigators have also identified more violations requiring recalls during the course of inspections, and industry is also more vigilant in this regard. FDA has also issued a number of memoranda and guidance documents to the industry. These documents describe current good manufacturing practice in blood establishments. The evolution of current good manufacturing practice standards has contributed to increased warnings and recalls. A summary of the content of these documents is listed below with their date of issue:

- Recommendation for Deferral of Donors for Malarial Risk—July 26, 1994
- Donor Deferral due to RBC-red blood cell-Loss During Collection of Source Plasma by Automated Plasmapheresis—December 4, 1995
- Recommendation for the Deferral of Current and Recent Inmates of Correctional Institutions—June 8, 1995
- Recommendation for Labeling and Use of Units from Donors with Elevated Levels of ALT-alanine aminotransferase—August 8, 1995
- Disposition of Products Derived from Donors Diagnosed with, or at Known High Risk for Creutzfeldt-Jakob Disease—CJD—August 8, 1995
- Precautionary Measures to Further Reduce the Possible Risk of Transmission of CJD by Blood and Blood Products—August 8, 1995
- Interim Recommendation for Deferral of Donors at Increased Risk for HIV-1 Group O Infection—December 11, 1996
- Recommendation for the Quarantine and Disposition of Units from Prior Collections from Donors with Repeat Reactive Screen Tests for Hepatitis B Virus—HBV—Hepatitis C Virus-HCV- and Human T-Lymphotropic Virus-HTLV-I—July 19, 1996
- Donor Screening for Antibodies to HTLV-II—August 1997
- Withdrawal of Human Blood Derived Materials because Donor Diagnosed with, or at Increased Risk for CJD—December 11, 1997
- Blood and Blood Components: (1) Quarantine and Disposition of Units from Prior Collections from Donors with Repeat Reactive Screen Tests for Antibody to HCV; (2) Supplemental Testing and Notification of Consignees and Blood Recipients of Donor Testing Results of anti-HCV—September 1998
- Pre-Storage Leukocyte Reduction of Whole Blood and Blood Components Intended for Transfusion (draft guidance 1/23/01)
- Biologic Product Deviation Reporting—August 10, 2001
- Revised Measures to Reduce the Possible Risk of Transmission of CJD and new variant Creutzfeldt-Jakob Disease (vCJD) by Blood and Blood Products—January 9, 2002

In addition, it has been FDA's experience that there is an increase in reporting and recalls in the period following implementation of new test methods. Since 1994, the following new methods have been introduced:

- Coulter HIV-1 p24 3/14/96 (first HIV p24 donor screen)
- Abbott HIVAg monoclonal 4/23/96 (HIV p24)
- Ortho HCV 3.0 ELISA 5/20/96 (new generation HCV EIA)
- Abbott HTLV-I/HTLV-II EIA 8/15/97 (added HTLV-II specificity)
- Vironostika HTLV-I/II Microelisa System 1/17/98 (added HTLV-II specificity)
- Chiron RIBA HCV 3.0 Immunoblot 2/11/99 (lookback and other policy implications)

With regard to the classification of recalls, the following table addresses the breakdown for all CBER regulated products. As indicated in table 1, the majority of these are in the blood area:

#### RECALL CLASSIFICATION

	Fiscal year							
	1994	1995	1996	1997	1998	1999	2000	2001
Class I .....	9	5	0	4	0	1	2	6
Class II .....	300	408	504	1,160	1,270	944	1,021	1,513
Class III .....	157	230	200	355	328	353	266	487

The Class I recalls for blood were nine in fiscal year 1994, five in fiscal year 1995, and one in fiscal year 1999. The remainder was for other CBER regulated products. It is also important to note that tissue recalls were not classified until fiscal year

1997. The majority of recalls has consistently been Class II by regulatory definition, and represent situations where the probability of serious adverse health consequences is remote. As these data show, there has been an increase in recalls over the years.

*Question.* The agency is currently seeking court approval to fine a blood center for repeated violations of the rules for biologics. Such litigation is cumbersome and takes up valuable resources of the agency that might be better spent on increased enforcement. Would the agency support legislation that would give the agency authority to levy civil monetary penalties for such violations similar to the authority available for violations of the device laws without the necessity of court action?

*Answer.* FDA's Center for Biologics currently has limited civil money penalty authority under the provisions of the National Childhood Vaccine Injury Act. Broader authority for violations of the provisions of the PHS Act and the FD&C Act relating to biologics may be useful if the additions were an effective enforcement option and did not preclude other administrative or legal actions. However, the Administration has no position on such legislative changes at this time.

#### LATEX ALLERGIES

*Question.* The fiscal year 2002 Agriculture Appropriations requires FDA to report to Congress on a plan to eliminate latex exposure from food handling. What is the status of that report?

*Answer.* The report which is due in August 2002, is under currently being developed.

*Question.* Does FDA have legal authority to ban latex gloves because they adulterate food with latex proteins?

*Answer.* Natural rubber latex, or NRL, is an approved indirect food additive under 21 CFR 177.2600, rubber articles intended for repeated use. As such, NRL may be used in the manufacture of gloves worn by food processors and food handlers, including those in restaurants. If FDA were to develop a sound scientific basis for concluding that natural rubber latex is not a safe food additive, it could propose a rule to amend or repeal the food additive regulation, in whole or in part. If FDA were to repeal the food additive regulation pertaining to the use of NRL, then its use in the manufacture of gloves used by food processors and food handlers would be deemed to be unsafe, and thus, unlawful under section 409 of the Federal Food Drug and Cosmetic Act.

The Agency is examining available information on potential risks of allergic responses in consumers posed by the use of NRL in gloves worn by food service workers. To date the Agency does not have sufficient information to propose a repeal of the regulation in 21 CFR 177.2600, nor has anyone petitioned the Agency to take such action. A caution concerning latex gloves has been added in the model guidelines for retail food service operations—the 2001 Food Code.

*Question.* Could FDA modify their food code to accomplish the purpose of eliminating exposure to latex from food handling?

*Answer.* The Food Code has certainly been an important tool in alerting the food industry to questions that have arisen about the safe use of latex gloves in food preparation. However, the Food Code is voluntary model code for regulatory agencies; it is neither Federal law nor Federal regulation. Eliminating the use of latex as an indirect food additive would require notice and comment rulemaking by the FDA in accordance with the Administrative Procedure Act. The Agency is examining available information on potential risks of allergic responses to NRL from used in latex gloves worn by food service workers to determine whether there is sufficient information to propose a regulatory action. If FDA finds that there is a sound scientific basis for concluding that natural rubber latex is not a safe food additive, the Agency could propose to amend or repeal 21 CFR 177.2600, in whole or in part. Such Agency action would make a revision of the Food Code, to accomplish the purpose of eliminating exposure to latex from food handling, unnecessary.

The Conference for Food Protection provides a forum for government, FDA, the Food Safety and Inspection Service, and the Centers for Disease Control and Prevention as well as State and local agencies, territories, and local and tribal nations, consumer, industry and academia discussion of food safety issues as they relate to the model Food Code. The Conference's Assembly of Delegates, through the Conference's formal process, may recommend that FDA further revise the model Food Code based on its findings regarding latex food service gloves or in response to regulatory changes. This formal process assures that all parties having a stake in setting food safety standards are heard, before changes are made that may have a broad impact. Revisions to the Food Code are accomplished through the Conference for Food Protection, which recommends Food Code changes to FDA. In 1999, a caution

was added to the Food Code stating that NRL gloves have been reported to cause allergic reactions in individuals who wear latex gloves and even in individuals eating food prepared by employees wearing latex gloves.

SEAFOOD HACCP

*Question.* What has FDA done in the past year to further improve industry-wide compliance with the seafood HACCP regulation?

*Answer.* In 2001, FDA increased inspectional emphasis on the control of pathogens by processors of cooked, ready to eat seafood and smoked seafood, and on the control of scombrototoxin by processors of scombroid species. This action was taken because these areas represent the most urgent public health issues identified in the evaluation for the previous years. This mid-course correction included multiple inspections of processors of these types of products when the inspectional history of the firm documented significant noncompliance with the regulation. Significant improvement was detected in 2001 in the cooked, ready to eat segment. However, further problems were uncovered in the breaded seafood segment. As a result, that segment was added for priority coverage in 2002.

Additionally, FDA published the third edition of its Fish and Fishery Products Hazards and Controls Guidance in June 2001. This guidance provides up-to-date information on the hazards that affect seafood and recommends preventive measures to reduce the risk of their occurrence. The latest edition includes significant new information on the control of scombrototoxin, which FDA anticipates will facilitate compliance by the industry in that area. A satellite training course was held in December 2001 to familiarize Federal and State regulators, academia, and the seafood industry with the changes in the guidance and to discuss continuing areas of concern, especially related to scombrototoxin and pathogen control.

*Question.* What percentage of seafood firms have HACCP plans and are adequately implementing them?

*Answer.* In fiscal year 2001, 88 percent of seafood establishments had a HACCP plan or did not need one because no hazards were reasonably likely to occur. Approximately 85 percent of the establishments inspected in fiscal year 2001 were in substantial compliance with the Seafood HACCP Regulation; that is, as a result of inspection, these establishments were classified as either "no action indicated," NAI, or voluntary action indicated, VAI. A firm classified as NAI has essentially no significant deficiencies; a firm classified as VAI has one or more deficiencies, but they are not an imminent public health threat and the firm is making satisfactory progress in correcting them. Overall, significant progress continues to be made in reducing the number and types of deficiencies, as indicated by fewer VAI classifications and more NAI classifications.

*Question.* How frequently does FDA currently inspect domestic seafood firms?

*Answer.* The Seafood HACCP program was accompanied by a significant increase in the frequency of government—that is, FDA or State regulatory agencies under contract with FDA or in partnership with FDA—inspections of U.S. processors from an average of once every 4 years to approximately once every year. In fiscal year 2001, 85 percent of the seafood establishment inventory was inspected by either FDA or by State inspectors on our behalf, including virtually all seafood firms who process seafood products classified as high risk. In addition, raw molluscan seafood processors are inspected every year by State regulatory agencies under a cooperative Federal-State program.

*Question.* Does FDA plan to develop baseline data and performance standards for seafood HACCP systems? How and when will this be implemented?

*Answer.* This question addresses the issue of how the seafood HACCP system should best be evaluated, and the extent to which evaluation should focus on numerically based criteria, such as numbers of illnesses or amounts of contaminants either present or absent. These are questions that FDA continues to examine.

It is well known that reductions in illness are often not always easily measured due to under reporting of illnesses, the skewing of reported illnesses toward those that are easily diagnosable, and similar factors. FDA is interested in determining whether illness reduction could, at some point, serve as a direct indicator of program success, but doing so has not been regarded as feasible so far. Consequently, FDA has evaluated its program by measuring the extent to which industry has adopted HACCP-based controls. It is reasonable to conclude that processors that are effectively implementing adequate HACCP plans are controlling seafood-related hazards. This is because the cornerstone of the seafood HACCP program is hazard prevention through the application of controls that are scientifically known to work. For example, where it is known through scientific analysis that a cooking step at a certain temperature and duration during commercial processing will kill all pathogens,

a valid indicator of public health prevention is whether the processor's cooking step achieved that temperature and duration. FDA has data about the application of preventive controls before initiation of the HACCP program, and has used that data as a baseline for measuring progress.

Another possibility for evaluation involves measurement of contaminant levels, either on a firm-by-firm basis, or industry-wide, or both. FDA is in the process of significantly increasing its sampling as an adjunct to its HACCP-based inspections and is studying whether and how program evaluations could take advantage of these kinds of data. There are a number of issues that the Agency must take into account. For example, in searching for an appropriate numerical performance standard for seafood based on contaminant levels, it is important to recognize that seafood is subject to many potential hazards but suffers from no single pressing problem. In this respect, seafood is fundamentally different from meat and poultry. Selecting a single numerical measure under such circumstances would be of limited value because, for example, monitoring fishery products for the presence of a pathogen would provide no indication of how other hazards are being controlled. Also, the frequency and occurrence of pathogens, such as salmonella, tends to be low, partly because fish are cold-blooded. This fact was confirmed in a baseline study FDA conducted on salmonella in seafood. Nonetheless, the Agency is examining whether several numerical indicators that are directed toward the most significant hazards would be both feasible and appropriate as indicators of program progress.

#### FOOD SAFETY

*Question.* If not, how will FDA ensure that establishments have HACCP systems that are adequately identifying and controlling food safety hazards?

*Answer.* FDA has evaluated its program by measuring the extent to which industry has adopted HACCP-based controls. It is reasonable to conclude that processors that are effectively implementing adequate HACCP plans are controlling seafood-related hazards. This is because the cornerstone of the seafood HACCP program is hazard prevention through the application of controls that are scientifically known to work. For example, where it is known through scientific analysis that a cooking step at a certain temperature and duration during commercial processing will kill all pathogens, a valid indicator of public health prevention is whether the processor's cooking step achieved that temperature and duration. FDA has data about the application of preventive controls before initiation of the HACCP program, and has used that data as a baseline for measuring progress.

*Question.* How does FDA plan to spend its fiscal year 2002 supplemental to better protect the food supply?

*Answer.* The Agency has developed a Food Counter Terrorism Plan focusing on three strategies—Deterrence, Surveillance and Threat Assessment, and Containment Through Rapid Response—to achieve the goal of protecting the food supply. FDA's plan to better protect the food supply will be executed on both the import and domestic fronts.

As part of its deterrence strategy, FDA's goal is to provide a greater import presence than we have been able to provide in the past. An increased presence can enhance our capacity and capability to perform our normal import operations such as sample collection and analysis, field examinations, inspections and will provide a deterrent effect.

Our first priority is to perform more of these basic operations, particularly import field examinations and sample analyses, which are critical in detecting problems in the products we regulate. In addition, we have emphasized those types of examinations that will increase the likelihood of detecting intentional acts of potential terrorism, such as looking for inconsistencies between shipping documents and the physical product, evidence of tampering, substitution, or counterfeiting, or suspicious or damaged merchandise. Not including the new counter-terrorism efforts, much of the additional basic operations work will be similar to our already designed workplan assignments. It will include data integrity checks through filer evaluations and entry review where aspects of the data being reviewed are checked against existing information within the Agency.

Additional samples will be collected with the additional resources that have been allocated towards counter-terrorism measures. Analyses will be performed to detect toxins, poisons and microorganisms. As additional screening methods are developed in our labs and other labs, a greater array of analyses can be applied to samples collected. For example, FDA's Forensic Chemistry Center plans to adapt an FDA toxin screening method for application as a surveillance tool.

Physical checks of samples will be increased with a greater presence at the borders. Exams will focus on evidence of manipulation of shipments, verification against declaration, substitution, and out of the ordinary physical conditions.

During domestic investigations and import filer audits, we will be working with the regulated industry to ensure its attention to potential terrorist activities, especially as they relate to raw material receipt, inventory quarantine procedures, sourcing of foreign products or ingredients, and vulnerable operations.

In the future, we will increase the level of sophistication that we employ in our import operations, to include better information, better examination techniques, and more powerful analytical tools.

Domestically, FDA will execute its deterrence strategy by regularly inspecting foods and facilities deemed to be a strategic risk. Additionally, the Agency will be involved in increased communication and coordination with its stakeholders. It has already met with consumer groups, the industry and other Federal agencies and held two 50 State conference calls to discuss preventive measures and steps that can be taken to protect the nation's food supply from a terrorist attack.

The Surveillance and Vulnerability Assessment strategy will be supported by FDA's current import and domestic surveillance systems, that is the Field Accomplishment and Compliance Tracking System, FACTS, the Operational and Administrative System for Import Support, OASIS, the Electronic Laboratory Exchange Network, eLEXNET, and the CFSA Adverse Event Reporting System, CAERS. These systems must be strengthened so that a greater percentage of high risk food products and adverse events associated with their consumption can be assessed using state-of-the art technology. These systems must be able to produce timely and pertinent product, company, and country information that directly influence our decision to allow a food product to enter the marketplace. FDA's surveillance systems must be closely coordinated with other agencies, with foreign governments, and with the anti-terrorist intelligence systems of the Federal intelligence agencies. FDA must work with its partners to develop profiles of possible or probable food threats and points of attack. This will permit rapid response to suspected vulnerabilities.

Lastly, its strategy of Containment Through Rapid Response is an attempt to develop the processes in place to readily respond to food contamination. The quicker the Agency can respond to such a threat to the food supply, the greater chance the Agency has to reduce the number of injuries, illnesses or death. FDA must have the capacity to quickly and accurately identify outbreaks that may be happening or about to occur at any point in the food chain, and take prompt action to mitigate their effects. Rapid field test methods will be developed to identify hazards that may have been released by terrorists. The PulseNet System should be enhanced to quickly apply DNA fingerprinting over a wider range of biological threats. In the event of an identified threat, FDA will deploy disaster response teams who can work with other Federal, State, and local agencies to eliminate or contain the hazard and reduce public health risks. In addition, FDA will work with HHS and other government counterparts to ensure that consumers get update information about risk indicators.

*Question.* How many new food inspectors will FDA hire with this money? How many new inspectors have been hired to date?

*Answer.* FDA will increase the number of investigators and analytical staff to provide more of a presence at borders, ports, international mail facilities and courier hubs, as well as enhance our domestic workforce capabilities. The Agency plans to hire a total of 655 new staff members for its field component. Of these, 635 are authorized for food safety activities in the field with 600 for the foods program, and 35 for the animal drugs and feeds program. As of March 18, 2002, ORA anticipates that when all of the new hires are on board, over 400 will either be stationed at border locations, or will be working specifically on imports. Regardless of their physical location, however, ORA anticipates that all new hires will be trained in both import and domestic operations. The hires will be made up of import consumer safety officers, import laboratory analysts, and import criminal investigators. On the domestic side, the Agency plans to hire 143 domestic consumer safety officers and 49 domestic laboratory analysts.

*Question.* When these positions are filled, what percentage of imports and domestically produced foods will be inspected by FDA? What percentage of these inspections will be conducted by States?

*Answer.* Generally, inspection frequencies vary depending on the products produced and the nature of the establishment. In some of our compliance programs, however, non-high-risk inspection frequencies are established by FDA, such as in our Domestic Seafood Program, where the frequency is every other year after achieving HACCP compliance. In most of our other programs, instead of frequencies, specific Agency priorities direct inspection priorities. The priorities may be based on



a firm's compliance history or coverage of new firms that have not been previously inspected, such as in the Domestic Food Safety Program. FDA districts would then apply their available level of non-high-risk resources to cover non high-risk firms according to their priorities in these programs. On average, with available resources, and including State inspections, FDA has been inspecting these establishments about once every 7 years.

*Question.* Does FDA support mandatory recall authority?

*Answer.* Current authority contained in 21 CFR parts 7, 107, 806 and 810 provide the means by which FDA can reasonably ensure that products on the market are safe and effective.

*Question.* If not, how does FDA deal with instances where companies refuse to recall a product or do not provide distribution information?

*Answer.* The answer depends on several factors including which FDA Center involved, the seriousness of the health hazard involved with the product defect, and the FDA regulations pertaining to the particular product. FDA has very few instances in which firm's choose not to recall a product that FDA considers in violation of the FD&C Act. In the vast majority of recall situations, FDA regulated industry conducts recalls voluntarily when it learns of a violative product and recalling firms usually provide FDA with requested distribution information. However, if a firm refuses to recall a violative product, FDA does have some options. I would be happy to provide instances where companies refuse to recall a product or do not provide distribution information for the record.

[The information follows:]

INSTANCES WHERE COMPANIES REFUSE TO RECALL A PRODUCT OR DO NOT PROVIDE  
DISTRIBUTION INFORMATION

FDA does not have the authority to order recalls of foods—except for infant formula—cosmetics, dietary supplements, and human and veterinary drugs. There are, however, specific areas where FDA does have the authority to order a recall, or where the FD&C Act requires a company to recall if FDA determines the product to be in violation.

The Agency has the authority to require a recall under section 412 of the FD&C Act for infant formula. Section 412 of the FD&C Act specifies that when FDA determines that an infant formula presents a risk to human health, a manufacturer must recall infant formula consistent with recall regulations and guidelines issued by the FDA. Thus, any recall by industry of such an infant formula would be a requirement of the Act.

FDA has the authority to order recalls under Section 518 (e) of the Act for medical devices when the "Secretary finds that there is a reasonable probability that a device intended for human use would cause serious, adverse health consequences or death." This requires an administrative proceeding which may take several to 10 days or more to implement. This authority has rarely been used. The device industry usually conducts voluntary recalls when it learns of violative conditions or they are brought to its attention by FDA. Additionally, 21 CFR Part 806.10, Reports of Corrections and Removals, paragraph (c)(11) requires all firms conducting removals or corrections of products meeting the Class I or Class II recall definition to provide "The names, addresses, and telephone numbers of all domestic and foreign consignees of the device and dates and number of devices distributed to each consignee. Based on 806 requirements, it is rare that appropriate distribution for medical device recalls are not provided to FDA.

In the case of human or veterinary drugs, should FDA and a firm enter into a Consent Decree of Permanent Injunction based on failure to meet Good Manufacturing Practice requirements, the consent decree may contain a clause which requires the involved firm to conduct a recall(s) if FDA inspection determines that violative products are on the market and concludes that a recall is appropriate.

FDA has authority under the Public Health Service Act (PHS Act) to order the recall of certain biological products (42 U.S.C. 262). Consequently, if a determination is made that a batch, lot, or other quantity of a product licensed under the PHS Act presents an imminent or substantial hazard to the public health, the Secretary has the authority to issue an order for the immediate recall of such batch, lot, or other quantity of such product. The Agency has not had to use this authority to date.

FDA also has the authority to order the recall or destruction of banked human tissue such as bone, ligaments, tendons, cartilage, skin, fascia, and corneas intended for transplantation that have been collected or distributed in violation of regulations. FDA developed these regulatory requirements under the legal authority of section 361 of the PHS Act (42 U.S.C. 264). The rule is in 21 CFR Part 1270.

For those products for which FDA does not have recall authority, FDA may use one of several other options for removing a product from the market, including:

- The Agency may sample and seize the product under court order. (This option is generally not as good as a recall as it is difficult to seize all products that may be in the marketplace and, of course, it doesn't remove products from consumer or user hands.)
- We may formally request that the firm recall the product(s). This written request from the Associate Commissioner for Regulatory Affairs is usually limited to serious health hazard situations. The request usually contains a statement to the effect that the FDA is prepared to take appropriate regulatory action should the firm refuse the request and that the Agency will issue a press statement alerting the general public about the hazardous product and the firm's refusal to recall. This written request, or verbal notice to the firm that FDA is prepared to issue such a request, usually results in the necessary recall action.
- We may notify and coordinate activities with State health agencies having jurisdiction over the product in question. On occasion, State agencies are able to embargo violative products and/or require recalls.
- In addition to these options, FDA may order recalls in selected situations.

With respect to the refusal to provide distribution records, the Agency has less recourse than the options listed for recalls. Prescription and OTC drug and medical device distribution records are required to be provided to, or made available for copying, to the FDA. In addition, for infant formula recalls, manufacturers must provide FDA under 21 CFR part 107, copies of recall communications with consignees, distributors, retailers, and member of the public. Generally, FDA investigators or other FDA district office personnel who interface with recalling firms are able to convince them that distribution records are necessary to FDA so that we may conduct audit checks at the firm's consignees to assess the effectiveness of the recall. If the recalling firm refuses to provide records, we can "issue press" by working with State agencies to see if they have the authority to obtain the records. Otherwise, there is little that can be done about such refusals except to more closely monitor the firm's recall effort by reviewing its records of notification and product returns as well as any effectiveness checks that it may have done.

*Question.* What can FDA do to ensure that a product is fully recovered when recalled?

*Answer.* Recalling firms have the responsibility for assuring that their recall is effective in that the recalled product is actually pulled off the store shelves and properly disposed of. FDA's role is to monitor and/or audit the firm's efforts to remove the product from channels of commerce and oversee proper disposition of the product. FDA accomplishes this monitoring role through audits. Audits are conducted by reviewing periodic recall status reports received from the recalling firm and/or reviewing documentation of the recall operation and its effectiveness during actual visits to the firm's consignees. In addition, a manufacturer conducting a mandatory recall in accordance with 21 CFR 810 is required to provide periodic reports to FDA on the status of the recall, under 21 CFR 810.16.

*Question.* What precautions are being taking to ensure the safety of our food since September 11?

*Answer.* Since September 2001, FDA has engaged in numerous types of activities to ensure the safety of the food supply. These activities range from enhanced and strategically focused import activities to outreach with industry.

The supplemental funding for food safety has allowed FDA to develop a Food Counter Terrorism Plan to achieve the goal of protecting the food supply. FDA's will strengthen current import and domestic surveillance systems so that a greater percentage of high-risk food products and adverse events associated with their consumption can be assessed using state-of-the art technology. Rapid field test methods will be developed to identify hazards that may have been released by terrorists. The PulseNet System will be enhanced to quickly apply DNA fingerprinting over a wider range of biological threats. In the event of an identified threat, FDA will deploy disaster response teams who can work with other Federal, State, and local agencies to eliminate or contain the hazard and reduce public health risks. Consumers will be informed about risks in the event that an incident occurs.

Generally, FDA's primary goal in import activities is, to the extent possible, to prevent and deter products from entering into the U.S. that are adulterated or otherwise unsafe by reason of tampering, misbranding, substitution, counterfeiting, or contraband. FDA will hire and deploy 633 field personnel to include investigators for border locations where FDA receives significant amounts of regulatory products. To achieve this goal, FDA will seek to increase the percentage of imported goods that are physically examined or sampled and increase coordination with other Fed-

eral agencies including Customs and the U.S. Department of Agriculture. FDA will focus this coordination effort in the areas of enforcement, information and surveillance of imported products and importers. FDA also will seek to tighten import review and document management procedures, develop more rigorous filer evaluation procedures, increase physical port presence and surveillance, and apply new investigation, inspection and analytical techniques and technologies as possible.

FDA continues to discuss security issues and the viability of security devices, including anti-counterfeiting and anti-tampering devices and technologies, with industry. FDA has also begun exploring the value of track and trace technologies that industry might be able to incorporate to increase transparency of the international distribution chain. We continually encourage our industry partners to work to combat potential threats by being observant, vigilant, and wise in their negotiations for the purchase of goods and their receipt of goods.

FDA has decided to expand an already existing contract with a university for assistance in establishing, facilitating and documenting several joint agency industry-working groups. These working groups would be tasked with evaluating vulnerabilities in a particular industry, that is foods, drugs or biologic products from the point of manufacturing or processing, through international commerce and the border process, into domestic distribution and down to the retail and consumer level. The working groups would then consider technology solutions for addressing those vulnerabilities. The vulnerabilities may be identified as product counterfeiting, product security, product tampering, weak distribution or supply chain transparency or control, or container integrity. This will assist FDA's fight against product counterfeiting or tampering through partnering with representatives from multiple industry sectors, other Federal agencies, such as Customs, the U.S. Postal Service, USDA, the Department of Transportation, and State and foreign governments.

FDA also meets often with regulated firms and their trade organizations in formal and informal settings. During such meetings, FDA always stresses the need for security in all phases of company operations. OCI has established relationships and open lines of communications with security directors at manufacturing, transportation, wholesale, and retail firms in several industries.

FDA has conducted a number of training sessions for importers and brokers. For example, this past January the Northeast Region coordinated with the American Association of Exporters and Importers in producing a seminar in Jamaica, N.Y., attended by over 160 importers and filers. The main topic of this seminar was the security of imported foods and pharmaceuticals. The draft guidance on food security issued on January 9, 2002, by CFSAN to the domestic and imported foods industry was a point of discussion. FDA expects to conduct similar seminars in other FDA regions throughout this year. FDA districts have begun to work with various segments of both the import and domestic industries on the issue of security. Whenever FDA interfaces with industry on product security matters, we always urge them to notify their local district offices if they identify a suspect shipment.

In addition to general Agency/Industry interactions on security issues, FDA's Center for Food Safety and Applied Nutrition, CFSAN, has been actively engaged with the food industry through more than 80 trade associations and many individual firms. These meetings have focused on a systematic approach to assessing risk and what preventive measures may be implemented from a cost/benefit ratio. The food industry, in turn, has formed an Alliance for Food Security convening on a weekly basis to share information and collaborate on effective preventive measures. The National Food Processors Association hosts the Alliance.

Also, FDA's Center for Veterinary Medicine along with the Animal Health Institute and the National Renderers Association participated with the American Feed Industry Association, AFIA, to produce a guide intended to raise the level of awareness of biosecurity issues facing animal agriculture. Representatives from those organizations served on a special biosecurity task force and made significant contributions to the document's development. The guide, published in November 2001, on the AFIA website offers a concise set of suggestions covering several different areas of industry operations. These include, among other things, facility security, ingredient integrity, product integrity, distribution, product recall, housekeeping, and personnel.

*Question.* Is our current food safety system able to adequately protect consumers? What steps are needed to create a food safety system that will provide the best protection to consumers?

*Answer.* The American food supply is among the safest in the world. Ensuring the safety of the food supply has become increasingly difficult in the United States. New challenges such as increased variety of foods grown or produced in distant places, more meals eaten outside the home, new and more deadly pathogens, and an in-

creasingly vulnerable population have all contributed to the 76 million foodborne illnesses each year, resulting in 325,000 hospitalizations and 5,000 deaths. FDA's food safety efforts concentrate on what can be done to better ensure that consumers have access to a safe and wholesome food supply and on reducing foodborne illness to the greatest extent possible.

The foundation of any successful food safety system must be built on strong science. FDA must keep pace by learning more about foodborne diseases and their causes, and by developing new scientific methods for detecting and preventing foodborne hazards. A strong science base is a prerequisite to meeting these food safety challenges and to maintaining our leadership role both nationally and in the new global economy.

To gain a better understanding of foodborne disease, we must be able to monitor not only human illness that has occurred but also the human food and animal feed supply to identify new and emerging risks to public health. New types of foods, evolving foodborne hazards, changing eating habits, new production technologies, and increased trade between all countries make this a challenging task.

The most significant reduction in foodborne illness will be achieved through the development and implementation of successful prevention programs. FDA has made important progress on establishing prevention standards for some product categories, including seafood and juice. However, additional standards are needed to prevent contamination of all human foods and animal feeds over the farm-to-table continuum whether such foods are produced domestically or abroad. As FDA develops new prevention programs, vigorous education and training are needed to make them work. Providing information on safe food handling practices across the farm-to-table continuum lies at the core of an effective food safety system.

A food safety system that will provide the best protection to consumers must also inspect and monitor the food industry to ensure application of appropriate preventative controls and must ensure that imported foods meet the same level of consumer protection as domestic foods. The safety of imported foods is ensured through inspections and sampling at the border. Such inspections need to be complemented by an enforcement program when needed.

Finally, a food safety system needs to have tools for measuring progress in reducing foodborne illness so that strategies can be modified, as needed.

With all of these steps in place, the result will be a stronger and more credible food safety system that minimizes foodborne illness and injury and maximizes consumer confidence.

*Question.* Does FDA support efforts to modernize food safety statutes?

*Answer.* FDA welcomes efforts to modernize food safety statutes and encourages dialogue on suggested modifications to them. For example, the Administration recently submitted a bill addressing bioterrorism involving foods that would provide FDA with significant new authorities.

*Question.* What should be done to create a single voice on food safety in the U.S., as recommended by the National Academy of Sciences?

*Answer.* The current food safety system is having real and measurable positive effects. Through a surveillance system called FoodNet, CDC has documented reductions in foodborne illness for a number of important food pathogens.

The current system would benefit from being updated by regulatory fixes and full funding of the President's Budget. Statutes are in need of being modernized and resource shortfalls need to be addressed. The statutes do not adequately recognize the need to assess risks associated with foods, to put into place controls to prevent food contamination, to allocate resources based on risk, and to measure results. In addition, GAO issued a report in February 2001 that identified the significant disparity between food safety resources and FDA's food safety responsibilities.

#### DIETARY SUPPLEMENTS

*Question.* What is the current FDA time line for release of Good Manufacturing Practices (GMPs) for dietary supplements?

*Answer.* FDA's goal is to publish the proposed Current Good Manufacturing Practices, CGMPs, for dietary supplements by the end of fiscal year 2002.

*Question.* Will these GMPs incorporate elements from existing food and drug GMP regulations or will they be based on food GMPs alone? What is the rationale for this decision?

*Answer.* The statute lays out the framework for dietary supplement Current Good Manufacturing Practices, CGMPs, and we are working within that framework. The proposed CGMP regulation for dietary supplements should provide the proper balance of regulation for the unique properties of dietary ingredients and dietary supplements, including vitamins, minerals, and botanicals, and should ensure that

products, whether manufactured as tablets, capsules, powders or liquids, have the identity, purity, quality, strength, and composition that the manufacturer intends.

*Question.* Would you agree that if a claim is made for a supplement that it acts like, for instance, an anti-depressant, it would be more appropriate to regulate it similar to other pharmaceutical products that make such claims?

*Answer.* As discussed in the preamble to FDA's January 6, 2000 final rule on structure or function claims, the Dietary Supplement Health and Education Act of 1994, DSHEA, did not alter the legal treatment of dietary supplement claims related to disease. Section 403(r)(6) of the Federal Food, Drug, and Cosmetic Act added by DSHEA, specifically provides that statements permitted to be made for dietary supplements under that section may not claim to diagnose, mitigate, treat, cure, or prevent a specific disease or class of diseases. Clearly, when a product is claimed to be a member of a category of drugs intended to treat a disease, the product is implicitly being represented to treat the disease. Accordingly, when a dietary supplement is claimed to be a member of a class of drugs intended to treat disease or a substitute for such a drug, the dietary supplement meets the definition of a drug and is subject to regulation as a drug.

Moreover, as also described in the January 6, 2000 preamble, there are sound public health reasons that we should insist that such products be regulated as drugs. While FDA believes that dietary supplements have potential benefits for consumers, those labeled with unproven disease claims, meaning those that have not met the requirements of health claim authorization, new drug approval, or an over-the-counter drug monograph, can pose serious risks. Such claims may encourage consumers to self-treat for serious diseases without benefit of medical diagnosis and may cause consumers to substitute potentially ineffective products for proven ones, thus foregoing or delaying effective treatment. Consumers may rely on disease prevention claims and feel sufficiently protected from developing serious diseases that they delay or forego regular screenings and thereby forfeit the opportunity for early medical treatment that may be critical to survival. And finally, using dietary supplements to treat disease may increase the risk of adverse reactions due to the interaction of the dietary supplement with other compounds a consumer is taking for that disease or for other conditions.

*Question.* Without GMPs, how does a consumer know that the supplements they are taking are uncontaminated? (Attached is a recent report on contaminated supplements, also recent press on Olympic athletes and supposed supplement contamination with hormones leading to disqualification.)

*Answer.* Dietary Supplement Current Good Manufacturing Practice, CGMP, are a useful tool for both the industry and FDA. Such would provide a road map for the industry to help assure the purity and consistency of dietary supplement products. CGMPs are also, an important regulatory tool for consumer protection.

*Question.* Given that our Olympic athletes have exposure to the best medical care, health and nutrition information, and yet they have been exposed to potentially harmful supplements unknowingly, how is the average US citizen to know what is actually in the supplements they are using?

*Answer.* The law requires that manufacturers correctly label their products' contents. The Dietary Supplement Current Good Manufacturing Practices proposed rule we are developing would propose manufacturing practices that would ensure consistency between what is on the label and what is in the product.

*Question.* We have a system for reporting adverse events caused by other FDA regulated products such as medical devices, drugs or biologics. Last year, additional funding was appropriated to improve the system of adverse event reporting for dietary supplements (as current estimates suggest that FDA is notified of fewer than 1 percent of supplement-related adverse events). What is the current status of that system? How does FDA plan to make consumers and healthcare professionals more aware of/more likely to use the AER system?

*Answer.* The first phase of FDA's Centralized Adverse Event Reporting System, CAERS, is about one-half completed. CAERS is currently undergoing user acceptance testing, training, and some technological improvements.

In September 2001, FDA implemented a cooperative agreement with the National Center for Natural Products Research, NCNPR. This agreement between FDA and NCNPR created a partnership that allows for more efficient use of resources to identify and analyze specific components in botanical dietary ingredients, thereby enhancing overall public health by ensuring that dietary supplements are safe and their labeling is not misleading.

The NCNPR cooperative agreement for fiscal year 2001 was awarded on September 28, 2001. Since the total Project Period is 5 years, the additional 4 years of funding up to \$1 million per year will depend upon acceptable performance and the availability of future fiscal year funding. In accordance with the procedures for

supplementing cooperative agreements, FDA must announce its intent, through a Request for Application, RFA, to increase funding up to an additional \$1 million to the NCNPR cooperative agreement in the Federal Register. Once announced, NCNPR must submit a grant application to demonstrate how it will meet the objectives of the RFA. The application will go through a dual review process and FDA anticipates completing this process and awarding the money to NCNPR in September 2002.

To date, the awarded monies from fiscal year 2001 have been used to collect a number of authenticated botanical species for chemical profiling and characterization. The species include ephedrine alkaloid-containing species, for example ephedra, ma huang, aristolochic acid-containing botanicals, comfrey, germander, and blue and black cohosh. The NCNPR scientists are collaborating with FDA scientists to ensure usefulness for evaluating potential safety issues and to coordinate related FDA and NCNPR research activities. In this regard, FDA and NCNPR scientists have jointly presented results of their scientific collaborations at a professional meeting and are currently preparing co-authored scientific manuscripts for publication in peer-reviewed journals. The NCNPR is also completing plans for a scientific workshop on authenticating botanical ingredients for use in dietary supplements. The workshop will be held in August 2002, and will provide a basis for scientists from academia, government and industry to discuss the scientific issues involved in the authentication of botanical ingredients. The issues discussed in this workshop will have broad relevance for research, manufacturing and regulatory applications.

*Question.* Would the agency support a requirement that manufacturers of dietary supplements report all adverse events known by the manufacturer to the agency?

*Answer.* In April 2001, the Office of the Inspector General of the Department of Health and Human Services issued a comprehensive report on FDA's Adverse Event Reporting System for dietary supplements. The report included a recommendation that such reporting be mandatory for dietary supplement manufacturers. As stated in FDA's response to that report, the DSHEA is silent on the subject of Adverse Event Reporting, and FDA is evaluating whether or not such reporting could be required under current law.

*Question.* How does FDA plan to make consumers and healthcare professionals more aware of the potential risks of dietary supplements (information contained within its AER system)?

*Answer.* When fully implemented, CAERS will provide information to FDA on emerging potential hazards associated with dietary supplements, food and food additives, and cosmetics. When the review of adverse event reports identifies an association with a product, FDA will inform the public using traditional tools including consumer advisories, press releases, talk papers, MedWatch Safety Alerts, and letters to health care professionals.

*Question.* FDA has purchased adverse event information from the association of poison control centers in the past. What are FDA's plans to purchase this information in the near future? How much money has been requested in the FDA budget for this purpose?

*Answer.* In the past, FDA has purchased adverse event information from the Association of Poison Control Centers for dietary supplements that contain Kava, ephedrine alkaloids and gamma butyrolactone, or GBL. FDA will continue to purchase such data on an as needed basis. No additional funds for this particular purpose have been requested in FDA's fiscal year 2003 budget.

*Question.* What other authorities or resources does FDA need to ensure the safety of dietary supplements?

*Answer.* In January 2000, FDA published an overall Dietary Supplement Strategic Plan. This plan incorporates substantial stakeholder input and provides a road map to fully implement DSHEA. It is a science-based regulatory program that will provide assurances for safety, composition, and labeling of dietary supplements. The Plan addresses activities that focus on safety, labeling, boundary issues, enforcement, developing a science base, and outreach. In response to a request from Congress, the Agency is developing a report to Congress on the estimated cost to implement the Strategic Plan.

In the case of the current Administration, should there be legislative proposals that are relevant to ensuring the safety of dietary supplements or related topics, they would be submitted through the appropriate and prescribed legislative channels.

*Question.* Other countries have seen instances of harm from dietary supplements such as Kava. Under the current law, is the FDA able to take action once another country has determined a supplement is dangerous?

*Answer.* I do not believe that action by another country will generally be enough to provide the sole basis for action by FDA. Clearly, when another country takes

action, we should be concerned and carefully examine the reasons that country took the actions that it did. But, we need to look at the underlying scientific and medical evidence for the other country's action to determine what action, if any, is appropriate under our regulatory framework.

*Question.* Do you think that we should always have to wait until Americans are harmed before the FDA acts?

*Answer.* FDA uses data from many sources in order to address issues related to dietary supplement safety, including published literature, human studies—where available—conducted in vitro and in a variety of animal species, as well as information gleaned from adverse event reports. The Dietary Supplement Health and Education Act, DSHEA gives FDA authority to take action against dietary supplements that are adulterated because, for example, they present a significant or unreasonable risk of illness or injury. FDA will continue to seek, to the extent that resources allow, the best and most appropriate approaches to detecting and establishing significant or unreasonable risk of dietary supplement products.

*Question.* How many adverse events relating to ephedra use has the FDA received?

*Answer.* Between 1993 and March 2002, FDA has received approximately 1700 complaints of illnesses and injuries reportedly associated with the use of ephedrine alkaloid-containing dietary supplements.

*Question.* How many more American's need to be harmed before the agency moves to remove ephedra from the market?

*Answer.* The number of adverse reports received associated with the use of ephedra is not the determining factor, but rather the overall quality of available clinical data and other information addressing the safety of the product.

*Question.* Why has FDA not yet taken action alerting consumers to the dangers of ephedra- or Kava-containing supplements?

*Answer.* On March 25, 2002, FDA issued an advisory informing consumers of the potential risk of severe liver injury associated with the use of kava-containing dietary supplements.

With respect to ephedra-containing dietary supplements, over the past 7 years, FDA has issued several press statements related to the potential adverse health effects associated with the use of these products. For example, in September 1994, FDA issued a medical bulletin concerning adverse events associated with the use of ephedra and other botanical dietary supplements. In February 1995, FDA warned consumers against the use of a specific ephedrine alkaloid containing dietary supplement, Nature's Nutrition Formula One. In April 1996, FDA issued a statement warning consumers about the hazards associated with street drug alternatives containing ephedrine alkaloids. In March 2000, FDA announced in a talk paper the availability of documents related to dietary supplements containing ephedrine alkaloids, including information concerning adverse event reports associated with the use of these products.

In conjunction with the Agency's ongoing effort to assess the safety of these products, the United States Public Health Service sponsored a public meeting designed to seek information on the safety of dietary supplements containing ephedrine alkaloids in August 2000. The meeting did not result in the resolution of the safety questions surrounding the use of these products. Concerning future action, the Agency has received a citizen's petition which requests, among other things, that FDA issue an advisory to consumers advising them to stop the use of ephedrine alkaloid containing dietary supplements due to the established risk of injury. The petition is presently under review.

*Question.* Does FDA have plans to require St. John's Wort-containing supplements to include warnings on the label regarding potential drug interactions with St. John's Wort?

*Answer.* The use of warning statements on the label of St. John's Wort—containing supplements is the subject of a petition currently before the FDA. We are evaluating the information submitted in the petition, other relevant scientific information, and current statutory provisions, to determine what actions are warranted to ensure that St. John's Wort as well as other dietary supplements are labeled in a manner that adequately informs the consumer about the safe use of the product.

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QUESTIONS SUBMITTED BY SENATOR TIM JOHNSON

OFFICE OF GENERIC DRUGS

*Question.* I would like to address a few issues related to the Generic Drug Program at the Office of Generic Drugs. Many South Dakotans and others across the

country concerned about access to affordable and safe prescription drugs, and FDA's Office of Generic Drugs (OGD) is charged with the responsibility of approving and marketing new generic drugs as patents on brand-name drugs expire. However, I believe more should be done to make health care providers, managed care organizations, health insurers and consumer organizations better informed and educated on the approval of generic drugs as therapeutic equivalents to brand name pharmaceuticals. Lack of knowledge and awareness about generic drugs reduces the likelihood that these groups will recommend or use generic drugs when they are available as a substitute to brand pharmaceutical products. In fact, studies have indicated that a 1 percent increase in the use of generic drugs will result in over \$1 billion in savings to consumers and health care providers. Last year, I inquired about the Office of Generic Drugs implementing a consumer education program designed to increase the awareness and safety of FDA approved generic drugs.

The FDA's fiscal year 2002 budget included funding for an education campaign. Therefore, can you update me on the status of that education campaign, and furthermore, if provided with additional funding, how would that campaign be expanded?

Answer. The work for fiscal year 2002 is building upon plans established in fiscal year 2001 to develop a standard message for the public. Plans are in motion for physician focus groups to determine attitudes and knowledge gaps about generic drug products in that community. Based upon that information, continuing medical education programs will be developed. Pharmacy continuing education is also planned in coordination with the Association of the State Boards of Pharmacy.

Standard messages for the public will appear in such media as print ads, radio public service announcements and convention exhibit booths. The material will also be distributed nation wide. Some of the professional education will involve staff travel to professional organizational meetings to present information on the generic drug approval process that assures the quality of the drug products. Experts in the field will also be contracted to provide educational information on the topics.

#### DIRECT-TO-CONSUMER ADVERTISING

*Question.* In relation to the FDA's enforcement and review of direct-to-consumer (DTC) advertising, I have become increasingly concerned over the increase of promotional consumer advertising and healthcare professional promotion. I understand that FDA's Division of Drug Marketing, Advertising and Communications is currently going through a reorganization and hiring of additional DTC reviewers and regulatory counsel.

In this effort, I would encourage the FDA to continue its vigilance in closely monitoring DTC advertising and, at this time, would welcome any further information as to what the agency's on-going review plan entails?

Answer. In 2001, the FDA reviewed about 130 proposed direct-to-consumer, DTC, broadcast advertisements and about 250 DTC broadcast advertisements that aired on television. FDA receives over 32,000 promotional pieces annually, of which approximately 5,000 are DTC materials, including, magazine advertisements, patient brochures, and mailers.

Since 1997, FDA's Division of Drug Marketing, Advertising, and Communications, DDMAC has been in the process of hiring staff to fill additional positions for a total of 39 staff members. Of the 39 staff members, 20 will be primary reviewers and 5 will be secondary reviewers. These reviewers are responsible for both professional and DTC promotional material reviews. DDMAC applies a team approach to the review of promotional material. A team comprised of the primary reviewer, consumer promotional analyst, social scientists, and branch chief completes the review of DTC broadcast advertisements. The team ensures that the advertisements are accurate, balanced, and presented in language that is easily understood by consumers. The most common objections that DDMAC raises in DTC broadcast advertisements involve inadequate communication of risk information, overstatement of effectiveness, and implication of use for patients beyond the indicated patient population.

In issuing both the draft and the final broadcast advertisement guidance, FDA stated its intent to assess the impact of the guidance, and of DTC promotion in general on the public health. As a part of this assessment, FDA is currently conducting a repeat survey of patients, as well as a survey of physicians. FDA intends to carefully examine all available data in determining whether additional measures should be taken to help ensure that the public health is protected.

In April 2001, FDA issued draft guidance on the required risk disclosure for consumer-directed print advertisements. The guidance is intended to improve the usefulness of risk disclosure associated with DTC print advertisements. The guidance indicates that FDA does not intend to object to the use of certain FDA-approved pa-



tient labeling, written to be understandable to patients, as a "brief summary" for DTC print advertisements. It is a focused guidance that does not address all aspects of DTC advertising. FDA is also evaluating the need, if any, to revise current regulations in light of DTC advertising.

#### FDA REVIEW TIMES FOR MEDICAL DEVICES

*Question.* I remain concerned with the current premarket review times for medical devices at the Center for Devices and Radiological Health (CDRH). It is my understanding that the average review time for medical device premarket reviews is currently 411 days, wherein the statutory review deadline is 180 days. It is my hope that FDA will address its mission of ensuring timely patient access to safe and effective medical technology.

However, I would like to find out why the current medical device review times are over 400 days, and if additional resources are needed to address this deficiency?

*Answer.* At this time, FDA is unable to provide the Committee with a thorough and comprehensive review of resource estimates needed to meet the statutory deadlines for all categories of medical device applications. Device technology advances and global impact will continue to effect review performance. In addition, submissions are becoming increasingly more complex, which also contributes to review performance. FDA received an increase of \$1.5 million and 7 FTE in fiscal year 2002, which will help us to meet some of our regulatory responsibilities with respect to this program but not all. A recent Inspector General report stated that FDA currently inspects approximately 3.5 percent of the clinical investigators that are conducting studies in a given year.

#### MAD COW DISEASE

*Question.* Last year, I met with the Director of FDA's Center for Veterinary Medicine to discuss the efficacy of a 1997 rule that U.S. rendering plants and feed mills end the mixing of animal protein in manufactured ruminant feed, and that feed mills apply cautionary labels on feed products with ingredients that may contain "non-approved" mammalian protein. This ban is critical to the ongoing success this nation has had in preventing the outbreak of bovine spongiform encephalopathy (BSE or mad cow disease).

*Answer.* As of March 11, 2002, 94 percent of all feed mills and renderers that handle prohibited material were determined to be in compliance with the Ruminant Feed Ban rule. Many feed mills and renderers have ceased handling prohibited material as a direct result of the Ruminant Feed Ban rule.

The Agency is in the process of inspecting all renderers and feed mills handling prohibited material on an annual basis, regardless of previous inspectional findings. Further, the Agency is closely examining the non-compliant firms, noted above. Enforcement measures are being considered for the renderers and feed mills found to have significant violations of the BSE regulations. These enforcement measures include seizure, injunction or prosecution. Additionally, the Agency is working closely with State feed control officials to develop additional approaches to obtain compliance with the ruminant feed ban.

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#### QUESTIONS SUBMITTED BY SENATOR THAD COCHRAN

##### IMPORT INSPECTIONS

*Question.* As I recall, when FDA testified before this Committee last year, less than 1 percent of all entries offered for import into the United States were being examined.

What level of physical inspection of imports do you expect to achieve in fiscal year 2002 with the supplemental funds FDA received to enhance its import inspection capabilities?

*Answer.* FDA classifies import coverage as a combination of import field examinations and import laboratory analyses, which are both physical evaluations of the product offered for entry. Import coverage is the sum of these two activities as a percent of the number of line entries. Import field exams are physical examinations performed at the entry point. In fiscal year 2001, FDA performed about 12,000 food import field exams and analyzed nearly 15,000 import samples. So for fiscal year 2001, the Agency conducted physical examinations on 0.6 percent of the foods offered for import into this country of the total line entries of 4.6 million. In fiscal year 2002, we will begin to see real gains in our import coverage because of the increased funding. The counter-terrorism funding will permit the field to double the number of import field examinations and increase the number of samples analyzed

by nearly 50 percent in fiscal year 2002. Even with the number of food import line entries increasing to 5.1 million, an increase of 10 percent, we will increase the coverage to 0.9 percent. In fiscal year 2003, when the new investigators are more fully trained and the number of food imports is expected to increase to 5.4 million line entries, the number of import field exams will increase to 48,000. Import coverage will then increase to approximately 1.3 percent of the total food entries.

*Question.* What do you consider to be the optimal level, in terms of the percentage of imports that should be physically examined to maintain a proper level of deterrence and surveillance? What additional funding would be needed in each future fiscal year to reach this level?

*Answer.* FDA is thankful for the additional funding we received for the inspection of domestic firms and for inspections of imported foods. FDA did provide some preliminary information last year on funding needed in both areas. However, the Agency has not conducted the analysis necessary to develop long-range estimates for resource increases of this magnitude and FTE needs in these areas. Additionally, until such time as the Agency has realized the full potential of the funding and personnel received with fiscal year 2002 for counter terrorism we will be struggling to carry out such an analysis. Also, the question suggests what is an optimal level of inspections in these two areas. Due to constantly changing environments of operation, for example, counter-terrorism and BSE, our domestic inspection and import strategy cannot be defined in terms of a percentage of coverage through inspections, physical examinations and sample analyses. It needs to be a flexible blend of the use of people, technology, information and partnerships to protect Americans from unsafe imported products.

The long term solution to a higher level of confidence in the security and safety of food products lies in information technology that will merge information on products, producers and intelligence on anticipated risks to target the products for physical and laboratory examination. It relies on data integrity activities that reduce the opportunity for products to be incorrectly identified at ports. It relies on cooperation from producers so that FDA can identify sources that are unlikely to need physical testing. Even with such targeting, improvements are limited by the available methodologies for assessing threat agents and our ability to predict which tests ought to be used.

The relentless growth in the volume of domestic as well as imported food products, which are increasingly in ready for consumer sale packaging, means that FDA is unlikely to have budget increases to keep pace. Food imports are now growing at 10 percent per year. Historically, FDA import resource budgets have not kept pace. FDA needs to use all the potential tools available to improve confidence in food security and safety.

In short, while we are ramping up our food inspections, we need to inspect smarter, not just more. That is why FDA is making significant investments in technology and information resources. We are using funds to work to further improve targeting and using force multipliers such as IT.

#### APPLICATION REVIEW PERFORMANCE

*Question.* In which product areas do there continue to be gaps in application review performance versus statutory requirements? What is FDA's plan for closing these gaps?

*Answer.* I would be happy to provide statutory requirement information for the record. I would like to point out, however, that the most current data is taken from our fiscal year 2001 Performance Report to Congress. It reflects actions as of September 30, 2001. At that time, action was still pending upon most of the applications submitted in fiscal year 2001. More meaningful data on the fiscal year 2001 cohort of applications will be available next year.

[The information follows:]

## Statutory Requirements of Applications

Time Frame	FY 2001 Performance
<b>PDUFA Application Goals for FY 2001 (From PDUFA II commitment letter of November 12, 1997):</b>	<b>From FY 2001 Performance Report to Congress</b>
Review 90 % or priority new drug applications (NDAs) and biologic License applications (BLAs) received in FY 2001 within 6 months. (Drugs)	100% Reviewed within 6 months
Review 90% of standard NDAs and BLAs received in FY 2001 within 12 months. *	100 % reviewed within 12 months
Review 70% of standard NDAs and BLAs received in FY 2001 within 10 months. *	100 % Reviewed within 10 months
<b>NON-PDUFA Applications (Times based on statutory requirements):</b>	<b>Current Estimate</b>
Review abbreviated new drug applications (ANDAs) within 180 days. (Drugs) [FFD&C Act Sec. 505(j)] **	56%
Review premarket approval applications (PMAs) within 180 days. (Devices) [FFD&C Act Sec. 515(d)(1)(A)]	97%
Review 510(k)s within 90 days. (Devices) [FFD&C Act Sec. 510(k) and (n)]	100%
Review Food and color additive petitions within 360 days (Foods). Goals are based on 360 days. The statute provides for 90 days with one additional extension for a total up to 180 days. [FFD&C Act Sec. 409(c)(2) for food additive petitions and & Sec. 721(d)(1) for color additive petitions.] ***	91%
Review new animal drug applications (NADAs) & abbreviated new animal drug applications (ANADAs) within 180 days. (Veterinary Drugs) [FFD&C Act Sec. 512(c)(1), 512(c)(2)]	50%

\* The number filed for 10 and 12 month standard NDAs is the same 10 completed submissions. The 10-month figures are a subset of the 12-month cumulative figures. Current performance figures represent only that portion of the FY 2001 submissions on which action has been completed. More complete data on the FY 2001 cohort will be available next year.

\*\*FDA is required to take an action on generic drug applications within 180 days. FDA had a goal of reviewing 45% of applications in FY 2000. The goal for FY 2001 is 50%, 65% for FY 2002, and 75% for FY 2003. Performance data for FY 2001 will not be available until 180 days after the close of FY 2001. However, based on preliminary estimates, it appears FDA will meet its goal of 50% for FY 2001.

\*\*\* The statutory requirement -- FD&C Act Section 409(c)(2) -- for action on a food additive petition is ninety days, with one additional ninety-day extension for a total of 180 days. (A similar provision for color additives is found in FD&C Act Section 721(d)(1).) Nevertheless, for these petitions, application review goals are based on 360 days as recommended by House Report 104-436.

## MEDICAL DEVICES

*Question.* I understand that 10 percent of all devices requiring 510(k) clearance are actually reviewed by the Center for Biologics Evaluation and Research (CBER), and a significant number of devices that are designated as combination products require CBER to consult back to the Center for Devices and Radiological Health (CDRH). I further understand that devices that require reviews or consults by CBER are often subject to substantial delays. What can be done to reduce the delays encountered by devices that require a CBER review or consult?

*Answer.* It is difficult to compare review times for CDRH, and CBER because of the complexity of the devices reviewed in CBER. Approximately half of the 510(k)s submitted to CBER contain clinical data whereas approximately 8 percent of the CDRH 510(k)s include such data. In addition, in discussions with representatives of the device industry, the methods for calculations of our review times, backlog, and cycles last year were called into question. We are committed to work with industry to determine the methods of analysis to parallel their methods and to ensure that CBER's device review performance statistics are developed in the same manner as CDRH's. We have taken some positive steps to address this, but have not formalized those steps in standard operating procedures. It should be noted that the blood screening test kits are regulated as licensed biologics and these follow the timelines and managed review standards that we use for all licensed biologics. We meet these timelines.

Blood safety and availability are considered to be one of the highest priorities of FDA and the Department of Health and Human Services, DHHS. CBER's approach to regulation of blood encompasses related tests because of the interrelation of test-

ing and blood safety. Performance of these tests is part of product manufacturing. CBER's jurisdiction over in vitro diagnostic devices used to screen blood donors is intended to promote a consistent and efficient overall approach to blood regulation since testing is an integral part of blood safety. The quality and safety of the blood product cannot be determined independent of the performance characteristics of the tests and the characteristics of screening tests suitable for use in the blood bank setting may differ substantially from medical diagnostics in general. For example, donor-screening tests for AIDS and hepatitis must maintain sensitivity and specificity higher than in a diagnostic setting since in a donor setting, test errors cannot be mitigated by medical judgments. Also, blood-related screening tests must be designed for automation in handling, high throughput and non-subjective readouts compatible with the level of technician training that exists in blood establishments.

CBER employs the licensing authorities of the Public Health Service Act, the PHS Act, to approve recommended blood screening tests used to ensure blood safety. Licensing of blood donor screening tests antedates the Device Amendments of 1976. Application of the licensing provisions of the PHS Act provides FDA with the ability to ensure the safest possible blood products through requirements for manufacturing of the blood screening tests under stringent current good manufacturing practices, or CGMP's; controlled clinical studies to validate performance of the tests; and lot-by-lot release to assure potency of manufactured kit lots.

*Question.* The report titled Science at Work in CDRH: A Report on the Role of Science in the Regulatory Process expresses concern regarding whether CDRH has appropriate in-house expertise to assess the technologies that will come before the agency in the form of future, breakthrough medical device products. What options are being considered that will help the Center for Devices and Radiological Health (CDRH) access the necessary expertise to review these future breakthrough products?

*Answer.* CDRH agrees with the Science Board's recommendation that we need to enhance our ability to review the breakthrough technology devices. We will employ various strategies including leveraging the available expertise from other Centers within FDA, other agencies, panel members, and outside experts; utilizing outside expertise via contracts and consultants; and hiring additional personnel with specialized experience.

#### PRESCRIPTION DRUG USER FEE ACT (PDUFA)

*Question.* The user fee program for prescription drug review (PDUFA) must be reauthorized this year. What are the agency's primary concerns in negotiating the next phase of PDUFA?

*Answer.* We have three major concerns which are to assure the continuation of resources for the program in fiscal year 2003 and beyond without interruption; assure that the level of resources provided from fees must be substantially increased if the Agency is to be able to continue to meet the challenging goals agreed to in PDUFA II, and, to include the risk management of new drugs within the set of activities that are supported by user fees under PDUFA III. We believe that the proposal that the Administration has sent to Congress satisfies all of these concerns.

*Question.* Dr. Crawford, you indicate in your written statement that one of the problems with the second reauthorization of the Prescription Drug User Fee Act (PDUFA II) has been that FDA collected significantly less in fees than projected due to a reduced number of new drug applications and an increased number of submissions whose fees were waived. What is being done to correct this problem in the next reauthorization bill, i.e., to make sure that the resources are adequate for FDA to achieve the goals it commits to?

*Answer.* Two things have been included in the Administration's proposal to prevent the kind of resource variability we have experienced in PDUFA II. First, instead of setting the fees in statute, and having all of the revenue received vary up or down with application fee receipts for each year, the Administration's proposal sets revenue levels in the statute and gives FDA the ability to set fees each year to achieve these revenue levels. This will result in a much more predictable revenue stream from year to year. Second, a new workload adjuster has been incorporated into the Administration's proposal. This new workload adjuster is much broader than the one used in PDUFA II, and is more representative of FDA's total review workload. We believe that, if enacted, these two major improvements will provide much more stability and predictability in our revenues for the next 5 years.

*Question.* What would be the impact on FDA of not reauthorizing PDUFA by the beginning of fiscal year 2003? At what point this year must this reauthorization be signed into law to avoid preparations for a staffing reduction at the beginning of fiscal year 2003?

Answer. FDA currently has about 2,400 staff-years devoted to the drug review process, and half of the funds to support them come from Fees. FDA will have virtually no carryover PDUFA funds available to pay our employees when the fiscal year ends on September 30, 2002. To avoid the possibility of staff reductions, we want to ensure a continuation of the program and work closely with Congress to attain PDUFA reauthorization before the end of this fiscal year.

PATIENT SAFETY/MEDICAL ERRORS

*Question.* Dr. Crawford, in the written statement you have submitted, you indicate that FDA has awarded several contracts to enable FDA to access commercial data bases on the actual use of marketed prescription drugs in adults and children. Would you please explain how this will help FDA determine the public health significance of reports received through its Adverse Event Reporting System (AERS)?

Answer. Passive adverse event monitoring systems—like the current Adverse Event Report System or AERS and MedWatch system—suffer from problems of underreporting and the inability to determine the number of adverse events in the context of actual use of a drug. In other words, AERS reports provide the numerator in a ratio of number of adverse events per number of people exposed to the drug. To supplement passive surveillance, other systems must be used to provide the denominator for the ratio—that is, the number of people actually using the drug. Some of the other systems we have connected with, or are working to connect with, include managed care system databases—wherein, both the number of adverse events and the use are reported in the same system, third party payer claims data systems, and population-based pharmacoepidemiologic databases. By having information available for both the number of adverse events and the actual use of the drug, we can better evaluate the risk of a product.

In order to obtain actual use data in various forms, we have obtained access to several databases through cooperative agreements or contracts. We will provide a list for the record. All of these systems help us better understand the risks associated with drug products.

[The information follows:]

ADVERSE EVENT DATABASES

MS Health—this system provides data on the number of prescriptions dispensed for drugs

Harvard-Pilgrim/Health Partners—this cooperative agreement provides use data from three managed care/HMO systems

Kaiser Northern California—this system provides data from a managed care organization on drug use, adverse events, and some details of clinical care related to adverse events in a “closed” population

United Health Group—this system provides claims data from its multi-state membership

Tennessee Medicaid—this system provides claims data from a publicly funded medical care system

Johns Hopkins University and the Veterans Administration—these systems provide use and clinical care data from their HIV/AIDS populations

Child Health Corporation of America—this system provides use data specific to the pediatric population

Advance PCS—this system will provide use data from an outpatient population—including length of time on drugs and combinations of drugs prescribed

Premier, Inc.—this system will provide data similar to Advance PCS in a hospitalized population

United Kingdom’s General Practice Research Database—this is the world’s largest pharmacoepidemiologic database with the highest quality data based on 3 million participants over a 10 year period. This database is used for hypothesis testing when a signal is ascertained from AERS data.

*Question.* Dr. Crawford, your written statement also indicates that FDA has proposed a new prescription drug labeling rule to support its efforts to decrease medical errors. Would you please give us a brief summary of what this proposed new rule requires?

Answer. This rule would revise current regulations to require that the labeling of new and recently approved products include a section containing highlights of prescribing information and a section containing an index to prescribing information, reorder currently required information and make minor changes to its content, and establish minimum graphical requirements. These revisions would make it easier for health care practitioners to access, read, and use information in prescription drug labeling and would enhance the safe and effective use of prescription drug

products. This rule would also amend prescription drug labeling requirements for older drugs to require that certain types of statements currently appearing in labeling be removed if they are not sufficiently supported. Finally, the rule would eliminate certain unnecessary statements that are currently required to appear on prescription drug product labels and move other, less important information to labeling. These changes would simplify drug product labels and reduce the possibility of medication errors.

*Question.* Also, in your statement, you claim that half the deaths and injuries associated with the use of FDA-regulated products could be avoided by fully implementing FDA strategies to prevent medical errors. What strategies, specifically, are you referring to?

*Answer.* The causes of medical errors are numerous and are related to the various complex systems in which health care operates today. FDA's hope is that it could reduce the number of deaths by 50 percent for those errors associated with those causes over which FDA has some influence. We have identified four areas in which we could improve our functions and thereby improve medical product safety; risk identification; risk communications; regulatory tools; and, research and technological means.

The \$5 million requested in the budget does not represent a fully implemented plan, but only a part of that plan. A fully implemented system would help to ensure that products are safe throughout the entire life cycle by using surveillance systems to monitor the safety of products, their use, and their consumption, and would prevent unnecessary injury and death to the American public caused by adverse drug reactions, injuries, medication errors, and product problems. In order to achieve this goal, we are planning to use a stepwise, phased-in approach. I will provide for the record a list of how the \$5 million requested for fiscal year 2003 will help us.

[The information follows:]

#### FISCAL YEAR 2003 REQUEST

Continue improving the Adverse Event Reporting System (AERS) to include electronic data entry initiatives. This will encourage more reporting by making it easier for drug manufacturers to submit reports. The Agency will continue drafting regulations to support electronic submissions;

Further enhance Agency postmarket surveillance through implementation of International Conference on Harmonization (ICH) commitments in the U.S. In addition, the Agency will participate in ICH initiatives, including global analysis and evaluation of adverse event reports and assessment of a product's risk versus benefits profile;

Implement the third phase of the Medical Device Surveillance Network (MeDSuN) to include drug products. MeDSuN is a pilot program designed to train hospital personnel to accurately identify and report injuries and deaths associated with medical products;

Conduct additional risk management and risk communication research, including pilot initiatives to minimize preventable adverse drug reactions and medication errors;

Continue participation in DHHS' Patient Safety Task Force. The DHHS task force coordinates the collection and analysis of data from existing Federal systems; develops efforts to help avert risks to patient safety; and communicates with other entities regarding reporting systems and safe practices;

Continue developing an electronic drug registration and listing system that will enable FDA to obtain more accurate information on drugs currently marketed; and,

Enhance communications with the medical community on import drug issues.

*Question.* The fiscal year 2003 request proposes an increase of \$5 million to enhance FDA's existing efforts to identify risks associated with the use of medical products and reduce the occurrence of adverse events. What specific activities will be enhanced and/or undertaken with the increased funding proposed?

*Answer.* In fiscal year 2002, FDA received an increase of \$10 million to fund a portion of its systems approach to identifying and responding to adverse events reported in the U.S. An important aspect of this approach is the expansion of the MeDSuN system to additional hospitals and user facilities for the reporting of adverse event reports, as well as enhancing and linking other existing databases. Additionally, FDA is expanding associated medical errors education programs for consumer and health care professional, and increasing the number of analyses and reports evaluated.

The \$5 million requested in fiscal year 2003 will continue to build on collaborative efforts with other Federal and State governmental agencies, regulated industry, and the American public to ensure that the safest and most effective products possible

are made available in a timely manner; and, that critical product safety information is relayed quickly to the American public and health care professionals.

*Question.* Many new drugs are coming onto the market and are available to patients more quickly. It is FDA's task to balance the need to move products to market against an acceptable level of safety. How many products approved each year have to be removed from the market because of side effects? Has the percentage of products that need to be removed from the market increased?

*Answer.* The rate of withdrawal of new drugs for safety reasons has remained constant. Although recently the number of drugs withdrawn from the market due to safety has increased, the number of drugs approved for marketing has also increased. When analyzed by year of approval, the rate of new drug withdrawals for safety in the United States has been less than 2.8 percent for the last 3 decades.

The Agency continually monitors trends associated with withdrawals and routinely calculates the rate of withdrawals and publicizes the information. In 1999, senior officials at the Agency published an article in the May 12, 1999 volume of the *Journal of the American Medical Association* describing trends and withdrawals over the past years.

#### FOOD SAFETY

*Question.* In a Washington Post article on Friday, March 15, 2002, entitled "U.S. Vows Tougher Inspections of Imported Meat", Homeland Security Director Tom Ridge is quoted as saying "one of the questions we need to answer is—whether or not we need multiple agencies dealing with food safety responsibilities." How would you answer that question?

*Answer.* Today, almost everyone says that if you had to start out de novo with a new food safety system, you would have it in one Agency. We did start out de novo at one point and all of it was in the Department of Agriculture. Over time, for various reasons, many of those areas have been spun off. The FDA was spun off in the 1940s, ending up in what became the Department of Health Education and Welfare, now the Department of Health and Human Services. The Environmental Protection Agency didn't leave until the 1970s and then as a separate Agency entirely.

So in one sense, we have been there and done that. But in another sense, there is this tension and also these ambiguities in regulation that are occasioned by having food safety in so many different agencies. It was a problem to me when I was the administrator of the Food Safety Inspection Service in terms of communication. I have been around here long enough to know what the problem would be here, so I can say that based on experience.

When we thought seriously about seafood inspection—and there was a Congressional bill that passed the Senate and failed in the House some 12 years ago—the problem we ran into, quite frankly, was the overlapping legislative authorities that was this mass of laws that had been passed for good reasons. How to reconcile them, even just for seafood, so that we could consolidate all seafood inspection into one Agency was formidable indeed. I believe the record will show that there were nine Congressional hearings on the subject and there were nine subcommittees or committees that believed that seafood inspection was in their jurisdiction. I remember having to agree that it was theirs about nine times, and I think that is the issue.

With or without organizational changes, there is a need to modernize food safety laws, particularly to fill important gaps in FDA's regulatory tools. FDA lacks clear authority to inspect records of food establishments and manufacturers, and cannot order recalls, impose civil money penalties, or require registration of food establishments and listing of products. Changes in the Federal food safety laws would strengthen FDA's ability to provide a high level of public health protection from foodborne hazards and make existing programs even more efficient and effective.

Moreover, significant legislative changes would be needed for any food safety consolidation to be effective. This is because it is the law and not the organizations that require meat inspectors to inspect meat plants, poultry inspectors to inspect poultry plants, etc. The General Accounting Office recognized this need for legislative change in their most recent report.

*Question.* Is the work FDA conducts duplicative of any work done by USDA? If so, is this appropriate?

*Answer.* As with any division of duties, work done by FDA and USDA may address similar issues. However, USDA and FDA make efforts to communicate and collaborate to minimize duplication. Consequently, the overwhelming majority of work done by either Agency addresses only those issues or commodities specific to that Agency.

*Question.* Should Federal food safety inspection activities be streamlined so that we don't have multiple government agencies working on different aspects of food safety, but rather a cohesive unit working to ensure the safety of America's food supply?

*Answer.* The current food safety system is having real and measurable positive effects. Through a surveillance system called FoodNet, CDC has documented reductions in foodborne illness for a number of important food pathogens.

The current system would benefit from being updated by regulatory fixes and full funding of the President's Budget. Statutes are in need of being modernized and resource shortfalls need to be addressed. The statutes do not adequately recognize the need to assess risks associated with foods, to put into place controls to prevent food contamination, to allocate resources based on risk, and to measure results. In addition, GAO issued a report in February 2001 that identified the significant disparity between food safety resources and FDA's food safety responsibilities.

*Question.* Dr. Crawford, you mention in your prepared statement that we have in place newer surveillance systems such as Foodnet, Pulsenet, NARMS, and pilots for eLexNet which, in recent years, have strengthened the safety of the Federal food system. I am not very familiar with eLexNet. Could you please tell us more about that?

*Answer.* The electronic Laboratory Exchange Network—or eLEXNET—is the nation's first internet-based, inter-agency food testing reporting system. eLEXNET was developed by FDA to provide access to critical food testing data in Federal, State, and local food safety laboratories. The eLEXNET system was successfully piloted in 2000 with two Federal laboratories, four State laboratories, and two local government Agency laboratories. The eight laboratories that participated in the eLEXNET pilot were the FDA's Southeast Regional Laboratory, USDA's Food Safety and Inspection Service's Eastern Laboratory, Massachusetts Department of Public Health, New Hampshire Public Health Laboratories, Florida Department of Agriculture and Consumer Services, Tennessee Department of Agriculture, City of Milwaukee Health Department, and the City of Cincinnati Health Department.

While the initial pilot only included *Escherichia coli* O157:H7 data, the system was expanded in April 2001 and now includes data on four other pathogens: all salmonella species, *Listeria monocytogenes*, *Campylobacter jejuni*, and *E. coli*. FDA is currently working to expand further the system to include at least two laboratories from each State—a public health lab and an agriculture lab—to the project. As of April 2002, 36 laboratories in 24 States are participating in eLEXNET—this includes 7 FDA field laboratories and the Department of Defense's Army Veterinary Command or VETCOM. To enhance the current capabilities of eLEXNET, FDA in 2002 also plans to increase eLEXNET's breadth from selected microbiological pathogens to other agents that could endanger the food supply, such as chemical agents, mycotoxins, and radionuclides.

eLEXNET will facilitate data information sharing and communication and provide a means for increased collaboration among food safety experts. It will significantly improve our nation's ability to exchange seamlessly data, recognize problem products, and perform risk assessments.

*Question.* Please provide a comparison, by Center and activity, of FDA funding for food safety initiatives for each of fiscal years 1999 through 2002, and the funding requested for fiscal year 2003. Please include the definition of "food safety initiative" used in each fiscal year (1999–2003) and explain the reason for any changes to this definition.

*Answer.* The old Food Safety Initiative or FSI definition originally included only microbiological safety of foods and was used from the inception of FSI through fiscal year 2001. In fiscal year 2002, the definition was expanded to a new, broader definition that includes chemical safety of foods and pesticides. Also in fiscal year 2002, premarket, BSE, and counter terrorism were added to the food safety definition. We do not distinguish what portion of the counter terrorism supplemental is for microbiological pathogen work versus the new, expanded definition, which adds chemical safety work. The events of September 11, have changed the emphasis for the food safety field program as all food safety activities are now considered part of Counter Terrorism.

I would be happy to provide a chart with a 5 year history of FDA food safety resources by activity and another by program. We will also provide a more detailed chart with a comparison, by Center and activity, of FDA funding for food safety initiatives for each of fiscal years 1997 through 2002, and the funding requested for fiscal year 2003.

[The information follows:]



## FOOD SAFETY RESOURCES BY ACTIVITY

[In dollars]

Activity <sup>1</sup>	Food safety initiative definition			Expanded food safety definition	
	Fiscal year 1999	Fiscal year 2000	Fiscal year 2001	Fiscal year 2002	Fiscal year 2003
Microbiological Safety .....	55,000	68,100	84,534	91,490	91,490
Chemical/Pesticide Safety .....				79,030	79,030
BSE .....				22,082	22,082
Inspection Activities .....	103,300	119,100	132,140	134,737	134,737
Pre-market .....				44,098	44,098
Counter Terrorism .....				97,925	98,048
Pay Increases .....				13,842	23,442
Dietary Supplements, Nutrition, labeling .....					9,336
Center Subtotal .....	66,300	94,222	94,222	214,125	223,822
Field Subtotal .....	92,000	122,452	122,452	269,079	278,441
Total .....	158,300	216,674	216,674	483,204	502,263
Foods B Center .....	51,700	60,100	67,151	137,862	144,369
Foods B Field .....	92,000	108,400	122,452	241,745	250,560
Foods Program Subtotal (non-add) .....	(143,700)	(168,500)	(189,603)	(379,607)	(394,929)
Animal Drugs & Feeds B Center .....	5,400	9,100	15,398	54,297	56,260
Animal Drugs & Feeds B Field .....	0	0	10,330	27,334	27,881
Animal Drugs & Feeds Program Subtotal (non-add) ....	(5,400)	(9,100)	(25,728)	(81,631)	(84,141)
NCTR .....	500	1,000	3,000	4,596	4,688
Other Activities .....	8,700	8,700	8,673	13,807	14,424
Other Programs .....				3,562	4,080
Total .....	158,300	187,300	216,674	483,204	502,263

<sup>1</sup> Activity splits are estimates for fiscal 2002 and 2003.

CROSSWALK OF FDA FOOD SAFETY RESOURCES—FOOD SAFETY MICROBIOLOGICAL BASE

Food safety initiative categories	Fiscal year 1997 base	Fiscal year 1998 in-crease	Fiscal year 1999 base	Fiscal year 1999 in-crease	Fiscal year 2000 base	Fiscal year 2000 in-crease	Fiscal year 2001 base	Fiscal year 2001 in-crease	Fiscal year 2002 base
Surveillance .....	\$0.7	\$3.1	\$3.8	\$0.8	\$4.6	\$6.4	\$11.0	\$5.4	\$16.4
Foods/CFSAN .....	0.6	1.6	2.2	0.0	2.2	1.8	4.0	0.0	4.0
Foods/Field .....	0.0	0.0	0.0	0.1	0.1	3.2	3.3	0.0	3.3
Animal Drugs & Feeds/CVM .....	0.1	1.5	1.6	0.7	2.3	1.4	3.7	5.4	9.1
Animal Drugs & Feeds/Field .....	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NCTR .....	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Activities .....	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Coordination .....	7.2	0.5	7.7	0.2	7.9	0.0	7.9	0.0	7.9
Foods/CFSAN .....	3.6	0.5	4.1	0.2	4.3	0.0	4.3	0.0	4.3
Foods/Field .....	3.0	0.0	3.0	0.0	3.0	0.0	3.0	0.0	3.0
Animal Drugs & Feeds/CVM .....	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Animal Drugs & Feeds/Field .....	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NCTR .....	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Activities .....	0.6	0.0	0.6	0.0	0.6	0.0	0.6	0.0	0.6
Inspections .....	73.2	9.0	82.2	21.1	103.3	15.8	119.1	17.0	136.1
Foods/CFSAN .....	9.9	1.0	10.9	7.8	18.7	4.1	22.8	2.5	25.3
Foods/Field .....	57.5	8.0	65.5	13.3	78.8	11.7	90.5	14.5	105.0
Animal Drugs & Feeds/CVM .....	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Animal Drugs & Feeds/Field .....	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NCTR .....	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Activities .....	5.8	0.0	5.8	0.0	5.8	0.0	5.8	0.0	5.8
Education .....	4.8	1.8	6.6	0.5	7.1	1.5	8.7	0.0	8.7
Foods/CFSAN .....	2.4	1.8	4.2	0.1	4.3	0.5	4.8	0.0	4.8
Foods/Field .....	2.0	0.0	2.0	0.3	2.3	0.5	2.8	0.0	2.8
Animal Drugs & Feeds/CVM .....	0.0	0.0	0.0	0.1	0.1	0.5	0.7	0.0	0.65
Animal Drugs & Feeds/Field .....	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NCTR .....	0.4	0.0	0.4	0.0	0.4	0.0	0.4	0.0	0.4
Other Activities .....	23.4	9.6	33.0	2.4	35.4	5.2	40.6	7.6	48.2
Research & Risk Assessment .....	14.2	7.1	21.3	0.9	22.2	2.0	24.2	4.6	28.8
Foods/CFSAN .....	7.3	0.0	7.3	0.5	7.8	1.0	8.8	0.0	8.8
Foods/Field .....	0.0	2.5	2.5	0.5	3.0	1.7	4.7	1.0	5.7
Animal Drugs & Feeds/CVM .....	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Animal Drugs & Feeds/Field .....	0.0	0.0	0.0	0.5	0.5	0.5	1.0	2.0	3.0
NCTR .....	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Activities .....	1.9	0.0	1.9	0.0	1.9	0.0	1.9	0.0	1.9

Total FSI Program .....	109.3	24.0	133.3	25.0	158.3	28.9	187.3	30.0	217.2
Foods/CFSAN .....	30.7	12.0	42.7	9.0	51.7	8.4	60.1	7.1	67.2
Foods/Field .....	69.8	8.0	77.8	14.2	92.0	16.4	108.4	14.5	122.9
Animal Drugs & Feeds/CVM .....	0.1	4.0	4.1	1.3	5.4	3.6	9.1	6.4	15.4
Animal Drugs & Feeds/Field .....	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NCTR .....	0.0	0.0	0.0	0.5	0.5	0.5	1.0	2.0	3.0
Other Activities .....	8.7	0.0	8.7	0.0	8.7	0.0	8.7	0.0	8.7

CROSSWALK OF FDA FOOD SAFETY RESOURCES—EXPANDED FOOD SAFETY DEFINITION

Food safety action categories	Fiscal year 2001 food safety base	Fiscal year 2001 rescission	Adj. fiscal year 2002/FSAP base	Add chem safety base	Add pre-market base	Exp. definition fiscal year 2002/food safety base
Science Base .....	\$47,950	.....	\$47,950	\$21,599	.....	\$69.5
Foods/CFSAN .....	28,800	.....	28,800	16,800	.....	45,600
Foods/Field .....	8,800	.....	8,800	0,000	.....	8,800
Animal Drugs & Feeds/CVM .....	5,450	.....	5,450	4,134	.....	9,584
Animal Drugs & Feeds/Field .....	0,000	.....	0,000	0,000	.....	0,000
NCTR .....	3,000	.....	3,000	0,000	.....	3,000
Other Activities .....	1,900	.....	1,900	0,665	.....	2,565
Surveillance Systems .....	15,934	.....	15,934	2,202	.....	18,136
Foods/CFSAN .....	4,000	.....	4,000	0,500	.....	4,500
Foods/Field .....	3,300	.....	3,300	0,000	.....	3,300
Animal Drugs & Feeds/CVM .....	8,634	.....	8,634	1,702	.....	10,336
Animal Drugs & Feeds/Field .....	0,000	.....	0,000	0,000	.....	0,000
NCTR .....	0,000	.....	0,000	0,000	.....	0,000
Other Activities .....	0,000	.....	0,000	0,000	.....	0,000
Prevention Standards .....	12,000	.....	12,000	12,280	.....	66,877
Foods/CFSAN .....	11,700	.....	11,700	3,200	.....	43,832
Foods/Field .....	0,000	.....	0,000	0,000	.....	0,000
Animal Drugs & Feeds/CVM .....	0,300	.....	0,300	9,080	.....	23,045
Animal Drugs & Feeds/Field .....	0,000	.....	0,000	0,000	.....	0,000
NCTR .....	0,000	.....	0,000	0,000	.....	0,000
Other Activities .....	0,000	.....	0,000	0,000	.....	0,000
Education and Training .....	8.7	.....	8,650	1,876	.....	10,526
Foods/CFSAN .....	4,800	.....	4,800	0,500	.....	5,300
Foods/Field .....	2,800	.....	2,800	0,000	.....	2,800
Animal Drugs & Feeds/CVM .....	0,650	.....	0,650	1,376	.....	2,026
Animal Drugs & Feeds/Field .....	0,000	.....	0,000	0,000	.....	0,000

CROSSWALK OF FDA FOOD SAFETY RESOURCES—EXPANDED FOOD SAFETY DEFINITION—Continued

Food safety action categories	Fiscal year 2001 food safety base	Fiscal year 2001 rescission	Adj. fiscal year 2002/FSAP base	Add chem safety base	Add pre-market base	Exp. definition fiscal year 2002/food safety base
NCTR	0.000		0.000	0.000		0.000
Other Activities	0.400		0.400	0.000		0.400
Domestic Inspections	88.7	(\$0.526)	88.126	29.680		117.806
Foods/CFSAN	8.300	(0.049)	8.251	1.000		9.251
Foods/Field	75.500	(0.448)	75.052	15.400		90.452
Animal Drugs & Feeds/CVM	0.366	(0.002)	0.364	1.120		1.484
Animal Drugs & Feeds/Field	0.000	0.000	0.000	9.917		9.917
NCTR	0.000	0.000	0.000	0.000		0.000
Other Activities	4.486	(0.027)	4.459	2.243		6.702
Imports			44.014	8.949		52.963
Foods/CFSAN	9.600		9.600	2.700		12.300
Foods/Field	32.500		32.500	5.100		37.600
Animal Drugs & Feeds/CVM	0.000		0.000	0.000		0.000
Animal Drugs & Feeds/Field	0.000		0.000	0.412		0.412
NCTR	0.000		0.000	0.000		0.000
Other Activities	1.914		1.914	0.737		2.651
Total Food Safety Program:						
Foods/CFSAN	67.200	(0.049)	67.151	24.700	28.932	120.783
Foods/Field	122.900	(0.448)	122.452	20.500	0.000	142.952
Animal Drugs & Feeds/CVM	15.400	(0.002)	15.398	17.412	13.666	46.476
Animal Drugs & Feeds/Field	0.000	0.000	0.000	10.330	0.000	10.330
NCTR	3.000	0.000	3.000	0.000	0.000	3.000
Other Activities	8.700	(0.027)	8.673	3.645	0.000	12.318
Total	217.200	(0.526)	216.674	76.587	42.598	335.858

CROSSWALK OF FDA FOOD SAFETY RESOURCES

Food safety action plan categories	Adjusted fiscal year 2002 base	Fiscal year 2002 food safety	Fiscal year 2002 BSE	Fiscal year 2002 inspections	Fiscal year cost of living	Earmarks	Total fiscal year 2002 increases
Science Base	\$1.781	\$1.200	\$1.600		\$1.668		\$4.468
Foods/CFSAN	0.847	0.500	1.100		0.650		2.250

Foods/Field	0.000	8.800	0.000	0.000	0.000	0.401	0.401	0.000	0.401	0.000	0.000	0.000	0.401
Animal Drugs & Feeds/CVM	0.934	10.518	0.300	0.500	0.500	0.341	0.341	0.000	0.341	0.000	0.000	0.000	1.141
Animal Drugs & Feeds/Field	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
NCTR	0.000	3.000	0.400	0.000	0.000	0.196	0.196	0.000	0.196	0.000	0.000	0.000	0.596
Other Activities	0.000	2.565	0.000	0.000	0.000	0.079	0.079	0.000	0.079	0.000	0.000	0.000	0.079
Surveillance Systems	0.000	18.136	1.500	0.000	0.000	1.028	1.028	\$0.300	1.028	0.000	0.000	0.000	2.828
Foods/CFSAN	0.000	4.500	1.000	0.000	0.000	0.591	0.591	0.000	0.591	0.000	0.000	0.000	1.591
Foods/Field	0.000	3.300	0.000	0.000	0.000	0.148	0.148	0.000	0.148	0.000	0.000	0.000	0.148
Animal Drugs & Feeds/CVM	0.000	10.336	0.400	0.000	0.000	0.289	0.289	0.000	0.289	0.000	0.000	0.000	0.989
Animal Drugs & Feeds/Field	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
NCTR	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Other Activities	0.000	0.000	0.100	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.100
Prevention Standards	0.676	67.553	1.200	0.300	0.300	1.440	1.440	1.200	1.440	1.200	0.000	0.000	4.140
Foods/CFSAN	0.000	43.832	0.500	0.000	0.000	0.916	0.916	0.000	0.916	0.000	0.000	0.000	1.416
Foods/Field	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Animal Drugs & Feeds/CVM	0.000	23.045	0.700	0.000	0.000	0.525	0.525	1.200	0.525	0.000	0.000	0.000	2.425
Animal Drugs & Feeds/Field	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
NCTR	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Other Activities	0.676	0.676	0.000	0.300	0.300	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.300
Education and Training	0.000	10.526	0.100	0.520	0.520	1.142	1.142	0.000	1.142	0.000	0.000	0.000	1.762
Foods/CFSAN	0.000	5.300	0.000	0.000	0.000	0.916	0.916	0.000	0.916	0.000	0.000	0.000	0.916
Foods/Field	0.000	2.800	0.000	0.000	0.000	0.131	0.131	0.000	0.131	0.000	0.000	0.000	0.131
Animal Drugs & Feeds/CVM	0.000	2.026	0.100	0.520	0.520	0.079	0.079	0.000	0.079	0.000	0.000	0.000	0.699
Animal Drugs & Feeds/Field	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
NCTR	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Other Activities	0.000	0.400	0.000	0.000	0.000	0.017	0.017	0.000	0.017	0.000	0.000	0.000	0.017
Domestic Inspections	1.563	119.369	2.700	7.460	7.460	5.739	5.739	\$0.300	5.739	0.000	0.000	0.000	16.199
Foods/CFSAN	0.000	9.251	0.000	0.000	0.000	0.591	0.591	0.000	0.591	0.000	0.000	0.000	0.591
Foods/Field	0.000	90.452	2.700	0.000	0.000	4.230	4.230	0.000	4.230	0.000	0.000	0.000	6.930
Animal Drugs & Feeds/CVM	0.000	1.484	0.000	1.180	1.180	0.079	0.079	0.100	0.079	0.000	0.000	0.000	1.359
Animal Drugs & Feeds/Field	1.563	11.480	0.000	6.280	6.280	0.652	0.652	0.200	0.652	0.000	0.000	0.000	7.132
NCTR	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Other Activities	0.000	6.702	0.000	0.000	0.000	0.188	0.188	0.000	0.188	0.000	0.000	0.000	0.188
Imports	0.000	52.963	2.700	4.620	4.620	2.297	2.297	0.700	2.297	0.000	0.000	0.000	12.443
Foods/CFSAN	0.000	12.300	0.000	0.000	0.000	0.824	0.824	0.000	0.824	0.000	0.000	0.000	1.524
Foods/Field	0.000	37.600	2.700	0.000	0.000	1.597	1.597	0.700	1.597	0.000	0.000	0.000	6.182
Animal Drugs & Feeds/CVM	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Animal Drugs & Feeds/Field	0.412	0.412	0.000	4.620	4.620	0.038	0.038	0.000	0.038	0.000	0.000	0.000	4.658
NCTR	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Other Activities	0.000	2.651	0.000	0.000	0.000	0.079	0.079	0.000	0.079	0.000	0.000	0.000	0.079

CROSSWALK OF FDA FOOD SAFETY RESOURCES—Continued

Food safety action plan categories	Add BSE base	Adjusted fiscal year 2002 base	Fiscal year 2002 food safety	Fiscal year 2002 BSE	Fiscal year 2002 inspections	Fiscal year cost of living	Earmarks	Total fiscal year 2002 increases
<b>Total Food Safety Program</b>								
Foods/CFRAN	0.847	121.630	2,000	1,100	0.700	4,487	0.000	8,287
Foods/Field	0.000	142.952	5,400	0.000	1.597	6,795	0.000	13,792
Animal Drugs & Feeds/CVM	0.934	47,409	1,500	2,200	0.100	1,312	0.000	6,612
Animal Drugs & Feeds/Field	1.563	11,893	0.000	10,900	0.200	0,689	0.000	11,789
NCTR	0.000	3,000	0.400	0.000	0.000	0.196	0.000	0,596
Other Activities	0.676	12,994	0.100	0.300	0.000	0.363	0.000	0,763
<b>Total</b>	4.020	339,878	9,400	14,500	2,597	13,842	1,500	41,839
	3,062			0,500				
	7,082			15,000				

CROSSWALK OF FDA FOOD SAFETY RESOURCES

Food safety plan/action categories	Fiscal year 2003 changes							
	Fiscal year 2002 FS base	Counter terrorism base	Fiscal year 2002 CT Suppl.I	Starting fiscal year 2003 FS base	Add D/S nutrition base	Fiscal year 2003 CT increase	Fiscal year 2003 pay increase	Fiscal year 2003 ending FS base
<b>Science Base</b>	\$75,798		\$1,050	\$76,848	\$1,842	-\$0,825	\$1,131	\$78,996
Foods/CFRAN	48,697		0.000	48,697	1,051	0.000	0.473	50,221
Foods/Field	9,201		0.000	9,201	0.000	0.000	0.316	9,517
Animal Drugs & Feeds/CVM	11,659		0.000	11,659	0.000	0.000	0.265	11,925
Animal Drugs & Feeds/Field	0.000		0.000	0.000	0.000	0.000	0.000	0.000
NCTR	3,596		1,000	4,596	0.791	-0,775	0.076	4,688
Other Activities	2,644		0.050	2,694	0.000	-0,050	0.000	2,644
<b>Surveillance Systems</b>	20,964		10,500	31,464	1,350		0.693	33,507
Foods/CFRAN	6,091		0.000	6,091	1,100		0.395	7,586
Foods/Field	3,448		10,500	13,948	0.000		0.079	14,027
Animal Drugs & Feeds/CVM	11,325		0.000	11,325	0.000		0.219	11,544
Animal Drugs & Feeds/Field	0.000		0.000	0.000	0.000		0.000	0.000
NCTR	0.000		0.000	0.000	0.000		0.000	0.000
Other Activities	0.100		0.000	0.100	0.250		0.000	0,350

Prevention Standards	71,694			71,694	1,013			1,038	73,745
Foods/CFSAN	45,248			45,248	1,013			0,632	46,893
Foods/Field	0,000			0,000	0,000			0,000	0,000
Animal Drugs & Feeds/CVM	25,470			25,470	0,000			0,406	25,876
Animal Drugs & Feeds/Field	0,000			0,000	0,000			0,000	0,000
NCTR	0,000			0,000	0,000			0,000	0,000
Other Activities	0,976			0,976	0,000			0,000	0,976
Education and Training	12,288			12,288				0,773	13,061
Foods/CFSAN	6,216			6,216				0,632	6,848
Foods/Field	2,931			2,931				0,079	3,010
Animal Drugs & Feeds/CVM	2,725			2,725				0,062	2,787
Animal Drugs & Feeds/Field	0,000			0,000				0,000	0,000
NCTR	0,000			0,000				0,000	0,000
Other Activities	0,417			0,417				0,000	0,417
Domestic Inspections	135,568	\$0.825	28,967	165,360	3,881			3,972	173,213
Foods/CFSAN	9,841	0.296	2,525	12,662	0,131			0,395	13,188
Foods/Field	97,382	0.101	24,552	122,035	3,400			2,999	128,434
Animal Drugs & Feeds/CVM	2,843	0.276	0,000	3,119	0,000			0,062	3,181
Animal Drugs & Feeds/Field	18,612	0.152	1,890	20,654	0,000			0,516	21,170
NCTR	0,000	0,000	0,000	0,000	0,000			0,000	0,000
Other Activities	6,890	0,000	0,000	6,890	0,350			0,000	7,240
Imports	65,406		56,584	121,989	0,731	0.948		1,993	125,662
Foods/CFSAN	13,824		5,126	18,950	0,131	0,000		0,553	19,634
Foods/Field	43,782		49,848	93,630	0,600	0,000		1,342	95,572
Animal Drugs & Feeds/CVM	0,000		0,000	0,000	0,000	0,000		0,000	0,000
Animal Drugs & Feeds/Field	5,070		1,610	6,680	0,000	0,000		0,031	6,711
NCTR	0,000		0,000	0,000	0,000	0,000		0,000	0,000
Other Activities	2,730		0,000	2,730	0,000	0,000		0,067	2,797
Total Food Safety Program	129,916	0.296	7,650	137,862	3,427	0,000		3,080	144,369
Foods/CFSAN	156,744	0.101	84,900	241,745	4,000	0,000		4,815	250,560
Foods/Field	54,021	0.276	0,000	54,297	0,000	0,948		1,015	56,260
Animal Drugs & Feeds/CVM	23,682	0.152	3,500	27,334	0,000	0,000		0,547	27,881
Animal Drugs & Feeds/Field	3,596	0,000	1,000	4,596	0,791	0,775		0,076	4,688
NCTR	13,757	0,000	0,050	13,807	0,600	-0,050		0,067	14,424
Other Activities									
Total	381,717	0.825	97,100	479,642	8,818	0,123		9,600	498,183
Non Food Safety BSE & Dietary Supplements			0,518			4,080			
Total w/ Non FS BSE, D/S	385,279			483,204	9,336				502,263

## GENERIC DRUGS

*Question.* The budget requests an increase of \$4.6 million to improve the generic drug review programs and to allow FDA to act upon 75 percent of fileable original generic drug applications within 6 months. How does this compare to the current review time?

*Answer.* FDA is requesting an increase of \$4.6 million in fiscal year 2003 for the generic drugs program. Our goal is to review 75 percent of generic drug applications within the statutory timeframe by the end of fiscal year 2003. FDA has been successful in achieving our fiscal year 2001 goal of reviewing 50 percent of generic drug applications within 180 days and anticipates achieving the fiscal year 2002 goal of reviewing 65 percent within 180 days.

*Question.* Increased funding has been provided to the Office of Generic Drugs over the past few fiscal years. How have the increased resources been utilized to speed-up the generic drug review process?

*Answer.* The fiscal year 2001 increase was used to annualize the positions added in fiscal year 2000 and add several additional FTE. The Office of Generic Drugs, OGD, continues to refine the review process to increase efficiency. With these funds the Agency is exploring ways to increase resources devoted to information technology for the review of generic drug applications. The fiscal year 2002 increase of \$2.5 million was used by the Office of Generic Drugs to increase the efficiency of the review process and decrease the total time to approval of generic drugs. This increase has allowed us to decrease the average approval time by 2 months even with an increase in the number of actual approvals. The increase will also be used to conduct research that will allow us to address specific scientific questions regarding bioequivalence and chemistry of generic products. This research will be directed at evaluating ways to enable approval of generic drugs in areas that currently lack generic alternatives such as, inhalational or topical drug products.

*Question.* Provide a comparison of the funding for the Office of Generic Drugs for each of the past five fiscal years, including that proposed for fiscal year 2003.

*Answer.* I would be happy to provide that information for the record.

[The information follows:]

## OFFICE OF GENERIC DRUGS RESOURCES

Fiscal year	FTE on board <sup>1</sup>	Ceiling <sup>2</sup>	Millions <sup>3</sup>
1995 .....	137	144	12.8
1996 .....	121	125	10.3
1997 .....	121	127	10.3
1998 .....	123	132	10.0
1999 (base) .....	130	119	11.2
1999 (actual with increase) .....	130	129	12.5
2000 (base) .....	134	129	13.6
2000 (actual with increase) .....	134	139	14.8
2001 (base) .....	141	132	13.3
2001 (actual with increase) .....	141	143	14.0
2002 (projected) .....	.....	157	16.8
2003 (projected) .....	.....	187	20.4

<sup>1</sup> On Board figure for fiscal year 2001 is as of 9/30/01; for fiscal year 2002, as of 2/6/02.

<sup>2</sup> Ceiling includes increases of 10 FTE for fiscal year 2000, 11 FTE for fiscal year 2001, and 14 FTE for fiscal year 2002.

<sup>3</sup> Funding level for fiscal year 2001 consists of actual total payroll and operating costs for OGD. Funding level for fiscal year 2002 based on projected payroll and operating costs for OGD as of 2/6/02; projected OGD payroll costs are based on an estimated average of \$93,000 per FTE for fiscal year 2002. Funding level for fiscal year 2003 based on projected payroll and operating costs for OGD as of 2/6/02; projected OGD payroll costs are based on an estimated average of \$96,000 per FTE for fiscal year 2003; projected OGD costs include generic drugs program increase of \$3.346M requested in fiscal year 2003 President's Budget.

## ANTIBIOTIC RESISTANCE

*Question.* FDA has been analyzing the effects of antibiotic use in food-producing animals through the National Antimicrobial Resistance Monitoring System (NARMS), specifically looking at antimicrobial resistance. What agency decisions or priorities have been affected by use of the NARMS data?

*Answer.* The NARMS data were used in the development of the *Campylobacter* risk assessment. Based partly on the results of the *Campylobacter* risk assessment, FDA proposed to withdraw approval of the new animal drug application for use of the fluoroquinolone antimicrobial drug enrofloxacin in poultry. The basis for this proposal is the information indicating that the use of fluoroquinolone in poultry has led to an increase in the level of human fluoroquinolone resistance.



Since its inception, NARMS data have been used to identify public health threats and initiate response. Federal agencies undertake joint field investigations of outbreaks of illness marked by pathogens that display unusual antimicrobial resistance patterns. All the participating agencies have used the data to improve knowledge of risk factors associated with the development of resistance and to stimulate research in the molecular characteristics of resistance emergence and transfer. The program has also triggered broader research projects relating to prudent antimicrobial use in animals and the role of the environment in the emergence and spread of antimicrobial resistance.

#### MANAGEMENT/EFFICIENCY SAVINGS

*Question.* The fiscal year 2003 budget request indicates that FDA will achieve \$7.3 million in savings from the proposed consolidation of staff associated with its public affairs and legislative functions at the Department level.

What percent of FDA's current (fiscal year 2002) legislative and affairs functions does this \$7.3 million in proposed savings represent?

*Answer.* The proposed transfer represents all of FDA's staff in the Office of Legislative Affairs and the Office of Public Affairs. These two Offices combined have an estimated staffing level for fiscal year 2002 of 82 FTE. FDA estimates that two of these FTE can be saved through administrative streamlining, and the remaining 80 FTE are proposed to be transferred in fiscal year 2003 to the Department level for these functions.

*Question.* How many legislative and public affairs full-time equivalent positions does FDA currently have (i.e., fiscal year 2002 FTE level)? How many of these positions would be transferred to the Department of Health and Human Services?

*Answer.* There are currently in fiscal year 2002 staffing levels of 48 FTE in the Office of Public Affairs and 34 FTE in the Office of Legislation. Therefore, these two Offices combined have an estimated staffing level for fiscal year 2002 of 82 FTE. FDA estimates that two of these FTE can be saved through administrative streamlining, and the remaining 80 FTE are proposed to be transferred in fiscal year 2003 to the Department level for these functions.

*Question.* Will the transfer of FDA's legislative and public affairs functions to the Department adequately serve FDA as a Federal regulatory agency? How?

*Answer.* This proposal is part of an HHS initiative aimed at greater efficiency in the operation of our Department. A key objective of the President's Management Agenda is a more responsive, more "citizen-centered" Federal government. In few Federal agencies is the need for organizational reform more acute than at HHS, where a long history of decentralized decision-making has produced a Department with 13 operating divisions, functioning with relative autonomy. As a result, a complex web of ever-proliferating offices has distanced HHS, from the citizens it serves and has produced a patchwork of uncoordinated and duplicative management practices that hinder its efforts to accomplish efficiently. The Administration supports and is committed to solving this problem through Secretary Thompson's "One Department" initiative, which will eliminate unnecessary layers of bureaucracy and consolidate duplicative functions into unified offices. Streamlining efforts in 2003 will focus on HHS' human resources, public affairs, legislative affairs, and building and facilities management functions.

*Question.* Specifically how was the savings included in the budget request calculated?

*Answer.* The amount of \$7.3 million for the proposed transfer of these functions was based on the payroll and other operating costs for the 80 FTE to be transferred to DHHS. Most of the cost is the cost of salaries and benefits for the staff involved. Also included in the proposed transfer are \$345,000 for the applicable portion of central services under the Other Activities program, and \$320,000 for GSA Rent for these staffs.

*Question.* The fiscal year 2003 budget also proposes to save \$2.6 million in efficiency savings through the elimination of 25 administrative/management positions. Which positions will be eliminated and how was this savings calculated?

*Answer.* As part of the President's Management Agenda, FDA is reviewing its organizational structure and administrative processes to seek increased efficiencies and reduce organizational layers of management. The estimate of 25 FTE to be saved in fiscal year 2003 is not based on specific positions, but on a projection that this many FTE can be saved through the efforts under way to streamline the Agency. The estimate of \$2.6 million is based on the payroll and other operating costs for the 25 FTE to be reduced, and includes small reductions in all of the program lines that include FTE in FDA's budget request. These reductions will be accomplished through attrition or by assigning staff to other duties. The Agency estimates

that two of these FTE will be saved in the legislative and public affairs functions before they are transferred to DHHS as proposed in the fiscal year 2003 request.

#### BOTANICAL DIETARY SUPPLEMENTS

*Question.* What kinds of scientific studies should be performed on dietary supplement products that are on the shelf in order to assess their quality?

*Answer.* The quality of marketed products can be assessed by analysis of product composition to determine that the claimed ingredients are present in claimed amounts and that the product is within tolerable limits for contaminants such as pesticides and heavy metals. The scientific studies that are needed to provide the tools necessary to do these assessments include the chemical and genetic characterization of authenticated botanical and other ingredient sources, the development and validation of analytical methods for identifying and quantifying the key biologically active components and contaminants in ingredient sources, and the development of validated and standardized reference materials to provide a basis for analytical laboratories to confirm the accuracy and reliability of the analyses done in their own laboratories. Studies are also needed to identify factors that affect the stability of ingredients through processing and shelf-life.

*Question.* What scientific information is needed to help the FDA determine if the dietary supplements on the market are safe?

*Answer.* Ingredients need to be characterized to identify the components with biological activity, and the conditions of use under which these components are effective and safe. An assessment of the biological effects of combinations of product components and ingredients is also needed. Also needed are evaluations of the potential for lifestyle and other factors that may affect the safety of marketed products, including the possibility of adverse interactions with drugs being used by consumers. The investigations of biological activity and safe conditions of use by consumers rely on laboratory that is in vitro evaluation of biomarkers of biological activity, animal and human studies.

*Question.* Has a study been done to assess the overall safety of dietary supplements that are being sold in the U.S.?

*Answer.* The safety of dietary supplements being sold in the U.S. is generally assessed on an ingredient- and product-specific basis. To date, a limited number of such studies have been done. On a more global basis, FDA has several activities underway to monitor the overall safety of marketed dietary supplements. Through its MEDWATCH program, FDA routinely monitors and evaluates reports of adverse events associated with the use of dietary supplement products. FDA has contracted with the Institute of Medicine of the National Academy of Sciences to develop a framework and model monographs for evaluating dietary supplement ingredient safety issues. FDA has also recently instituted a Dietary Supplement Subcommittee under the Agency's Food Advisory Committee to advise the Agency on dietary supplement scientific issues, including issues relating to the safety of dietary supplement products.

*Question.* How will the public be served better by conducting these scientific studies?

*Answer.* Results from scientific studies on dietary supplement ingredients and products can be used to provide greater understanding of the biological effects of these products, the conditions of use associated with both effectiveness and safety concerns, and the development of more sophisticated tools to ensure that marketed products contain what they claim to contain, do not contain contaminants at unsafe levels, and have adequate scientific substantiation for label information and claims. Thus scientific studies will enhance our ability to define and monitor the safety of products under their intended conditions of use, to evaluate the truthfulness of label information, and to identify conditions of use that are contraindicated and for which label warnings are needed.

*Question.* How would the FDA use the additional funds that you have requested to improve the quality of dietary supplements?

*Answer.* I would be happy to answer that for the record.  
[The information follows:]

#### CAERS

Fiscal year 2002 funds are being used for the design, development, implementation, and maintenance of the CFSAN Adverse Event Reporting System (CAERS). The FDA intends to use fiscal year 2002 funds for:

- Scanning and redaction of adverse event reports,
- Data entry of adverse event reports,
- Alert letters to manufacturers,

- Design and development of the CAERS database,
- Migration of legacy adverse event data into CAERS,
- An electronic link to the FDA Office of Regulatory Affairs Field Accomplishment Compliance Tracking System (FACTS), and,
- CFSAN thesaurus development.

CAERS is currently undergoing user acceptance testing, training, and some technological improvements.

In September 2001, FDA implemented a cooperative agreement with the National Center for Natural Products Research (NCNPR). This agreement between FDA and NCNPR created a partnership that allows for more efficient use of resources to identify and analyze specific components in botanical dietary ingredients, thereby enhancing overall public health by ensuring that dietary supplements are safe and their labeling is not misleading.

The NCNPR cooperative agreement for fiscal year 2001 was awarded on September 28, 2001. Since the total Project Period is five (5) years, the additional 4 years of funding up to \$1 million per year will depend upon acceptable performance and the availability of future fiscal year funding. In accordance with the procedures for supplementing cooperative agreements, FDA must announce its intent, through a Request for Application (RFA), to increase funding up to an additional \$1 million to the NCNPR cooperative agreement in the Federal Register. Once announced, NCNPR must submit a grant application to demonstrate how it will meet the objectives of the RFA. The application will go through a dual review process and FDA anticipates completing this process and awarding the money to NCNPR in September 2002.

To date, the awarded monies (from fiscal year 2001) have been used to collect a number of authenticated botanical species for chemical profiling and characterization. The species include ephedrine alkaloid-containing species (e.g., ephedra, ma huang), aristolochic acid-containing botanicals, comfrey, germander, and blue and black cohosh. The NCNPR scientists are collaborating with FDA scientists to ensure usefulness for evaluating potential safety issues and to coordinate related FDA and NCNPR research activities. In this regard, FDA and NCNPR scientists have jointly presented results of their scientific collaborations at a professional meeting and are currently preparing co-authored scientific manuscripts for publication in peer-reviewed journals. The NCNPR is also completing plans for a scientific workshop on authenticating botanical ingredients for use in dietary supplements. The workshop will be held in August 2002 and will provide a basis for scientists from academia, government and industry to discuss the scientific issues involved in the authentication of botanical ingredients. The issues discussed in this workshop will have broad relevance for research, manufacturing and regulatory applications.

#### LOS ANGELES LABORATORY

*Question.* Funding to complete the new Los Angeles laboratory was provided in the fiscal year 2002 Appropriations Act. Please provide a progress report on this project.

*Answer.* Phase II completes the mechanical and electrical infrastructure and completely fits-out both the laboratory and the office at an estimated cost of \$23.0 million. The total estimated construction cost of the project is \$43.0 million.

The contract for Phase II construction was awarded on November 29, 2001. The Los Angeles Laboratory project is on schedule with a completion date of June 8, 2003, and the scheduled move-in is to begin in August, 2003. As of March, 2002, the total project is approximately 45 percent complete.

Currently, operating and maintenance costs at the present location are estimated at \$779,000 for fiscal year 2002. When the Los Angeles Laboratory project is completed and fully operational, we expect the operating and maintenance costs to increase.

#### ARKANSAS REGIONAL LABORATORY

*Question.* No additional funding is included in the fiscal year request for the continued renovation of the Arkansas Regional Laboratory. Please provide us with an update on this project. What additional funds are needed to complete all phases of this project? Could construction funds be used in fiscal year 2003 to continue work on this project? How much would be needed?

*Answer.* The first two phases of construction for Building 50 completed exterior demolition, structural work, roofing repair, installation of an elevator and installation of a new exterior brick facade. The interior architectural fit-out of the space has not been completed nor has the installation of mechanical and electrical infrastructure. Once funds have been appropriated, the remaining phases will be com-

pleted within one year. The estimated buy-out cost in fiscal year 2003 for completing Phase III of ARL is \$4.2 million. This amount was not included in the fiscal year 2003 request as higher Counter Terrorism priorities took precedence.

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QUESTION SUBMITTED BY SENATOR ARLEN SPECTER

FOOD LABELING

*Question.* I understand that FDA has been sent a letter from the Center for Science in the Public Interest urging enforcement action regarding deceptive labeling of a product being marketed as a line of "Quorn" foods, containing a mycoprotein ingredient. This ingredient is identified as "mushroom in origin." Additionally, you may have received a letter from two professors in the Department of Plant Pathology at the Pennsylvania State University concerning the misrepresentation of this labeling and the need for further testing of the product's safety.

Pennsylvania produces over 50 percent of all the commercially cultivated mushrooms in the United States. Consumers recognize this commodity in the produce section of the grocery store, as ingredients in prepared foods, or in restaurants as mushrooms. It is my understanding that these "Quorn" products do not, in fact, contain mushrooms.

What is the current status of this issue before your Agency? I would like to be made aware of any response you have regarding this topic.

*Answer.* FDA is currently evaluating the appropriateness of the use of the statement "mushroom in origin" in the labeling of Quorn food products containing a mycoprotein ingredient and whether this statement is false or misleading under section 403 of the Federal Food, Drug, and Cosmetic Act (21 U.S.C. 343). If we determine that the labeling of these products is false or misleading, we will take appropriate enforcement action as warranted.

CONCLUSION OF HEARINGS

Senator KOHL. We thank you, Dr. Crawford, gentlemen, for your testimony today. If there are no other questions or comments, this hearing stands recessed.

[Whereupon, at 2:46 p.m., Wednesday, March 20, 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 2003

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

## NONDEPARTMENTAL WITNESSES

[The following testimonies were received by the Subcommittee on Agriculture, Rural Development, and Related Agencies for inclusion in the record. The submitted materials relate to the fiscal year 2003 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 Title I of Public Law 480 at a baseline program level that will ensure the continued viability of the program as a long-term food aid and market development initiative for American agriculture.

This statement is submitted at a time when the future of American food assistance programs is uncertain. The administration has proposed sharp reductions in total food aid for fiscal year 2003 and beyond, as well as a major restructuring of the Food for Progress program, which complements the assistance provided under both Title I and Title II of Public Law 480. The authorizing committees are in conference on the 2002 Farm Bill, and both Houses of Congress have passed versions of the bill which would make significant changes in the statutory framework that governs the delivery of food aid to scores of countries throughout the world with at-risk populations. Notwithstanding this uncertainty, the Congress through the appropriations process must ensure that the guiding principles of U.S. food assistance policy are respected in the fiscal year 2003 budget cycle and beyond.

### GUIDING PRINCIPLES OF FOOD AID POLICY

Mr. Chairman, the coalition respectfully suggests that American food assistance policy is well-established and founded on certain guiding principles, including the following:

- Meeting America's humanitarian obligation to sustain food assistance programs, participation in which currently represent more than 50 percent of all food aid worldwide.
- Employing food assistance programs to promote long-term market development for American agriculture on commercial terms.
- Employing food assistance programs to promote respect worldwide for American values and our economic system, thereby enhancing goodwill toward America among disadvantaged populations that are the breeding grounds for terrorism.

<sup>1</sup>The ad hoc coalition is composed of the National Council of Farmer Cooperatives, U.S.A. Rice Federation, National Association of Wheat Growers, U.S. Wheat Associates, Wheat Export Trade Education Committee, American Soybean Association, U.S. Canola Association, National Sunflower Association, American Maritime Congress, Maritime Institute for Research and Industrial Development, Transportation Institute, Sealift, Inc., TECO Transport Corporation, and Liberty Maritime Corporation.

## CURRENT FOOD AID PROGRAM LEVELS

Mr. Chairman, these principles of American food assistance policy have been supported strongly in recent years which is why America is the world leader in humanitarian assistance and food aid. In fiscal year 2000, programmed U.S. food aid reached 95 countries, and involved donations or concessional sales of 35 different commodities. The fiscal year 2000 program consisted of more than 6.7 million metric tons of grain equivalent, valued at more than \$1.4 billion. In fiscal year 2001, the final data, as reported on February 28, 2002 by the Foreign Agricultural Service, show that the United States shipped 6.36 million metric tons to 45 countries; consisting of 26 different commodities valued at more than \$1.28 billion. The administration's USDA budget summary for fiscal year 2003 reports that the commodity value of shipments for the current fiscal year (2002) will be reduced in the section 416(b) donation program account alone by approximately \$274 million, resulting in the loss of more than 1.3 million metric tons of food aid shipments, as compared to the previous year's program levels.

## THE ADMINISTRATION'S BUDGET FOR FISCAL YEAR 2003

Mr. Chairman, the administration proposes a further reduction in total food aid programming for fiscal year 2003. Food for Progress shipments supported by CCC funds would be eliminated; section 416(b) programming would be virtually phased out, with a drop in program levels from \$650 million in fiscal year 2002 to an estimated \$57 million in fiscal year 2003.

Overall, the administration's budget for fiscal year 2003 proposes food aid programming of approximately 3.9 million metric tons of grain equivalent. This consists of 3.7 million tons under the combined Food for Progress and Public Law 480 programs and approximately 200,000 metric tons under the 416(b) donation program. The administration's proposal, in other words, calls for a one-year reduction in total food aid tonnage of 27 percent, with a 42 percent reduction of such shipments in just 3 years.

## RESTORATION OF FOOD AID PROGRAMMING

Mr. Chairman, the coalition urges that food aid programming be restored to sustainable levels in the range of 5.0 million to 7.0 million metric tons of grain equivalent in each fiscal year, beginning in fiscal year 2003.

The administration proposes to increase baseline funding for the Title II program of Food for Peace from \$850 million in fiscal year 2002 to \$1,185 million in fiscal year 2003. The coalition commends the administration for this initiative, which represents an increase in appropriated funding of nearly 40 percent over baseline. This request reflects the importance of the Title II program, and should be strongly supported by the subcommittee.

The coalition, however, recommends that Congress, in restoring food assistance programming, recognize the significance and importance of the Title I program, which has been a pillar of American foreign policy for nearly half a century.

## ADVANTAGES OF THE TITLE I PROGRAM

Mr. Chairman, the Title I program offers countries long-term loans and concessional payment terms for the purchase of U.S. agricultural commodities. As such, Title I has advantages over other food aid programs.

—*Resource Efficient.*—Because Title I is a concessional loan program, appropriations required to support Title I, under the terms of the Federal Credit Reform Act of 1990, cover only the subsidy cost, and not the full commodity value. In the President's budget for fiscal year 2003, the subsidy cost of the Title I program is established for the fiscal year at 75.11 percent. Thus, under the Title I program, Congress ships \$1.00 worth of U.S. agricultural products at an appropriated cost of just over 75 cents. Moreover, the Title I program currently recovers more dollars for the U.S. Treasury in loan repayments than it costs in annual outlays.

—*GATT-Legal.*—The Title I program promotes market development while remaining fully sanctioned by international trade organizations. The high degree of concessionality of the Title I program has resulted in its classification as a donation program for GATT purposes.

—*Commercial Sales Stepping Stone.*—The Title I program is designed to operate in markets which are neither poor enough to warrant donations nor rich enough to purchase commodities on commercial terms. Over the decades, numerous countries have graduated from Title I partners to commercial markets for a broad range of U.S. agricultural products. In fact, 43 of the top 50 consumer

nations of American agricultural products were once recipients of U.S. foreign aid in some form. Tomorrow's commercial commodity markets are today's Title I partners.

#### CONCLUSIONS AND RECOMMENDATIONS

Mr. Chairman, the coalition is committed to maintaining U.S. food assistance programs at responsible levels designed to meet world food needs and promote the interests of American agriculture. Our recommendation is to maintain annual shipments of food assistance at program levels between 5.0 million and 7.0 million metric tons of grain equivalent. This can be accomplished, as in the past, with a blend of programs supported by direct appropriations and by CCC funding.

The administration proposes an appropriation for Title I which would support a loan authorization level of \$132 million at the 75.11 percent subsidy rate. This is well below the appropriated level for fiscal year 2002, which supported new loans amounting to \$154.7 million in commodity value. Because the administration proposes to fund all Food for Progress shipments from the Title I appropriated account, the effect of this policy choice would be to eliminate more than \$100 million in Food for Progress shipments made annually in recent years with CCC funding.

The coalition recommends the following:

- Title I program levels should be increased in fiscal year 2003, and increased responsibly in each succeeding year so that the unique advantages of the program, highlighted above, are not lost.
- Congress—through the fiscal year 2003 Agriculture Appropriations Act—should direct the administration to establish a program level for Food for Progress at not less than \$100 million using CCC funding (absent a Presidential declaration that such amounts of food assistance are not required to protect American interests).
- Congress should ensure that the Global Food for Education Program is codified, and that the Program is supported with adequate funding, either through CCC funding or direct appropriations, or a combination of both.

Mr. Chairman, American farmers require strong commercial markets to maintain their share of the world trade in commodities. These markets are developed and often revitalized by Title I concessional sales. This program, which has been a bulwark of American food aid policy since the days of the Marshall Plan, deserves the strong support of your subcommittee, the Congress and the entire nation.

The Title I program delivers more food assistance per dollar of investment than any other program. For this reason, Congress should reaffirm the principles which underlie Title I and provide increased funding for the program. Moreover, the Title I program is fully consistent with the administration's recently announced position that aid to developing countries be tied to their adoption of reforms and policies that make development lasting and effective.

Together with other food aid programs, supported both with direct appropriations and CCC donations, the Title I program of Food for Peace will continue to promote American commercial and humanitarian interests and advance the cause of peace in the world thus ensuring America's continued leadership in humanitarian assistance and food aid and the prosperity of America's farmers.

Thank you, Mr. Chairman.

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#### PREPARED STATEMENT OF THE ALACHUA COUNTY BOARD OF COUNTY COMMISSIONERS

Mr. Chairman: Thank you for allowing the Alachua County Board of County Commissioners to submit this written testimony before your Subcommittee regarding two significant projects. They are the Partners for a Productive Community Enhancement Initiative, and the Critical Services to Underserved Areas Initiative.

#### PARTNERS FOR A PRODUCTIVE COMMUNITY ENHANCEMENT INITIATIVE (\$2.3 MILLION IN FUNDING REQUESTED)

In response to a spiraling crime rate in southwest Alachua County, the Alachua County Sheriffs Office requested help from the Board of County Commissioners in 1993. Specifically, the Sheriff reported that 57 percent of its 911 calls came from an area that had only 3.2 percent of the County's population.

The County Commission responded by providing \$38,000 in funding for a Program Manager to staff the Partners for a Productive Community (PPC) Program in fiscal year 1994. The PPC was launched as a strategic planning effort with three goals: the establishment of neighborhood-based services, the development of public/private partnerships and a focus on crime prevention. This Program has enjoyed great suc-

cess due to the coordinated efforts of the Sheriffs Office, the Courts and the Alachua County Department of Community Support Services. Furthermore, since the inception of this Program, the County has budgeted over \$1.6 million to support the Program through the Community Support Services Department and Sheriff's Office. Additionally, over \$2.4 million has been leverage from other county departments, local social service providers and the Sheriff's Office through a local law enforcement grant.

The goal of the Sheriff's Office was to reduce the number of calls from the area, and to develop a relationship of trust with the area's residents. The goal of the Courts was to help with the swift prosecution of cases, and to increase personnel in key areas. Finally, the goal of the County's Department of Community Support Services was to develop and implement a neighborhood needs assessment, and to determine the social service needs in accordance with the results of the assessment. The Community Support Services Department was also responsible for developing public/private community partnerships, and community based organizations comprised of tenants, property owners and managers. Thus, this project represents a multi-agency strategy to stabilize, revitalize and sustain five specific neighborhoods of Alachua County. In addition to improving the area's basic infrastructure, Federal funding is also being requested to provide community recreational programs for the area's youth. These activities will provide positive alternatives to crime, and allow youth to participate first hand in community improvement programs. In doing so, these programs will build and encourage positive self-esteem, leadership skills and academic achievement. To complement these programs, additional improvements will be made in the community Safe Havens. Finally, the requested funding will also allow the PPC to expand this successful demonstration program into other at risk Alachua County communities such as Archer, Florida. Specifically, the PPC will develop a partnership strategy to address the unmet needs of health care, education, training, employment, youth recreation and transportation for the residents of Archer.

This request for Federal funding is justified by the tremendous improvements and accomplishments that have been made in these neighborhoods since 1995. These achievements include: free community day care for 75 children, 30 community day care slots, 24 in-home day care slots, the creation of 30 new jobs by the Early Progress Center, the reduction in 911 calls from 57 percent to 14 percent of total calls in the area, and substantial increases in the property values for four of the five neighborhoods.

Furthermore, the implementation of seasonal recreation programs in the targeted communities by the Y.M.C.A. has been instrumental in providing positive, character building activities for children, teenagers and adults. Day camps are provided during the summer months, and back-yard sports are provided at the end of the school day during the school year. In addition, two 4-H Clubs serving 60 neighborhood children were established along with after school and community teen programs. Adult literacy and GED classes were made available at a nearby school campus. Finally, other programs have been established for the purpose of creating a sustainable neighborhood. These programs include quarterly informational forums concerning small business development, educational opportunities, self-help seminars, budget management and landlord/tenant issues.

With respect to community-wide improvement programs, a total of nine neighborhood cleanups were completed this year. With the active involvement of the residents of the neighborhoods, the Alachua County Office of Codes Enforcement has been able to reduce from twenty to two the number of abandoned and vandalized buildings. Furthermore, a new Waste Collection Ordinance which was supported by the PPC permits the efficient and timely citation of violators.

The sustaining factor within this Program is the formally organized Partners for a Productive Community Council. The Council is the guiding force that deals with issues and determines unmet needs. For example, a block captain organization was started this year with the assistance of the PPC Council, and the Alachua County Sheriff's Office. This group monitors and manages crime prevention programs block by block.

In recognition of the numerous accomplishments described above, the PPC received the National Association of Counties' Achievement Award in 1996 for distinguished and innovative contributions to improving county government. Additionally, the League of Women Voters presented the County with a similar award for outstanding community service.

Furthermore, in December 1999 Alachua County received Official Recognition from the Executive Office of Weed and Seed for two of the neighborhoods being served by the Partners for a Productive Community Program. Pursuant to this recognition, these communities have been awarded a \$175,000 Weed and Seed Grant



for prevention and intervention strategies focusing on Cedar Ridge and Linton Oaks neighborhoods. This grant will further strengthen the long-term efforts to improve the quality of life in these neighborhoods.

As noted above, the Federal funding requested will also be used to expand the successful Partners Initiative into the rural community of Archer, which is located in the southwestern portion of Alachua County. Archer and the rural areas surrounding it have a population of 6,348, of which 16 percent fall below the poverty level. While the City of Archer has one elementary school, emerge fire and police services are contracted from Gainesville/Alachua County. There are also two public housing communities, and a small obsolete community center which is used as a congregate meal site for senior citizens. Consequently, many of Archer's residents travel to Gainesville for employment, social services, recreational activities, adult and continuing education and health care.

Recently, the University of Florida, School of Nursing received \$200,000 from the Florida Legislature to provide primary health care through a clinic based in Archer. Presently, this clinic is on the State Department of Health's list to be eliminated due to the limited area that it serves. Should this occur, there will be a need for additional funds to meet the health care needs in this area. Thus, a portion of the Federal funding in this request could be channeled through the Alachua County Health Department in our continuing effort to develop partnerships, maximize resources and expand services to the citizens of Alachua County through our rural service initiative.

Employment opportunities, recreation for teens and outreach social services continue to be a challenge for the community of Archer. According to the Alachua County Sheriff's Office, Archer's crime rate is disproportionately high for a community its size. In 2000, the Alachua County Sheriff's Office received 2,657 calls for service. Of the dispatched calls, 30 were assaults and batteries, and 5 were for sexual battery. The largest number of dispatched calls (869) concerned burglary and theft.

In conclusion, Alachua County is requesting \$2.3 million in Federal funding to continue its highly successful and award winning neighborhood revitalization programs; and to expand these successful model programs to other neighborhoods, including the City of Archer, Florida.

#### CRITICAL SERVICES TO UNDERSERVED AREAS (\$1.81 MILLION IN FUNDING REQUESTED)

Without a safe and reliable source of public utilities, the residents who live in the southeastern portion of the City of Gainesville and Alachua County must rely upon the use of obsolete private water systems, septic tanks and propane gas for their utility services. In addition to the health and safety concerns, this lack of a public utility infrastructure serves as a deterrent to the area's economic revitalization.

While several subdivisions in the target area are in immediate need of a public utility infrastructure, it is the County's intent to approach this model program by focusing on the Kincaid Road subdivision as Phase I of the Initiative. This subdivision currently has over 150 homes on septic tanks, with many of them also using propane gas for heating. Historically, there are numerous health risks associated with malfunctioning septic tanks, including the possible contamination of ground water which could lead to the development of diseases within the area.

Gainesville Regional Utilities (GRU) indicates that the infrastructure needed to provide wastewater service to this area includes: the wastewater collection system lift stations; grinder pumps and on-site plumbing to connect to a new gravity sewer system. GRU estimates that the construction and extension of a central wastewater system to the Kincaid Road subdivision will cost approximately \$1,585,000, while the extension of the natural gas lines is estimated at about \$225,000. Thus, the total cost of Phase I of this model program is \$1.81 million. Finally, it's important to note that GRU is currently planning wastewater facilities to serve the Kincaid Road subdivision, and may perform additional engineering work as in-kind services. The additional engineering work is estimated to cost approximately \$121,000.

While Alachua County is requesting assistance from the Federal Government in funding this portion of the model program for the area's revitalization, the County has already begun numerous other programs and projects that have had an positive, significant impact on the area's redevelopment. For example, in July of 1996, the County began a series of neighborhood meetings in Greentree Village, which is a subdivision of about 60 households in the target area. Residents were encouraged to express their concerns about the area's problems and establish priorities. As a result of these meetings, the County assisted Greentree Village in the establishment of a crime watch program and the creation of a backyard recreation program through the Y.M.C.A.

Several new public buildings and facilities have also been located within the target area to encourage its redevelopment. During 1998/99, Alachua County expended about \$5.5 million to purchase and renovate the Eastgate Shopping Center for the Alachua County Sheriffs Office. This new facility is 56,200 square feet in area, and it serves as the base of operations for the County's 239 sworn deputies, and 260 non-sworn administrative and support personnel. Completing this law enforcement complex is the new Alachua County Communications and Emergency Operations Center which recently opened adjacent to the new Sheriffs Office. This facility cost about \$5.3 million and operates as a joint center for both Alachua County and the City of Gainesville.

Finally, with a contribution of approximately \$430,000 from Alachua County, the City of Gainesville has completed a new Technology Enterprise Center (TEC) within the target area. This \$3.0 million business incubator consists of a new, two-story 30,000 square foot facility located in the City of Gainesville Enterprise Zone. Over 60 percent of the construction funds for the TEC were provided by a grant from the U.S. Economic Development Administration. The purpose of business incubators is to promote the growth and development of new enterprises by providing flexible space at affordable rates, a variety of support services, access to management, technical and financial assistance, and opportunities to interact with other entrepreneurs and business experts. Even though this facility has just recently opened, about 13,000 square feet of the TEC has already been leased to a leading technology accelerator company specializing in speeding pioneering technology entrepreneurs to the market. It is expected that when fully operating, the TEC will foster the creation of higher wage jobs, the expansion of the tax base and the augmentation of new business development within the target area.

In conclusion, Alachua County is undertaking the redevelopment of an existing urbanized area, which includes the modernization of its utility infrastructure. These improvements will build upon numerous previous programs and projects that have already had a positive impact upon the area. Phase I of this model program includes the extension of a central wastewater system to the Kincaid Road subdivision, as well as the extension of natural gas lines. The support of this Phase of the project through Federal funding will serve as an impetus for the continued revitalization of these residential areas.

#### CONCLUDING COMMENTS FOR WRITTEN TESTIMONY

The two initiatives described above represent well-conceived programs that address the social, physical and economic needs of the citizens of Alachua County. Furthermore, they demonstrate the County's continuing commitment to programs that emphasize a balance between environmental protection, economic development and social equity for all of the residents of the County. Therefore, we hope that the Subcommittee will find these two critically important projects worthy of your support. Thank you for your consideration.

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#### PREPARED STATEMENT OF THE ALLIANCE FOR CONTINUING NUTRITION MONITORING

Mr. Chairman and other members of the Subcommittee, thank you for allowing the Alliance for Continuing Nutrition Monitoring the opportunity to submit this testimony to this Subcommittee. The alliance consists of 12 groups representing farmers, health professionals, physicians, scientists, food technologists, educators, and food manufacturers. The alliance is a diverse constituency of approximately 15 million individuals, and is united in its support of human nutrition monitoring. The true tally of supporters could include the entire population because everyone gains from the valuable contributions of human nutrition research, as we illustrate in our testimony. I am Nancy Chapman, a public health nutritionist, member, and volunteer of several of the groups represented here today. I have used the health and dietary information from the Federal surveys and the findings of Federal nutrition research throughout my professional career as an evaluator, educator, policy analyst, and communicator.

Chairman Kohl, you and your committee members have long been champions of agriculture and human health and recognize that the advances in these areas depend in large measure on high quality research, conducted in both public and private institutions. Because of your on-going support of USDA's role in food security and WIC, as well as your concerns about prudent fiscal spending, the Alliance asks for your support of data collection essential to policy making in all of these areas. The Alliance wants to describe to you and your esteemed colleagues the numerous uses that policy-makers, public health professionals, food companies, commodity groups, food technologists, and scientists have made of dietary data. Health and die-

tary information gathered from the USDA/DHHS survey is critical to the nation and plays a key role in shaping a variety of policies and programs including food safety, food labeling, child nutrition programs, food assistance, and dietary guidance. Human nutrition monitoring helps:

- Establish a benchmark of what Americans usually eat that is essential to identifying sub-populations that might be at risk of intentional or unintentional contaminants (i.e. food additives, food-borne illnesses, or pesticides)
- Develop a targeted WIC package that meets the needs of a growing diverse constituency
- Determine the Thrifty Food Plan that forms the basis for food stamp benefits
- Identify specific groups at-risk of malnutrition and diet-related diseases such as obesity, heart disease, cancer, and diabetes to implement effective public health programs targeting the most nutritionally vulnerable individuals
- Analyze non-typical foods, phytochemicals and other health promoting components in our food supply that enhances the world-renowned USDA food composition database
- Create and enhance nutrition education and marketing campaigns, such as the National 5-A-Day for Better Health Program
- Formulate nutrition labeling policies and monitoring food fortification programs, such as the effectiveness of folate fortification to reduce the incidence of neural tube defects (NTD)

#### *Return on Investment*

Conservatively, the approximate \$7 million investment in USDA nutrition monitoring guides over \$40 billion in food assistance expenditures. The Federal investment in USDA dietary survey activities has also guided the well-known nutrition labeling program and the USDA/DHHS Dietary Guidelines for Americans. Research also guides the nutrition education programs in schools, preschools, hospitals, and elderly feeding programs as well as such public campaigns as, Five-A-Day for Better Health. These and other nutrition education programs have the potential for reducing some of the \$200 billion annual costs for treatment and care of diseases linked strongly to nutrition, such as cardiovascular diseases, high blood pressure, diabetes, cancer, obesity, and osteoporosis. Virtually all major chronic and degenerative diseases are linked to nutrition. This will become increasingly important as our country's population ages.

#### *Request for Congressional Support*

To ensure that the USDA/ARS nutrition monitoring activities for fiscal year 2003 continue and include 2 days of dietary recall on 5,000 individuals, interviews for diet and health knowledge, food program information, continued updating of food composition data, and prompt coding and processing information, Congress should appropriate \$7 million or an increase of \$4 million above the fiscal year 2002 budget.

#### JUSTIFICATION FOR REQUEST

Under an agreement between the Department of Health and Human Services Centers for Disease Control and Prevention (CDC), National Center for Health Statistics (NCHS), and the United States Department of Agriculture Agricultural Research Service (ARS/USDA), the ARS and NCHS agreed to collaborate on a program of national nutritional monitoring. This agreement establishes a cooperative diet and nutrition monitoring program integrating the previously conducted Continuing Survey of Food Intakes by Individuals (CSFII) and the National Health and Nutrition Examination Survey (NHANES) in 2002.

The Department of Agriculture, through its Agricultural Research Service, has conducted the CSFII, which was designed to assess food consumption and related behavior in the U.S. population using personal interviews. The CSFII was conducted periodically with the most recent survey being conducted in 1998. The Department of Health and Human Services, through its National Center for Health Statistics (part of the Centers for Disease Control and Prevention), conducts the NHANES, which was designed to assess the health and nutritional status of the U.S. population using personal interviews and direct physical examination. NHANES, previously periodic, began continuous operation in 1999.

The backdrop for integrating the CSFII and NHANES is the National Nutrition Monitoring and Related Research Act (NNMRRRA) of 1990, which set goals and mechanisms to bring about greater coordination of nutrition monitoring activities across agencies. More recently, leadership of DHHS and USDA has identified more comprehensive integration of these two surveys as a major priority.

## NUTRITION MONITORING BEGINNING JANUARY 2002

Data are being collected from a nationally representative sample of 5,000 persons each year as part of the NHANES. The contents of the nutrition component of the survey will include initially two 24-hour recalls (first in person, second by telephone), a dietary supplement interview, body measures, and nutritional biochemistries. In 2003, the USDA dietary survey activities will require approximately \$7 million in fiscal year 2003, a \$4 million increase over the 2002 budget, to collect, code, and process promptly 2 days of dietary recalls of 5,000 individuals, collect information on food program participation and diet and health knowledge, and update continuously the food composition data with information and comprehensive nutrition monitoring system. Without adequate funding to carry out these basic USDA nutrition monitoring activities, several critical uses of dietary and food composition data are at risk:

*Food Assistance*

To focus Federal food programs where they are most needed.

- Food consumption data underpin the Thrifty Food Plan (TFP) on which the food stamp benefit levels are based.
- Survey data are used by programs such as the Supplemental Food Assistance Program for Women, Infants, and Children (WIC) in determining what nutrients and foods should be targeted in the WIC food package for recipients; data are also used to determine the size of the potential WIC population.

*Dietary Guidance and Nutrition Education*

To devise strategies to lower the risk of malnutrition as well as chronic diseases such as heart disease, cancer, diabetes, and osteoporosis.

- The nutrition monitoring system provides information that assesses changes in food consumption patterns of populations that may be of relevance to health.
- USDA's Food and Nutrition Services use the Diet and Health Knowledge Survey to develop nutrition education programs.
- USDA/DHHS Dietary Guidelines Advisory Committee uses dietary data in evaluating the Dietary Guidelines for Americans.
- USDA uses the dietary data to develop and evaluate the Food Guide Pyramid.
- NCI and Produce for Better Health Foundation use food consumption data to track progress toward the "5 servings of fruits and vegetables-a-day" goal.

*Biosecurity*

To obtain reliable estimates of the prevalence of eating certain foods which may be the vehicles for intentional or unintentional bioterrorist attacks.

- USDA could identify segments of populations at risk if specific foods are found to be contaminated and obtain enough information to craft useful educational messages for consumers if such an attack occurs.

*Public and Private Health Programs*

To assess the nutritional data on the quality of diets and the effects of health outcomes for the population and reduce health care costs due to lower incidence of chronic diseases.

- The FDA uses the nutrition monitoring system to formulate food fortification policies, define public health needs, determine target and non-target populations for fortification, track how fortification affects the population, and determine how consumers use dietary supplements.
- The NIH, CDC, public health agencies, and voluntary health organizations use the nutritional status data to identify populations at risk of obesity, heart disease, cancer, and other diet-related diseases.

*Food Safety Regulations*

To provide data for estimation of possible intake of incidental contaminants, pesticides, and naturally occurring toxic substances as part of regulating the use of certain substances.

- With passage of the Food Quality Protection Act, EPA relies on USDA's dietary consumption data as a critical component in its risk assessments and pesticide decisions. EPA incorporates USDA data on dietary consumption, pesticide residues found on food and in water, and actual pesticide use on crops to measure exposure to pesticides when registering or reassessing a pesticide product. If anything, EPA needs more USDA dietary intake data, not less, in order to enhance good science in FQPA implementation. A reduction in available dietary intake data will hinder EPA's ability to make FQPA decisions.

—The Codex Alimentarius, an international policy making organization, utilizes the food consumption data for policy decisions regarding food additives, pesticides, food labeling, and other critical issues.

*Food Product Development and Marketing*

To generate a more nutritious food supply by identifying health-promoting properties of plants and animal foods in a balanced diet and to identify public health problems that can be impacted through nutrient fortification, macronutrient modification, and interventions to prevent obesity.

—Farmers have bred livestock and plants to improve nutritional composition and appeal to health-conscious consumers. Monitoring data are essential in assessing these new foods.

—U.S. food industry currently uses the nutrition monitoring system data to reformulate products, and create new ingredients and products. Monitoring data are used when a new additive or processing method is introduced.

An additional \$4 million of funding will be needed to better estimate nutritional risk, exposure to environmental contaminants, and dietary exposure to pesticides and other substances based on usual food intake. This supplement in the budget is critical in light of EPA's review of pest control substances under the Food Quality and Protection Act.

*Food Composition data must reflect the current food supply*

USDA has progressed in revising and maintaining food composition tables to analyze the food consumption data from the combined NHANES and CSFII, however, much more is necessary to make the nutrient database more efficient and effective. With the rapid advancements in technology to lower fat, sodium, and calories in foods and added nutrient fortification, estimates of food and nutrient intakes would be rendered inaccurate if food composition databases are not kept current. Also, as science identifies health-promoting food components, USDA needs to identify and quantify these substances (i.e., phytochemicals) in a large array of foods. Forming partnerships with the food industry and commodity groups would permit updating databases, using information developed for nutrition labeling or similar purposes.

*Role of private sector in advancing human nutrition research and monitoring*

Alliance members have supported basic nutrition research and clinical trials, conducted food and nutrition research, surveyed consumers about dietary and health behaviors, and assessed food consumption patterns for selected groups. We all agree that the Federal Government must maintain the primary responsibility for gathering comprehensive data on all population groups and building the foundation of fundamental nutrition monitoring research.

*Conclusion*

Senators, you face difficult decisions about how to set priorities for agriculture research dollars. The practical public and private uses of the data from nutrition research and monitoring efforts at USDA, outlined in our testimony, are clear evidence that USDA nutrition monitoring activities warrant your continued support. The Alliance wants you to view nutrition research as a safeguard on Federal expenditures. For every \$1 spent on USDA nutrition monitoring research, we assure that \$5,000 of Federal funds allocated for USDA food assistance programs are spent wisely. Factoring in the various ways the USDA nutrition monitoring research data are applied, this multiplier would be astronomical.

We thank you for giving the alliance a voice to explain the significant benefits of nutritional research to agriculture and the public well-being.

*Group supporters*

American Dietetic Association, American Heart Association, American Institute for Cancer Research, American Public Health Association, Consumer Federation of America, CropLife America, Grocery Manufacturers of America, Institute of Food Technologists, National Food Processors Association, National Association of WIC Directors, and Produce for Better Health Foundation.

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PREPARED STATEMENT OF THE AMERICAN FARM BUREAU FEDERATION

The American Farm Bureau Federation has identified four USDA program areas for which priority fiscal year 2003 funding is essential. They are:

- programs key to the proper implementation of the Food Quality Protection Act (FQPA);
- programs to expand foreign markets for agriculture;

—programs to ensure the development and use of biotechnology products; and  
 —programs to guarantee proper implementation of CAFO regulations.  
 These priorities are highlighted in the first portion of this statement. The second portion contains a list of additional programs supported by Farm Bureau.

PROGRAMS KEY TO THE PROPER IMPLEMENTATION OF THE FOOD QUALITY PROTECTION ACT (FQPA)

USDA has a critical role in achieving satisfactory implementation of the Food Quality Protection Act (FQPA). Over the next 5 years (by the FQPA deadline of 2006), USDA must work with EPA, agricultural producers, food processors and registrants to ensure that agricultural data and interests are fully considered in the tolerance reassessment and pesticide re-registration process. During that time, between 5,000 and 6,000 separate food and feed tolerances must be reassessed for nearly 400 different active ingredients. That process will affect nearly 600 specialty crops, all major row crops and animal production. USDA must have the resources to provide crucial economic benefits and use information to the EPA to participate fully and effectively in the tolerance reassessment process.

The following offices and programs are critical to proper implementation of FQPA and must be funded at increased levels:

*Office of Pest Management Policy (OPMP).*—Primary responsibility for coordination of USDA's FQPA obligations and interaction with EPA. Major funding increases are necessary to review the tolerance reassessments, particularly dietary and worker exposure information; to identify critical use, benefit and alternatives information; and, to work with grower organizations to develop strategic pest management plans.

*Agriculture Research Service (ARS).*—Integrated Pest Management (IPM) research, minor use tolerance research (IR-4) and research on alternatives to methyl bromide. The Office of Pest Management Policy should also be funded at increased levels with funding being designated under the Secretary of Agriculture's office, rather than ARS.

*Cooperative State Research, Education and Extension Service (CSREES).*—IPM research grant, IPM application work, pest management alternatives program, expert IPM decision support system, minor crop pest management project (IR-4), crops at risk from FQPA implementation, FQPA risk avoidance and mitigation program for major food crop systems, methyl bromide transition program, regional crop information and policy centers, Pesticide Impact Assessment Program (PIAP) and the pesticide applicator training program.

*Economic Research Service (ERS).*—IPM research, pesticide use analysis program and the National Agriculture Pesticide Impact Assessment Program (NAPIAP).

*Additional funding for FQPA implementation activities is needed in the following programs.*—National Agriculture Statistics Service (NASS) pesticide use surveys, Food Safety Inspection Service (FSIS) increased residue sampling and analysis, Agriculture Marketing Service (AMS) and the Pesticide Data Program (PDP).

PROGRAMS TO EXPAND FOREIGN MARKETS FOR U.S. AGRICULTURE

Creating new overseas markets and expanding those that we have is essential for a healthy agricultural economy. Continued funding of export development programs is fundamental to improving farm income in the short and long term. We recommend maximum funding of all export development programs consistent with our commitments under the World Trade Organization trade rules.

*Foreign Agricultural Service (FAS).*—AFBF supports an overall increase in funding for the Foreign Agricultural Service's International Programs and Activities. While AFBF supports proposed budget increases in export credit and export subsidy programs and maintenance of market development program areas, it is nonetheless disappointed that funding for foreign food assistance programs, particularly the Food for Progress and Section 416(b) programs have been reduced by more than \$260 million. One consequence of this reduction is proposed to be the Global Food for Education (GFE) program. AFBF strongly supports the GFE as a means to eliminate hunger and foster educational improvement in developing countries. Funding for the GFE program should be restored to at least its fiscal year 2002 level.

*Public Law 480.*—We support increased funding for Public Law 480 programs, the primary means by which the United States provides foreign food assistance. The Public Law 480 programs provide humanitarian and public relations benefits, positively impact market prices and help develop long term commercial export markets. AFBF is opposed to the transfer of all Public Law 480 Title II funding and program responsibility to USAID. USDA is better positioned to administer the program and its funding in close cooperation with the agricultural community.

*GSM Credits.*—AFBF supports the full funding of the GSM credit guarantee programs. These important export credit guarantee programs can help make commercial financing available for imports of U.S. food and agricultural products on deferred payment terms.

*Market Access Program (MAP) and Foreign Market Development Program (FMD).*—Congress should fully fund the MAP and FMD programs. These programs need the expertise of a fully supported Foreign Agricultural Service that is expanded to cover all existing and potential market posts.

*Export Enhancement Program (EEP).*—The 1996 FAIR Act authorizes direct export subsidies of U.S. agricultural products through the EEP program through fiscal year 2002 to counter the unfair trading practices of foreign countries. AFBF supports the full funding and use of this program in all countries, and for all commodities, where the U.S. faces unfair competition.

*Dairy Export Programs.*—Farm Bureau supports full funding and use of the Dairy Export Incentive Program to allow U.S. dairy producers to compete with foreign nations that subsidize their commodity exports.

*Sanitary and Phytosanitary Management.*—To address the need for additional inspections created by increased volumes of imports and exports, Farm Bureau supports increased funding for USDA's Animal and Plant Health Inspection Service (APHIS).

#### PROGRAMS TO ENSURE THE DEVELOPMENT AND USE OF BIOTECHNOLOGY PRODUCTS

USDA must take the lead in biotechnology coordination efforts. It is essential that the Department act in a timely manner to evaluate and move approved products and technologies to the marketplace. USDA should develop a positive national strategy for biotechnology research, development and consumer education.

APHIS plays an important role in overseeing the permit process for products of biotechnology. Funding and personnel are essential for ensuring public confidence in biotechnology.

*Grain Inspection, Packers and Stockyards Administration (GIPSA).*—Farm Bureau supports sufficient funding for the establishment and maintenance of a GIPSA biotechnology test certification laboratory. The creation of such a laboratory is a key element to the acceptance of biotechnology. The ability to accurately test and identify products of biotechnology for identity preserved and segregation purposes are essential.

*Codex Alimentarius Commission.*—Farm Bureau supports adequate funding for the U.S. CODEX office so that it can adequately represent American interests in this important body which develops the international food safety standards used as guidance by the World Trade Organization. Increasingly, biotechnology is the focus of CODEX discussions where an ongoing international effort is being led by the European Union to place limits on our ability to export products of biotechnology by incorporating the precautionary principle into the CODEX general principles or biotechnology labeling discussions.

*Agriculture Research Service (ARS).*—Farm Bureau supports sufficient funding for plant-breeding research programs because they are important for maintaining a broad-based research and assuring advancement of the technology.

#### PROPER IMPLEMENTATION OF CAFO RULES

The proposed Concentrated Animal Feeding Operation (CAFO) regulation would impose billions of dollars in costs on agriculture across the country. This attempt at regulatory expansion over agriculture is not necessary to achieve improvement to nonpoint source water quality. Voluntary, incentive-based programs have proven effective by directly assisting farmers to obtain results while maintaining the farm business.

*Environmental Quality Incentives Program (EQIP).*—EQIP is an important program for assisting producers in dealing with increased water quality regulation. We support a substantial increase in EQIP funding over the previous years.

*Conservation Technical Assistance (Natural Resources Conservation Service).*—Conservation program delivery and technical assistance must be a priority for NRCS funding. Emphasis should be placed on traditional technical assistance and the development of reliable resource data for assisting producers dealing with nutrient management.

#### OTHER ISSUES: RESEARCH

For over a century the food and agricultural research, extension and education system has propelled U.S. agriculture into world preeminence. It is imperative that the system supports, builds and maintains facilities and a critical mass of well-

trained scientists in the public sector to ensure that the U.S. remains the leader in global agricultural production. Farm Bureau recommends a doubling in agriculture research funding over the next 5 years.

*Emerging Diseases and Exotic Pests Research.*—Disease has a direct impact on food safety and is fundamental to international trade. Funding is urgently needed to develop rapid diagnostics, vaccines and products necessary to protect U.S. plants and animals from disease outbreaks that occur naturally as well as those that could be intentionally introduced. Farm Bureau supports full funding for ARS emerging diseases and exotic pests research, including ways to prevent the importation of exotic species in the ballast tanks of cargo ships.

*Animal Pest Research.*—Farm Bureau believes the control of plant and animal pests is an important factor in reducing farm costs. Farm Bureau supports research funding for TSE (Transmissible Spongiform Encephalopathies)—especially scrapie, Johne's, PRRS (porcine reproductive and respiratory syndrome), anthrax, cryptosporidiosis, FMD (foot-and-mouth disease), VS (vesicular stomatitis), BSE (bovine spongiform encephalopathy), pseudorabies, hog cholera, salmonella, blue tongue in livestock, E.coli, fire ants, and ways to immunize wildlife against rabies.

*Plant Pest Research.*—Farm Bureau recommends continued research and implementation of detection, exclusion, control and eradication measures for plant pests including research for:

- prevention of aflatoxins and the use of aflatoxin-affected commodities;
- lessening the impact of gypsy moth and the southern pine bark beetle;
- methods to halt the spread of the Asian Longhorned Beetle, a deadly threat to maple trees;
- an effective control of fire ants and ways to provide safer, effective and practical treatments of multiyear certification of field and container-grown nursery stock;
- ways to manage domestic European honeybees in the area where Africanized honeybees exist;
- reducing the threat of the root-lesion nematode, *Pratylenchus neglectus*; and,
- smut and bunt diseases of cereals, including karnal bunt. Farm Bureau supports funding for the Pest Detection Initiative.

*Food Quality and Safety Research.*—Farm Bureau supports funding for research to ensure the safety of food. Specifically we support funding for research:

- to ensure the safety of food additives;
- on the irradiation (cold pasteurization) of food;
- on inspection methods to eliminate the risk from pathogens;
- food safety technology advances; and,
- voluntary food safety guidelines to help prevent microbial contamination of fresh produce.

*Aquaculture Research.*—Farm Bureau supports full funding for the regional aquaculture centers and supports federally funded U.S. aquaculture research priorities that are developed with industry input and direction.

*Binational Agricultural Research and Development Fund.*—Farm Bureau supports increased funding for BARD and other similar programs that maximize cooperative research efforts.

*Genome Research.*—Access to diverse genetic resource materials is crucial for the development of new plant varieties that are more resistant to insect infestation and disease and more tolerant to other adverse environmental conditions. Genomic research is also important to improving the economical traits of importance in livestock and poultry that affect animal health and reproductive efficiency. Farm Bureau supports additional money for plant, animal and microbial genome research at USDA.

*Natural Resources Research.*—Farm Bureau supports funding to study carbon credits and carbon sequestration. We favor continued research on reuse of water; conversion of saline waters; air and water pollution; water and soil conservation; recharging of groundwater basins; drainage; forestry management and utilization; restoration of strip-mined areas; weather forecasting and modification; treatment of domestic, industrial and animal waste; coal desulfurization; causes of pfiesteria and other natural resource problems. We support aggressive research to address the inadequate scientific information concerning phosphorus.

*Research for new Products for Ag Commodities.*—Farm Bureau supports increased funding for research and development for new commodities and for new uses of commodities currently under production, including biomass, biofuels and ethanol.

*Wildlife Pest and Predator Control Research.*— Farm Bureau supports funding for research to develop practical recommendations on methods to control wildlife pests. We also endorse research to document the losses of livestock and game animals caused by predators and the resultant economic loss.



*Health and Nutrition Research.*—Farm Bureau supports funding of nutrition research on relationships between agricultural products and coronary heart disease and cancer. We urge more education and research on the impact of Lyme's Disease on animals and humans, and measures to control West Nile Virus.

OTHER ISSUES: ANIMAL AND PLANT HEALTH

*Animal Health Emergency Management.*—Farm Bureau supports funding to protect agriculture and the nation's food supply, especially in light of the terrorist attacks on September 11. Farm Bureau supports funding for animal health monitoring, the Agriculture Quarantine Inspection Program, programs to strengthen the capability of APHIS to assess and monitor outbreaks of diseases in foreign countries, funding for FSIS to improve the information technology infrastructure to improve risk management systems, research to develop improved detection, identification, diagnostic and vaccination methods to identify and control threats to animal and plant agriculture.

*USDA Biocontainment Facilities.*—Farm Bureau appreciates the funding received last year for upgrading USDA facilities and security, however, more is needed. We support full funding for a joint APHIS and ARS facility at Ames, Iowa, to meet national needs for research, diagnosis and product testing for animal health. The existing facilities are antiquated and inefficient and without this new laboratory facility, the U.S. will fail to meet international standards and to provide the level of animal disease protection necessary to achieve a world-class National Animal Health Emergency Management System. We support adequate funding for USDA biocontainment facilities that are critical to maintaining world-class research on both foreign and domestic diseases. Adequate funding is needed for the Animal Disease Center, the National Veterinary Services Laboratory, the Center for Veterinary Biologics and the Poison Plant Disease Center.

*National Animal Health Emergency Management System.*—Farm Bureau supports full funding for the National Animal Health Emergency Management System that was developed in cooperation with the states, industry and the veterinary profession. These monies will enhance APHIS's emergency preparedness and response capabilities to address emergency animal disease issues that threaten the U.S. food supply.

*Plant Pest Control.*—Farm Bureau supports expansion of Plant Protection and Quarantine personnel and facilities to take care of increased plant imports and recommends support for the Q-37 plant import protocol. Farm Bureau supports funding for control and/or eradication programs for plant and animal pests including: grasshoppers; multiflora rose; autumn olive; Johnsongrass and other designated noxious weeds; eradication of fruit flies; Russian Wheat Aphid; gypsy moth; southern pine bark beetles; and Plum-pox virus.

*Boll Weevil Eradication.*—Farm Bureau recommends \$77 million of funding for boll weevil eradication to provide a 30 percent match with producer funding and to facilitate the orderly eradication and/or containment of the pest across the balance of the cotton-growing area. County FSA offices should be required to maintain the collection of funds and acreage information for the program.

*Food Animal Residue Avoidance Databank (FARAD).*—Farm Bureau supports adequate funding for FARAD to allow for continued, fair, immediate expert consultation to livestock owners and veterinarians in the event of accidental drug or toxin exposure to livestock or poultry.

*Pseudorabies.*—Farm Bureau supports adequate funding to ensure that pseudorabies stays eradicated in the U.S.

*Brucellosis.*—Farm Bureau supports funding for a brucellosis control program leading to eradication of this disease in cattle. The federal government should continue full funding of brucellosis control activities in all infected states. Because brucellosis is communicable from wildlife to domestic livestock and humans, we support funding to compensate livestock owners for losses brought about by contact with wildlife.

*Johne's Disease.*—Farm Bureau supports funding to develop an accurate blood test for Johne's disease; to reduce producers' cost to test for Johne's disease; and for a multi-year program to identify Johne's disease-infected animals and to provide an indemnity payment for the disposal of these infected animals.

*Inspection and Grading of Meat and Poultry.*—Farm Bureau recommends that funding for any new federally mandated seafood inspection program should be consistent with existing funding for other food commodities.

## OTHER ISSUES: CONSERVATION

*Conservation Operations.*—We continue to be concerned about adequate Natural Resources Conservation Service (NRCS) conservation operation funding. Conservation program delivery and technical assistance should be a priority for NRCS funding. Emphasis should be placed on traditional technical assistance and the development of reliable resource data for assisting producers to deal with nutrient management and other conservation concerns.

*Grazing Lands Conservation Initiative (GLCI).*—We support funding for technical assistance under the GLCI.

*Environmental Quality Incentive Program (EQIP).*—With regard to conservation programs under the Commodity Credit Corporation Program (CCC), we believe that emphasis should be placed on EQIP. EQIP is an important program for assisting producers dealing with increased water quality regulation and other conservation concerns. We support a substantial increase in EQIP funding over the previous years.

*Forestry Incentive Program (FIP).*—Farm Bureau supports funding the Forestry Incentive Program and adequate funding for Reforestation Programs and for the Stewardship Incentive Program.

*Farmland Protection Program.*—Farm Bureau supports funding for the Farmland Protection Program.

## MISCELLANEOUS ISSUES

*Wildlife Services.*—Wildlife Services should receive increased funding for both operational and research programs.

*Ag in the Classroom.*—Most students no longer have firsthand farm experience and, therefore, lack a basic understanding of our food and fiber system. The Agriculture in the Classroom program provides real world examples that teach about agriculture production, food safety, nutrition and healthy lifestyles and career opportunities. Farm Bureau supports an increase for Ag in the Classroom under CSREES.

*Risk Management Agency.*—Farm Bureau supports long-term funding for the Risk Management Agency.

*Ag Marketing Equity Capital Fund.*—Farm Bureau supports funding for the Agricultural Marketing Equity Capital Fund to help producers develop value-added enterprises.

*WIC Farmers Market Nutrition Program.*—Farm Bureau is opposed to elimination of both the Farmers Market Nutrition Program and the Senior Farmers Market Nutrition Program. These programs provide locally grown fresh fruits and vegetables for targeted at-risk populations while providing income assistance to fruit and vegetable producers that is not otherwise available from USDA programs.

*Rural Development.*—In the Rural Housing Service, Farm Bureau supports increased funding for the Farm Labor Housing Program.

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PREPARED STATEMENT OF THE AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES, LOCAL 3354, AND THE AMERICAN FEDERATION OF STATE, COUNTY, AND MUNICIPAL EMPLOYEES, LOCAL 3870

## PROTECTING INHERENTLY GOVERNMENTAL FUNCTIONS

The loan and grant programs of Rural Development and Farm Service Agency enable very low to moderate-income rural Americans to become successful homeowners, small family farmers, and to provide economic development in small rural communities. As the “lender of last resort”, these USDA agencies provide subsidies and supervised credit loan servicing options to lower income citizens who cannot successfully obtain credit from private sources. These specialized services include eligibility determinations for interest credit, interest rate adjustments, borrower’s assistance, reamortizations, moratoriums, debt settlements, deferrals, set-asides, re-scheduling, write-downs, write-offs, and net recovery buyouts, affecting the amount of government funds that USDA customers receive and/or pay back to the government. USDA employees in these agencies also disburse, collect, and account for the government subsidies and loan funds.

Under OMB Circular A-76, only commercial activities, not inherently governmental functions, are to be subjected to cost comparisons for potential contracting out. This OMB policy is designed to avoid an unacceptable transfer of official responsibility to Government contractors. OMB’s Office of Federal Procurement Policy (OFPP) Policy Letter 92-1 defines an “inherently governmental function” as

“ . . . function that is so intimately related to the public interest as to mandate performance by Government employees’ Governmental functions normally fall into two categories: (1) the act of governing, i.e., the discretionary exercise of Government authority, and (2) monetary transactions and entitlement. . . . An inherently governmental function involves, among other things, the interpretation and execution of the laws of the United States so as to:

“ . . . bind the United States to take or not to take some action by contract, policy, regulation, authorization, order, or otherwise;

“ . . . significantly affect the life, liberty, or property of private persons;

“ . . . exert ultimate control over the acquisition, use, or disposition of the property, real or personal, tangible or intangible, of the United States, including the collection, control, or disbursement of appropriated and other Federal funds. . . .”

Clearly, the above-mentioned activities of the Farm Service Agency and Rural Development are included in this OMB policy definition of inherently governmental functions. In recognition of this fact, the loan servicing activities of Rural Development have been removed from that agency’s list of commercial activities suitable for A-76 contracting out cost comparisons.

However, the farm loan activities of the Farm Service Agency that are located in St. Louis, Missouri, have been listed in that agency’s inventory of commercial activities. Reportedly, some of these activities are scheduled for an A-76 contracting out cost comparison in 2002 or 2003.

An effort to contract out any of the farm loan servicing functions would violate the policy against contracting out of inherently governmental functions. It would also cause the entire farm loan servicing program throughout the country to be up for grabs. No private sector entity would be interested in a portion of these activities without trying to take over all of them. References in the USDA Budget Blueprint to possible centralization of farm loan servicing activities also suggest the danger of contracting out all such activities.

The success of USDA employees in servicing the farm loan programs is described by the delinquency figures displayed in the following chart. Since 1996, the rate of delinquency has dropped over 10 percent for Direct Loans and over 2 percent for Guaranteed Loans.

Fiscal year	Direct loans	Guarantee
1996 .....	26.58	4.44
1997 .....	21.74	4.62
1998 .....	19.68	4.97
1999 .....	14.72	4.95
2000 .....	17.06	3.54
2001 .....	15.86	2.23

Therefore, we are seeking inclusion of the following language in the 2003 Agriculture Appropriations bill:

*Inherently Government Functions*

SEC. 7 \_\_\_\_\_. None of the funds appropriated or otherwise made available by this or any other Act shall be available to enter into or renew a contract at a total cost of \$25,000 or more for the performance of any function that affects eligibility determination, disbursement, collection or accounting for government subsidies provided under any of the direct or guaranteed loan programs of the Rural Development mission area or the Farm Service Agency.

Such language may also be needed in a 2002 Supplemental Appropriations bill, or other means may be necessary to keep this contracting out from taking place during fiscal year 2002.

STOP USDA ATTEMPTS AT ELECTRONIC SNOOPING!

The Rural Housing Centralized Servicing Center (CSC) initiated an effort to implement electronic surveillance and recording of low-income rural homeowners who call the CSC for servicing assistance and counseling. The Agency has not identified benefits in customer service over and above the existing quality control mechanisms that would result from such electronic surveillance—certainly not enough to justify the invasion of borrowers’ privacy or to outweigh the costs of both the technology and the increased job stress to the employees.

The Rural Housing Service provides vital opportunities for rural low-income borrowers, who otherwise would not be able to become homeowners. Borrowers reveal important income and debt information, as well as family obligations, during their

calls with the Center. This information assists RHS in its service to these families, by helping families to work out any financial problems. Borrowers must have the confidence in RHS to reveal personal information. Their privacy must remain protected.

When Agriculture Secretary Ann Veneman appeared before the Senate Agriculture Appropriations Subcommittee on February 27, 2002, Senator Cochran (R-MS), on behalf of Senator Bond (R-MO), who was on the floor helping manage the Election Reform bill, raised an issue that impacts the Rural Housing Centralized Servicing Center in St. Louis and citizens applying for low-income rural housing loans. Senator Cochran asked Secretary Veneman to delay implementation of a new phone conversation recording system until a series of Senator Bond's questions that have been provided to the Department are answered.

Upon review of USDA's responses, the Senator has asked the Secretary to permanently halt this effort. Should USDA implement despite the Senator's request, we ask the Subcommittee to develop appropriate bill language to ensure that USDA does not record telephone conversations between customers and employees. We have developed the following language to achieve that purpose, should it become necessary:

*Electronic Surveillance*

SEC. 7\_\_\_\_. None of the funds appropriated or otherwise made available by this or any other Act shall be available to record telephone conversations between USDA employees and USDA customers.

AFGE AND AFSCME FUNDING PRIORITIES FOR AGRICULTURE APPROPRIATIONS

Increased Salaries & Expenses funding for the Department of Agriculture's Rural Development mission area remains our No. 1 funding priority for the Subcommittee's Appropriations for Agriculture, Rural Development, and Related Agencies! We also support sufficient S&E funding for the Farm Service Agency to at least maintain current staffing levels.

Since 1995, the Congress has increased Rural Development programs by 69 percent overall; yet, our staffing levels have been cut by 28 percent. Our servicing areas in the Field, and our workload in the National and Finance Offices, has doubled or tripled. With decreased staffing, customer service suffers. Almost no funds have been allocated to training for the past six years! The situation has deteriorated to the point where State Directors have had to stop most overtime work. Use of privately owned vehicles for official travel has been prohibited, and use of government-owned vehicles has been limited. These restrictions on travel and overtime make it next to impossible for our employees to do our jobs! Timely inspections are not completed. Interviews of potential borrowers have to be conducted by phone. Night meetings of housing developers, water districts, and community development committees cannot be attended.

It is laborers and white and blue-collar workers that are the infrastructure of our rural communities, in addition to our farmers. If we can't provide housing, utilities, and jobs to enable them to be productive taxpaying citizens, how can we say the cost outweighs the benefits? Low-income rural Americans need public servants, with sufficient expense funds to support travel, overtime, training and information technology, to deliver these housing, community, and business development programs.

The Rural Development (RD) loan and grant programs are just as important, even more so in terms of number of people reached, as the various programs delivered by FSA. RD needs staff to deliver these programs, just like FSA needs staff to deliver its programs! It is even more imperative that Congress increase the appropriated S&E funding for Rural Development because RD does not have access to CCC funds, university grants, user fees, or any other outside source of funds to help support its employees.

Due to the President's proposal to charge retirement and health expenses to individual agency Salaries & Expense accounts, a proposal which we oppose, it is difficult to determine exactly what S&E amount is proposed. It is our understanding that the proposal would maintain essentially level staffing for Rural Development and Farm Service Agency. This is an absolute must.

The House Budget resolution included a provision to ensure parity in pay increases between the military and civilian employees. We request the Subcommittee add sufficient additional funds to ensure that existing staff levels can at least be maintained, assuming pay parity between civilian and military employees again in 2003.

Increased public investments in Rural Housing are needed to provide economic security and stimulus.

Since its inception in 1950, the Section 502 direct program has produced over 1.9 million units of safe, decent, sanitary housing and supported a variety of innovative housing development opportunities such as the mutual self-help housing program (sweat equity). Over the past ten years, however, the program's production capacity has declined 41 percent, from 26,203 units in 1988 to only 15,561 in 1998. It is even more startling to compare the paltry 1998 production to the over 132,000 units produced in 1976.

There is currently a \$5 billion backlog in applications for 502 direct loans. Especially considering that the cost per house to the government has been only \$10,000, Congress should invest much more in the 502 direct loan program in order to provide relief for homelessness and an economic stimulus to rural America.

AFGE and AFSCME support significant changes in Federal funding levels for housing, including the following recommendations of the Housing Assistance Council and coalitions in which AFGE participates to increase Federal housing funds by \$15 billion.

- Increase Federal housing funds by \$15 billion. This spending will open the door to economic recovery. It will give more than half a million American families (including many senior citizens) a decent, affordable place to call home. Today, these families are spending more than half their incomes on housing or are living in dilapidated or unsafe conditions. These funds would spur the production of 85,000 new homes and preserve an additional 225,000 through rehabilitation. This investment also would provide a significant boost to the economy by creating 250,000 new jobs.
- Ensure that Federal housing programs' first priority is serving people who are most in need, including poor rural households.
- Adopt the administration's proposed homeownership tax credit.
- Create a National Housing Trust Fund, as described by the National Housing Trust Fund Campaign at [www.nhtf.org](http://www.nhtf.org). The fund should be used primarily for rental housing, both new production and the preservation or rehabilitation of existing housing that is affordable for low-income people. The Trust Fund should be capitalized with ongoing, permanent, dedicated and sufficient sources of revenue to meet the goal of providing 1,500,000 housing units by 2010. At least 75 percent of the Trust Fund dollars should be used for housing that is affordable for extremely low income households, that is, those with incomes under 30 percent of the area median.
- Recognize the interdependence of housing programs. For example, it is counterproductive to increase SHOP funding while cutting Section 502 loans. In rural areas, most homebuyers participating in self-help production assisted by SHOP funds get their mortgages from Section 502 because their incomes are too low for conventional loans.
- Maintain 2002 funding levels for HUD's Rural Housing and Economic Development program (\$25 million) and for USDA's Rural Capacity Development Initiative (\$6 million). Local organizations in many high-need rural areas need to increase their capacity to meet their communities' needs. Both programs have helped to achieve that goal.

At a minimum, we urge the Agriculture Appropriations Subcommittees to

- increase 502 Direct loan funding to \$1.5 billion for 2003, and
- increase 515 Rental loan funding to \$300 million for 2003.

The recent GAO report (GAO-02-76), comparing the characteristics and costs of Federal rental housing assistance, supports our contention that 515 is a good program, the best for low and very low income rural Americans. It would be a mistake to transfer this program to HUD, as some have proposed.

AFGE and AFSCME urge Congress to re-examine the 515 Rural Rental Housing program. Past problems were limited in scope and have been corrected. 515 is being starved for appropriations, even though the GAO report shows it to be one of the best rental programs the government has—certainly the best for rural America. It is time to restore realistic appropriations.

In the past two years alone there were approximately \$137 million requests for new construction and \$270 million requests for repair and rehabilitation. RHS spent all of its available funds, amounting to \$100 million in new construction and \$100 million for repair/rehab. It is already estimated that for fiscal year 2003, there will be \$120 million in requests for new construction and \$140 million for repair/rehab. Additional rental assistance would also be needed to support this additional new construction.

Section 515 serves the most needy of rural residents—fulfilling USDA's stated Strategic Goal. Almost 1,000,000 rural renters suffer from multiple housing problems including substandard living conditions and cost burden. Section 515 has a low

delinquency rate of only 1.6 percent. The average annual tenant income is \$7,980, which is below 30 percent of the nation's rural median household income.

Public investments in Limited Resource and Beginning Farmers will also improve homeland security and provide much-needed economic stimulus to rural America.

Investment in the Farm Ownership Direct Loan program needs to be increased, at least back to fiscal year 2000 levels. In many states, as much as 70 percent of the farm land will change ownership over the next fifteen years. Unless the direct farm ownership loan program is significantly enhanced, most of that farm land will go to the existing large farms, and the benefits and productivity of family farming will continue to be wiped out.

We also ask the Subcommittee to provide the authorized amount of \$10 million for Outreach and Technical Assistance Program for Minority Farmers. The Outreach and Technical Assistance program is the most effective tool developed to carry out the mission of USDA as the technical provider for small farmers. For a very small investment, the program has significant multiplier effects in poor communities where there exist few other possibilities for sustainable economic development.

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PREPARED STATEMENT OF THE AMERICAN HONEY PRODUCERS ASSOCIATION, INC., AND  
THE AMERICAN BEEKEEPING FEDERATION

My name is Lyle Johnston of Rocky Ford, Colorado. I am President of the American Honey Producers Association. With me is Pat Heitkam of Orland, California, President of the American Beekeeping Federation. We are submitting this joint statement on behalf of both of our organizations. The American Honey Producers Association is a national organization of commercial beekeepers actively engaged in honey production throughout the country. The American Beekeeping Federation has members in every state who are involved in all facets of the beekeeping and honey industry.

First, both organizations wish to thank the Subcommittee for the support it is has provided in the past for agricultural research activities on behalf of the beekeeping industry. Such support has enabled the Agricultural Research Service ("ARS") to meet the critical needs of the industry. To continue this valuable research, our organizations request that Congress maintain Federal honey bee research funding at the fiscal year 2002 levels.

THE PRESIDENT'S BUDGET PROPOSAL

The President's fiscal year 2003 budget proposes deep cuts for four Honey Bee Research Laboratories operated by ARS and located at Weslaco, Texas; Baton Rouge, Louisiana; Beltsville, Maryland; and Tucson, Arizona. These cuts, totaling more than \$3.2 million—or 56 percent—of the laboratories' current \$5.7 million budget, would have a devastating effect on the honey industry as well as on all pollination-dependent agriculture and many native plants.

In the President's fiscal year 2003 budget, the research programs conducted by these laboratories would sustain a disproportionate setback. While suffering a 56 percent cut in funding, the ARS Honey Bee Research Laboratories would bear almost one-third of the total net ARS budget reductions for fiscal year 2003. This seems particularly inappropriate considering the substantial benefits that flow from this program, which helps assure the vitality of the American honey industry and U.S. agriculture.

These four ARS laboratories provide the first line of defense against exotic parasite mites, Africanized bees, brood diseases and other new pests and pathogens that pose serious threats to the viability and productivity of honey bees and the plants they pollinate. The President's budget requires shuttering three of the four honey bee research laboratories and eliminating over 50 percent of the personnel supporting these research efforts. If such cuts were enacted, scientists at the remaining laboratory at Weslaco would be overburdened and forced to discontinue essential research, thereby jeopardizing the U.S. honey bee industry and the production of agricultural crops that require pollination by honey bees.

THE IMPORTANCE OF HONEY BEES TO U.S. AGRICULTURE

Honey bees fill a unique position in contemporary U.S. agriculture. They pollinate more than 90 food, fiber, and seed crops. Honey bees are necessary for the production of such diverse crops as almonds, apples, oranges, melons, vegetables, alfalfa, soybeans, sunflower, and cotton, among others. A Cornell University study, published in 2000, estimated that the annual value of agriculture production attributable to honey bee pollination exceeds \$14.6 billion. The increased value of such

crops comes in the form of both better yields and improved quality. In addition, honey bees are responsible for the production of an average of 200 million pounds of honey annually, 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. 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. Unfortunately, there is no simple solution to these problems, and the honey bee industry is too small to support the cost of the needed research, particularly with the current depressed state of the industry. 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. The key to the survival of the honey industry lies with the honey bee research programs conducted by ARS.

#### THE WORK OF THE ARS HONEY BEE RESEARCH LABORATORIES

The ARS Honey Bee Research Laboratories work together to provide research solutions to problems facing businesses dependent on the health and vitality of honey bees. The findings of these laboratories are used by honey producers to protect their producing colonies and by farmers and agribusinesses to ensure the efficient pollination of crops. Each of the four ARS laboratories focuses on different problems facing the U.S. honey industry and undertakes research that is vital to sustaining honey production in this country. Furthermore, each 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. Even consolidating these laboratories would severely undercut recent gains in research because of the uniqueness of localized conditions. Consequently, research conducted at one location is not necessarily applicable to another due to differences in climate.

#### *Research at the ARS Weslaco Laboratory*

Both the American Honey Producers Association and the American Beekeepers Federation recommend that the appropriation for the Weslaco laboratory be approved at not less than current levels. This facility focuses its research efforts on developing technologies to manage honey bees in the presence of Africanized honey bees, parasitic mites, and other pests. In order to ensure that further pests are not introduced into the U.S., scientists at the Weslaco facility provide technical assistance to agriculture departments in foreign countries on the control of parasitic mites. The laboratory has worked with officials in Guatemala, Costa Rica, Mexico, and South Africa to protect the U.S. honey bee population from further devastation by infestation of foreign parasites, diseases, and other pests. This inter-governmental cooperation is necessary to ensure the continued viability of the U.S. honey bee industry.

Retaining the current (fiscal year 2002) level of funding for the Weslaco laboratory will enable it to continue its work in finding a chemical solution to parasitic mites that are causing a crisis for the U.S. beekeeping and pollination industries. Varroa mites are causing the loss of hundreds of thousands of domestic honey bee colonies annually as well as devastating wild bee colonies. The only chemical which has received a general registration for Varroa mite control, fluvalinate, is being rendered ineffective by the development of resistant mite populations. The ARS laboratory at Weslaco has been developing alternative chemicals to control the Varroa mite. It appears that the laboratory has found a chemical, coumaphos, with the potential of being equally effective as fluvalinate. This is a real breakthrough for the bee industry, but as of today we have only been able to obtain section 18 emergency registrations. Much work remains to be done before a section 3 general registration is granted by EPA.

Additionally, the laboratory is researching methods that may control the small hive beetle. Since its discovery in Florida in 1998, this pest has caused severe bee colony losses in California, Florida, Georgia, South Carolina, North Carolina, Pennsylvania, Ohio, and Minnesota. Estimates put these losses in just one season at over 30,000 colonies. The beetles are now spreading to other areas in the East coast. Although it seems that coumaphos may help control this insect as well as the Varroa mite, it has not yet received a section 3 registration. 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, as a control must be found immediately as all the bee colonies in the Western Hemisphere are at risk.

*Research at the ARS Baton Rouge Laboratory*

Our organizations also recommend that the appropriation for the ARS laboratory at Baton Rouge, Louisiana be kept at current levels. The Baton Rouge facility is the only laboratory in the U.S. developing long-term, genetic-based solutions to the Varroa mite. Existing stocks of U.S. honey bees are being tested to find stocks which exhibit resistance to the parasitic mites. Research scientists with the laboratory have also been to the far corners of the world looking for mite resistant bees. For example, in eastern Russia, they found bees that have co-existed for decades with the mites and survived. Using these bees, the laboratory develops stocks of honey bees resistant to the parasites. Before these new stocks are distributed to American beekeepers, the laboratory ensures that the resistance holds up under a wide range of environmental and beekeeping conditions, testing attributes such as vigor, pollination, and honey.

The Baton Rouge facility also operates the only honey bee quarantine and mating station approved by the Animal and Plant Inspection Service. These stations are necessary to ensure that new lines of bees brought into the U.S. for research and development are free of diseases unknown in the U.S.

In addition, Baton Rouge research scientists are focused on the applications of new technologies of genomics. This work has the potential to enhance the proven value of honey bee breeding for producing solutions to the multiple biological problems that diminish the profitability of beekeeping.

*Research at the ARS Tucson Laboratory*

Both of our organizations also request that funding for the ARS Honey Bee Research Laboratory in Tucson be kept at the current level for fiscal year 2003. This research center is the only honey bee laboratory serving the needs of beekeepers and farmers in the western U.S. The facility works to improve crop pollination and honey bee colony productivity through quantitative ecological studies of honey bee behavior, physiology, pest and diseases, and feral honey bee bionomics.

Because more than one million colonies are transported from across the country for pollination into crops grown in the western U.S., 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, both organizations request that that funding for the ARS Honey Bee Research Laboratory in Beltsville remain at fiscal year 2002 levels. This facility, the oldest of the Federal bee research centers, conducts research on the biology and control of honey bee parasites, diseases, and pests to ensure an adequate supply of bees for pollination and honey production. Using biological, molecular, chemical, and non-chemical approaches, scientists in Beltsville are developing new, cost-effective strategies for controlling parasitic mites, bacterial diseases, and emergent pests that threaten honey bees and the production of honey.

The laboratory also develops preservation techniques for honey bee germplasm in order to maintain genetic diversity and superior honey bee stock. Scientists at the facility also provide authoritative identification of Africanized honey bees and diagnosis of bee diseases and pests for Federal and State regulatory agencies and beekeepers on a worldwide basis. In operating this bee disease diagnosis service, the Beltsville facility receives over 2,000 samples annually from across the U.S.

## CONCLUSION

In conclusion, we wish to thank you again for your support of honey bee research in the past. Both the American Honey Producers Association and the American Beekeeping Federation would appreciate your continued support by restoring the current level of funding for each of the four ARS Honey Bee Research Laboratories located in Weslaco, Texas; Baton Rouge, Louisiana; Beltsville, Maryland; and 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. If enacted,



the proposed consolidation and its resulting budget and staff reductions would significantly diminish the quality of research conducted by these laboratories, harming honey producers as well as farmers who harvest pollination-dependent agriculture. Congress cannot allow these cuts to occur and must restore this funding to the ARS Honey Research Laboratories.

Mr. Heitkam and 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 30 Tribal Colleges and Universities that comprise the 1994 Land Grant Institutions, we thank you for this opportunity to share our funding requests for fiscal year 2003.

This statement is presented in three parts: (a) a summary of our fiscal year 2003 funding request, (b) a brief background on Tribal Colleges and Universities, and (c) an outline of the 1994 Tribal College Land Grant Institutions' plan using our authorized land grant programs, and the Rural Communities Advancement Program (RCAP), to fulfill the agricultural potential of American Indian communities, and to ensure that American Indians have the skills needed to maximize the economic development potential of our resources.

#### SUMMARY OF REQUESTS

We respectfully request the following funding levels for fiscal year 2003 for our established land grant programs. Specifically, we request: \$5 million for the 1994 institutions' extension grants program; \$12 million payment to the Native American endowment fund; \$3 million for the higher education equity grants; and \$3 million for the 1994 institutions' research grants program.

In addition, we request \$5 million be set aside out of the Native American—Rural Community Advancement Program, for the 1994 Tribal College Land Grant Institutions to help address the critical facilities and infrastructure needs at the colleges that impede our ability to participate fully as land grant partners.

#### BACKGROUND ON TRIBAL COLLEGES AND UNIVERSITIES

Today, 140 years after enactment of the first land grant legislation, tribal colleges, more than any other higher education institutions, truly exemplify the original intent of the land grant legislation. The first Morrill Act was enacted in 1862 specifically to bring education to the people and to serve their fundamental needs. The 1994 land grants fit this definition well, as they are community-based institutions.

The Tribal College Movement was launched in 1968 with the establishment of Navajo Community College, now Diné College, serving the Navajo Nation. A succession of tribal colleges soon followed, primarily in the Northern Plains region. In 1972, the first six tribally controlled colleges established the American Indian Higher Education Consortium to provide a support network for member institutions. Today, AIHEC represents 32 Tribal Colleges and Universities located in 12 states, begun specifically to serve the higher education needs of American Indian students. Collectively, they serve approximately 30,000 full and part-time students from over 250 Federally recognized tribes.

Tribal colleges offer primarily 2-year degrees, although in recent years some institutions have begun to offer baccalaureate and graduate-level degrees. The vast majority of the tribal colleges are fully accredited by independent, regional accreditation agencies.<sup>1</sup> Tribal colleges serve as community centers, providing libraries, tribal archives, career centers, economic development and business centers, public meeting places, and child care centers. Despite our many obligations, functions, and notable achievements, tribal colleges remain the most poorly funded institutions of higher education in this country. Most of the 1994 Land Grant Institutions are reservation based, located on Federal trust territory. 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 resident students who attend our colleges

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<sup>1</sup>The Tribal Colleges and Universities are accredited by regional accreditation agencies and like all institutions, must undergo stringent performance reviews on a periodic basis. The higher education division of the respective regional accreditation agency accredits twenty-seven of the TCUs. Two TCUs are at the Pre-candidate stage as they complete work to attain Candidate status; one TCU is at Candidate status. Two TCUs are accredited as "Vocational/Adult Schools" by the respective regional accreditation agency.

despite the fact that non-Indian enrollment at the tribal colleges averages 20 percent.

Today, one in five American Indians live on reservations. As a result of 200 years of Federal Indian policy—including policies of termination, assimilation and relocation—many reservation residents live in abject poverty comparable to that found in Third World nations. Through the efforts of tribal colleges, American Indian communities are receiving services they need to reestablish themselves as responsible, productive, and self-reliant. It would be tragic not to expand the modest investment in, and capitalize on, the human resources that will help open new avenues to economic development, specifically through enhancing the tribal colleges' land grant programs, and 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 our hope for turning this situation around. Our current land grant programs are modest, yet vitally important to us. It is essential that American Indians learn more about new and evolving technologies for managing our lands. We are committed to being productive contributors to the agricultural base of the nation and the world.

*Extension Programs.*—The 1994 Institutions' extension programs help address economic development through land use. These programs have grown substantially in idea and scope since they were initially implemented in fiscal year 1996. The current single-year competitive grants process, for what have developed into flourishing multiyear projects, is no longer an effective or efficient way to administer these important programs. A mechanism for multi-year funding needs to be implemented to give these programs much needed financial stability.

In fiscal year 2002, the 1994 institutions were awarded \$3,280,000 for extension grants. Additional funding is needed to support these programs, designed to address the inadequate extension services provided on Indian reservations by the states. It is important to note that the 1994 extension program is specifically designed to complement and build upon the Indian Reservation Extension Agent program, and is not duplicative of other extension activities.

For the reasons outlined above, we request Congress support this program by appropriating funding at the authorized level of \$5 million, and include report language to encourage the implementation of a multi-year program model to sustain the growth and further success of these essential community based programs.

*Native American Endowment Fund.*—Endowment installments paid into the 1994 Institutions' account remain with the U.S. Treasury—only the interest is distributed annually to our colleges. The latest annual interest payment (fiscal year 2001) distributed among all 30 of the 1994 Land Grant Institutions totaled \$1,192,019.

Just as other land grant institutions historically received large grants of land or endowments in lieu of land, this sum assists 1994 Land Grant Institutions in establishing and strengthening our academic programs in such areas as curricula development, faculty preparation, instruction delivery, and beginning with the funds distributed this year, to address our critical infrastructure issues. Many of the colleges have used the endowment funds in conjunction with the Education Equity grants funds to develop and implement programs. In fiscal year 2001, language was included adding construction, renovation, and repair of our facilities to the list of eligible uses of the endowment funds. The first funds to be used for infrastructure/construction needs are those that were disseminated to the 1994 Institutions this year. 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 report facilities needs as one of their top priorities. Fort Belknap College in Harlem, MT is planning on using a portion of their limited land grant endowment funds for work on a GIS/GPS project on the campus and reservation. The focus of the project is to provide a detailed map necessary for strategic planning for campus facilities. When asked how the 1994 Institutions plan to use their endowment funds with regard to facilities needs, the responses received echo one common message, increased funds for facilities are essential for the colleges to implement the various phases of their individual campus renovation/upgrade and construction plans. However, the amount that each college currently receives from this endowment is too little to address curricula development and instruction delivery, and the necessary facilities projects at the colleges. In order for the 1994 Institutions to become full partners in this na-

tion's great land grant system, we need and deserve the facilities and infrastructure necessary to engage in education and research programs vital to the future health and well-being of our reservation communities. We respectfully request Congress build upon this much-needed base fund by increasing the fiscal year 2003 endowment fund payment to \$12 million.

*1994 Institutions' Educational Equity Grant Program.*—Closely linked with the endowment fund, this program provides \$51,619 per 1994 Institution to assist in academic programs. Through the modest appropriations made available since fiscal year 1996, the tribal colleges have been able to begin to support vital courses and planning activities specifically targeted to meet the unique needs of our respective communities.

The 1994 Institutions have developed and implemented courses and programs in natural resource management, environmental sciences, horticulture, forestry, buffalo production and management, and food science and nutrition—to address epidemic rates of diabetes and cardiovascular disease on reservations. If more funding were available through the Educational Equity Grant Program, tribal colleges could use their endowment funds to supplement other sources of funding for facilities available to address their critical infrastructure issues. We respectfully request an increase in funding to \$3 million, to allow the colleges to build upon the courses and activities that the initial funding launched.

*1994 Research Program.*—As the 1994 Land Grant Institutions have begun to enter into partnerships with 1862/1890 land grants through research projects, impressive efforts to address economic development through land use have come to light. Our research program illustrates an ideal combination of Federal resources and tribal college-state institution expertise, with the overall impact being far greater than the sum of its parts. We are requesting increased funding for our research program, which was authorized in the Agriculture Research, Extension, and Education Reform Act of 1998, at “such sums as necessary.” We recognize the budget constraints that Congress is working under. However, we believe that \$998,000, our fiscal year 2002 appropriated level, is simply not adequate when there are 30 institutions competing for these precious research dollars. This research program is vital to ensuring that tribal colleges finally become full partners in the nation's land grant system. Many of our institutions are currently conducting agriculture-based applied research, yet finding the resources to conduct this research to meet their communities' needs is a constant challenge. This research authority opens the door to new funding opportunities to maintain and expand the research projects begun at the 1994 Institutions, but only if adequate funds are appropriated. The following is an example of the first projects to be funded under this vital new program.

Chief Dull Knife College in Lame Deer, Montana has launched a research project to determine the ecological role of indigenous functional plant groups as they relate to an invasive plant species. The nutrient and hydrologic cycles as well as the energy (biomass) flow of the non-indigenous invader (knapweed) and that of indigenous functional plant groups will be determined. From this, ecological processes on weed management and ecological impacts can be defined. The evaluation phase of the project will be to implement invasive plant management techniques on spotted knapweed infested rangeland on the Northern Cheyenne Reservation. Results will be shared with the cooperating institutions and disseminated through public interpretive and informational meetings.

Other projects launched in the initial round of programs funded include soil and water quality projects, amphibian propagation, pesticide and wildlife research, range cattle species enhancement, and native plant preservation for medicinal and economic purposes. We strongly urge Congress 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 2001, \$24 million of the RCAP funds were appropriated for loans and grants to benefit Federally recognized Native American Tribes. Report language declared that the conference committee expected \$4 million be made available for community facility grants for Tribal College improvements. As stated earlier, the facilities at many of the 1994 Land Grant Institutions are in desperate need of repair and in many cases replacement. We urge the Subcommittee to designate \$5 million of the Native American RCAP funds to address the critical need for improving the facilities at the 30 Tribal College Land Grant Institutions. Additionally, we respectfully request report language directing the Department of Agriculture to set aside a minimum of \$5 million of these RCAP program funds for each of the next 5 fiscal years to allow our institutions the means to solidly address our facilities needs.

## CONCLUSION

The 1994 Land Grant Institutions have proven to be efficient and effective tools for bringing education opportunities to American Indians and hope for self-sufficiency to some of this nation's poorest regions. The modest Federal investment in the tribal colleges has already paid great dividends in terms of increased employment, education, and economic development. Continuation of this investment makes sound moral and fiscal sense. American Indian reservation communities are second to none in their need for effective land grant programs and as earlier stated, no institutions better exemplify the original intent of the land grant concept than the 1994 (tribal colleges) Institutions.

We appreciate your long-standing support of the Tribal Colleges and Universities and are also grateful for your commitment to making our communities self-sufficient. We look forward to continuing our partnership with you, the U.S. Department of Agriculture, and the other members of the nation's land grant system—a partnership that will bring equal educational, agricultural, and economic opportunities to Indian Country.

Thank you for this opportunity to present our funding requests before this Subcommittee. We respectfully request your continued support and full consideration of our fiscal year 2003 appropriations requests.

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 PREPARED STATEMENT OF THE AMERICAN RIVERS

This year, American Rivers was joined by over 600 local, regional and national conservation organizations<sup>1</sup> from all 50 states in calling for significantly increased funding for the Environmental Quality Incentives Program (EQIP), the Wildlife Habitat Incentives Program (WHIP) and in supporting an expansion of the Conservation Reserve Program (CRP) and Wetlands Reserve Program (WRP) acreage limits in fiscal year 2003. Each of these programs incorporates voluntary landowner participation with a Federal investment in conservation of the nation's farmlands and environment for future generations. I urge that these increases be incorporated in the Agriculture Appropriations bill for fiscal year 2003.

## ENVIRONMENTAL QUALITY INCENTIVES PROGRAM (EQIP)

The health of America's agricultural lands is fundamental to the nation's well-being. These lands support an industry of great value, provide important habitat for a large portion of the nation's birds, fish, and wildlife, and have a significant impact on river health. The Environmental Quality Incentives Program (EQIP) is a voluntary program that helps farmers and ranchers facing threats to soil, water, and other natural resources develop and implement successful conservation practices.

EQIP focuses largely on lands that face significant natural resource problems or are particularly environmentally sensitive. As these priority areas are identified locally, conservation districts convene working groups of key Federal, State, and local agency representatives to propose conservation plans for these areas. Communities play a significant role in the planning process, ensuring that the plans fully reflect local needs and priorities. Once Natural Resources Conservation Service representatives select conservation plans, EQIP staff provide technical, educational, and financial assistance to farmers and ranchers to help them implement management plans for nutrients, manure, pests, irrigation, water, and wildlife habitat practices. Farmers may also apply for 5- to 10-year EQIP contracts that provide financial incentives and cost-sharing assistance to implement conservation practices outlined in the conservation plan.

Congress should appropriate at least \$350 million for the EQIP program, or the full amount of funding authorized in the Conference Report of the 2002 Farm Bill.

## WILDLIFE HABITAT INCENTIVES PROGRAM (WHIP)

In many rural areas, farms are the most abundant and essential source of wildlife habitat. This program helps landowners voluntarily develop and implement practices that will protect and preserve important wildlife habitat. By helping restore habitat, WHIP can have a positive impact both on the quality of life for participants and on local economies. For example, according to the Fish and Wildlife Service, wildlife watchers spent \$29.2 billion on trips, equipment, and other related expenditures in 1996 alone.

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<sup>1</sup> These groups have endorsed "The River Budget 2003", a report of national funding priorities for local river conservation. A list of groups endorsing the River Budget can be viewed at <http://www.americanrivers.org/riverbudget/default.htm>.

Under a WHIP agreement, participants develop wildlife habitat plans with assistance from local conservation districts. Each plan describes the landowner's goals for improving wildlife habitat, includes a list of practices, and details what must be done to maintain the habitat for the life of the agreement. There are many possible sources of funding and expert advice for a project including the Natural Resources Conservation Service, cooperating state wildlife agencies, nonprofits, and private organizations. The Department of Agriculture covers up to 75 percent of the plan's implementation costs. Demand for WHIP funds has been so great that the program exhausted the \$50 million appropriated for 1997–2002 in two years.

Congress should appropriate at least \$100 million for the WHIP program, or the full amount of funding authorized in the Conference Report of the 2002 Farm Bill.

#### WETLANDS RESERVE PROGRAM (WRP)

Wetlands are a critical component of many ecosystems, providing myriad benefits for people and wildlife. They filter sediment and pollutants from runoff water, protect water quality, provide critical habitat for millions of birds and other wildlife, absorb water to reduce floods, and improve soil moisture for vegetation. The economic benefits of healthy wetlands are many, including improved wildlife watching and photography. In 1991, almost 109 million people spent \$59 billion on fishing, hunting, and wildlife watching and photography.

The Wetlands Reserve Program (WRP) is a volunteer program aimed at protecting and restoring the nation's wetlands, bringing tangible economic and environmental benefits to rural communities, recreationists, landowners, and family farmers nationwide. Participating landowners receive technical and financial assistance from the Natural Resources Conservation Service to restore wetlands, including marginal agricultural land. In exchange for selling a conservation easement or entering into a cost-share restoration agreement, landowners receive all or a percentage of restoration costs and/or an annual payment. The program currently has more than 5,230 contracts in 48 states. Participating landowners retain control over access to their lands and may lease them for undeveloped recreational activities and other uses that are consistent with wetland protection and enhancement.

The WRP program has helped stem the tide of wetlands loss in the United States, and contributed significantly to implementation of the North American Waterfowl Management Plan. Wetlands restored by WRP also help reduce the "dead zone" in the Gulf of Mexico by intercepting polluted runoff from farms and city streets along the Mississippi River.

Congress should expand the program's total acreage cap and allow WRP to enroll 250,000 acres annually.

#### CONSERVATION RESERVE PROGRAM (CRP)

With the Dust Bowl of the 1930s, the United States learned the hard way about the destructiveness of agricultural erosion. In the years since, the nation has also come to recognize the damage caused by runoff that carries pollutants into rivers, lakes, and other bodies of water.

One of the Federal Government's largest and most effective environmental improvement programs grew out of concern about the impacts of agricultural soil erosion and polluted runoff. The Conservation Reserve Program (CRP), a voluntary program that partners the Department of Agriculture with farmers and ranchers, helps protect millions of acres of the nation's agricultural lands from erosion while increasing wildlife habitat and protecting ground and surface waters. The program provides incentives for farmers and ranchers to voluntarily implement long-term conservation practices on erodible and environmentally sensitive lands in return for annual rental payments and cost-share assistance.

The benefits of CRP are clear. The total acreage of new wildlife habitat created by the program is twice that of the National Wildlife Refuge System and all state-owned wildlife areas in the contiguous 48 states combined. According to Natural Resources Conservation Service, each acre enrolled in CRP reduces topsoil erosion by an average of 19 tons per year, improving water quality in lakes, rivers, and other water bodies. USDA estimates show that, over the life of the initial 36.4 million-acre enrollment, CRP has resulted in a \$2.1–\$6.3 billion increase in net farm income, \$3.3 billion in future timber resources, and up to \$4.2 billion in surface water quality improvements. The Fish and Wildlife Service estimates that the wildlife benefits total \$1.4 billion for waterfowl hunting and \$4.1 billion for non-consumptive wildlife benefits such as photography and wildlife watching.

Congress should expand the program's acreage limit to 45 million acres.

## PREPARED STATEMENT OF THE AMERICAN SHEEP INDUSTRY ASSOCIATION

The American Sheep Industry Association (ASI) is a federation of state member associations representing the nearly 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 rebuilding and strengthening our infrastructure primarily through the National Sheep Industry Improvement Center, critical predator control activities, fully funded our national animal health efforts, and expanding research capabilities.

The rapid changes that have occurred in the domestic sheep industry and continue to take place put further emphasis on the importance of adequately funding the U.S. Department of Agriculture programs important to lamb and wool producers.

We appreciate this opportunity to comment on those portions of the USDA fiscal year 2003 budget.

## RURAL DEVELOPMENT

The National Sheep Industry Improvement Center is critical to the industry and we fully support an appropriation of \$5 million for fiscal year 2003. The Sheep Center is currently involved with three major initiatives, first, the Center has 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 involves the use of \$4.8 million in the Center starting in 2000 to fund American Lamb product development, marketing, and promotion with projects in every region of the United States. The third initiative is a direct grant program that was started in 2002 and has already funded grants this year with another round of grant awards planned for later this fiscal year.

There are additional special initiatives planned in 2002 to address specific industry needs, including a meats lab project. Most importantly, 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 in fiscal year 2003 to meet the new project requests. Furthermore the authority of the Center to receive Federal funds allows for another \$24.5 million during the next four fiscal years. ASI supports appropriations at \$5 million each fiscal year as a priority for our industry and believes this is a better approach than waiting and requesting half of more of the funds in the last 2 years of the authorization. The Center is a premier vehicle of the U.S. sheep industry's adjustment plan and adequate funding is critical to the industry.

## ANIMAL AND PLANT HEALTH INSPECTION SERVICE (APHIS)

*Wildlife Services*

With well over one-quarter million sheep and lambs lost to predators each year, the Wildlife Services (WS) program of USDA-APHIS is vital to the economic survival of the sheep industry. The value of sheep and lambs lost to predators and predator control expenses are second only to feed costs for sheep production. Costs associated with depredation currently exceed our industry's veterinary, labor and transportation costs.

Wildlife Service's cooperative nature has made it the most cost effective and efficient program within Federal government in the areas of wildlife management and public health and safety. Wildlife Services has over 2,000 cooperative agreements with agriculture, forestry groups, private industry, state game and fish departments, departments of health, schools, county and local governments and others to mitigate the damage and danger that the public's wildlife can inflict on private property and public health and safety. WS is one of the few Federal programs that have been consistently at or above the 50:50 Federal to cooperative funding ratios. In fiscal year 2001, cooperator funding made up 52 percent of the total operational budget.

ASI is very concerned with the Administrations' proposed \$10 million cut in operations funding for Wildlife Services. Wildlife Services would not just lose \$9.96 million in funding, but would lose an estimated \$11.1 in Federal matching monies for airport safety, endangered species, invasive species management and the protection of livestock, crops and private property. Analysis also shows that \$19.3 million in cooperative funding would be lost along with 596 Federal in cooperative staff years.

A loss of over \$40 million in funding and almost 600 staff years would be devastating to the program, and ASI must therefore oppose such cuts.

ASI is appreciative of the funds provided the National Wildlife Research Center in fiscal year 2002 to offset building maintenance costs. In June 2002, the National Wildlife Research Center will complete construction of its new outdoor animal research pen complex. An additional \$1.5 is needed in the next budget year to maintain and staff this new complex. The completion and funding of this complex should greatly accelerate research on new non-lethal and selective lethal methods of managing wildlife related conflicts.

Aerial hunting is 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 critical component of the Wildlife Services rabies control program. ASI is very supportive of the Administrations' \$1.6 million budget recommendation to fully implement the recommendations of the Aviation Safety Review Committee by the December 2002 deadline.

Expansion of Federally protected wolf populations in Montana, Idaho, Wyoming, Minnesota, New Mexico, Arizona, Wisconsin and Michigan continue to create increased demand for assistance in managing wolf depredation. Last year there were over 300 requests for assistance in the management of wolf related conflicts. Wolf numbers in Montana, Wyoming and Idaho now total 500. Minnesota has a wolf population of nearly 3,000, and wolf numbers in Michigan and Wisconsin are now increasing at rates of 34 percent and 30 percent respectively. An additional \$950,000 in funding is needed in fiscal year 2003 to manage wolf related conflicts. A total of \$750,000 in additional funds is needed to manage current conflicts in Minnesota, Michigan and Wisconsin. \$200,000 in additional funding is needed to manage wolf conflicts in Arizona and New Mexico.

Wildlife Services must document its operations in order to conduct program analysis and comply with Federal reporting requirements. The agency's current information technology support system has become antiquated which could result in incomplete data collection and analysis. To update and maintain the information system, an additional \$700,000 is needed.

#### SCRAPIE

Adequate funding for scrapie eradication and other supportive efforts, such as the Voluntary Scrapie Flock Certification Program and the National Scrapie Slaughter Surveillance Study are of critical importance to the sheep industry, as well as all segments of the livestock industries. The regulation for scrapie eradication was finalized by USDA in 2001 and is being implemented across the country. The importance of this eradication program is supported by the Administration's budget request of \$26.621 million. ASI strongly supports this funding level. We are aware that animal disease eradication programs are now largely funded through CCC and we expect that this will be the case with scrapie as well. However, it is critical that USDA/APHIS receive adequate appropriated funds to conduct "base-program" activities such as hiring full-time personnel. We therefore urge the subcommittee to support the Administration's request of \$26.621 million with a \$5 million increase in appropriated funds over the 2002 level of \$3.1 million for a total of \$8.1 million in the appropriated budget for scrapie. As with the 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.

#### AGRICULTURAL MARKETING SERVICE

##### *Lamb Market Information and Price Discovery Systems*

The sheep industry strongly supports the fiscal year 2003 budget for Market News of USDA-Agricultural Marketing Service. Furthermore ASI supports necessary increases in appropriations for the full implementation of the mandatory price reporting system for livestock. We expect AMS will be fully implementing the price reporting system this fiscal year with the inclusion of the imported lamb meat price report.

#### FOREIGN AGRICULTURAL SERVICE (FAS)

The sheep industry participates in FAS programs such as the Market Access Program (MAP) and the Foreign Market Development Program. ASI strongly supports continued appropriations at the current level for these critical Foreign Agricultural Service programs. ASI is the cooperator for American wool and sheep pelts and has

achieved solid success in increasing exports of domestic product. Exports of American wool have been increased dramatically with approximately 30 percent of U.S. production competing overseas.

NATURAL RESOURCES CONSERVATION SERVICE (NRCS)

ASI urges increased appropriations for the range programs of the Soil Conservation Service to benefit the private range and pasture lands of the United States with conservation assistance. We support the budget item and recommend an increased level for the Grazing Lands Conservation Initiative, which ASI has worked with, along with other livestock and range management organizations, to address this important effort for rangelands in the U.S.

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 out-reach programs. With net increases in the animal systems category of the agriculture research budget, for example, sheep and wool research has either declined or remained static for the past several years. In order for the sheep industry to be more globally competitive in the future, we must invest in the discovery and adoption of new technologies for producing, processing and marketing lamb and wool. We urge the subcommittee to send a strong message to USDA supporting sheep research and education funding increases.

AGRICULTURAL RESEARCH SERVICE

*Emerging, Reemerging and Exotic Diseases of Plants and Animals.*—We request the subcommittee's support for the administration's allocation of \$13.357 million in this area. The animal disease portion should be substantial and is urgently needed to protect the U.S. livestock industry. We appreciate the \$5 million allocated in 2002 for BSE research. We agree that BSE is an extremely important disease issue globally and believe that research is needed to help keep the U.S. free of this devastating disease. With this in mind, we remind the subcommittee that scrapie is a TSE that is endemic in the U.S. and we recommend that these monies for BSE research be utilized in such a manner that the resultant research assists with scrapie eradication needs. We also respectively remind the subcommittee that scientists in the Animal Disease Research Unit (ADRU), ARS, Pullman Washington, have made significant progress in the early diagnosis of TSEs, in understanding genetic resistance to TSEs and in understanding mechanisms of TSE transmission, which are all important in eradication of TSEs. The programs of these scientists at ADRU should be enhanced and expanded to include, for instance, the development of further improvements in rapid and accurate TSE detection methods and to provide an understanding of the role of environmental sources of the TSE agent in the transmission of TSEs within the United States and world and to further understand the basis of genetic resistance and susceptibility to these devastating diseases.

We urge your support to restore the \$300,000 for collaborative research between ARS Animal Disease Research Unit in Pullman, Washington and the U.S. sheep experiment station in Dubois, Idaho concerning malignant catarrhal fever (MCF) research. These monies were established by congressional action in 2000 and have been successfully utilized to perform research leading to control methods for this important disease of sheep and cattle. Health and disease management was one of the four focus areas included in President's Section 201 relief decision. This funding is key in helping us address and develop vaccines for this very important disease.

Research into John's disease has received additional funding through ARS over the past several years, focusing on cattle. John'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 John's in sheep. We urge the subcommittee to send a strong message to ARS that John's disease in sheep should receive more attention at the National Animal Disease Research Center (NADC) with an emphasis on diagnostics.

ECONOMIC RESEARCH SERVICE

For over 20 years, there has been no publicly available retail price data on lamb. Our industry suffers because of this void. We urge the subcommittee to send a strong message to ERS that the publication of a retail price series is imperative to



pricing efficiency in the lamb industry and that funding for mandatory price reporting include collection and reporting of retail lamb price data.

COOPERATIVE STATE RESEARCH EDUCATION AND EXTENSION SERVICE (CSREES)

Minor Use Animal Drugs is a "Special Research Grant" that has had great benefit to the U.S. sheep industry. The research under this category and the companion "NRSP-7" program through FDA/CVM has provided research information on therapeutic drugs that are needed for the approval process. Without this program, American sheep producers would not have effective products to keep their sheep healthy. We appreciate the Administration's request of \$588,000 for this program and we urge the subcommittee to recommend that it be funded at least at this level to help meet the needs of our rapidly changing industry.

On-going funding for the Food Animal Residue Avoidance Databank (FARAD) program is critically important for the livestock industry in general and especially for "minor species" industries such as sheep where extra-label use of therapeutic products is more the norm rather than the exception. FARAD provides veterinarians the ability to accurately prescribe products with appropriate withdrawal times protecting both animal and human health. We urge the subcommittee to restore funding for FARAD at least to the 2002 level of \$800,000.

Ongoing research in wool is critically important to the sheep industry. ASI urges the subcommittee's support of \$294,000 for fiscal year 2003 through the special grants program of the CSREES for wool research.

ASI appreciates the special research grant funding in 2002 for the Montana Sheep Institute and for recognizing that sheep can be a powerful contributor to environmental enhancement in the northern Great Plains. We encourage the subcommittee to recommend funding of this program in 2003.

The industry greatly appreciates this opportunity to discuss these programs and appropriations important to the sheep industry.

PREPARED STATEMENT OF THE AMERICAN SOCIETY FOR MICROBIOLOGY

The Food and Drug Administration (FDA) represents a pivotal position in national health and safety and successfully performs a wide-range of duties as a protector of public health in the United States. Last year the FDA reviewed the safety and efficacy of consumer products worth \$1 trillion, and monitored more than 100,000 U.S. firms that manufacture or process these products. Agency inspectors annually screen almost 8 million shipments of import goods at our national ports of entry. Today heightened threats to our national security demand even more vigilance and scientific expertise from FDA personnel. The American Society for Microbiology (ASM), the largest single life sciences society representing over 40,000 scientists, strongly supports the Administration's fiscal year 2003 budget request of \$1.7 billion for FDA, an increase of \$123 million, or nearly eight percent (8 percent) above the fiscal year 2002 level.

Increased funding for the FDA will help to expand both science-based programs and well-trained personnel capable of responding to more urgent and more complex demands for public protection. The ASM also concurs with the programs given priority in the proposed budget: that is, enhancing FDA's already intensive counterterrorism programs, expanding salary and staff resources, further emphasis in decreasing medical errors related to medical products, and continuing a strong defense against unsafe or ineffective consumer goods.

The widespread public trust in FDA activities is well deserved, as the agency for decades has reviewed carefully both new and on-the-market products, ranging from toothpaste to sophisticated medical lasers and tissue transplants. Most of the food consumed in the United States is under FDA surveillance as well, as are such health threats as microbial resistance to antibiotics and in-hospital medical errors. The ASM urges Congress to approve significant funding increases in supporting the FDA's focus areas of food safety, safe and effective medical products, and physical security of this country and its citizens.

*Science for Safety and Security*

The role of the FDA is a complex blend of law and science. Consumer protection laws are upheld through careful reviews or evaluations based on the latest in science and technology. With the rapid scientific changes expected in coming years, the ASM believes it is essential that the FDA remains at the forefront of these changes. Up-to-date science is considered the agency's foundation, whether its personnel are enforcing regulations, reviewing new-product applications, or assisting in policy development. Among those current FDA responsibilities dependent on solid

science are the federal efforts against antimicrobial resistance among pathogenic microorganisms, attempts to understand and prevent transmission of bovine spongiform encephalopathy (BSE, or “mad cow disease”), and responsibility for the safety of bioengineered foods and other products. Cutting-edge areas under FDA purview will include medical imaging, stem cell-derived products, biosensors, new drug delivery systems, robotics, organ replacements, products from transgenic organisms, and more.

Only by staying ahead of the scientific curve can the FDA maintain its credibility as the nation’s principal protector of product safety and efficacy. The short-staffed agency must be able to train additional researchers and inspectors, as well as strengthen its extramural research grant programs. Given the FDA’s role in new-product approval, the failure to provide adequate scientific resources to an already overburdened organization could hinder both public health and public safety initiatives. In the past, the agency has worked efficiently to improve processes such as the review of new drugs, which has been shortened from an average of 30 months to a year, and the number of new drugs appeared annually has increased by almost 40 percent. Such efforts have persisted within the framework of solid scientific expertise.

The ASM strongly supports efforts to increase and enhance FDA’s science research base. FDA must be given the resources to keep pace with accelerating technology and to take advantage of scientific opportunities to best serve the American public. Basic research by the FDA contributes to the Agency’s ability to adapt to constant changes in its consumer constituency and respond to future public health threats.

#### *Counter-Terrorism at the FDA*

The FDA has a well-deserved reputation of being able to assess threats to public safety and managing those risks. Recent events of terrorism and bioterrorism have altered specific FDA goals for the coming year, but these goals fall firmly within the agency’s long-standing approach of risk identification and prevention. The FDA will focus on three areas identified as security issues: safe and effective medical products to treat victims of an attack, food safety, and physical security of FDA facilities and programs. The FDA has been entrusted with two functions within the national response to terrorism, that is, to facilitate the ready supply of medications to prevent or treat terrorism-related injuries, and to prevent the intentional contamination of consumer products such as food and pharmaceuticals. Included in the President’s fiscal year 2003 counter-terrorism budget is \$159 million for FDA.

In recent months, the specter of bioterrorism shifted from theory to threat, and then to reality. In 2000, the FDA approved a drug for treatment of post-exposure inhalational anthrax, in anticipation of such dire events. The agency now is a partner B along with the NIH, the CDC, and others B in a new vaccine/drug development continuum devoted to the prevention and treatment of such diseases as smallpox and anthrax. The FDA will continue its regulatory functions, as all of its centers focus on new biologics (vaccines and antibiotics), rapid diagnostic devices, and additional trained personnel specializing in bioterrorism. Other FDA counter-terrorism goals for the coming year further reflect the agency’s wide-ranging responsibilities, including a doubling of the number of physical exams of import goods and an intensified laboratory analysis of suspicious items, as well as the inspection of imported goods coming through 45 ports of entry not previously examined. In all of these efforts, the FDA adheres to its stated principles of using solid science as a basis for accurate decision-making; maintaining strong collaborations with industry, government, and other stakeholders; regulating products throughout their use by the public; and considering the global nature of product development and consumption.

#### *Product/Consumer Safety*

The balance between benefits and risks of a proposed new product is the central question asked by FDA personnel each time they evaluate new drugs and biologics (vaccines, blood products, gene therapy, biotechnology products), medical devices, or food additives. Such risk assessment is absolutely vital to our national health and must be well-funded from year to year. While the FDA does not itself develop new products, it thoroughly assesses laboratory data in both pre- and post-market reviews of consumer goods, a costly responsibility. The FDA recently negotiated with product manufacturers to use industry funds for product/device review. This is the first time that resources will be allowed for risk management activities of products after they enter the marketplace. The ASM recommends that FDA-regulated areas such as blood product assessment be adequately funded. United States investments in biomedical research, promises advances such as animal organ transplants and cellular and gene replacement therapies. These new products must each be evalu-

ated by one or more of the FDA's research centers before entering the public health arena.

At the Center for Biologics Evaluation and Research (CBER), FDA investigators oversee biological products such as blood, vaccines, therapeutics and related devices. They will be responsible for implementing new regulations governing tissue and cell transplants, made more important with today's increases in reconstructive surgery and with the potential uses for animal tissues in treating human disorders. FDA monitoring of transplantation tissue like bone, skin, and corneas includes donor screening to prevent spread of communicable diseases and rigorous record-keeping by medical centers. The agency is in the process of revising its regulations, part of its on-going efforts to refine and strengthen disease prevention. CBER also regulates human gene therapy products, expected to be a major source of medical treatments in the future. Genomics, informatics, and transgenic animals are just some of the cutting-edge advances about which FDA scientists must be thoroughly trained, as entirely new types of products enter the regulatory system. In February, for instance, the FDA approved the first nucleic acid test system to screen whole blood donors for infections with both HIV and hepatitis C virus, providing earlier and more sensitive detection of contaminated blood.

Other FDA institutes likewise deal with burgeoning products to be reviewed within the context of innovative science. Last year the Center for Drug Evaluation and Research (CDER) approved 66 new drugs, 24 of which contained ingredients never before marketed in this country. Ten drugs received priority status because of their clear benefit to public health, including a new oral treatment for chronic myeloid leukemia that the FDA approved in a record 2.5 months. The CDER also continues to watch more than 10,000 drugs currently on the market, as well as drug advertising to assure it is truthful. The Center for Devices and Radiological Health (CDRH) contends with more than 20,000 firms worldwide that produce more than 80,000 different medical devices for the U.S. market, from contact lenses to heart valves. Among the thousands of products approved last year was a skin substitute made of human fibroblast cells, used to help heal diabetic foot ulcers. Over the past five years, through streamlined efforts by the CDRH, approval times for novel, high-potential medical devices declined by about half, to 12 months.

The use of many thousands of medical products too frequently results in adverse events, causing harm to patients. Recent studies suggest that drug- and device-related mistakes are the single greatest cause of preventable patient injury. Annual estimates of the damage in the United States include up to 100,000 deaths, more than 3 million hospital admissions, and an economic cost ranging from \$20 million to \$75 million. The FDA records more than 350,000 reports of adverse events annually, but believes that about half of the deaths and injuries could be avoided through strict adherence to its patient safety initiatives. These include clarifying instructions to physicians and patients and expanding requirements for reporting adverse events. The CBER and the CDC, for example, jointly manage the Vaccine Adverse Event Reporting System, a post-market surveillance system to collect information on vaccination side-effects. The FDA also has pioneered the international harmonization of drug standards; as a result, producers in the United States, the European Union, and Japan are coordinating event reporting and drug instructions.

#### *Food Safety*

Nutritious food flows into American homes, restaurants, and markets from overseas and from domestic producers, in large part due to the diligence of FDA inspectors and scientists. Each year about \$240 billion of food is produced in the United States, while an additional \$15 billion worth is imported from every part of the world. Roughly 80 percent of this abundant food supply is the responsibility of the FDA, which regulates all but meat, poultry, and some egg products controlled by the U.S. Department of Agriculture. The FDA's Center for Food Safety and Applied Nutrition (CFSAN) and Center for Veterinary Medicine (CVM) have a tremendous responsibility in assuring that this food is safe, wholesome, and free from disease.

In the United States foodborne diseases cause approximately 76 million illnesses, 325,000 hospitalizations, and 5,000 deaths each year. Annual hospitalization costs exceed \$3 billion, plus the cost from lost productivity may be an additional \$8 billion. Food-related outbreaks of infections from such pathogenic bacteria as *Escherichia coli* and *Listeria* continue to plague Americans. Control of foodborne illness is increasingly complicated because of emerging pathogens like *E. coli* O157:H7 and the BSE agent; the fact that more food is prepared and consumed outside the home; and the dramatic movement worldwide of food imports and exports. Other factors likewise causes problems, such as the link between antibiotic use in animal feeds and rising incidences of human infections by antimicrobial resistant bacteria. Con-

sequently, the FDA rightly argues for tighter controls and more education both among consumers and within the food production industry.

Last year, the FDA took specific steps to strengthen procedures that prevent unsafe food from entering the United States, and to widen its domestic efforts against food-related health threats. Using funds from the fiscal year 2003 budget, the agency plans to double the number of physical exams of food imports performed last year. It is a partner in the multi-agency National Food Safety Initiative, with the goal of “effective detection, response, and control of foodborne and waterborne pathogens.” It also is part of a coordinated effort, the Egg Safety Action Plan, intended to cut in half the number of salmonella-caused illness due to contaminated eggs by 2005. Drawing from its considerable experience in information gathering and dissemination, the FDA participates in several nationwide surveillance and emergency response systems; e.g., PulseNet, which collects DNA “fingerprints” of bacteria that may be foodborne pathogens. CFSAN initiated widespread use of the Hazard Analysis and Critical Control Point (HACCP) system that inserts preventative controls at the most contamination-susceptible points within food production processes. Thus far, CVM inspectors have collaborated in nearly 10,000 inspections of animal feed facilities, searching for sources of the “mad cow disease” pathogen.

*The FDA in an Era of Complexity*

Today’s complicated social, scientific, and economic pressures are demanding more and more from FDA resources and personnel, creating a clear and present need for increased support. The ASM is concerned that growing shortages in trained staff and scientific capabilities will diminish the FDA’s traditional role as protector of public health. The FDA has a labor-intensive, science-based mission that necessitates sufficient numbers of well-trained employees. Most (60 percent) of the agency’s budget, in fact, goes towards payroll costs, and nearly half of its employees are “in the field” inspecting and educating. The number of import shipments of foreign-produced products under FDA review rose from about 1.5 million in 1992 to 6 million in 2000. FDA investigators are now able to sample less than 1 percent of all foods entering the United States, due to the large volumes imported.

Challenges faced by the FDA are changing along with society and science in this era of increasing complexity. An aging population of Americans changes the types of new medical drugs and devices needed most urgently. Advances in human genetics and artificial intelligence create both unforeseen opportunities and unanticipated problems that must be reviewed carefully by the FDA. Radiation safety issues and the intentional release of chemicals or microbial pathogens have forced recognition of bioterrorism as an FDA priority. More than 100 million people consulted the internet last year for medical advice from FDA sources, raising the agency’s public outreach efforts to new levels. International trade has formed an interlocking worldwide web of inspections, product review, and education campaigns. Adapting to these changes is critical, if the FDA is to continue to protect public health and national security.

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PREPARED STATEMENT OF THE AMERICAN SOCIETY FOR MICROBIOLOGY

The American Society for Microbiology (ASM), the largest single life science organization in the world, comprised of more than 42,000 members, appreciates the opportunity to provide written testimony on the fiscal year 2003 budget for the U.S. Department of Agriculture (USDA) research and education programs.

The ASM represents scientists who work in academic, medical, governmental and industrial institutions worldwide and are involved in research to improve human health and the environment. Microbiological research is directly related to agriculture involving foodborne diseases, bioterrorism, new and emerging plant and animal diseases, soil erosion and soil biology, agricultural biotechnology, and the development of new agricultural products and processes. The ASM is a member of the Coalition on Funding Agricultural Research Missions (CoFARM), which represents scientific societies and organizations involved in formulating research directions and needs for agricultural research.

The U.S. agricultural system is one of the most productive and efficient in the world, due in part to continued investments in science. Agricultural research has led to many advances, including biotechnology, which contributes to a more abundant and nutritious food supply and a more environmentally friendly food production process, while reducing agriculture’s reliance on chemical fertilizers, pesticides, and fungicides. Unfortunately, public investment in agricultural research has been stagnant for several years impeding scientific advancement and progress, despite the recognized importance of the agriculture sector in the economy. According to the

National Science Foundation's (NSF) Division of Science Resources Studies, agricultural research made up only 4 percent of all public funds devoted to basic research and only 2 percent of total R&D expenditures for fiscal year 2000.

U.S. agriculture, however, faces an array of challenges, including the threats of new and reemerging diseases, agroterrorism, and public concern about food security and its impact on the environment. It is critical to increase the visibility and investment in research to respond to these challenges. The ASM encourages the Subcommittee to build upon the renewed focus on agricultural research supported in the Administration's fiscal year 2003 USDA budget. This will not only benefit U.S. agriculture but also the health and well-being of every American.

#### INFECTIOUS DISEASES IN PLANTS AND ANIMALS

It is important to recognize a growing threat to the U.S. agricultural system that requires immediate attention—the threat of new and emerging infectious diseases. Like the human population, U.S. agriculture is also experiencing severe problems caused by new and emerging infectious diseases in plants and animals. Changes in agricultural practices, agroterrorism, population growth, climate, microbial evolution, animal migration, and international trade and travel are all factors in introducing new plant and animal diseases into the U.S. agriculture system and natural resources, such as oak trees in California. The lack of knowledge to manage effectively and control new and reemerging infectious diseases often leads to very serious consequences from lost productivity from quarantines to embargoes, and the destruction of plants and animals to control the spread of diseases. For example, citrus canker has cost millions in tree destruction in Florida. Research, monitoring, surveillance, and new sources of resistant genetic material, including the use of biotechnology, may enable continued growth of citrus trees commercially and by homeowners. New technologies, e.g. the polymerase chain reaction, now enables us to detect minute quantities of etiological agents, including those previously ascribed to physiological problems in plants, such as the class of viruses known as luteoviruses.

#### COOPERATIVE STATE RESEARCH, EDUCATION AND EXTENSION SERVICE

In 1989 the Board on Agriculture of the National Research Council (NRC) recommended that public investment through competitive research grants in agriculture, food, and the environment be made a national priority. To address this monumental task, Congress (1991) created the National Research Initiative Competitive Grants Program (NRI) in the hope of generating new knowledge and reinvigorating research in agriculture, food, and environmental science (National Research Initiative: a Vital Competitive Grants Program in Food, Fiber, and Natural-Resources Research, NRC, 2000). The ASM strongly supports competitive peer reviewed research that is open to all the nation's scientists.

The ASM urges the Subcommittee to fund the NRI at the President's requested \$240 million budget. This level of funding would strengthen the commitment of the USDA to the competitive merit review process, provide funds for fundamental research with long-term potential for new discoveries, and better sustain human resource opportunities in agricultural research. Despite previous funding levels, the NRI has yielded extensive scientific advancements that are comparable to some of those made at other agencies that fund peer-reviewed research. For instance:

- Microbial pathogens represent the most serious contamination problem facing the U.S. food supply. This threat has expanded to include the intentional release of food/animal/plant pathogens into the U.S. agricultural system. Research supported by the NRI has led to the development of immunomicrobial biosensors for the detection of Salmonella in foods. Research will continue to expand this technology to include Toxoplasma and Escherichia coli O157:H7. This technology is the foundation of future advances in on-site, on-demand analyses of agricultural products.
- Economic losses of animals and attendant pain and suffering can occur due to diseases, such as Marek's disease virus (MDV), a herpesvirus, in chickens and avian pneumovirus (APV) in turkeys. These diseases are being examined at the genetic level to understand pathogenic properties that would be candidate disease intervention targets.

#### AGRICULTURAL RESEARCH SERVICE

The ASM recommends that the Subcommittee build upon the Administrations proposed \$1 billion budget for fiscal year 2003, which is a \$223 million decrease from fiscal year 2002. The Agricultural Research Service (ARS) is the principal in-house research agency in USDA in the area of natural and biological sciences. The imminent threats of bovine spongiform encephalopathy (BSE) and foot-and-mouth

disease in animals and plum pox in plants are examples requiring new and extensive research. Agroterrorism also presents a serious threat to the American agricultural system and requires a renewed focus on animal and plant pathogens. Therefore, the ASM recommends that increased funding in this area be distributed equally between plant (emerging and exotic diseases of plants (\$5.4 million fiscal year 2003 increase)) and animal research (emerging, reemerging, and exotic diseases of animals (\$8 million fiscal year 2003 increase)) at \$10 million each for fiscal year 2003. This increase will allow ARS to focus on improving rapid and accurate detection systems for animal and plant diseases and pathogens and effective treatment protocols. Research will also be directed to developing diagnostic and vaccine technologies that will ultimately improve the nation's ability to control disease outbreaks, and mitigate the threats of tomorrow to the nation's animal, plant, and grain products.

The ASM also believes continued support of agricultural genomic research is a critical component of our nation's research enterprise. Increasingly, environmental factors are requiring new and novel solutions to plant production, protection (pest), nutritional content and food safety that are being addressed through genomic research. The ASM endorses the Administration's increase (\$6.9 million) for genomic research, which includes funds for microbe sequencing and identifying genes that affect resistance, reproduction, nutrition, and other important traits.

The ASM is pleased to see the Administration continues to recognize the pivotal role ARS will play in safeguarding U.S. agriculture. The Administration proposes \$5 million for biosecurity needs within the ARS. This money will modestly fund research into new tools for identifying specific genetic attributes of a pathogen, which will improve global disease and pest surveillance, as well as enhancing U.S. food security and its appeal in the global marketplace. The ASM highly recommends increasing funding in this pivotal area in the fiscal year 2003 budget.

#### ANIMAL AND PLANT HEALTH INSPECTION SERVICE

U.S. agriculture is uniquely vulnerable, due to its size and variety of products, to infectious diseases and pests. The Animal and Plant Health Inspection Service (APHIS) has the critical role of policing the U.S. infrastructure that is in place to prevent, diagnose and respond to these threats. The U.S. needs to continue to upgrade its biosafety systems to prevent foreign animal and plant diseases from entering the domestic agriculture system. This sentinel network requires new, accurate and cost effective diagnostic tools and updated information technology. The ASM is pleased that the Administration's budget reflects APHIS's daunting task of combating animal and plant diseases by allocating additional resources (\$48 million) for monitoring and responding. The ASM is also encouraged by the Administration's total funding for APHIS at \$1 billion, which is level with fiscal year 2002. While this amount is not an increase over fiscal year 2001 or 2002, it does reflect the rapidly changing needs of APHIS and its role in addressing animal and plant health monitoring and outbreak management.

#### FOOD SAFETY

Foodborne illness continues to pose a major public health problem in the U.S. The ASM recommends that the Subcommittee provide additional funding to USDA to expand food safety research. In a recent report it was estimated foodborne diseases cost the U.S. billions in medical costs and lost productivity (salmonellosis, only 1 of many foodborne infections, have been estimated to cost \$1 billion/year) and an estimated 76 million illnesses a year (CDC 2000). Further reducing foodborne illness requires not only preventing contamination through improved processing and inspection, but also educating consumers to avoid unsafe consumption choices and to prepare food safely to avoid cross-contamination. The 1997 Food Safety Initiative recognizes this with funding for a national media campaign to encourage safe food handling.

Microorganisms continue to adapt to their changing environments and begin to "out smart" current techniques to control their presence. Many foodborne microbes have developed resistance to conventional food preservation and disinfection techniques and continue to proliferate. It is also important to note that the diversity of microorganisms affecting food safety changes with time, processing techniques, location and other factors. To illustrate the growing problem, one need only examine the number of USDA and FDA regulated food product recalls because of harmful bacteria. In 1995 the USDA and FDA recalled 265 products due to microbial hazards; in 1999, the number of recalls rose to 337.

## MICROBIAL GENOMICS

Microbes are involved in all aspects of agriculture, from beneficial uses of microbes in food (i.e., yogurt, cheese, and bread), to pest controls, to the spread of disease in plants and animals, and the contamination of the food supply. Studying the genomes of agricultural microbes is expected to enable development of new technologies to provide improved foods and better pathogen control to protect the nation's crops, to reduce the incidence of plant and animal disease, and to ensure a safer food supply. Thus, ASM is highly supportive of microbial genomics through the NRI program. Microbial sequencing is also expected to lead to speedier and more accurate identification of microbes, identify targets for intervention, as well as potential new antimicrobial agents. Coordination and cooperation with the National Science Foundation in this area is particularly promising. In conjunction with an interagency working group on microbes that focuses on sequencing and bioinformatics.

## BIOBASED PRODUCTS

The ASM continues to support the promising research to accelerate the conversion of agricultural materials and byproducts into biofuels, such as soybean oil conversion into (bio)diesel fuel. Such scientific advancements in biobased product research have the added benefit of enhancing farm income, strengthening U.S. energy security, rural revitalization, and environmental stewardship. Current scientific estimates suggest that energy production from biofuels could generate up to 10 percent to 15 percent of the nation's energy needs. ASM believes agriculture can play a positive role in achieving U.S. energy security and encourages the Subcommittee to consider the benefit biofuels represent to the entire agricultural and consumer community.

## GLOBAL COMPETITIVENESS

Recent adoption of the Uruguay Round, which confines the use of import restrictions on agriculture products of the General Agreement on Tariffs and Trade (GATT) and the North American Free Trade Agreement (NAFTA) pose great challenges to American agriculture. While domestic advances in agricultural technology, including biotechnology, have achieved great strides in food production, safety, and nutrition, they will also provide similar advances to other nations. Agricultural competitiveness in the global economy depends upon the ability of producers and processors to make measurable production and quality gains while providing desirable products that are reliable and safe. Agricultural research in food safety, production systems, and biotechnology will be key instruments in maintaining America's agricultural competitiveness, while providing food security.

The ASM encourages Congress give high priority to agricultural research for fiscal year 2003. Many of today's scientific achievements leading to the development of biotechnology, genetically modified foods, improved crops and plant-based products and an improved environment have their roots in the basic research conducted by the USDA. The future holds many challenges from the monitoring of the ecological impact of transgenic plants to research in plant and animal diseases that is requisite to combating agricultural bioterrorism. We urge the Administration and Congress to assist the USDA to address these issues.

The ASM appreciates the opportunity to provide written testimony and would be pleased to assist the Subcommittee as the Department of Agriculture bill is considered throughout the congressional process.

## PREPARED STATEMENT OF THE AMERICAN SOCIETY FOR NUTRITIONAL SCIENCES

The American Society for Nutritional Sciences (ASNS) is the principal professional organization of nutrition research scientists in the United States representing 3,000 members whose purpose is to develop and extend the knowledge and application of nutrition science. Our members include scientists involved in human as well as animal nutrition research. ASNS members hold positions in virtually every land grant and private institution engaged in nutrition-related research in the United States as well as industrial enterprises conducting nutrition and food related research.

## THE NEED FOR FEDERALLY FUNDED NUTRITION-RELATED RESEARCH

The need for nutrition science and research is critical within the USDA. The USDA has a unique role in the area of nutrition research, particularly as it applies

to human nutrition. For example, although there is a serious and obvious commitment to the funding of disease-related research within the National Institutes of Health, issues important to the basic mechanisms of nutrient function and the safety of the food supply have traditionally been the purview of USDA funded research. An NIH analysis of funding for biomedical research and training calculates that less than 4 percent of total NIH funding is linked to nutrition. This is in spite of heightened consumer interest in nutrition and health, and in spite of potential cost-savings in disease-prevention. This funding percentage has remained constant for the past 10 years. Thus, the USDA is the preeminent Federal agency for nutrition research in regard to maintaining human health.

A recent NRC report examining the National Research Initiative's Competitive Grants program, characterized USDA support of human nutrition research as having "experienced considerably less funding support in the National Research Initiative Competitive Grants Program (NRI) than most other [divisions]". However, competitive USDA funding of nutrition research has only increased 18 percent in the past 5 years, which is a rate of increase far below the increase in total NIH funding (15 percent per year for the past 4 years).

Most of the recent work on nutrient content and availability in various foods has come from USDA-NRI supported research. From a consumer perspective, it is this type of information that is often the most useful. It is clearly an important extension of the commodity-oriented research carried out by our land grant universities.

We need to continue to invest in research as greater challenges face us in the future. Increasing populations, international economic competitiveness, improving the environment and minimizing healthcare costs through disease prevention are all areas that will continue to demand solutions for the future. These solutions might include advances in the understanding of the genetic basis of disease and the genetic basis of nutrient requirements for optimal health, which will require greater understanding of how nutrition and dietary information can be used for disease prevention in at-risk populations. In recent years nutrition research has led to nutritionally improved school lunches, implemented changes in safety requirements, and increased awareness for pregnant women, children and the elderly.

The economic impact on society in healthcare costs produced by advances in nutrition research is significant in the number of dollars saved by the American taxpayer. As health costs continue to rise, it is imperative that our medical practices take a preventive approach. This requires a thorough understanding of the role of nutrients in foods in preventing chronic illnesses such as heart disease, cancer and diabetes.

Nutrition and agricultural research are areas that impact the constituents of every congressional district in the nation. New technologies are demanded to reduce the likelihood of pathogen transmission by food, to improve the quality of processed foods, and to deliver greater nutritional value in foods. Research in the areas of food safety and human nutrition has paid-off with considerable benefits to society.

#### SIGNIFICANT NUTRITION-RELATED RESEARCH ACCOMPLISHMENTS

*Fighting Cancer with the Right Foods.*—Cows that eat fish oil as part of their feed produce milk with higher concentrations of conjugated linoleic acid, a compound shown to help prevent cancer. USDA-funded research shows that butter, yogurt, and ice cream produced from this milk also contain healthful compounds and that consumers like the taste. Efforts are under way to develop a corn hybrid that will synthesize genistein, an isoflavone in soybeans that protects against breast, prostate, and colon cancers.

*Nutritional Value of Corn Increased.*—Cereals provide about 70 percent of the protein in our diets. However, most of that protein lacks all of the essential amino acids. Researchers have characterized the mechanism by which genes mutation increases lysine in corn. Humans require 5 percent lysine in their diet, while most maize contains only about 3 percent. Scientists have discovered that a protein needed by cells to function normally is rich in lysine (10 percent), and its level doubled in the gene (*opaque2*) needed to increase lysine. Now, laboratories around the world are applying this discovery to improving protein quality in their locally grown corn varieties.

*New Insights into the Causes of Obesity.*—Current estimates show that half the American population will be clinically obese by the year 2030. This is up from 30 percent today. The direct costs of treating complications of obesity, plus the indirect costs from lost productivity, represent a \$100 billion annual burden on the U.S. economy. Variation to dietary fat has been documented in mice. Researchers studying fat-resistant and fat-sensitive mouse strains have found that after being released from adipose tissue, leptin travels via the bloodstream to the brain, where



it binds to specific receptors in the brain. These receptors produce a coordinated series of responses to match rates of energy being utilized with rates of food intake. The leptin resistant mice show a breakdown in the communication system between adipose tissue and the brain, which regulates stabilization of body weight. Scientists expect this research will show fundamental new insights into the causes of leptin resistance and will serve as the basis for developing treatments and strategies for this debilitating condition.

#### RESEARCH FUNDING MECHANISMS AND ISSUES

##### *Competitive Grants*

The NRC report, "National Research Initiative", suggests that inadequate funding for competitive research has "limited its potential and placed the NRI program at risk." A competitive system for allocating government research funds is the most effective and efficient mechanism for focusing efforts on cutting edge research aimed at improving the health of the American people. Competitive grants provide the most effective, efficient and economic return to the public. ASNS strongly supports the competitive grants process as reflected in the National Research Initiative and believes that an open, merit and peer review process, applied as extensively as possible throughout the research system, is the preferred way to distribute research funds among qualified scientists and to support the most meritorious new concepts. For these reasons, we strongly urge this subcommittee to support the Administration's request to double the NRI competitive grants program in fiscal year 2003 to \$240 million.

##### *Initiative for Future Agriculture and Food Systems*

The Initiative for Future Agriculture and Food Systems (IFAFS) has supported large, multi-disciplinary, multi-center research programs with an educational outreach component. IFAFS includes provisions for peer review and for public input. Research stemming from IFAFS complement the individual investigator basic and applied research of the NRI. Such broad-based efforts are necessary for complex problems such as agricultural genomics. ASNS urges the sub-committee to consider a stable mechanism of funding to continue this program.

##### *Nutrition Monitoring*

Under an agreement between the Department of Health and Human Services Centers for Disease Control and Prevention (CDC), National Center for Health Statistics (NCHS), and the USDA Agricultural Research Service (ARS/USDA), the ARS and NCHS agreed to collaborate on a program of national nutritional monitoring. This agreement establishes a cooperative diet and nutrition monitoring program integrating the previously conducted Continuing Survey of Food Intakes by Individuals (CSFII) and the National Health and Nutrition Examination Survey (NHANES) in 2002.

The USDA, through its Agricultural Research Service, has conducted the CSFII, which was designed to assess food consumption and related behavior in the U.S. population using personal interviews. The CSFII was conducted periodically with the most recent survey being conducted in 1998. The Department of Health and Human Services, through its National Center for Health Statistics (part of the Centers for Disease Control and Prevention), conducts the NHANES, which was designed to assess the health and nutritional status of the U.S. population using personal interviews and direct physical examination. NHANES, previously periodic, began continuous operation in 1999.

The Senate has long supported USDA's role in food security, progress on foot and mouth disease, WIC, and prevention of diseases such as diabetes, cancer, and heart disease. And so, ASNS asks for your support of data collection essential to policy making in all of these areas. Health and dietary information gathered from the USDA/DHHS survey is critical to the Nation and plays a key role in shaping a variety of policies and programs including food safety, food labeling, child nutrition programs, food assistance, and dietary guidance. To ensure that the USDA/ARS nutrition monitoring activities for fiscal year 2003 continue and include 2 days of dietary recall on 5,000 individuals, interviews for diet and health knowledge, food program information, continued updating of food composition data, and prompt coding and processing information, we urge you to appropriate \$7 million or an increase of \$4 million above the fiscal year 2002 budget.

##### *Animal Welfare*

Research using animals has been crucial to virtually every advance in medicine in the past century. Agents for control of high blood pressure and the management of diabetes, vaccines for the control of poliomyelitis and mumps, development of arti-

ficial joints and heart-lung machines, and many more medical advances have depended on animal research. USDA's Animal and Plant Health Inspection Service (APHIS) is charged by Congress to enforce the Animal Welfare Act (AWA).

The question of whether the USDA should extend the Animal Welfare Act to rats, mice, and birds is one of many issues before this committee. Although this sounds like a simple solution, it is not, and that is why the research community has opposed this extension of the USDA's responsibilities. Good animal care is important for both humane and scientific reasons, but other oversight programs are in place to cover the vast majority of rats, mice, and birds used in biomedical research. Adding the USDA's oversight to those programs would force research institutions to do more paperwork without improving the welfare of these animals. We are, therefore, pleased to report to you that in February the Senate by unanimous consent adopted a farm bill amendment by Senator Helms that would codify the existing administrative exclusion of rats, mice, and birds. It is ASNS's hope that this provision becomes law and that this issue will be resolved.

#### CONCLUSION

Agriculture has been and will continue to be important to human health in terms of food that provides proper nutrition for healthier people. As the future challenges us with more complicated diseases, research is forced to expand outside the traditional disciplines and approaches, such as the work that is being done in plant and animal genomics. Transgenic plants and animals offer potential for new developments never before thought possible. New approaches must be implemented to address new societal concerns. For example, research in areas of how our food is produced, biosecurity and terrorism, pesticide usage, animal care and food handling issues also present demands to our scientists. These demands and opportunities must be answered in a way that sustains or enhances our quality of life. Although greater challenges lie ahead, agricultural research funding continues to be stagnant.

Thank you for considering our request for the NRI and other important research programs within the USDA. We hope that you will call upon the expertise of our members as the committee continues to deliberate these very important research areas.

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#### PREPARED STATEMENT OF THE AMERICAN SOCIETY OF CIVIL ENGINEERS

Chairman Kohl and Members of the Subcommittee: The American Society of Civil Engineers (ASCE) is pleased to offer this testimony on the President's proposed budget for the Natural Resources Conservation Service (NRCS) for fiscal year 2003.

ASCE was founded in 1852 and is the country's oldest national civil engineering organization. It represents more than 125,000 civil engineers in private practice, government, industry and academia who are dedicated to the advancement of the science and profession of civil engineering. ASCE is a 501(c)(3) non-profit educational and professional society.

ASCE is concerned that for the second consecutive year, no funds have been requested in the President's budget to fund the Small Watershed Dam Rehabilitation Program that was authorized on November 9, 2000, in Public Law 106-472, Section 313. Congress corrected this error in fiscal year 2002 and appropriated \$10 million—the full authorized amount. We urge the Committee to appropriate the fully authorized amount for fiscal year 2003—\$15 million. We hope the outcome of the fiscal year 2003 appropriations process will enable this vital work to continue and expand as we seek to preserve, protect and better manage our nation's water and land resources. Every state in the United States has benefited from the Small Watershed Program.

Of the 78,000 dams in the United States, 95 percent are regulated by the states. Approximately 10,400 of these dams are small watershed structures built under the United States Department of Agriculture programs authorized by Congress beginning in the 1940s (primarily the Flood Control Act of 1944, Public Law 534 and the Watershed Protection and Flood Control Act of 1953, Public Law 566). By the year 2020, more than 85 percent of all dams in the United States will be more than 50 years old, the typical useful life span.

#### THE URGENT NEED FOR FEDERAL ACTION

The benefits from the 10,400 improved watershed dams are enormous. The dams provide downstream flood protection, water quality, irrigation, local water supplies and needed recreation. Yet these benefits to lives and property are threatened. The small watershed dams are approaching the end of their useful lives as critical com-

ponents deteriorate. The reservoirs become completely filled with sediment, downstream development increases the potential hazards and significantly changes the design standards, and many dams do not meet state dam safety standards.

Although these dams were constructed with technical and financial assistance from the Department of Agriculture, local sponsors were then responsible for operation and maintenance of the structures. Now these dams are approaching the end of their useful lives, yet the resource need is still great. The flood control benefits, the irrigation needs, the water supply, the recreation and the conservation demands do not end. In fact, they are more necessary than ever as downstream development has dramatically increased the number of people, properties and infrastructure that are protected by the flood control functions of these dams. The Federal Government has a critical leadership role in assuring that these dams continue to provide critical safety and resource needs.

The NRCS in the Department of Agriculture has estimated the cost of rehabilitating the small watershed dams at \$542 million. While the average rehabilitation cost per dam is approximately \$242,000, the local sponsors typically do not have sufficient financial resources to complete these necessary repairs to assure the safety and critical functions of these dams. The Federal Government must recognize the urgent need to provide assistance to maintain these dams. Congress should reinforce its earlier commitment to the goals of the Flood Control Acts of 1944 and 1953.

#### EXTENT OF THE PROBLEM

ASCE views funding of dam safety repairs as a critical need. In ASCE's 2001 Report Card for America's Infrastructure dams received a grade of D. Nearly 2,000 unsafe dams have been identified in this country and many of the owners do not have sufficient funding sources. In 2000, Congress proposed funding of \$600 million over 10 years to rehabilitate small watershed dams, but the legislation enacted only authorizes \$90 million spread over 5 years. However, this is an important first step in recognizing and resolving the enormous problem with deteriorating and aging dams. Many of these urgent repairs and modifications are needed because of the following: downstream development within the dam failure flood zone, replacement of critical dam components, inadequate spillway capacity due to significant watershed development and increased design criteria due to downstream development.

Many of the small watershed dams do not meet minimum state dam safety standards and many that are being counted on for flood protection can no longer provide flood protection due to excessive sedimentation and significant increases in runoff from development within the watershed. The dams suffer from cracked concrete spillways, failing spillways, inoperable lake drains and other problems that require major repairs that are beyond the capability of the local sponsors.

#### THE COST OF NO ACTION

These small watershed dams have been a silent and beneficial part of the landscape. Failure to make the necessary upgrades, repairs and modifications will increase the likelihood of dam failures. Continued neglect of these structures may easily result in reduced flood control capacity causing increased downstream flooding. Failure of a dam providing water supply would result in a lack of drinking water or important irrigation water.

The floods in Georgia in 1993 and in the Midwest in 1994 are recent reminders of natural events that can cause enormous disasters, including dam failures. The failure to act quickly will clearly result in continued deterioration and a greater number of unsafe dams until a dam failure disaster occurs. The failure of a 38-foot tall dam in New Hampshire in 1996, which caused \$5.5 million in damage and one death, should be a constant reminder that dam failures happen and can have tragic consequences.

Completion of the needed repairs will result in safer dams, as well as continued benefits. Failure to establish a mechanism to reinvest in these structures will greatly increase the chances of dam failures and loss of benefits, both having significant economic and human consequences. Costs resulting from flood damage and dam failure damage are high and unnecessarily tap the Federal Government through disaster relief funds or the National Flood Insurance Program.

#### RECOMMENDATION

ASCE urges the committee to approve full funding at the authorized level of \$15 million, for the Small Watershed Dams Rehabilitation Program (Public Law 106-472, Section 313). Additionally, we would like to see these rehabilitation funds be a separate line item in the NRCS budget in an effort to better track the rehabilita-

tion funding approved by Congress. While, this is well short of the demonstrated need of \$60 million a year for 10 years, it would be a step in the right direction.

The condition of our nation's dams, and the need for watershed structure rehabilitation, should be a national priority before we have to clean up after dam failures that we know are likely to happen if nothing is done.

ASCE also supports a research and development (R&D) program as we get the structural rehabilitation process underway. In the USDA, the Agricultural Research Service (ARS) undertakes that work. We respectfully request that \$1.5 million be included in the ARS budget for small watershed research. These funds would be used for evaluation of upstream and downstream changes to the stream channel systems in cases of decommissioning, evaluation of the water quality impact of stored sediment releases, and the evaluation of impacts of the loss of flood protection, among other things.

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PREPARED STATEMENT OF AQUATICA TROPICALS, INC.

Mr. Chairman and Members of the Subcommittee, I appreciate the opportunity to provide testimony in support of funding for the Regional Aquaculture Center program. My name is J.M. Marty Tanner. I own and operate Aquatica Tropicals, Inc., and Hi-Tech Fisheries of Florida, Inc. I have been in the ornamental aquaculture business for 20 years. For the last 6 years, I have had the privilege of serving on the Industry Advisory Council of the Southern Regional Aquaculture Center (SRAC). I also serve on the Board of Directors of the Florida Aquaculture Association and the Florida Tropical Fish Farmers Association.

It is important that the Subcommittee understand the importance of aquaculture in the United States. Production of ornamental fish has increased drastically over the years. We are currently the number one valued aquaculture product out of Florida, and third in the United States. Tropical fish producers are currently experiencing rapid declines in market shares and have been assaulted by increased competition from Asian countries. Having suffered drastic declines in market after the September 11th attacks, the need for research and development of new technology has never been as important as it is today.

I feel that the Regional Aquaculture Center program is essential to help meet the need for technology development. Through projects already completed from the Regional Aquaculture Center, results have significantly impacted the production of domestic aquaculture. Serving as a Steering Committee member of several SRAC projects, the process of scientists from the regional states working collaboratively to identify and solve problems inherent to the Southern Region has saved millions of dollars in lost production and labor.

Historically, projects supported through the Regional Aquaculture Center programs have returned economic benefits many times the amount invested. Additional funding of new research will help insure future success and growth of U.S. aquaculture.

In summary, I am convinced that the Regional Aquaculture Center programs are very productive and valuable. The need for continued and increased funding could not be more timely.

Thank you for allowing me the opportunity to submit testimony on behalf of the Regional Aquaculture Centers, and on behalf of the U.S. aquaculture industry, I express my sincere appreciation for your continued support.

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PREPARED STATEMENT OF CAROLINA CLASSICS CATFISH, INC.

Mr. Chairman and Members of the Subcommittee: It is a pleasure to have the opportunity to offer testimony in support of the Regional Aquaculture Center program. My name is Robert Mayo and I am President of Carolina Classics Catfish, Inc., a fully integrated company in the farm-raised catfish industry. Headquartered in North Carolina, our operations include feed milling, catfish production, and processing and marketing. We also process the catfish grown by sixty family farmers located in North Carolina, South Carolina and Georgia. We sell our farm raised catfish fillets and other products to the food industry in the eastern United States, Canada, as well as in Europe and Asia.

I started the business in 1985 as the first commercial catfish operation on the U.S. East Coast, at a time when the U.S. farm-raised catfish industry was producing 192 million pounds of catfish, primarily in the deep south states. Our company has grown steadily along with the U.S. catfish industry. Last year, the U.S. produced 597 million pounds of farm-raised catfish on farms located from Virginia to California. Today catfish is one of the major fish species consumed by Americans,

helping to offset the \$3 billion trade imbalance in edible seafood. Even as catfish continues to grow and represents the largest segment of U.S. aquaculture, we find ourselves dwarfed by aquaculture industries abroad, who are, frankly, growing in size and sophistication at a faster rate than the U.S. In the coming years, catfish and all of U.S. aquaculture must rise to the challenge of competition or our nation's seafood imbalance will continue to widen.

The Regional Aquaculture Center program is, in short, the research funding program that supports catfish and the other U.S. aquaculture industries with research on the issues and problems that we face. I can attest to the fact that the Southern Regional Aquaculture Center has served and is serving the needs of the catfish industry through its carefully-designed and funded programs of work. To give you an idea of the breadth of work that SRAC funds, I would like to offer two project examples:

Through funding from the Southern Regional Aquaculture Center, research on the effluents from aquaculture ponds has produced extensive data on the components of those effluents, and is leading to the development of Best Management Practices for the operators of aquaculture facilities. Information from this project is likely to be used by regulators in the future, including the Environmental Protection Agency as it develops Effluent Limitation Guidelines. Through its funding of the project, the Southern Regional Aquaculture Center has provided producers of catfish, baitfish, striped bass and other species with the tools for adopting Best Management Practices with regard to effluents, as well as establishing extensive data that can be used in rulemaking efforts in the future.

The Southern Regional Aquaculture Center also funds a broad, valuable pipeline of information that is transmitted to the aquaculture industry through its ongoing Publications, Videos and Computer Software project. This provides for widespread and quick access of information on production and marketing of aquaculture products sourced from 113 authors. SRAC fact sheets, videos, and other publications are accessed and used by a broad clientele of aquaculturists. I can tell you that virtually all of the aquaculture producers that we work with have read or used SRAC publications at one time or another on subjects ranging from specific diseases to financial aspects of their operations. Our company regularly retrieves and uses SRAC publications from the internet for immediate, up-to-date information for issues on which we need assistance.

Thank you for your time and support of the Regional Aquaculture Center program. I strongly request that the program be funded for the existing five Centers for fiscal year 2003. Full funding is needed to support our U.S. aquaculture industry in its effort to continue to grow and compete with the large industries developing abroad. U.S. aquaculture provides jobs and commerce in rural areas, and serves to help balance our nation's seafood trade.

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#### PREPARED STATEMENT OF THE CATFISH FARMERS OF AMERICA

Mr. Chairman and Members of the Subcommittee, I appreciate the opportunity to provide testimony in support of the USDA Regional Aquaculture Center program. My name is Hugh Warren, and I am Executive Vice President of the Catfish Farmers of America. Founded in 1968, and with current membership of over 1,700 from 40 states, the Catfish Farmers of America is the trade organization that represents the interests of the farm-raised catfish industry.

Production of farm-raised catfish has increased over 80-fold since 1970, a phenomenal rate of growth that is unmatched in other segments of domestic agriculture. Per capita consumption of farm-raised catfish now ranks fifth among all seafood products in the United States. Because farm-raised catfish has become a widely accepted food item throughout much of the United States, the demand for catfish should continue to increase turn toward fish as part of their overall diet.

Production of safe, high-quality products is the foremost goal of fish farmers. A recently completed project developed and sponsored by the Southern Regional Aquaculture Center evaluated pesticide and metal residues in farm-raised fish. The project involved scientists from six states in the region—Alabama, Florida, Georgia, Louisiana, Mississippi, and Texas. The study was initiated because of highly publicized reports of contamination seafood products that did not discriminate between wild-caught fish and farm-raised fish. This study found that levels of harmful metals and pesticides in farm-raised fish were many times lower—often more than 100 times lower—than FDA-recommended levels. The study also showed that levels of contamination in farm-raised fish are lower than fish caught from the wild because the water used to raise fish on farms is cleaner than most natural waters. This project has helped assure the quality and safety of aquaculture products, and lets

consumers know that fish products from aquaculture are superior to most wild-caught fish.

Producing food in an environmentally sound manner is another fundamental goal of American aquaculture. Research and extension scientists in Alabama, Arkansas, Florida, Georgia, Louisiana, Mississippi, North Carolina and South Carolina recently cooperated in a Southern Regional Aquaculture Center project to evaluate waste management practices that reduce the impact of aquaculture on the environment. Results of the project showed that aquaculture ponds can be operated with minimal impact on the environment by using simple management practices that can be implemented with little or no extra expense or labor. These practices have been widely adopted in the southeast because aquaculture producers are aware that the use of environmentally responsible farming practices can be part of the marketing appeal of farm-raised fish.

The above two projects represent only a small part of the impact of the Regional Aquaculture Center program, yet funding for the program has not increased over the last 10 years, and the program has operated at half its authorized funding level. Meanwhile, domestic aquaculture has grown at a remarkable rate and the cost of conducting research has increased. These trends make it difficult for the Center program to address the needs of this important segment of American agriculture. I respectfully request your sincere consideration of the Regional Aquaculture Centers in the fiscal year 2003 budget, and I urge you to provide funding at the full authorized level of \$7.5 million for the five Regional Centers.

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PREPARED STATEMENT OF THE CES MANGROVE TROPICALS

Mr. Chairman and Members of the Subcommittee, I am writing this testimony in strong support of the USDA Regional Aquaculture Centers in particular the Center for Tropical and Subtropical Aquaculture (CTSA). Hawaii is at the forefront of marine aquaculture technology due in part to the benefits of having such strong support through CTSA. The development of marine ornamental aquaculture in particular has been greatly affected by the work done through CTSA. The marine ornamental aquaculture industry is a new and growing industry. The demands on the environment from wild collection and the growing trend toward conservation have catapulted marine ornamental aquaculture to the forefront of aquacultural sciences and presents tremendous business opportunities.

Mangrove Tropicals, Inc. is a marine aquaculture facility in Hawaii where we produce marine ornamental fish and invertebrates as well as marine food fish fingerlings. With such diversified products, we have many times taken advantage of CTSA research. We are the only U.S. farm producing the Giant clams, Tridacnidae, which we learned from CTSA technical publications (Spawning and Early Larval Rearing of Giant Clams CTSA Pub. No. 130 and Nursery and Grow-out Techniques for Giant Clams CTSA Pub. No. 143.) We have also had the benefit of communicating with the author through CTSA to advance both his and our knowledge and experience.

The Aquaculture of Marine Ornamentals project, is a research project that led to the first time production of a highly valued marine angelfish. This discovery is the most important first step in opening up the majority of marine aquarium species to eventual commercial production. The marine ornamental industry is a \$250 million global business and the advances made through this project will have a definite effect on this market. The collection of wild caught species will decline, as their captive-bred counterparts become more available. My facility, as well as many others in this region, will have new products that are particular to this region, which give us a tremendous competitive advantage.

Mangrove Tropicals' other products include marine food fish: Moi, Mullet, and Milkfish. Through CTSA projects, the eggs are made available to commercial producers for hatching and growout. We have been able to produce these species using techniques based upon CTSA research and technical manuals. More species are being proposed for study through CTSA projects and have the potential for a huge impact on the future of the industry. The growing food fish industry in Hawaii is in great need for food fish hatcheries and will depend on the eggs and manuals provided by CTSA.

The impact of CTSA greatly extends past Hawaii and covers the largest geographical distribution of any of the regions. This also includes being involved with other countries and protected territories. The difficulties that occur due to this diversity are monumental. CTSA has to not only deal with the great distances to reach all the constituents of the region but also the cultural and governmental differences. Through all of these difficulties, CTSA has been able to provide for the re-

gion and has helped business and research that affects the global community. As a region, we have the potential to be a leader in aquaculture production but our growth has been slow. I feel that with increased funds, CTSA would be able to do much more and possibly accelerate the rate at which they are helping aquaculture grow in the Pacific.

I strongly urge you to support full or increased funding for all the Regional Aquaculture Centers. These centers are extremely important to all regions and deserve full funding and complete support of the United States Senate Appropriations Subcommittee on Agriculture, Rural Development and Related Agencies. I appreciate your time and consideration.

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PREPARED STATEMENT OF THE COALITION OF EPSCoR STATES

Mr. Chairman and Members of the Subcommittee, thank you for the opportunity to submit this testimony on behalf of the Coalition of EPSCoR States<sup>1</sup> regarding the U.S. Department of Agriculture Experimental Program to Stimulate Competitive Research (USDA EPSCoR). USDA EPSCoR is extremely important to agricultural research in the state of Mississippi and in our nation. I appreciate the opportunity to submit this testimony.

I would also like to extend my appreciation to you, Mr. Chairman, for your strong support of USDA EPSCoR. This important program is having a significant impact in Mississippi and in the other USDA EPSCoR states. Your support and the support of this Subcommittee have been absolutely crucial in establishing and maintaining this important program. Mr. Chairman, those of us committed to improving Mississippi's research and development capability deeply appreciate your support and your effort. Thank you for your fine work representing Mississippi in the United States Senate.

Seven Federal agencies have EPSCoR or EPSCoR-like programs, including USDA. EPSCoR works to improve our country's science and technology capability by funding activities of talented researchers in states that have historically not received significant Federal R&D funding. USDA EPSCoR was established in fiscal year 1992 with the goal of increasing the amount of agricultural research at academic institutions within states that have received limited competitive funding from USDA.

The Mississippi EPSCoR program began in 1988 with the naming of the state EPSCoR Committee by the Governor. Mississippi EPSCoR obtained its first funding in 1989 from USDA EPSCoR's sister program in the National Science Foundation. Since that time, EPSCoR has had an enormously positive impact within the state and at the four research institutions and their affiliates.

Because of the multi-institutional framework of EPSCoR and of the commitment of the state EPSCoR Committee to creating a critical mass of scientists and engineers around specific issues as well as a more fully developed statewide infrastructure, Mississippi EPSCoR has produced a stronger, more competitive research community and closer working relationships among the institutions that participate in the Federal EPSCoR programs: Jackson State University, Mississippi State University, The University of Mississippi and The University of Mississippi Medical Center, and The University of Southern Mississippi.

Mr. Chairman, USDA EPSCoR is helping to improve the quality and competitiveness of agriculture research in Mississippi. Since the program was established in 1992, a number of Mississippi researchers have received USDA EPSCoR Strengthening Awards. These investigators have been located at Mississippi State University, The University of Mississippi Medical Center, and The University of Southern Mississippi.

Important examples of Mississippi's research include studies in such areas as: kenaf processing, which is a potential economic opportunity for rural states; rapid detection of E coli, an important factor in food safety; and disease mechanisms in channel catfish, which impacts a significant cash crop across the southern part of the country. These projects and many, many others address issues important to rural states and to the rest of the nation. USDA EPSCoR allows researchers across our country to contribute to our economy and our agricultural research knowledge base.

USDA EPSCoR states are those whose funding ranks no higher than the 40th percentile of all states, based on a 3 year rolling average. The following states are eligible: Alaska, Arkansas, Connecticut, Delaware, Hawaii, Idaho, Kentucky, Maine,

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<sup>1</sup>Alabama, Alaska, Arkansas, Idaho, Kansas, Kentucky, Louisiana, Maine, Mississippi, Montana, Nebraska, Nevada, North Dakota, Oklahoma, Puerto Rico, South Carolina, South Dakota, Vermont, West Virginia, and Wyoming.

Mississippi, Montana, Nevada, New Hampshire, New Mexico, North Dakota, Rhode Island, South Carolina, South Dakota, Utah, Vermont, West Virginia, Wyoming, and the Commonwealth of Puerto Rico. Let me stress that EPSCoR relies on rigorous merit review in order to ensure that it funds only high-quality research.

USDA makes four types of competitive awards through USDA EPSCoR: Research Career Enhancement Awards, Equipment Grants, Seed Grants, and Strengthening Standard Research Project Awards. Proposals must be related to the program priorities of the National Research Initiative Competitive Grants Program, which address critical issues facing agriculture today.

- Strengthening Standard Research Project Awards fund standard research projects of investigators who have not received a NRICGP grant within the past 5 years.
- Research Career Enhancement Awards help faculty enhance their research capabilities by funding sabbatical leaves. Applicants may not have received a NRICGP competitive research grant within the past 5 years.
- Equipment Grants strengthen the research capacity of institutions in USDA EPSCoR states. The maximum equipment cost is \$250,000. The USDA NRI contribution is limited to \$50,000. Non-Federal matching funds are required in all cases except for small and mid-sized institutions requesting equipment costing \$25,000 or less and serving multiple uses within a research project or which is can be used in multiple research projects.
- Seed Grants enable researchers to collect preliminary data in preparation for applying for a standard research grant. Seed Grant awards are limited to a total cost of \$75,000, including indirect costs, for 2 years and are nonrenewable. Applicants must indicate how the research will enhance future competitiveness in applying for standard research grants.

Through USDA EPSCoR, Mississippi and the other USDA EPSCoR States contribute more effectively to our nation's science and technology capability, and help provide our country with needed, high-quality, peer-reviewed research. This program allows all regions of our country to contribute to our nation's science and technology capability while allowing flexibility to meet regional research needs. USDA EPSCoR is a sound investment of taxpayer dollars.

Mr. Chairman, the Subcommittee has for several years directed USDA to set aside 10 percent of USDA NRICGP funds for USDA EPSCoR. Those funds have provided significant opportunity and significant success in Mississippi and the other EPSCoR states. I request that the Subcommittee once again include report language directing USDA to set aside 10 percent of its NRI competitive grant funds in fiscal year 2003 for an EPSCoR program. These funds will allow the EPSCoR states to continue providing for the agricultural research needs of rural America and of our nation.

I thank the Subcommittee for the opportunity to submit this testimony.

#### 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, cooperatives, small businesses, regional trade organizations, and the State Departments of Agriculture (see attached). We believe the U.S. must continue to have in place policies and programs that help maintain the ability of American agriculture to compete effectively in a global marketplace still characterized by subsidized foreign competition.

Farm income and agriculture's economic well-being depend heavily on exports, which account for one-third or more of domestic production, provide jobs for millions of Americans, and make a positive contribution to our nation's overall trade balance. In 2002, U.S. agriculture exports are projected to be around \$54 billion, down \$6 billion from 1996. This is caused by a combination of factors, including continued subsidized foreign competition and related artificial trade barriers. U.S. agriculture's trade surplus is also expected to be about \$14 billion, down approximately 50 percent from 1996, with imports continuing at record levels.

According to recent USDA information, the EU and other foreign competitors are outspending the U.S. by a factor of 20 to 1 with regard to the use of export subsidies and other expenditures for export promotion. In 1998 (the most recent year for which data is available), in addition to spending \$6 billion in export subsidies, our leading foreign competitors spent a combined \$1 billion on various activities to pro-



mote their exports of agricultural, forestry, and fishery products, including some \$379 million by the EU.

According to USDA, spending by these competitor countries on market promotion increased by 50 percent over the 1995–98 time period, while U.S. spending remained flat. We have no reason to believe that this trend has changed since then. Furthermore, almost all of this increase has been directed to the high-value and consumer-ready product trade.

Information compiled by USDA also shows that such countries are spending over \$100 million just to promote sales of their products in the United States. In other words, they are spending more to promote their agricultural exports to the United States, than the U.S. currently spends (\$90 million) through MAP to promote American-grown and produced commodities worldwide! In fiscal year 1999, the U.S. recorded its first agricultural trade deficit with the EU of \$1 billion. In fiscal year 2001, USDA reported that the trade deficit with the EU had grown to \$1.6 billion.

Because market promotion is a permitted “green box” activity under World Trade Organization (WTO) rules, with no limit on public or producer funding, it is increasingly seen as a centerpiece of a winning strategy in the future trade battleground. Many competitor countries have announced ambitious trade goals and are shaping export programs to target promising growth markets and bring new companies into the export arena. European countries are expanding their promotional activities in Asia, Latin America, and Eastern Europe. Canada, Australia, New Zealand, and Brazil have also sharply bolstered their export promotion expenditures in recent years.

As the EU and our other foreign competitors have made clear, they intend to continue to be aggressive in their export efforts. For this reason, we believe the Administration and Congress should immediately strengthen funding for MAP and other export programs, and ensure that such programs are fully and aggressively utilized. Since MAP was originally authorized, funding has been gradually reduced from a high of \$200 million to its current level of \$90 million a reduction of more than 50 percent. Again, given what our foreign trade competitors are doing, we believe it's time to restore funding for this vitally important program up to its original level. American agriculture is the most competitive industry in the world, but it can not and should not be expected to compete alone against the treasuries of foreign governments.

In order to reverse the decline in funding for a number of our agricultural export programs, the Coalition strongly supports an increase in annual funding for MAP to \$200 million, restoring the program to the level at which it was funded approximately a decade ago. The Coalition also supports separate funding of \$43.25 million annually for the Foreign Market Development (FMD) Cooperator Program. Both MAP and FMD are administered on a cost-share basis with farmers and other participants required to contribute up to 50 percent of their own resources.

These programs are among the few tools specifically allowed under the Uruguay Round Agreement to help American agriculture and American workers remain competitive in a global marketplace still characterized by subsidized foreign competition. The over 70 U.S. agricultural groups that share in the costs of the MAP and FMD programs fully recognize the export benefits of market development activities. In fact, they have sharply increased their own contributions to both programs over the past decade while USDA funds have actually dropped. Since 1992, MAP participants have increased their contributions from 30 percent (30 cents for every dollar contributed from USDA) to almost 120 percent (\$1.20 in industry funds for every USDA dollar). For FMD, the contribution rate has risen from 76 percent to the current level of 120 percent. By any measure, such programs have been tremendously successful and extremely cost-effective in helping maintain and expand U.S. agricultural exports, protect American jobs, and strengthen farm income.

For all these reasons, we want to emphasize again the need to help strengthen the ability of U.S. agriculture to compete effectively in the global marketplace. 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.

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PREPARED STATEMENT OF THE COLORADO RIVER BASIN SALINITY CONTROL FORUM

The Congress concluded that the Colorado River Basin Salinity Control Program should be implemented in the most cost-effective way and realizing that agricultural

on-farm strategies were some of the most cost-effective strategies authorized a program for the Department of Agriculture. With the enactment of the Federal Agriculture Improvement and Reform Act of 1996 (FAIRA), the Congress concluded that the Salinity Control Program could be most effectively implemented as one of the components of the Environmental Quality Incentives Program. Since the enactment of FAIRA, the Salinity Control Program has not been funded at a level adequate to ensure that salinity damages from the use of Colorado River water in the United States will not increase. This testimony in support funding has been prepared in advance of Congressional action on a new farm bill. We are encouraged that both the House and the Senate have passed measures that significantly increase funding for EQIP.

The Salinity Control Program has been subsumed into the EQIP program without the Secretary of Agriculture giving adequate recognition to the requirement in Section 202(c) in the Colorado River Basin Salinity Control Act to carry out salinity control measures. Water users hundreds of miles downstream are the beneficiaries of this water quality improvement program. Agriculturalists in the Upper Basin, however, see local benefits as well as downstream benefits and have submitted cost-effective proposals to the State Conservationists in Utah, Wyoming and Colorado. Priority Area proposals for EQIP funding are ranked in each State under the direction of the Natural Resources Conservation Service (NRCS) State Conservationist. Existing ranking criteria, however, does not consider downstream benefits (particularly out of State benefits) when proposals are being evaluated.

After longstanding urgings from the States and directives from the Congress, the Department has concluded that this program is different than small watershed enhancement efforts common to the EQIP program. In this case, the watershed to be considered stretches more than 1200 miles from the river's headwater in the Rocky Mountains to the river's terminus in the Gulf of California in Mexico. The Department has now determined that this effort should receive a special fund designation and has appointed a coordinator for this multi-state effort.

The NRCS has earmarked funds to be used for the Colorado River Basin Salinity Control Program and has designated this an area of special interest. This was done at the urging of this Senate subcommittee. The Forum appreciates the efforts of the subcommittee in this regard. Since the designation, there has been earmarked about \$4.5 million annually. The States added about \$1.5 million in up-front cost-sharing and local farms, we estimate, contributed about another \$2.0 million. The plan for water quality control of the river prepared by the Forum, adopted by the States, and approved by the EPA requires that the USDA portion of the effort to be funded at \$12 million. Hence, there is a shortfall from the Federal designated funds of about \$7.5 million. State and local cost-sharing is triggered by the Federal appropriation. The entire effort is only at about 40 percent of what is needed. The USDA indicates that more adequate funding for the EQIP program will result in more funds being allocated to the salinity control 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 waiting for their applications to be considered so that they might also cost share in the program.

The President's Budget includes an additional \$73.5 billion in funding over a 10-year period for Farm Bill programs. The Budget assumes that a portion of this will be allocated to conservation programs, including funds to support a \$1 billion level for EQIP in 2003. The Forum urges that this subcommittee support the funding at the \$1 billion level from the CCC in fiscal year 2003 for EQIP. The Forum also requests that this subcommittee advise the Administration that \$12 million of these funds be designated for the Colorado River Basin Salinity Control Program.

#### OVERVIEW

The Colorado River Basin Salinity Control Program was authorized by Congress in 1974. The Title I portion of the Colorado River Basin Salinity Control Act responded to commitments that the United States made, through a minute of the International Boundary and Water Commission, to Mexico with respect to the quality of water being delivered to Mexico below Imperial Dam. Title II of the Act established a program to respond to salinity control needs of Colorado River water users in the United States and to comply with the mandates of the then newly legislated Clean Water Act. Initially, the Secretary of the Interior and the Bureau of Reclamation were given the lead Federal role by the Congress. This testimony is in support of funding for the Title II program.

After a decade of investigative and implementation efforts, the Basin States concluded that the Salinity Control Act needed to be amended. Congress agreed and revised the Act in 1984. That revision, while keeping the Department of the Interior

as lead coordinator for Colorado River Basin salinity control efforts, also gave new salinity control responsibilities to the Department of Agriculture. Congress has charged the Administration with implementing the most cost-effective program practicable (measured in dollars per ton of salt removed). It has been determined that the agricultural efforts are some of the most cost-effective opportunities.

Since Congressional mandates of nearly three decades ago, much has been learned about the impact of salts in the Colorado River system. The Bureau of Reclamation has conducted studies on the economic impact of these salts. Reclamation recognizes that the damages to United States' water users alone are hundreds of millions of dollars per year.

The Colorado River Basin Salinity Control Forum (Forum) is composed of Gubernatorial appointees from Arizona, California, Colorado, Nevada, New Mexico, Utah and Wyoming. The Forum has become the seven-state coordinating body for interfacing with Federal agencies and Congress to support the implementation of a program necessary to control the salinity of the river system. In close cooperation with the Federal agencies and under requirements of the Clean Water Act, every 3 years the Forum prepares a formal report analyzing the salinity of the Colorado River, anticipated future salinity, and the program necessary to keep the salinities at or below the levels measured in the river system in 1972 and to control damages to downstream users.

In setting water quality standards for the Colorado River system, the salinity concentrations measured at Imperial, and below Parker, and Hoover Dams in 1972 have been identified as the numeric criteria. The plan necessary for controlling salinity has been captioned the "plan of implementation." The 1999 Review, Water Quality Standards for Salinity, Colorado River System, includes an updated plan of implementation. In order to eliminate the shortfall in salinity control resulting from inadequate Federal funding for the last several years for USDA, the Forum has determined that implementation of the salinity control program needs to be accelerated. The level of appropriation requested in this testimony is in keeping with the agreed to plan. If adequate funds are not appropriated, State and Federal agencies involved are in agreement that damage from the high salt levels in the water will be widespread and very significant in the United States and Mexico.

*State cost-sharing and technical assistance*

The authorized cost sharing by the Basin States, as provided by FAIRA, was at first difficult to implement as attorneys for USDA concluded that the Basin States were authorized by FAIRA to cost share in the effort, but the Congress had not given USDA authority to receive the Basin States' funds. After almost a year of exploring every possible solution as to how the cost sharing was to occur, the States, in agreement with the Bureau of Reclamation, with State officials in Utah, Colorado and Wyoming and with NRCS State Conservationists in Utah, Colorado and Wyoming, agreed upon a "parallel" program wherein the States' cost sharing funds will be used. We are now several years into that program and, at this moment in time, this solution to how cost sharing can be implemented appears to be satisfactory.

With respect to the States' cost sharing funds, the Basin States felt that it was most essential that a portion of the program be associated with technical assistance and education activities in the field. Without this necessary support, there is no advanced planning, proposals are not well prepared, assertions in the proposals cannot be verified, implementation of contracts cannot be observed, and valuable partnering and education efforts cannot occur. Recognizing these values, the "parallel" State cost sharing program expends 40 percent of the funds available on these needed support activities. Initially, it was acknowledged that the Federal portion of the salinity control program funded through EQIP was starved with respect to needed technical assistance and education support. The Forum is encouraged with the Administration's determination that 19 percent of the EQIP funds will be used for technical assistance but observes that this is still not adequate funding for the technical assistance needed. The Forum urges this subcommittee to appropriate adequate funds for these support activities rather than to direct NRCS to borrow these needed funds from the CCC.

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PREPARED STATEMENT OF THE 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 Coalition, we are pleased to submit this statement for the record in support of our fiscal year 2003 funding request of \$500,000 from CSREES for the Central California Ozone Study (CCOS).

Most of central California does not attain Federal health-based standards for ozone and particulate matter. The San Joaquin Valley is developing new State Implementation Plans (SIPs) for the Federal ozone and particulate matter standards in the 2002 to 2004 timeframe. The San Francisco Bay Area has committed to update their ozone SIP in 2004 based on new technical data, and the Sacramento area also plans to re-evaluate their ozone SIP in that timeframe. In addition, none of these areas attain the new Federal 8-hour ozone standard. SIPs for the 8-hour standard will be due in the 2007 timeframe—and must include an evaluation of the impact of transported air pollution on downwind areas such as the Mountain Counties. Photochemical air quality modeling will be necessary to prepare SIPs that are approvable by the U.S. Environmental Protection Agency.

The Central California Ozone Study (CCOS) is designed to enable central California to meet Clean Air Act requirements for ozone SIPs as well as advance fundamental science for use nationwide. The CCOS field measurement program was conducted during the summer of 2000 in conjunction with the California Regional PM10/PM2.5 Air Quality Study (CRPAQS), a major study of the origin, nature and extent of excessive levels of fine particles in central California. CCOS includes an ozone field study, a deposition study, data analysis, evaluations of model performance, and a retrospective look at previous SIP modeling. The CCOS study area extends over central and most of northern California. The goal of the CCOS is to better understand the nature of the ozone problem across the region, providing a strong scientific foundation for preparing the next round of State and Federal attainment plans. The study includes six main components, some of which have been completed:

- Developed the design of the field study.
- Conducted an intensive field monitoring study from June 1 to September 30, 2000.
- Developing an emission inventory to support modeling.
- Developing and evaluating a photochemical model for the region.
- Designing and conducting a deposition field study.
- Evaluating emission control strategies for the next ozone attainment plans.

The CCOS is directed by Policy and Technical Committees consisting of representatives from Federal, State and local governments, as well as private industry. These committees, which managed the San Joaquin Valley Ozone Study and currently manage the California Regional PM10/PM2.5 Air Quality Study, are landmark examples of collaborative environmental management. The proven methods and established teamwork provide a solid foundation for CCOS. The sponsors of CCOS, representing state, local government and industry, have contributed approximately \$8.7 million for the field study. The Federal government contributed \$2,150,000 for some data analysis and modeling. In addition, CCOS sponsors are providing \$2 million of in-kind support. The Policy Committee is seeking Federal co-funding of an additional \$6.75 million to complete the remaining data analysis and modeling portions of the study and for a future deposition study. California is an ideal natural laboratory for studies that address Federal, agriculture-related issues, given the scale and diversity of the various ground surfaces in the region (crops, woodlands, forests, urban and suburban areas).

For fiscal year 2003, our Coalition is seeking funding of \$500,000 through the U.S. Department of Agriculture (USDA) Cooperative State Research, Education, and Extension Service (CSREES). Domestic agriculture is facing increasing international competition. Costs of production and processing are becoming increasingly more critical. The identification of cost-effective options for addressing environmental options affecting agricultural costs will contribute significantly to the long-term health and economic stability of local agriculture. A CSREES grant is needed to address the issue of biomass burning and alternatives to open burning. Biomass burning is managed in order to minimize smoke impacts and avoid violations of ambient air quality standards. The air quality impacts of using biomass as a fuel source and as an alternative to open burning need to be addressed. CCOS will improve the ability to assess the impacts of biomass power plants. A CSREES grant is also needed to improve livestock emission estimates in the air quality modeling inventory. Recent studies have shown that livestock emissions are poorly understood and can have significant impacts on ozone formation.

There is a national need to address data gaps and California should not bear the entire cost of addressing these gaps. National data gaps include issues relating to the integration of particulate matter and ozone control strategies. The CCOS field study took place concurrently with the California Regional Particulate Matter Air Quality Study—previously jointly funded through Federal, State, local and private sector funds. Thus, CCOS was timed to enable leveraging the efforts of the particulate matter study. Some equipment and personnel served dual functions to reduce the net cost. From a technical standpoint, carrying out both studies concurrently

was a unique opportunity to address the integration of particulate matter and ozone control efforts. CCOS was also cost-effective since it builds on other successful efforts including the 1990 San Joaquin Valley Ozone Study. Federal assistance is needed to effectively address these issues and CCOS provides a mechanism by which California pays half the cost of work that the Federal Government should pursue.

Scientists at the University of Nevada, Desert Research Institute (DRI) are involved with the CCOS. To expedite research studies related to biomass burning and smoke management for CCOS, it is requested that funds provided by CSREES be allocated directly to DRI.

We appreciate the Subcommittee's consideration of our request. Thank you very much.

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PREPARED STATEMENT OF COLUMBIA UNIVERSITY

Mr. Chairman, thank you for this opportunity to submit a statement for the Outside Witness Hearing Record. This statement provides a recommendation to improve and refine one of USDA's primary missions and goals relating to U.S. agriculture, the development of world supply and demand estimates for agricultural production and products.

The supply and demand analysis that USDA conducts requires the most accurate tools and mechanisms available. Columbia University's International Research Institute for Climate Prediction is recognized as the leader in climate modeling and interannual to seasonal forecasting. The IRI's partnership with USDA would result in improved supply and demand estimates, and therefore be of immense benefit to the U.S. agricultural economy. The details of this proposed linkage are discussed below.

OBJECTIVE

Continue Report language contained in the fiscal year 2002 Agriculture Appropriations Report in the Office of the Chief Economist that encourages USDA to utilize the expertise and tools provided by the International Research Institute for Climate Prediction in the assessment of foreign agricultural supply and demand estimates.

BACKGROUND

USDA's World Supply and Demand estimates for agricultural products could utilize the most sophisticated and accurate analytical tools available. The importance of advanced planning in crop production and reserve stocks in times of fluctuating foreign demand can assist the agricultural economy in maintaining financial stabilization and provide warnings to mitigate foreign famine. Foreign draught and famine, in addition to the tolls of human life and suffering, cause social and political unrest in third world countries, contributing to instability and economic hardships on third world national economies. Improved supply and demand estimates assist domestic producers and the entire agricultural economy, as well as provide the advance planning necessary to avoid or minimize damage in third world economies.

Columbia University's International Research Institute for Climate Prediction has developed the world's most accurate and long-range climate models and forecasting techniques in the areas of temperature and precipitation variability from average conditions. These two factors determine the surplus or deficit in foreign agricultural production. Improvement of the accuracy of USDA's long-range supply and demand estimates could be achieved with the involvement of IRI analysis and expertise in the an effort to obtain the necessary and available tools and mechanisms for foreign agricultural supply and demand estimates.

Brazil represents one of the most uncertain climate and weather driven agricultural variables in world food production. Tools available to USDA, such as the IRI, can assist the development of more accurate USDA monitoring of agricultural production and growing conditions in Brazil. This, in turn, will provide more informed analysis and estimates for U.S. decision makers in the public and private sectors for the impact of Brazil's production on world markets.

Africa represents the most vulnerable continent to temperature and precipitation variations caused by climate forcing agents such as El Niño and La Niña. The IRI is establishing a Health and Food Security Climate Project that will integrate global interannual to seasonal forecasts with regional climate modeling to provide the most accurate climate forecasting and predictive analysis for private and governmental decision makers. The agricultural component of this effort is crucial to the produc-

tion of USDA's supply and demand estimates, and also to key planting decisions both within the U.S. and abroad. The IRI's Health and Food Security Climate Project will focus on Africa and function as an independent institution that will work cooperatively with the Federal Government in the accomplishment of USDA missions and goals.

As a result of the Committee's Report language for fiscal year 2002, a constructive dialogue has developed between the IRI and USDA officials on a number of potential projects. The IRI, at USDA's invitation, conducted a forum on climate and agriculture at the annual USDA Outlook Conference in February, as well as providing an IRI exhibit in the Conference Exhibit Hall. These are positive first steps in what we believe will be a constructive collaboration between the IRI and USDA.

Thank you for this opportunity to submit this proposed linkage for the Subcommittee's consideration in deliberations on the fiscal year 2003 Agriculture Appropriations Bill.

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PREPARED STATEMENT OF THE COUNCIL FOR AGRICULTURAL RESEARCH, EXTENSION,  
AND TEACHING

Thank you, Mr. Chairman. I appreciate the opportunity to provide testimony again this year in support of the Land-Grant University System.

My name is Joseph E. Motz and I am the president of The Motz Group, an integrated company involved in the construction and management of high profile sporting field facilities around the world. Our offices, as well as my home, are located in Cincinnati, Ohio. I also have the privilege of serving as the Chairman of the Council for Agricultural Research, Extension, and Teaching, or you may know it as CARET.

CARET is a national group of volunteers representing farmers, ranchers, agribusiness leaders, consumers, and local elected officials who strongly believe in and work on behalf of the Land-Grant University System. The CARET group was formed a number of years ago for the expressed purpose of enhancing national support and understanding of the important role played by the land-grant colleges in the food and agriculture systems (both nationally and internationally), as well as the role of this system in enhancing the quality of life for all citizens of the nation.

As you know, the Land-Grant University System has made innumerable contributions to America's food, fiber, and agricultural production system. You also recognize that the Land-Grant University System has been an essential ingredient to the success of American agriculture and the health of the American public—in essence, the foundation of this nation's way and quality of life.

The Land-Grant University System is very unique and has been a critical component to the long-term success of the nation's agricultural community. It has provided technology and education enabling farmers, ranchers, and other stewards of natural resources in this country to manage their productive resources in a way that is efficient, yields the greatest and most nutritious quality and quantity of food in the world, and protects the natural environment. The contributions of the Land-Grant University System to American agriculture has had an enormous impact on the nation's economy, our balance of trade, the quality of our workforce, and the health and quality of life for every American citizen. Unfortunately, this research and education system that has given so much to the country continues to be taken for granted.

One of the most acute issues facing us today and that is the security of country and its agriculture. This new subject demands new research to enable our country to prepare for and prevent a terrorist attack. The Land-Grant System has a proven track record in providing cutting-edge research on homeland and agricultural security. We greatly appreciate the support received from Congress in the past, without which we would not have been able to do this research and education.

There are five necessary steps that the Land-Grant System could take to help prevent and prepare for a terrorist attack on the U.S. food supply. These steps are:

*The first step is to prepare to respond to emergency outbreaks.*—At the onset, biological attacks on our plant and animal species could appear to be a natural occurrence. However, a purposeful introduction will probably spread more quickly and from separate locations. Immediate recognition that there is an unnatural outbreak of a disease in multiple locations is critical if the spread of the disease is to be contained. Modeling and communication tools need to be developed that will facilitate early detection and recognition of unnatural outbreaks. The food and fiber production process opens up many opportunities where purposeful contamination could occur. Most existing safeguards were not designed to protect against intentional attacks. The private sector, the Federal Government and the universities will need to

develop new standards and protocols to: improve detection and monitoring practices; develop a secure communication system that alerts appropriate agencies and points of entry that a problem may exist, with guidance on appropriate actions; improve the ability to trace contamination back to its source; and, enhance communication networks with public health agencies, law enforcement agencies and state and local officials.

*The second step is to prepare to counteract terrorism.*—Agricultural sciences overlap with the medical sciences, particularly in the areas of animal health, pathology and microbiology. For example, much of the current knowledge about anthrax resides within the agricultural sciences community. Stepping up pathology, microbiology and other basic science research will provide us with the tools to minimize biological threats to agricultural security. More information about disease vectors would help shape both prevention and containment strategies. Such research could include the development of vaccines, agents to neutralize and treat the effects of disease outbreaks, and other technologies that can reduce the potential for contamination. Other types of research, such as GIS and spatial analysis, could help determine the size and scope of a possible attack.

*The third step is to build secure communities.*—Producers, processors, suppliers, retailers, and consumers may one day be the first responders to an agro-terrorist attack and thus play a pivotal role in quickly containing contamination. The Extension system can offer and provide educational programs to the private sector on how to secure their operations. Specialized training in agro-security for Extension agents is needed so that as “first responders” they have the ability to recognize possible threats and that they are trained in the appropriate protocols for working with local and Federal law enforcement and health agencies. Local communities will need assistance in creating and implementing plans to improve their ability to anticipate and respond to acts of agroterrorism. Just as the Department of Health and Human Services needs to help strengthen the ability of state and local health agencies to plan and prepare, so does the Department of Agriculture need to work with state departments of agriculture and rural community leaders to plan and prepare. USDA will need to collaborate with the Land-Grant Rural Development Centers and the Extension system to accomplish this mission.

In addition to building agro-security, there are additional security issues facing our communities: economic security, health security, and the need to build leadership and service at the local level. The state and county Extension system is in place to facilitate the implementation of multiple Federal agency security programs at the local level in over 3,000 counties.

*The fourth step is to address immediate security needs.*—Universities conducting agricultural research need to establish protocols to secure sites where hazardous materials are used and stored, including toxic chemicals, radioactive elements and contagious microbiological agents. Appropriate protocols for securing these materials should be developed in collaboration with USDA's Agricultural Research Service (ARS), the Animal and Plant Health Inspection Service (APHIS), and the Food Safety Inspection Service (FSIS).

University and Federal laboratory research often is openly communicated and stored electronically on computer networks. These networks could be used to locate and abuse hazardous materials. As well, research results and data that could be abused are often easily accessible via electronic posting and web sites. The universities and Federal research laboratories must develop protocols to safeguard this information while keeping necessary information and communication channels open.

As we have sadly learned, equipment and materials used in farming and ranching can be abused horribly. Fertilizers can be used in bombs and crop dusting planes can be used to spread bioweapons. The Extension system needs to develop a variety of agriculture and forest security programs for agricultural producers, natural resource managers, processors, suppliers and retailers to help them prevent, detect and respond to agroterrorism. Extension needs to work in partnership with state and local agencies and private operations to help them understand and implement protocols to prevent the abuse of these tools and materials.

In addition to better physical security for hazardous radioactive, toxic and biological materials, it will be important for state and Federal officials to be able to locate or track the location of these materials over time. Recent questions about the location of anthrax samples in Federal laboratories demonstrate why this new level of security will be needed. An inventory of materials with the potential for abuse needs to be aggregated across agricultural research facilities. A Federal determination of materials required for inventory should guide the process. As required for national security, information regarding the quantity and location of such materials should be provided to appropriate Federal, State and local emergency management agencies. This information must be securely maintained and updated regularly. There

are, of course, databases for some of these materials already in place; however, university-based agricultural research materials may not be included in these systems. USDA needs to take the lead in insuring that hazardous materials located in university research facilities are included in the appropriate database systems.

*The fifth and final step is to educate scientists, teachers and specialists.*—Who will provide the expertise for these efforts in the future? We will need people whose education concentrates on security in agriculture and natural resources. Courses or degrees in agricultural security will be necessary. This kind of expertise currently does not exist in institutions and initially will require outside expertise. Institutions will require help to design long-term educational programs that can provide the scientists and educators the ability to address the issues of agricultural security.

The costs of prevention are small. Severe economic disruption could result to our production, distribution and trade system, if we do not take responsibility to act now.

The purpose of my testimony today is to request support for the fiscal year 2003 budget recommendations of the National Association of State Universities and Land-Grant Colleges (NASULGC) Board on Agriculture Assembly (BAA). I, along with the membership of CARET, feel that the BAA budget recommendations adequately address the research and education needs of the Land-Grant System in helping this nation prepare for and prevent a terrorist attack upon any part of the agricultural sector of the nation.

The President's fiscal year 2003 proposal provides over \$6 billion to address biosecurity issues. We believe that the Land-Grant System can serve in a critical partnership with the United States Department of Agriculture to address agriculture security issues. Thus, CARET joins NASULGC in calling for a \$212 million increase in the funding for the Cooperative State Research, Education, and Extension Service (CSREES), U.S. Department of Agriculture (USDA) in fiscal year 2003.

CARET supports the President's budget recommendation along with a \$212 million increase for CSREES/USDA for fiscal year 2003. There is an urgent need to support this new funding to address agro-security issues through our Land-Grant and State Colleges and Universities. The President's proposed budget includes more than \$6 billion in new funding to address biosecurity concerns, including over \$2 billion in new funding for biosecurity research and development. Unfortunately, the President's budget does not adequately address the biosecurity issues facing the agricultural production and food-processing sector, particularly in the areas of research, outreach, and education. It appears that no funding has been proposed for USDA/CSREES to address national agro-security issues at the state and local level. The recommendations described here are for new funding, in addition to the President's proposed budget for CSREES and above funding levels provided in fiscal year 2002.

Additionally, CARET recognizes the President's proposed increase in the National Research Initiative (NRI) of \$120 million and strongly supports this proposed increase in the NRI. However, those of us in CARET would not support this increase in the NRI at the cost of losing the Initiative for Future Agriculture and Food Systems (IFAFS)—an invaluable program strongly supported by CARET.

The NRI supports critically needed basic, investigator-driven research. IFAFS supports critical multi-disciplinary team projects to address applied research and immediate problems facing farmers, ranchers and communities. Both funding mechanisms are needed. The BAA and CARET strongly urge the continuation of the IFAFS program. Of the proposed \$120 million increase for the NRI in the President's budget, we recommend that at least \$30 million be directed towards agro-security, specifically in the areas of developing technologies to counteract terrorism in the future. This would include investments in microbiology and pathology, as well as the development of vaccines and treatments for pathological materials.

In regard to facilities and security, CARET supports the BAA recommendation of \$50 million to address immediate security needs. Security upgrades are badly needed at our research facilities. There is legislative language proposed in several bills that would provide guidance regarding the need to upgrade security at our university research facilities. However, it is our understanding that adequate authority currently exists for the Congress to provide funding to upgrade security at our university research laboratories and facilities.

CARET also endorses and supports the Administration's recommendations to establish an International Science and Education Grants program at \$1 million and increase funding for Higher Education Programs (\$1.16 million for Challenge Grants and an increase of \$507,000 for the National Needs Graduate Fellowship Grants).

All of the technology and knowledge in the world are useless without the well-trained mind of someone to learn from it, apply it, and expand it. Undergraduate education in colleges of agriculture and life sciences is largely neglected in Federal



funding. All of the nation's students need to be equipped to become leaders in our nation's workforce. Their future and the nation's future are one in the same, and the nation can ill afford to poorly invest in this critical area.

The budget recommendations that are being advanced by CARET on behalf of the Land-Grant System are the result of a broad number of stakeholder meetings and receipt of substantial input from those that benefit from the research and education activities.

It is the strong belief of the CARET membership that increasing the funding for the Cooperative State Research, Education, and Extension Service (CSREES), U.S. Department of Agriculture (USDA) by \$212 million in fiscal year 2003 is the most cost effective and responsible way to provide for our agro-security needs while equipping American agriculture for the 21st Century. This amount of funding will secure America's food and agricultural system through research, extension, and education while facilitating the maintenance of America's competitive edge throughout the broad range of the production, processing, distribution, and retail system that moves commodities around the world. CARET also firmly believes that this funding level for agricultural science and education will enhance the health and welfare for our own citizenry as well as the people of the world. Certainly, we do not want the recent headlines about the food supply in the European community and other places in the world to be the future headlines in American newspapers.

Thank you for this opportunity to provide this testimony in support of the appropriations for continuing the fine work being done and the work that must be done at America's Land-Grant University System—a true national treasure!

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PREPARED STATEMENT OF DELTA WESTERN, INC.

Mr. Chairman and Members of the Subcommittee, I thank you for the opportunity to provide testimony in support of the USDA-CSREES Regional Aquaculture Centers. My name is Lester Myers. I own and operate a catfish farm near Inverness, Mississippi, and am President and General Manager of Delta Western, Inc., Indianola, Mississippi, the largest catfish feed mill in the United States.

Over the last 20 years, aquaculture has become an important part of United States agriculture. Production of channel catfish, the largest sector of domestic aquaculture, has increased more than 30 percent in the last 10 years—a growth rate matched by very few industries. Farm-raised channel catfish now makes up a remarkably large proportion of domestic seafood consumption and, on a value basis, catfish ranks fourth in the United States, behind only shrimp, salmon, and crabs. Further, a significant portion of the salmon consumed by Americans also derives from aquaculture.

As the catch from wild fisheries continues to decline, with no end in sight, the shortfall in seafood production must be met by increased aquaculture production. However, continued expansion and profitability of the aquaculture industry will depend on development of new technology to reduce production costs and make production more competitive in the global market. For the past several years, I have been actively involved with the Southern Regional Aquaculture Center as Chairman of the Industry Advisory Council, and I feel that the Regional Aquaculture Center program is essential to help meet the need for technology development. Already, results from the Regional Center projects are having a significant impact on domestic aquaculture. I would like to illustrate that point with the results of one project that I am very familiar with through my role as General Manager of a catfish feed mill.

Feeds represent about half the cost of raising fish in aquaculture, so advances in feed formulation and feeding practices can have a great impact on profitability. The recently completed project "Improving Production Efficiency of Warmwater Aquaculture Species through Nutrition" was one of the most successful projects developed through the Southern Regional Aquaculture Center. Scientists from nine states—Alabama, Arkansas, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, Tennessee, and Texas—cooperated on the project. These researchers, working collaboratively, identified the most cost-effective levels of vitamin and protein supplementation in feeds. Their work resulted in improved feed formulations and feeding practices that have saved the catfish, baitfish, and striped bass industries millions of dollars a year. For example, in the catfish industry alone, feed costs have been reduced \$2–4 a ton as a direct result of work on this project. Assuming overall feed use of 600,000 tons per year in the catfish industry, cost savings average \$1.8 million annually—over three times the amount spent on this project over its 3-year duration.

The project mentioned above is just one of many projects supported through the Regional Aquaculture Center program that return economic benefits many times the

amount invested. This funding efficiency is the result of the decentralized structure of the Regional Centers and the unique cooperative process used to develop research projects.

In summary, representatives of the U.S. aquaculture industry are convinced that the Regional Aquaculture Center programs are highly valuable and productive. Additional new research findings will help insure future success for aquaculture production in the United States. The authorized level of funding for the five Regional Aquaculture Centers is \$7.5 million annually. Despite an outstanding performance record and an organizational structure that has become a model for collaborative research in agriculture, funding for the Regional Center program has remained level at half the authorized level of funding, or \$4.0 million per year (\$800,000 for each of the five Regions). This has resulted in steady erosion of actual operating funds, at the very time when industry expansion calls for greater investment in research and development. I respectfully request that you recommend the full authorized level of \$7.5 million for the existing five Centers to support these extraordinarily important and effective programs.

On behalf of the U.S. aquaculture industry, I thank you for the opportunity to present testimony in support of the Regional Aquaculture Centers, and express my sincere appreciation for the support you have provided in previous years. Again, I would like to emphasize that significant benefits have already been provided from work conducted by these Centers and additional funding is urgently needed by our industry.

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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 the opportunity to present testimony before this Committee. I would like to take a moment to briefly acquaint you with Florida State University (FSU).

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 faculty are numerous recipients of national and international honors, including Nobel laureates, Pulitzer Prize winners as well as 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. Having been designated as a Carnegie Research I University several years ago, Florida State University will approach \$150 million this year in research awards.

FSU has initiated a new medical school, the first in the U.S. in over two decades. Our emphasis is on training students to become primary care physicians, with a particular focus on geriatric medicine—consistent with the demographics of our state.

Florida State attracts students from every county in Florida, every state in the Nation, and more than 100 foreign countries. The University is committed to high admission standards that ensure quality in its student body, which currently includes some 345 National Merit and National Achievement Scholars, as well as students with superior creative talent. We consistently rank in the top 25 among U.S. colleges and universities in attracting National Merit Scholars to our campus. At Florida State University, we are very proud of our successes as well as our emerging reputation as one of the Nation's top public universities.

Mr. Chairman, let me tell you about a project we are pursuing this year through the U.S. Department of Agriculture. To give you some background, in fiscal year 2001, Congress passed the Federal Crop Insurance Act, which included funding of partnerships for Risk Management Development and Implementation. This legislation authorized the USDA, working with NOAA, to enter into partnerships for the purpose of increasing the availability of tools for crop loss mitigation. The partnerships give priority for producers of agricultural commodities for specialty crops and under-served agricultural commodities. Congress authorized the program through fiscal year 2008.

The Federal Government, which sets crop insurance rates, needs to utilize new cost-effective ways to reduce risk by using modern ideas such as El Niño-La Niña climate variability; this would allow more appropriate and fair pricing of premiums for crop insurance. The Florida Climate Research Consortium, which consists of Florida State University, the University of Florida, and the University of Miami,

has been at the forefront of this climate prediction work. The Consortium has worked in Florida and throughout the Southeastern U.S., with support from NOAA, to develop new methods to predict the consequences of climate variability. More recently, in actual real-life tests, these methods and data have been applied to the problem farmers raising specialty crops face relative to rainfall; the efforts have also tremendous implication for officials in their fight against forest fires. In both instances and with the support of Florida's Commissioner of Agriculture, use of these methods and their application to these challenges has been seen as successful and well received.

In this consortium, Florida State University will provide the climate forecasts and risk reduction methodology. The University of Florida will provide crop models for predicting the climate variability effects on selected crops. The University of Miami will provide the economic modeling of the agricultural system. Each university will provide appropriate expert advice on interactions with farmers. In particular, the expertise of the Florida Agricultural Extension Service will be utilized.

FSU, on behalf of the FL Climate Consortium, is seeking \$1.75M in fiscal year 2003 for this activity through the Partnerships for Risk Management Development account of the U.S. Department of Agriculture. Utilization of these tools and their application to agricultural problems in this project has the strong support of Florida Commissioner of Agriculture, Charles Bronson.

Mr. Chairman this is an excellent project that will yield great rewards for our Nation and is just one of the many ways that Florida State University is making important contributions to solving some key problems and 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 EASTER SEALS

Easter Seals appreciates the opportunity to report on the notable accomplishments of the USDA Cooperative State Research, Education, and Extension Service (CSREES) AgrAbility Program and request that funding for the AgrAbility Program be increased to \$4.6 million in fiscal year 2003.

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 2002 appropriation of \$4.05 million will fund 22 state projects.

#### DISABILITY & AGRICULTURE

Agricultural production is one of the nation's most hazardous occupations. According to the National Institute on Occupational Safety and Health, each year, approximately 182,500 agricultural workers sustain disabling injuries, about 5 percent of which permanently impair their ability to perform essential farm tasks. Tens of thousands more become disabled as a result of non-farm injuries, illnesses, other health conditions, and the aging process. Nationwide, approximately 288,000 agricultural workers between the ages of 15 and 79 have a physical disability that affects their ability to perform one or more essential farm tasks.

The presence of a disability jeopardizes rural and agricultural futures for many of these individuals. Rural isolation, a tradition of self-reliance, and gaps in rural service delivery systems frequently prevent agricultural workers with disabilities from taking advantage of growing expertise in modifying farm operations, adapting equipment, promoting farmstead accessibility, and using assistive technologies to safely accommodate disability in agricultural and rural settings. Yet, with some assistance, the majority of disabled agricultural workers can continue to earn their livelihoods in agriculture and participate fully in rural community life.

#### AGRABILITY'S ROLE AND ACCOMPLISHMENTS

The AgrAbility Program was established under the 1990 Farm Bill in response to the needs of farmers, ranchers, and farmworkers with disabilities. The Farm Bill authorizes the Secretary of Agriculture to make grants to Extension Services for conducting collaborative education and assistance programs for farmers with disabilities through state projects and related national training, technical assistance, and information dissemination. Easter Seals is proud to be a partner with the University of Wisconsin-Extension Cooperative Extension to provide the national train-

ing and technical assistance portion of the AgrAbility Program. Thousands of people in states with and without state AgrAbility projects are aided through this initiative.

AgrAbility combines the expertise of the Extension Service and disability organization staffs to provide people with disabilities working in agriculture the specialized services that they need to safely accommodate their disabilities in everyday farm and ranch operations. AgrAbility received strong bipartisan support during the 1998 reauthorization of the USDA research and education programs, and was extended through fiscal year 2004. The \$6 million authorization level for AgrAbility was continued.

Under the statute, state and multi-state AgrAbility projects engage Extension Service agents, disability experts, rural professionals, and volunteers to offer an array of services, including: identifying and referring farmers with disabilities; providing on-the-farm technical assistance for agricultural workers on adapting and using farm equipment, buildings, and tools; restructuring farm operations; providing agriculture-based education to prevent further injury and disability; and, upgrading the skills of Extension Service agents and other rural professionals to better promote success in agricultural production for people with disabilities.

In 2002, USDA received an allocation from Congress of \$4.05 million. These funds will support 22 state projects, the national project, and USDA-CSREES administration of the Program. The competition for the state project grants is currently underway and an announcement of the new state projects is expected momentarily.

AgrAbility provides customized assistance to farmers, ranchers, and farmworkers with disabilities and their families. The nature and degree of assistance depends on the individual's disability, needs, and agricultural operation. For example:

—Ryan Odens of Sibley, IA took over his family's 1,300-acre corn and soybean farm after his father passed away suddenly when Ryan was 20. When he was 23, Ryan was involved in a pickup truck rollover accident that left him with a spinal cord injury. He was not expected to walk again. With the help of therapy and the use of a crutch, however, he regained his ability to walk. AgrAbility and the Iowa Division of Vocational Rehabilitation worked with him to add an extra step on his tractor, purchase a four-wheel drive motorized cart to help him navigate the farm, put lifts on several pieces of farm machinery, add a cement floor to the machine shed to increase safety while working on machinery. He has also added mirrors in his tractor to increase his range of vision because rods in his back make it difficult for him to turn. Ryan believes that, "without Easter Seals and Vocational Rehabilitation, I probably wouldn't be farming."

—Grover Greer, of Anguilla, Mississippi, has farmed in the Mississippi Delta for 26 years. Thanks to the work of AgrAbility and other state agencies, his son is now doing the same. Born with cerebral palsy, Jonathan, 17, operates a 25-acre turfgrass business. A hoist and hand controls allow Jonathan to independently operate his tractor to irrigate and maintain the grass. While they anticipate the business growing and providing Jonathan with employment, Grover says, "The more important point is that he is happy and self-sufficient." Jonathan is putting to good use his abilities and motivation to be a successful turfgrass farmer.

—Richard Mauer, of Newport, Pennsylvania, has operated his 450-acre dairy farm since he purchased it from his father in 1966. Thirty years later, a stroke that left Mr. Mauer partially paralyzed threatened his ability to remain in farming. After reading about AgrAbility in a magazine, Mr. Mauer contacted AgrAbility for Pennsylvanians to seek assistance. AgrAbility staff helped Mr. Mauer make modifications to his farm including extra steps added to tractors, a new more automated milking system with computerized monitors and automatic shut-off mechanisms, and a automatic wagon hitch that minimizes the number of times Mr. Mauer must climb on and off a tractor. These modifications have helped Mr. Mauer keep his farm operation running; an operation that currently produces approximately 550 gallons of milk a day. He also serves as a mentor and peer supporter for other farmers with disabilities throughout Pennsylvania.

Overall, AgrAbility Projects in 29 states along with the national project accomplished the following between 1991 and 2001:

- provided assistance, including nearly 8,800 on-site visits, to over 10,000 farmers, ranchers and farmworkers or their families affected by disability;
- educated over 200,000 agricultural, rehabilitation, and health professionals on safely accommodating disability in agriculture;
- recruited and trained more than 6,000 volunteers and peer supporters to assist farmers, ranchers and farmworkers with disabilities; and,

—reached 9,500,000 people through more than 8,000 exhibits, displays, and demonstrations to increase awareness of the challenges affecting and resources available to farmers, ranchers and farmworkers with disabilities.

In 2000, the National AgrAbility technical assistance and education grant was awarded to Easter Seals national headquarters and the University of Wisconsin-Extension Cooperative Extension. This new partnership is generating innovative and effective activities at the national level that will have a significant impact on the effectiveness of the state AgrAbility projects and the lives of agricultural workers with disabilities. Some of the initiatives underway or planned at the national level include:

- a Consensus Conference on Disability in Agriculture and Rural America co-sponsored by the Farm Foundation and Easter Seals to engage leading agricultural organizations and experts in identifying and addressing challenges agricultural producers with disabilities face;
- an expanded and refined AgrAbility website that includes AgrAbility technical information, new publications, and on-line training modules;
- a comprehensive training resource on rural case management; and,
- a “virtual farm tour” resource on accommodating disability to include footage of actual farmstead and machinery modifications.

#### IMPACT OF CURRENT FUNDING LEVELS

A funding floor of \$150,000 per state was set in the 1990 Farm Bill to assure that the state programs were appropriately resourced to meet diverse, statewide agricultural accommodation needs. In the 1998 reauthorization of the USDA research and education programs, the Committee reaffirmed a commitment to that funding floor of \$150,000 per state. Because funding had not approached the \$6 million authorized level prior to fiscal year 2002, however, state projects had only received on average slightly under \$100,000 per state. The funding increase for AgrAbility in fiscal year 2002 provided USDA with the ability to fund projects at the \$150,000 base level. Easter Seals strongly supports full funding of state projects to assure that they continue to be effective for farmers with disabilities.

AgrAbility projects are underfunded relative to need and objective. At the current funding level, only a few staff can be hired to provide statewide education and assistance to farmers with disabilities, educate rural professionals, recruit volunteers, and work with rural businesses on disability-related issues. Rising demand for services and the great distances that must be traveled to reach farmers and ranchers severely strains even the most dedicated of AgrAbility’s outstanding staff. Easter Seals fears that failure to invest adequately in this worthwhile program will ultimately cause it to falter.

An additional consequence of limited funding is that in every grant cycle some states with existing AgrAbility programs and a demonstrated need for services are not renewed and are forced to discontinue services to farmers with disabilities in that state. These states often have difficulty obtaining the access to the limited public and private funding sources that the federal seed money granted them. More than a dozen states have sought AgrAbility funding without success. Other states, including Kentucky, Louisiana, Michigan, Montana/Idaho, New Jersey, New York, South Carolina, Ohio, and Vermont/New Hampshire had USDA-funded AgrAbility projects in the past. Each of these states can demonstrate significant unmet needs among farm and ranch families affected by disability that AgrAbility could potentially address. Any loss of programs will greatly affect farmers with disabilities in states where AgrAbility is the primary resource through which they seek information and assistance on farming with a disability.

The fiscal year 2003 request of \$4.6 million would allow USDA to (a) continue to fund states up to the \$150,000 base level and add new projects in states currently unserved by AgrAbility or (b) increase the budgets of currently funded projects to allow much-needed expansion of existing services.

#### FUNDING REQUEST

The need for AgrAbility services has never been greater, and its accomplishments to date are remarkable by any standard. Easter Seals is proud to contribute to the ongoing success of the USDA-CSREES AgrAbility Program. Please support the allocation of at least \$4.6 million for AgrAbility in fiscal year 2003 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.

## PREPARED STATEMENT OF THE FLORIDA SUGAR CANE LEAGUE

## IMPORTANCE OF SUGARCANE TO THE ECONOMIES OF FLORIDA AND THE U.S.

Sugarcane is Florida's most valuable row crop. It is surpassed in value to the state's economy only by tourism and the citrus crop. According to a recent study by LMC International, Ltd., Florida sugarcane growing and milling have an economic impact in Florida of two billion dollars annually and provide nearly 21,000 full time equivalent jobs for the economy.<sup>1</sup>

The United States is the world's largest sweetener market, using over 20 million tons of caloric sweeteners annually. About half of this, 10 million tons, is provided by sugar (sucrose) produced from sugarcane and sugar beets. The other half is mainly corn sweetener (fructose) produced from maize in the United States. We are not currently self-sufficient in sucrose, producing only about 8 million tons from sugarcane and sugar beet crops in the United States on an annual basis. The deficit in U.S. sugar needs is met through preferential trading arrangements with 41 separate countries from which we purchase sugar under a tariff-rate quota system administered by USDA and the U.S. State Department.

## SUGARCANE IN AGRICULTURAL RESEARCH

Sugarcane is a large grass, and being mainly a tropical crop, is grown in only four U.S. states, Florida, Louisiana, Texas and Hawaii. There is a total of only 1 million acres of sugarcane in the United States. By comparison, there are over 75 million acres of corn (maize). This is why sugarcane is considered a minor crop in the United States, even though we are the sixth largest producer of cane sugar in the world.

Sugarcane is unusual among crops in that it is vegetatively propagated, i.e., it is planted from stalk cuttings, not seeds. Sugarcane is also a perennial, ratooned crop, meaning that it regrows several annual crops from one planting. This is significant in that seed companies have never entered into the business of developing new varieties for growers since once a grower has a new variety, he need only reserve a small portion of his crop each year for replanting. There is no profit for seed companies in sugarcane past an initial sale, and they are therefore not interested in breeding new strains. This is a major reason why USDA has remained in sugarcane variety research and development on behalf of U.S. sugarcane farmers.

Sugarcane is a difficult crop to perform genetic research and improvement on by virtue of its large size, long generational interval, and complicated genetics. Special facilities are needed for rearing the plants, forcing flowering, and making crosses. In addition, the true seed are extremely small and fragile. Special greenhouse facilities and rearing techniques are required for successfully growing them as seedlings that are the basis of new variety selection. It is necessary to set out over 100,000 seedlings annually to field plantings in a sugarcane breeding program, and over 10 years of selection, replanting, and testing are required to develop a successful variety from that original crop of seedlings.

The expertise for breeding sugarcane in the United States lies largely with USDA-ARS through their facilities at Canal Point, Florida and Houma, Louisiana. This infrastructure and expertise has been developed by USDA with industry support beginning in the 1920s, and is world-renowned within international sugarcane research circles.

## HISTORY OF THE USDA SUGARCANE FIELD STATION AT CANAL POINT, FLORIDA

The USDA Sugarcane Field Station was established on Collins Key (now Miami Beach, Florida) in 1918 and relocated to its current site, Canal Point, Florida, a small town on the southeastern shores of Lake Okeechobee, in 1920. Canal Point was selected as an ideal site by the founding superintendent, Dr. E.W. Brandes, who chose it for its protection from cold by the nearby waters of Lake Okeechobee, its favorable climate, rich soils, and proximity to Florida's infant sugar industry.<sup>2</sup>

The primary objective of the station has always been the production of improved sugarcane varieties. The impetus for this objective was originally provided by Louisiana, at the time, the leading producer of sugar on the mainland U.S., where a devastating complex of sugarcane diseases had decimated their production based on old world sugarcane varieties. The Sugarcane Field Station was established largely

<sup>1</sup>LMC International, Ltd. 2001. The Importance of the Sugar and Corn Sweetener Industry to the U.S. Economy. Report prepared for the American Sugar Alliance.

<sup>2</sup>Leo P. Hebert. 1971. U.S. Sugar Cane Field Station, Canal Point, Florida—First 50 Years 1920–1970. Sugary Azucar.

in response to industry requests to USDA to help with recovery of the industry in Louisiana through development of improved, adapted, hybrid varieties of sugarcane.

The Florida and Louisiana sugarcane industries have always worked closely with the Sugarcane Field Station through cooperative agreements between their State Cooperative Extension agencies and industry organizations.<sup>3</sup> The first formal arrangement of this type, dating to 1924, was between USDA and the Louisiana State University Agricultural Experiment Station. It provided for annual contributions to the Canal Point station for propagating hybrid seedlings as the basis of development for new varieties of sugarcane for Louisiana. Florida's sugar industry saw a large expansionary period from 1960 to 1970 following the Cuban embargo and the inability of Puerto Rico to meet its domestic production quota. During this period, the Florida industry promoted and signed a three-way agreement between the USDA Sugarcane Field Station, the University of Florida Experiment Station and the Florida Sugar Cane League (a Florida sugar industry trade association) to provide for the testing, increase and distribution of promising new varieties to Florida's sugar cane growers. This three-way agreement is still in effect, and is often cited as an exemplary case of successful cooperative experimentation between Federal, State and industry agencies in agricultural research. The three-way agreement has been an excellent vehicle for shared responsibility and costs of the program. The Federal and State agencies are responsible for maintaining test fields at experiment stations and on grower cooperator farms, while Florida Sugar Cane League representatives supervise the increase and distribution of new varieties. The three-way agreement is also the foundation for direct industry support in terms of manpower and funds to the program. Currently, Florida's sugar industry provides about \$400,000 annually in direct support of the program at Canal Point through a dedicated research assessment on production paid by growers, and approximately \$125,000 annually through in-kind contributions of cooperating grower farms in the testing program.

#### RESEARCH MISSION OF THE USDA SUGARCANE FIELD STATION

According to Dr. Jimmy D. Miller, Research Leader at the Sugarcane Field Station,<sup>4</sup> the mission of the station has remained relatively constant over the years with the following emphasis:

- Produce true seed of recommended crosses for the ARS breeding programs at Houma, Louisiana and Canal Point, Florida. In recent years, ARS has entered into a three-way memorandum of understanding with Texas A&M University and the Rio Grande Valley Sugar Growers Cooperative to supply them with true seed also.
  - Conduct a cooperative (USDA-ARS, University of Florida, and Florida Sugar Cane League) sugarcane cultivar development program for Florida.
  - Conduct a sugarcane pathology program that is closely coordinated with the breeding program to efficiently screen selections for disease resistance and evaluate the status of diseases in the Florida industry.
- Recently, three additional missions have been assigned:
- Breed varieties of sugarcane that are tolerant of high water tables
  - Conduct agronomic and genetic research that will strengthen sugarcane production in Florida and improve compatibility between sugarcane production and the natural Everglades
  - Conduct research aimed at reducing the rate of soil subsidence while maintaining sugarcane production

#### RESEARCH ACCOMPLISHMENTS

The USDA Sugarcane Field Station has released 44 varieties in Florida since 1970. In the 1999–2000 harvest season, there were 34 USDA, Canal Point (CP) varieties being grown commercially. The Florida industry has had record yields the past 3 years, and at least some of this can be attributed to improved tonnages and increased sugar content of CP Varieties. CP varieties are grown on about 70 percent of the acreage in the Florida industry.

Adequate seed has been produced by the crossing program to provide sufficient seed (mostly of recommended crosses) to supply the needs of the ARS sugarcane breeding programs at Houma, Louisiana and Canal Point, Florida and the breeding program conducted by Texas A&M University. Since 1970, the mainland sugarcane breeding programs have released four new varieties for Texas and introduced and

<sup>3</sup>Benjamin A. Bourne. 1972. Significant Developments in the Early Phases of the Florida Cane Sugar Industry. Sugar y Azucar.

<sup>4</sup>J.D. Miller. 2002. The Last 30 Years (1970–1999) at the U.S. Sugarcane Field Station, Canal Point, Florida. Unpublished manuscript.

made available to growers others previously released in Louisiana and Florida. Fourteen new varieties have been produced for Louisiana through the program.

The breeding program has been effective in minimizing the effect of damaging disease outbreaks in Florida. Since 1970, new disease and outbreaks in Florida have included sugarcane smut, mosaic, sugarcane bacilliform virus, rust (several new races), a new race of leaf scald disease, yellow spot disease, purple spot disease, dry top rot, yellow leaf syndrome and continuing problems with Ratoon Stunting Disease. Due to the large diversity of varieties being grown, no industry wide losses of production can be attributed to a specific disease. Although individual diseases have caused serious economic losses in individual fields, growers were able to quickly shift to resistant varieties and thus avoid significant losses.

Progress was made in development of techniques to screen for diseases in the sugarcane breeding program which has led to higher levels of disease resistance for some diseases, most notably Ratoon Stunting Disease.

Significant progress has been made in breeding for higher cold weather tolerance of sugarcane varieties.

Development of mapping populations for use by molecular biologists has resulted in identification of several individual genes for both sucrose accumulation and reduction. More crosses are planned to expand these studies.

True seed were produced from most of the clones of wild ancestral canes of the species *S. spontaneum* and stored in the National Seed Storage Laboratory in Fort Collins, Colorado. That contribution should preserve the availability of this germplasm for use by sugarcane breeders for the next 50 years.

Experiments with water tables at 15 and 30 cm levels in field ditches between 1 June and 1 November (during the rainy season in Florida) have identified differences among cultivars in their yield reactions at both water tables. This should permit growers to reduce pumping costs by holding higher water tables on tolerant sugarcane varieties.

#### NATIONAL AND DOMESTIC RESEARCH LINKAGES

The Sugarcane Field Station is the primary sugarcane breeding facility for mainland United States sugarcane growers. It enjoys national and international recognition in this role, and hosts scientists interested in sugarcane genetics and breeding from many countries in the world for training and information exchange. In the past 10 years, excess seed to program needs has been shared with sugarcane breeding programs in Argentina, China (PRC) Colombia, Congo, Costa Rico, Ecuador, Egypt, El Salvador, Guatemala, Mexico, Morocco, Nicaragua, Pakistan, South Africa, Sri Lanka, Sudan, Switzerland, Thailand and Viet Nam. CP sugarcane varieties are also an important component of production in many foreign countries and serve additionally as parental material in their crossing programs. Examples of foreign countries growing CP varieties include: Morocco, Australia, Mexico, Iran, Argentina, Dominican Republic, Colombia, Guatemala and Pakistan to name some.<sup>5</sup>

The Sugarcane Field Station plays an important coordinating role in managing the World Collection of Sugarcane Clones housed at the USDA Horticultural Research Station in Miami, Florida. Requests for propagative material from the collection by overseas cooperators are often coordinated through the Sugarcane Field Station. The World Collection of Sugarcane Clones is an important genetic repository of sugarcane varieties and ancestral sugarcanes collected by USDA and other researchers throughout the world over the last century.

USDA researchers at Canal Point are active in worldwide sugarcane research, and represent USDA-ARS as a member of the International Consortium of Sugarcane Biotechnology, a multi-country research consortium dedicated to the furtherance of biotechnology for the improvement of sugarcane.

#### FUTURE RESEARCH NEEDS AND FUNDING

The primary research priority for the Sugarcane Field Station is to retain its current mission of breeding superior sugarcane varieties for Florida, Louisiana and Texas growers. The following specific improvements to the Canal Point, Florida portion of the USDA-ARS Sugarcane Variety Development Program are recommended:

- Continue and improve the production of true sugarcane seed in numbers sufficient to provide the broadest possibility for selection of sugarcane varieties that maintain acceptable yields under reduced production inputs.
- Implement molecular marker-assisted breeding strategies consistent with USDA-ARS research in other crops such as corn, small grains and vegetables.

<sup>5</sup> Gilherme Rossi Machado, Jr. 2001. Sugarcane Variety Notes and International Directory, 7th Rev. Guherme Rossi Machado, Jr., Pub. Piracicaba, Brazil.



- Utilize molecular tools and techniques to screen for specific traits to improve disease, weed and insect resistance toward minimizing pesticide use.
- Strengthen facilities, infrastructure and agency collaboration to improve selection and screening for varieties under prevailing conditions including management for improved soil and water conservation.

To maintain program viability, and to elevate the research effort to the level of excellence expected of ARS research centers, it is essential \$1.5 million be added as a recurring appropriation to the current budget of the USDA-ARS sugarcane research effort at the Canal Point Sugarcane Field Station. These funds should be used toward strengthening the breeding, pathology and soil conservation projects currently underway, including improving staff, equipment and research facilities.

Special thanks to Dr. Jimmy D. Miller, Research Leader, USDA-ARS Sugarcane Field Station, Canal Point, Florida, and Mr. James M. Shine, Jr., Agricultural Research Director, Sugarcane Growers Cooperative of Florida, for their contributions to this report.

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PREPARED STATEMENT OF THE FRIENDS OF AGRICULTURAL RESEARCH—BELTSVILLE, INC.

Mr. Chairman, and Members of the Subcommittee, thank you for this opportunity to present our statement supporting funding for the Department of Agriculture's Agricultural Research Service (ARS), and especially for the Agency's flagship research facility, the Henry A. Wallace Beltsville Agricultural Research Center (BARC), in Maryland. Our organization—Friends of Agricultural Research—Beltsville—is dedicated to supporting and promoting the Center's agricultural research, outreach, and educational mission.

Mr. Chairman, we know these are difficult times for the Federal budgetary process. The unspeakable acts of September 11 and their aftermath join with a slower economy to create complications for fiscal year 2003 appropriations. Yet the case for maintaining essential agricultural research must be made, and defended. This is our purpose: to add voice to the recommendations of our finest agricultural researchers and managers. Producers, processors, transporters, marketers, agribusinesses will be the beneficiaries. Ultimately, the big winner will be the American consumer. With that, we turn to our specific recommendations. Though we don't propose to present our recommendations in any particular order of importance, we will begin our specific comments with a solid recommendation to keep Beltsville's Bee Research Laboratory in Beltsville.

*Beltsville Bee Research Laboratory*

Just as the Beltsville Agricultural Research Center is the flagship agricultural research facility to the nation and the world, the Beltsville Bee Research Laboratory is the flagship bee research facility to the nation and the world. The Beltsville location is not only a boon to honey bee research, but to all of production agriculture. The nation's oldest Federal bee research facility, the Laboratory and its predecessors in the Washington area have existed for over 100 years. Generally considered the world's premier bee disease laboratory, the Beltsville laboratory provides bee disease, parasitic mite, and Africanized honey bee identification services for beekeepers worldwide. It also supports the mission of other Federal agencies, including the Animal and Plant Health Inspection Service, the Environmental Protection Agency, and the Food and Drug Administration. Moreover, the Bee Research Laboratory provides training for bee disease diagnosticians from other states and countries including Mexico, Canada, the United Kingdom, South Africa, New Zealand, Pakistan, Chile, and others.

I. Barton Smith of the Maryland Department of Agriculture recently described the need for the Beltsville Laboratory this way: "The beekeeping industry is in dire need of the work . . . due to problems with resistant mites and foulbrood. The Beltsville Bee Research Lab provides bee disease and pest diagnosis to state regulatory agencies and beekeepers. Last year, that lab diagnosed 96 bee disease samples for the Maryland Department of Agriculture (MDA). The MDA does not have the expertise to do this work."

A recent Cornell University study estimated the value of increased agricultural production attributable to honey bee pollination at \$14.6 billion annually. This value comes from increased crop yields and superior quality. Between 1993 and 1997, numbers of bee colonies and yield of honey per U.S. colony declined sharply. A 1998 report pointed out that a quarter of North America's wild and domesticated honey bees had disappeared over the previous 8 years at a cost to American farmers of

\$5.7 billion a year. Managed bee colonies and their pollination benefits will survive only if these trends can be reversed, according to the report.

Full-scale honey bee research of this quality can't stand in isolation. The Beltsville location provides research cooperation that is unavailable anywhere else. Bee research requires the expertise not only of apiculturists, but of pathologists, geneticists, and chemists. Beltsville provides all these and more. For example, the Beltsville Bee Lab is the only laboratory committed to preserving honey bee germplasm. It is uniquely positioned to take advantage of the avian and porcine germplasm research being conducted at Beltsville. This type of cooperative research allows research groups to meet daily if needed and it provides the savings of shared instrumentation. Also, the lab spearheads the USDA effort seeking FDA approval for two antibiotics to control American foulbrood disease of honey bees. The causative bacterium is showing resistance to the only approved antibiotic, and is devastating bee colonies across the nation. The Beltsville Bee Lab has developed new controls for parasitic mites, including an ARS-patented gel formulation of formic acid. The commercially available, environmentally friendly product offers a 90–100 percent control. Nowhere in the country is a Federal bee laboratory located in the close proximity to such prestigious institutions as the National Institutes of Health, Johns Hopkins University, the University of Maryland, Georgetown University, and the Smithsonian Institution.

The Beltsville Bee Laboratory is the only Federal honey bee research facility located in a climate representative of the majority of U.S. beekeeping areas. Honey bee experts from the Mid-Atlantic Region say that a sustained base of research support would be lost if the Beltsville Laboratory were to be re-located to Weslaco, Texas. Within a 400 miles radius of Beltsville, growers use honey bees to pollinate major acreages of crops such as apples, blueberries, and cranberries. Those crops are unavailable for pollination studies in the arid Southwest. Further, migratory beekeeping is a vital management practice near Beltsville, where honey bee colonies are moved up and down the eastern agricultural corridor.

Federal Africanized honey bees dominate Weslaco's arid Southwestern location. By no means do we diminish the importance of Africanized honey bees to the six states where they have been reported. Still, scientists say that Weslaco's atypical honey bee situation is ill-suited for traditional European honey bee research. They say traditional honey bee research at Weslaco would be both highly impractical and extremely costly. Also, we would note that several state universities are cutting back on honey bee research. The net effect overall is to cut honey bee research to the bone when more, not less, research is badly needed. Thus, for many reasons, we respectfully recommend keeping the Beltsville Bee Research Laboratory intact. This is not the time to cut bee research at Beltsville.

#### *Animal Improvement Programs Laboratory*

This venerable Beltsville laboratory and its predecessors have contributed over a century of steady genetic progress to America's milk production industry. Its reach is worldwide, helping producers everywhere make better informed genetic decisions and promoting export of American germplasm and breeding stock.

For many years America's dairy cows have steadily increased milk production at the rate of about 45 gallons per year. Approximately two-thirds of those increases can be traced to genetic progress. Much of the credit for that success stems from the cooperative national and international genetic evaluation programs of BARC's award winning Animal Improvement Programs Laboratory. The future of dairy industry will be greatly influenced by the research of the Animal Improvement Programs Laboratory. In recent years, the Laboratory staff has decreased as inflation and salary increases have eaten away at operating funds. Without additional funding, the lab will be so strapped for funds it will be unable to function. With the requested funding, the lab can support the current program and expand it by hiring another Research Geneticist. We recommend continued funding support for the Laboratory.

#### *Barley Health Foods Research*

Barley contains carbohydrates called beta-glucans that help control blood sugar and cholesterol. We recommend continued support for research to determine if barley-containing foods may affect the risks of such chronic conditions as cardiovascular disease, diabetes, and obesity. This research is needed to assess the bioavailability and efficacy of food components found in barley and to identify foods, health practices, and attitudes associated with successful maintenance of weight loss.

#### *Biominerals Soil Amendments for Nematode Control.*

Losses to soil nematodes cost farmers billions every year. The soybean cyst nematode alone can cut soybean yields by 10 percent, often more. Citrus and vegetable

crops also are vulnerable to intensive nematode damage. Growers are squeezed by expanding nematode infestations, nematicide resistance, and de-registration of traditional nematicides because of environmental concerns. BARC in cooperation with industry and others is pursuing new, more effective approaches to nematode control. Promising research lines include using such re-cyclable soil amendment as animal wastes, composts, and mineral by-products. We recommend continuing the increased funding for these promising approaches.

#### *Foundry Sand By-Products Utilization*

Municipalities and industries generate vast quantities of by-products. By-products, such as foundry sand from the metal castings industry, have potential uses in agricultural and horticultural production processes. The Animal Manure and By-Products Laboratory will use the funding to identify beneficial new uses and assess risks to human health, safety, or the environment from using foundry sand in agriculture. A new soil scientist will be hired to support this work. We recommend continuation of this funding.

#### *Poultry Diseases*

The mission of the Parasite Biology, Epidemiology, and Systematics Laboratory is to reduce the economic costs of parasites in livestock and poultry. Coccidiosis causes the greatest economic loss to the meat chicken industry from disease. But traditional chemical controls are becoming ineffective; and new non-chemical control methods are needed. New funding will be used to conduct functional genomics and proteomics analysis of coccidia to identify potential proteins that can be used in diagnostic tests and as targets for potential vaccine development. We recommend continuation of this funding.

#### *Biomedical Plant Materials*

There is a growing need for functionally active, protective molecules for human and animal pathogens. We need them at lower cost and without risk to humans, animals, or the environment. Such molecules include recombinant antibodies, vaccines, and enzymes. Also, we need non-contaminated, lower-cost, more reliable diagnostic reagents.

In recent years, scientists have produced biomedical reagents from plants in the laboratory. The potential benefits are huge. For one example, replacing poultry vaccine injections with edible plant-produced vaccines would substantially lower poultry production costs. Beltsville is uniquely equipped to develop necessary systems and to test their efficacy in cooperation with other ARS facilities working on livestock and poultry diseases. This is a cooperative project with the Biotechnology Foundation, Inc., in Philadelphia. We recommend continuation of this funding.

#### *National Germplasm Resources System*

This laboratory supports the national database that provides data storage and retrieval systems for collecting and disseminating germplasm information. It provides accurate taxonomy, transport, geographic, evaluation, inventory, and cooperor information for plant and animal germplasm holdings nationwide. This is an ARS mission-critical activity. We recommend continuation of funding.

#### *Bovine Genetics*

Somatic cell nuclear transfer (cloning) technology has tremendous biomedical and agricultural potential. Yet the frequency of successful births from cloning has been relatively low. Many pregnancies fail before completing gestation. New funding will support collaborative research by the Gene Evaluation and Mapping Laboratory and the University of Illinois aimed at improving cloning efficiency. A new Molecular Biologist is being hired to support this effort. We recommend continuation of this funding.

#### *IR-4: Registration of Minor Use Pesticides*

“Minor crops” have great economic value, but are not among the top ten crops like corn and soybeans that provide huge markets for pesticide manufacturers. Manufacturers often do not see a large enough market to justify the expense of doing the research needed to register a pesticide for a “minor crop.” Without the IR-4 program, growers would have fewer options for pest control. The Beltsville Environmental Quality Laboratory operates a minor crop pesticide residue laboratory. This lab vigorously enforces EPA-prescribed protocols for all experimental procedures, and prepares comprehensive final reports. New funds enhance the overall mission of the Agency’s IR-4 program. We recommend that this funding be continued.

*Invasive Species Initiative*

Globalization has lowered trade barriers over much of the world. It also has contributed to the ease with which exotic organisms—or invasive species—enter U.S. habitats and environments. Invading pest species not only create ecological and economic problems, they also threaten biodiversity and the financial stability of U.S. agriculture. Once invaders become successful competitors in natural or agricultural ecosystems, producers must spend millions every year to combat them. Collateral damage, such as loss of native diversity, may not be evident for years. Moreover, exotic species represent a biosecurity risk through deliberate introduction into the United States.

Beltsville laboratories are at the vanguard of invasive species research, covering prevention, detection, identification, and control. Invasive species research includes: insects, plants, fungi, nematodes, and other arthropods. Certain labs provide stand-by, 24-hour identification services for possible alien intruders. Others provide basic taxonomic information targeting preventive and control measures for use before or after invasive species have become established. Beltsville can point to many past successes in the battle against invasive species. Overall, Beltsville has the strongest invasive species programs in the nation. The President's fiscal year 2003 Budget proposes an increase of \$775,000 for Beltsville for Control of Invasive Species. We strongly support this recommendation.

*Tornado Damage and Recovery Needs*

On September 24, 2001, BARC-West took a direct hit from a rare, 200 mph, Force-3 tornado. Unprecedented in Beltsville, the powerful storm smashed windows and ripped roofing from buildings, damaged half of the Center's greenhouse space, destroyed 60 vehicles and damaged many others. It wreaked havoc on several laboratories, destroying equipment, reagents, and supplies—miraculously, no one was hurt. The work of 75–100 scientists was set back by months, a few by years. Some irreplaceable environmental samples, plant clones, and the like were lost permanently. Damage to facilities and vehicles and to equipment and supplies has been conservatively estimated at \$21.5 million.

*The BARC landscape took a big hit, too.*—Acres of trees and shrubs were lost, including a majestic 100 year-old American elm. BARC Director Phyllis Johnson has appointed a committee of leading horticulturists from BARC and the National Arboretum to develop and implement a comprehensive landscape restoration. We are pleased to report, Mr. Chairman, that FAR-B is working closely with the landscape committee. Thus far, we have raised over \$15,000 for clean-up, site preparation, and plant material purchases. Also, we have received or have commitments for thousands of dollars of donated or discounted plant materials. Despite the limited availability funds, repairs to the landscape are coming along well.

*Repairs to buildings, greenhouses, labs and lab restocking—not to mention vehicle replacements—pose a more formidable challenge.*—Still, by using thoughtful management, BARC is making excellent progress. For instance, using ARS Headquarters support, BARC has completed \$1.3 million of emergency roof repairs. Also, BARC has committed another \$3.8 million of Headquarters funds and \$407,000 from its R&M accounts to repairs.

Moreover, BARC is making excellent progress toward replacing its all-important greenhouses. BARC plans to use \$3 million of fiscal year 2002 Building and Facility funds to replace three greenhouses. The President's fiscal year 2003 budget proposes \$4.18 million for building and facilities, which BARC would use to replace four other greenhouses. Still other greenhouses will be replaced with hoop houses. Together, these measures and funding would generally complete tornado-related facility repairs, though they do not address vehicle and laboratory equipment and supplies replacement.

Lastly, we would emphasize our support for other BARC needs, including a poultry research facility (\$3 million) and phase III of the Human Nutrition Complex (\$22 million).

Mr. Chairman, that concludes our statement. We are grateful for your past support of the BARC mission. And, we again thank you for the opportunity to present our testimony.

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 PREPARED STATEMENT OF THE GROCERY MANUFACTURERS OF AMERICA

On behalf of the member companies of the Grocery Manufacturers of America (GMA) and our partner association, the Association of Sales and Marketing Companies (ASMC), I appreciate the opportunity to submit testimony to the Senate Appropriations Subcommittee on Agriculture, Rural Development, and Related Agencies.

We ask that you support the Administration's recognition, in its budget request, of the continuing need to increase resources for the Food and Drug Administration (FDA) as you consider their fiscal year 2003 funding request.

GMA is the world's largest association of food, beverage and consumer product companies. With U.S. sales of more than \$460 billion, GMA members employ more than 2.5 million workers in all 50 States. The organization applies legal, scientific and political expertise from its member companies to vital food, nutrition and public policy issues affecting the industry. Led by a board of 44 Chief Executive officers, GMA speaks for food and consumer product manufacturers at the State, Federal and international levels on legislative and regulatory issues. The association also leads efforts to increase productivity, efficiency and growth in the food, beverage and consumer products industry.

GMA particularly supports increased funding for the Center for Food Safety and Applied Nutrition (CFSAN), whose role is invaluable in ensuring the public that the United States has today—as it always has had—the safest and most wholesome food supply in the world. The Center's role has been highlighted in the months since the tragic attack on our country threatened our inherent sense of safety and renewed our commitment to find ways to further enhance the safety of our food supply. The resources Congress appropriated for FDA and CFSAN in the bioterrorism supplemental appropriation went a long way toward assisting the agency's activities; it is crucial for the fiscal year 2003 budget to continue this commitment. We note that FDA has moved quickly to hire the new consumer safety officers Congress provided for in last year's supplemental, and are expected to reach the 600 level this week.

We believe it is essential for FDA to have the resources it needs for research into new and improved methods to detect contaminants in foods, particularly substances that when introduced deliberately, turn a safe and nutritious product into an agent for harm. Additionally, we strongly support FDA's proposal in the budget request to work cooperatively with other health and agriculture agencies in national surveillance and emergency response programs designed not only to detect problems accurately and scientifically but to communicate risk appropriately to the public and to take actions that are properly rooted in science. We continue to support FDA's activities, together with those of USDA, in ensuring that problems affecting food and agricultural products in other countries—such as BSE and foot and mouth disease—do not enter the U.S. Finally, we support FDA's consistent policy of rejecting non-scientific approaches to decisions regarding the incorporation in food technology of the new scientific approaches of biotechnology.

In communication with this Committee last year, we urged you to ensure the inclusion in the FDA budget of funds to cover FDA's government cost-of-living increase; we reiterate that request for this appropriations cycle. This funding will both ensure that other programs are not placed in deficit to cover this mandatory cost and that FDA will have the resources it needs to add appropriately skilled and trained technical staff consistent with its expanding mission in this new climate.

At USDA, we support the USDA/ARS nutrition monitoring program and ask the committee to appropriate the \$7 million that is needed for this effort in fiscal year 2003. Such funding will allow for 2 days of dietary recall on 5,000 individuals, interviews for diet and health knowledge, food program information, continued updating of food composition data, and prompt coding and processing information. The information gathered in this survey is invaluable to both the public and private sectors, and we ask for the committee's continued support. We also support the Administration's request for \$3 million in funding within FSIS to coordinate U.S. participation in the Codex Alimentarius Commission, a critical activity for our industry.

We recognize that the confidence of the public in our food supply depends both on our industry's continuing commitment to safety and quality and on FDA's ability to work with us to achieve this. We support FDA's mission to protect the public health, and we urge you to provide the funds necessary to do this. If we may be of any assistance as you proceed with your work on this important appropriation, please do not hesitate to contact me.

Thank you for your consideration of our views.

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PREPARED STATEMENT OF THE HARRISON FISH FARM

I would like to open by thanking you for the opportunity to speak on behalf of the Regional Aquaculture Centers. I come from a family farm that has been owned and operated as a row crop and livestock operation for the past 138 years. The year 2000 found our farm vacant of cows and hogs. In our known history, this was the first time that "traditional" livestock did not play a vital role in our cashflow.

I graduated from college in 1987 with the intentions of becoming an engineer. In May of 1987, my father called with the devastating news that he was selling the farm as my two older brothers were moving to other employment opportunities. My oldest became a State Patrolman and my next oldest became a U.S. Postal carrier. It is very sad to say that this is a common occurrence in family farms today. With my return to our farm came the realization that I was not going to survive without additional income. It was a love of the outdoors and luck that turned my attention to Aquaculture. A hobby farmer retired and sold his equipment to me. One truck, two steel tanks, several cages and limited equipment and supplies was what I started out with. I have grown from one three acre lake in 1990 to over 180 acres of surface water in 2001. We are still growing and are excited about the Aquaculture industries outlook. With our imports far exceeding our exports it is no small surprise that this segment of Agriculture will not be able to keep up with the growing demand of farm raised aquatic products. Now more than ever, we need your financial support in funding our Regional Aquaculture Centers.

The internet and computer software has transformed the information highway into a marketing tool. We need you to support our efforts to include more farmers and innovative leaders in Aquaculture. We have an opportunity to help our American Farmer by including him in an agricultural sector that shows great promise. Look around, it is quite easy to find success stories of fish farming and their related endeavors. Regional Aquaculture Centers play an increasingly vital role in getting this information out to State extension agencies. We need to inform the farmer as well as the public on the benefits of producing American products for American people.

Ever since their inception, our RAC's have not received full funding at their authorized level. We need your support now to change this dangerous and discouraging trend. We as American citizens realize this past year has brought about financial stress that we will feel for years to come but please do not let the pressure for spending cuts dictate against wise decision making. The value of one dollar is not what it was when our RAC's were created. We are getting the same dollar in 2001 as we did when we were originated. In essence, we are getting less, and to top this off, we must withstand an administrative cost now. Pay raises, rising costs, higher overhead, all these dictate that something must be done soon. Please demonstrate your support of Aquaculture by supporting our RAC's. Level funding is not the answer, we need your true support by funding us at our fully authorized level. Please do not let history repeat itself again, give us, YOUR AMERICAN FARMER, a true chance at survival. It made a difference here in Missouri, and I know it can make a difference in our Country. Thank You.

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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 2003 funding items of great importance to the Humane Society of the United States and its 7 million supporters nationwide.

*Enforcement of Animal Welfare Laws*

We are grateful for the Committee's strong support last year of Animal Welfare Act enforcement funding, and we urge you to continue providing modest increases for improved enforcement by the U.S. Department of Agriculture of key animal welfare laws, as explained below. The increases above fiscal year 2002 funding that we seek for fiscal year 2003 will help protect the welfare of millions of animals at facilities across the country including commercial breeding facilities, puppy mills, laboratories, zoos, circuses, horse shows, airlines, and slaughterhouses. Sound enforcement will also benefit people by helping to prevent: (1) injuries to slaughterhouse workers from animals struggling in pain; (2) orchestrated dogfights and cockfights that often involve illegal gambling, drug traffic, and human violence; (3) the sale by puppy mills of unhealthy pets by commercial breeders commonly referred to as "puppy mills"; (4) laboratory conditions that could jeopardize 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 public display,; and (6) injuries and death of pets on commercial airline flights due to mishandling and exposure to adverse environmental conditions improper environment and handling. The enforcement funding increases we request are as follows:

*Food Safety Inspection Service: \$2.5 million to hire inspectors to work solely on enforcement of the Humane Slaughter Act*

The Humane Slaughter Act (HSA) requires that livestock be rendered unconscious before they are slaughtered. However, as reported in the Washington Post last spring, while this law has been on the books for decades, chronically weak enforcement and intense pressure to speed up the slaughterhouse assembly line have resulted in animals being skinned, dismembered, and boiled while they are still alive and conscious. USDA food safety inspectors are not routinely tasked with checking for or reporting violations of HSA, and some slaughter plants even have barriers that make it impossible for inspectors to see live animals. Inspection activity centers on the examination of body parts and carcasses, with inspectors stationed far down the production line, well past where the animals are killed. Although a USDA directive instructs inspectors to stop the production line when an HSA violation is observed, this rarely occurs. Inspectors and slaughter plant workers themselves support improved enforcement of this law, which would not only reduce animal suffering but also improve worker safety. Congress provided a \$1 million increase to the Food Safety Inspection Service (FSIS) in the fiscal year 2001 Supplemental to begin addressing this problem, and the Senate and House have passed resolutions calling for tougher enforcement. For fiscal year 2003, we seek a \$2.5 million increase along with language directing FSIS to use these funds to hire 50 employees to work solely on HSA enforcement through full-time ante-mortem inspection, particularly unloading, handling, stunning and killing of animals at slaughter plants.

*APHIS/Investigative and Enforcement Services: \$800,000 to establish a special investigative unit focused on animal fighting cases*

Congress is poised to finalize legislation, contained in both the Senate and House farm bills and overwhelmingly supported in both chambers, to close loopholes in the Animal Welfare Act (AWA) regarding cockfighting and dogfighting, and to boost the penalties for Federal animal fighting violations. The AWA already prohibits most interstate commerce of animals for fighting but, in more than 30 years, USDA has pursued no cockfighting cases and only three dogfighting cases, despite rampant activity across the country. To improve enforcement of this part of the AWA, we seek \$800,000 to hire, train, and equip a special unit within Investigative and Enforcement Services, comprised of 6–10 agents, to focus exclusively on animal fighting cases, and bill language to permit this IES team to carry arms to protect themselves, given the dangerous nature of animal fighting enforcement work. This approach will permit a cadre of specially training investigators to develop the expertise needed to crack the underground animal fighting network, working closely with State and local law enforcement personnel to complement their efforts. USDA has apparently received innumerable tips from informants and requests to assist with State and local prosecutions, but has routinely ignored or declined such requests.

*APHIS/Animal Welfare: current funding plus \$800,000 to hire additional inspectors*

Thanks to appropriations increases in the past three years, Congress has enabled USDA to begin to reverse a serious decline in the number of AWA compliance inspections. However, the President's fiscal year 2003 budget proposal—which suggests \$1.7 million less for the Animal Care division than in fiscal year 2002—would fail to cover the salaries of recently-hired inspectors and substantially undo the gains Congress provided last fall. Moreover, the need for additional inspectors is still great. Many facilities continue to escape oversight for long periods of time, giving rise to situations that threaten both human and animal health and safety. Nearly half of the sites that do get inspected are found to have apparent violations of the minimum standards under the Act and, therefore, follow-up visits are badly needed. We seek an \$800,000 increase above fiscal year 2002 funding to hire, train, and equip an additional 8 inspectors, bringing the total number of inspectors to 100 (responsible for approximately 10,000 sites).

*APHIS/Horse Protection: \$78,000 for improved enforcement of the Horse Protection Act*

Congress enacted the Horse Protection Act in 1970 to end the obvious cruelty of physically sores the feet and legs of show horses. In an effort to exaggerate the high-stepping gait of Tennessee Walking Horses, unscrupulous trainers use a variety of methods to inflict pain on sensitive areas of the feet and legs for the effect of the leg-jerk reaction that is popular among many in the show-horse industry. This cruel practice continues unabated by the well-intentioned but seriously underfunded and understaffed APHIS inspection program. As recommended in the President's fiscal year 2003 budget, we seek an increase of \$78,000 to bring this program to its authorized annual funding ceiling of \$500,000. We also urge the Committee

to oppose any effort to restrict the USDA from enforcing this law to the maximum extent possible.

*Agricultural Research Service/Animal Welfare Information Center: current funding*

Thanks again to the Committee's support last year, Congress provided a \$400,000 increase for the Animal Welfare Information Center (AWIC), which serves as a clearinghouse for those involved in the care and use of animals for experimentation. AWIC provides valuable information on training for laboratory employees, and legal requirements and appropriate care for animals in research, including minimizing pain and distress, preventing duplication of experiments, and reducing or replacing animals in research when possible. The President's fiscal year 2003 budget proposal would return AWIC to its previous inadequate funding level. We seek to maintain the increase provided in fiscal year 2002.

*Hoop Barns/Leopold Center for Sustainable Agriculture: \$325,000*

The hoop barn is an emerging alternative for livestock production that offers many advantages to the factory farm system of animal housing. A typical hoop barn is shaped like a Quonset hut (a half cylinder lying on its flat side) and contains a deep bedding of straw or corn stalks. No individual cages confine the animals, and open ends, which can be closed if weather requires, allow access to pasture. Animals in hoop barns enjoy greater freedom of movement and have the opportunity to interact socially.

Because they are not tightly confined in an overcrowded, high-stress environment, animals in hoop barns tend to be healthier than their counterparts in factory farms. That means farmers using hoop barns do not need to rely on antibiotics to prevent disease and promote growth, a common practice on factory farms that is contributing to the development of antibiotic-resistant strains of bacteria that threaten public health. Products from hoop producers are being sought out by meat suppliers and restaurants based on the enhanced flavor and texture characteristics of the meat. In addition, hoop barns are better for the environment, because they use solid manure composting rather than the liquid waste disposal systems used by factory farms, which jeopardize groundwater and produce noxious odors. Furthermore, they offer an affordable alternative for farmers. Hoop barns are approximately one-third the cost of conventional factory farm structures. They are easy to install and versatile (they can be used for different species or for storage of hay or equipment). This flexibility helps family farmers withstand fluctuations in market demand and avoid corporate buyouts.

We appreciate the Committee's support in fiscal year 2002 for this promising technology. As a result of the Committee's action, Iowa's Leopold Center for Sustainable Agriculture—which is in the forefront of research and development on hoop barns—received \$187,072 to expand understanding and adoption of hooped structures as low-cost, humane, environmentally-friendly production housing systems for swine and other agricultural animals. The hoop research is promoting viable and timely production options for struggling small and medium sized farmers as well as helping to open new markets. Specifically, the fiscal year 2002 funds will allow:

- Completion of a comprehensive manual of hoop barn use for swine production;
- Collection and distribution of information on uses of hoop structures for other livestock species;
- Establishment of a hoop barn network of producers and demonstration sites; and
- A national workshop on Hoop Barn Swine Production.

The fiscal year 2002 funds will also allow the Leopold Center to begin work on the remaining objectives set out in last year's \$325,000 proposal:

- Evaluation of hoop barns as a total production system, including labor and resource economics;
- Development of protocols for using hoop barns to raise disadvantaged and light-weight pigs for welfare, medical and production reasons;
- Systematic investigation of farmers' perceptions of benefits and limitations of hoop structures;
- Evaluation of meat quality characteristics of hoop pork; and
- Determination of genetic and production interactions on pork quality traits.

We are again requesting your support for an appropriation of \$325,000 in fiscal year 2003. Part of this request is to further the remaining objectives set out in the original proposal. The additional part of this request would allow expansion of the original objectives to broaden the farmer network of hoop users, to support on-going efforts to create a marketing infrastructure that facilitates consumer access to hoop products, and to tighten nutrient cycles on individual farms. This continuing work



will enable the Leopold Center to make the benefits of hoop barns available on a wider scale.

*National School Lunch and Breakfast Programs/Forced Molting of Egg-Laying Hens*

At the end of their production cycle, egg-laying hens in 75 percent of U.S. flocks are starved until they lose up to 35 percent of their body weight—typically for 5–14 days—in an effort to shock their systems into a new egg-laying cycle. Once placed back on feed, those hens who survive the starvation period will produce more and bigger eggs. Such “forced molting” is a threat to the health and safety of consumers, because eggs produced at facilities using this high-stress practice have a greatly increased incidence of *Salmonella enteritidis* (SE). Forced molting is a husbandry strategy that extends the productive life of those birds who survive, but it comes with severe consequences for the health of consumers and for animal welfare.

*Salmonella* is the second most common food-borne illness in the United States (an estimated 500–1,000 people die from it annually). SE is the second most common *Salmonella* strain. Most SE infections are caused by the consumption of eggs. Starvation causes severe stress to hens and makes them highly susceptible to *Salmonella* infections. Research indicates that hens who have been force molted in this way shed significantly more SE bacteria than hens with access to food. Dr. Fred Angulo, the chief medical epidemiologist for food-borne diseases at the Centers for Disease Control and Prevention, has determined that outbreaks of SE in schools have been traced back to layer houses where hens were molted using starvation. In 1998, USDA’s Food Safety and Inspection Service (FSIS) Director wrote that “highly stressful forced molting practices. . . . [f]or example, extended starvation and water deprivation practices, lead to increased shedding of *Salmonella enteritidis* (SE) by laying hens,” and recommended that “egg producers eliminate forced molting practices and adopt alternatives that reduce public health risks.”

Intentionally starving a hen so that she loses up to 35 percent of her body weight is cruel. Almost every State anti-cruelty statute specifically bars the deliberate starvation of animals, but this standard is not typically enforced for routine animal husbandry. Alternative methods to forced molting, which are more humane, safer, and economically comparable, are available to the U.S. egg production industry. Major fast food companies, including McDonald’s, Burger King, and Wendy’s, have stopped buying eggs from farms that use forced molting. It is time for Congress to ensure that meals provided at public schools are at least as safe as fast food.

Under the National School Lunch and Breakfast Programs, schools spent more than \$14.2 million on fresh and raw eggs for food service during the 1996–97 school year, according to a USDA study (the number may well be higher now, since the breakfast program has greatly expanded since that time). With three-quarters of all flocks in the U.S. currently force molted, there is a very high risk that school children are being exposed to SE bacteria. In 2000, the USDA announced that it would no longer allow the use of downed animals in the school lunch program because it could not count on the safety of the meat. School districts incorporate Federal requirements (e.g., to comply with nutritional guidelines, “Buy American” laws, and health department inspections) in their detailed specifications for each food item contained in their contracts.

To reduce animal cruelty and protect schoolchildren, we urge the Committee to include bill language to end USDA’s support under the National School Lunch and School Breakfast Programs for the purchase of eggs produced at facilities that force-molt hens through deprivation of food or water.

*Birds, Rats and Mice in the Animal Welfare Act*

We commend the Committee for allowing USDA to proceed with its rulemaking to begin regulating birds, rats, and mice under the Animal Welfare Act, as required by a court settlement in 2000. These species account for approximately 95 percent of animals used in research, and they deserve basic minimum standards of care. Ensuring that they receive adequate care is imperative not only as a humane matter, but also as a matter of sound science, since animal suffering compromises the integrity of research results. We urge the Committee not to include any language in the fiscal year 2003 bill or committee report that would interfere with USDA’s ability to carry out this important rulemaking on a timely basis.

Again, we appreciate the opportunity to share our views and priorities for the Agriculture, Rural Development and Related Agencies Appropriation Act of fiscal year 2003. We hope the Committee will be able to accommodate these modest funding requests to address some very pressing problems affecting millions of animals in the United States. Thank you for your consideration.

## PREPARED STATEMENT OF THE ILLINOIS SOYBEAN ASSOCIATION

We appreciate the opportunity to provide testimony on behalf of the Soybean Disease Biotechnology Center, an important initiative for soybean producers in Illinois and the United States.

*Request*

The Soybean Disease Biotechnology Center was established with an \$800,000 Federal appropriation in fiscal year 2002. This important action on the part of the Congress and the leadership of Illinois's legislative champions is very much appreciated. The initial request came from the Illinois Soybean Association, an organization of approximately 4000 leading soybean producers, and the University of Illinois, a major land-grant institution. They proposed to establish a Soybean Disease Biotechnology Center within the National Soybean Research Laboratory (NSRL) at the University of Illinois. The effort to bring the Center to its full potential is underway. To continue this important effort, we request a Federal appropriation of \$3.5 million.

The Illinois Soybean Checkoff Board will consider proposals from Center scientists for future program support, and the University of Illinois will contribute core staff, space, general support services, greenhouse facilities, and utilities. This will greatly leverage Federal support of soybean disease biotechnology research.

*Rationale*

About 15 percent of total soybean production is lost to disease each year. That amounted to approximately 12 million bushels in 2001. While there were significant improvements in soybean yields during the last few decades, there was no reduction in the percentage of crop lost to disease. Soybean cyst nematode (SCN), sudden death syndrome (SDS) and other diseases continue to be major threats to the U.S. soybean industry.

The Soybean Disease Biotechnology Center will be the first line of defense against major soybean diseases, especially the soybean cyst nematode (SCN), that threaten the industry. The Center is bringing the power of new scientific advances in structural, comparative, and functional genomics and genetic transformation to bear on SCN and other disease threats, including diseases not yet in the U.S., such as soybean rust.

Center researchers will identify and create new and improved mechanisms of disease tolerance and resistance to protect the soybean crop and increase its profitability throughout the industry. Genetic stocks of the National Soybean Germplasm Collection, located at the University of Illinois, provide a unique, readily accessible resource for the Center, as will wild species that are related to soybean and have novel sources of disease resistance.

*Objectives*

Reduce yield losses to the U.S. soybean crop from plant diseases.

Identify resistance genes in Glycine soja and perennial Glycine to major soybean diseases, especially soybean cyst nematode (SCN) and sudden death syndrome (SDS).

Move resistance genes from Glycine soja and perennial Glycine into elite soybean cultivars utilizing modern biotechnology techniques.

Measure and optimize effects of newly introduced disease resistance genes on other economically important attributes such as yield, protein, and oil content.

Disseminate results to the soybean industry through web-based programs such as the Varietal Information Program for Soybeans (VIPS), scientific publications, university extension publications, publications of the National Soybean Research Laboratory (NSRL), and through presentations at professional and industry conferences.

*Location advantages*

The Soybean Disease Biotechnology Center is strongly supported by two unique campus resources, the Keck Center for Comparative and Functional Genomics and the National Center for Supercomputing Applications. They offer high throughput genetic sequencing, unequaled bioinformatics capabilities, and unique, one-of-a-kind genetic analysis tools, including micro-arrays. Center researchers also have ready access to the University of Illinois Biotechnology Center, which provides recombinant DNA and protein services, immunological resources, flow cytometry, high capacity transgenic plant production, and cell and tissue culture facilities.

Outstanding USDA-ARS programs in soybean pathology interact directly with the Center, and there is direct access to superb conventional greenhouse and controlled environment facilities in adjacent, connected structures. As part of this project, a bio-containment greenhouse will be constructed to provide the levels of isolation and

protection required for sophisticated disease biotechnology research. An elaborate system of research farms is available for testing new developments in a wide range of soil and climatic conditions. Specialized, state-of-the-art laboratories to house the Center are under construction in the National Soybean Research Laboratory.

The Soybean Disease Biotechnology Center works with the new St. Louis-headquartered Danforth Plant Science Center and participates in the Illinois-Missouri Biotechnology Alliance. Its association with the NSRL will ensure that research in the Soybean Disease Biotechnology Center will fully complement and benefit from other public and private soy research programs across the nation. This will ensure that the results of fundamental soybean disease biotechnology research are quickly translated into practical technology, useful information, and sustainable competitive advantage for the industry.

This initiative is timely because the University of Illinois is expanding its nematology and post-genomics biotechnology programs. A multi-million dollar investment of State funds is providing new biotechnology faculty positions in functional genomics, bioinformatics, developmental biology, microanalytic systems, and cellular and molecular bioengineering and is creating elaborate new facilities for basic biotechnology and bioinformatics research. New positions in plant disease biotechnology have already been filled with outstanding scientist/educators who already have established impressive track records. The new State-funded Post Genomics Institute (to be constructed in 2003) will enable a much-expanded basic biotechnology research program that will support and complement activities of the Center. The Center will also benefit from Illinois's investment in an expanded University of Illinois business incubator and two new University research parks to ensure rapid commercialization of promising new technologies from the University's research program.

#### *Progress to date*

The Soybean Disease Biotechnology Center is in very early stages of development, but important progress has already been made. The organizational structure is established, with the Director of the National Soybean Research Laboratory serving as Director of the Center. The Center faculty and staff have been recruited. State funds were used to create two new senior faculty positions in nematology. Proposals for specific research efforts to be funded through the Center have been solicited. A soybean cyst nematode task force is organizing the overall SCN effort and developing new strategies for controlling this major pest.

#### *Summary*

We request that \$3.5 million be appropriated to establish a Soybean Disease Biotechnology Center within the National Soybean Research Laboratory at the University of Illinois. These funds, complemented by State funds and industry contributions, will be used to continue to staff, equip, house, and operate the center, and launch and sustain its programs. We greatly appreciate the legislative initiatives that created the National Soybean Research Laboratory and the Soybean Disease Biotechnology Center and look forward to this opportunity to enhance the returns on those investments.

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#### PREPARED STATEMENT OF THE INTERNATIONAL ASSOCIATION OF FISH AND WILDLIFE AGENCIES

##### USDA/APHIS—WILDLIFE SERVICES

The President's fiscal year 2003 proposed budget for the APHIS Wildlife Services' Operations is \$68,745,000, and reflects a \$14,626,000 increase from the fiscal year 2002 level. For Methods Development, the proposed budget is \$16,310,000, a \$486,000 increase from the fiscal year 2002 level. For Aquaculture, the proposed budget is \$764,228, a decrease of \$174,000 from the fiscal year 2002 level. The increases for all three line items include proposals to fund GSA rent, employee pension, and the Federal Employee Compensation Act from the program's budget.

Wildlife Services (WS), a unit of APHIS, is the Federal agency responsible for controlling wildlife damage to agriculture, aquaculture, forest, range and other natural resources; for protecting public health and safety through the control of wildlife-borne diseases; and for wildlife control at airports. Its control activities are based on the principles of wildlife management and integrated damage management, and are carried out cooperatively with State fish and wildlife agencies. Most APHIS WS operational work is cost-shared between the Federal WS program, State and county governments, agricultural producers, and other cooperators.

The cooperation and support of the agricultural community are essential to maintaining wildlife populations, because much of the Nation's wildlife exists on private agricultural lands. A progressive wildlife damage management program which reduces the adverse impact of wildlife populations is necessary to maintain the support of the agrarian community and to counter increasing pressures for indemnity due to wildlife damage.

Since Congress transferred the WS program to USDA in 1986, the Association has worked closely with this program on numerous issues critical to the State fish and wildlife agencies, including those related to migratory birds and endangered species. The Association commends the WS program for its professionalism and continuing effort to be attuned to the changing public values for the Nation's wildlife, while remaining responsive to emerging wildlife problems.

The Association is concerned with the Administration's proposal for the near level funding for Methods Development. Although the fiscal year 2003 budget contains a \$486,000 increase, the majority is for salary increase costs. Many of the current control tools such as traps, snares and other restraining devices are becoming less acceptable to the public as, similarly, are wildlife toxicants and are actually being prohibited in many States because of public referendums. The only source of identifying and perfecting new methods is through research. We commend Congress for recognizing the need to relocate the WS research facility from Denver to Fort Collins, Colorado, and for recognizing the need to fund maintenance and operations costs in the current budget. However, current operating and maintenance costs still exceed current funding by \$500,000, and no funds are provided to address the development of new innovative methods for wildlife damage management. The Association requests an increase of at least \$5.0 million to the Methods Development line item to adequately continue non-lethal methods research and address the increased operating and maintenance costs, including the funds to maintain the current program for trap testing being done in cooperation with the Association and the State fish and wildlife agencies to help implement and carry out U.S. international understandings to improve animal welfare in State-regulated wildlife trapping programs.

The Association recognizes the importance of aircraft to WS for predator control activities to protect both livestock and wildlife, the distribution of oral vaccine baits for rabies control projects, and for the removal or capture of problem wolves. We commend Congress for providing \$1 million in fiscal year 2002 (\$1.2 million was provided in fiscal year 2000 and an additional \$1 million in fiscal year 2001) to WS to continue implementing improved safety procedures for their aerial operations. The Association supports the proposed funding in the fiscal year 2003 budget of \$1.6 million to fully implement the safety recommendations contained in the aerial safety report.

The Association remains concerned with attempts by various organizations and individuals in the past several years to significantly reduce WS' funding for wildlife damage management activities in the United States. A recent report by the General Accounting office documented that wildlife damage throughout the United States is significant and increasing because of high wildlife populations. The Association therefore opposes the proposed \$9.96 million reduction to the WS operations budget, as this reduction will directly affect that agency's efforts to protect agricultural and natural resources, and property. The rationale for this reduction is that cooperators will pick up the cost. One of the principal cooperators with WS is the State fish and wildlife agencies which in fiscal year 2001 were already picking up over 50 percent of the cost. The Association strongly urges Congress to restore the \$9.96 million reduction to WS operations. WS cannot continue to expand into new areas and provide effective service to current customers and cooperators unless its operations budget is appropriately funded.

The Association is pleased with the accomplishments of the Berryman Institute located on the Utah State University campus in Logan, Utah. However, we would like to see the Institute enhance its capabilities to conduct social science research, expand continuing education programs, and start a new high quality scientific journal for wildlife damage management that would be patterned after other established journals. To reach these new goals, the Association supports an increase of the funding to the Berryman Institute by an additional \$300,000.

The Association commends Congress for increasing the funding in Montana, Idaho, and Wyoming by \$1 million in fiscal year 2001 and by \$1.3 million in fiscal year 2002, to deal with the increasing wolf-related conflicts. However, wolf conflicts also continue to increase in Minnesota, Wisconsin, and Michigan. That three-state area has a population that exceeds 3,100 animals, as compared to approximately 500 wolves in Montana, Idaho and Wyoming. In Minnesota, Wisconsin and Michigan, WS personnel responded to approximately 200 wolf complaints in fiscal year 2001, as compared to 120 complaints in the three western States. The Association

requests that Congress appropriate an additional \$750,000 in fiscal year 2003 to deal with wolf-related conflicts in Minnesota, Wisconsin and Michigan in addition to the \$1.3 million in funding for Montana, Idaho and Wyoming.

The Association recommends that Congress make \$1.8 million available in fiscal year 2003 to allow WS to continue to implement the new Management Information Reporting System. The implementation began 3 years ago and will occur over a 5-year period, at a total cost of \$6–8 million. The new system will standardize WS reporting systems and allow WS to provide specific information on resources protected, damage levels, trend information, and data on measurements and outcomes now required by the Government Performance and Results Act, and to comply with requirements of the National Environmental Policy Act.

The Association recognizes the increased emphasis being placed by USDA APHIS on the detection of foot and mouth and other foreign animal disease in this country. Such detection efforts include a greatly accelerated surveillance program, as evidenced by a request for \$8.2 million in the fiscal year 2003 WS budget. WS has a long and impressive record of coordination with State fish and wildlife agencies on all its ongoing activities. The Association supports this new role for WS, so long as WS and other USDA agencies remain mindful and respectful of State management authority over resident wildlife species. This will require constant coordination and cooperation with the State fish and wildlife agencies as this surveillance takes place.

Security at Federal laboratory and research facilities has taken on new meaning and dimension in the aftermath of the events of September 11, 2001, and the ongoing terrorism threat in this country. WS has had firsthand experience with security breaches and resulting damage at two facilities within the past 5 years. The Association supports the allocation of fiscal resources afforded under the Emergency Supplemental Appropriation Act to WS to address the homeland security needs of these facilities, thereby not diminishing the base budget for other important agency programs and services.

#### USDA/APHIS—VETERINARY SERVICES

##### *Brucellosis*

The Association is concerned about the \$738,000 reduction in the amount being requested for the Brucellosis Program in the fiscal year 2003 budget. While we understand some of this may be offset by the \$25,357,000 (36 percent) increase in the Animal Health Monitoring and Surveillance Program budget—in essence the core infrastructure of APHIS-Veterinary Services—it will be problematic if the entire requested amount is not acted on favorably by Congress. The Association supports the \$96,288,000 being requested for the Animal Health Monitoring and Surveillance Program.

The Association also supports the request from the States of Montana, Idaho and Wyoming for \$600,000 in the fiscal year 2003 USDA/APHIS/Veterinary Services, Program Diseases, Brucellosis Program budget, to enable those States to continue their participation in the Greater Yellowstone Interagency Brucellosis Committee (GYIBC). Like amounts (\$600,000) have been included as Congressional add-ons in both fiscal year 2001 and fiscal year 2002. The GYIBC is working to coordinate Federal, State and private actions involved in eliminating brucellosis from wildlife in the Greater Yellowstone Area and preventing transmission of brucellosis from wildlife to cattle. Given the priority for eradicating this disease, it would seem prudent that Veterinary Services include this amount in its base Brucellosis Program budget, rather than the States having to rely on Congressional add-ons to obtain relief. The Association recommends this amount (\$600,000) be identified in the base budget for the Brucellosis Program beginning in fiscal year 2004 and beyond, until such time as eradication of the disease has been achieved.

##### *Chronic Wasting Disease*

The Association commends APHIS-Veterinary Services for taking actions to destroy and dispose of captive cervids exposed to chronic wasting disease (CWD) because these animals represent a tremendous risk to this country's wildlife resources. The Association supports the \$7.233 million request for funding a new program to eliminate CWD from captive cervids and strongly encourages Veterinary Services to use a significant part of the funding to assist State wildlife management agencies with surveillance for CWD, and to provide funding for research directed toward better diagnostic testing and increased knowledge of the epidemiology and epizootiology of CWD. The Association supports this role for Veterinary Services in the context that Veterinary Services and other USDA agencies remain mindful and respectful of State management authority over resident wildlife species. This will require con-

stant coordination and cooperation with the State fish and wildlife agencies as this certification and control program is launched.

#### *Import/Export*

Exotic ticks may carry disease agents that could potentially devastate wildlife populations and therefore, prevention of their importation is essential. The Association supports the \$2.74 million (33.6 percent) increase in fiscal year 2003 funding in the Import/Export Program for inspection of imported reptiles and amphibians for exotic ticks, and further recommends that Veterinary Services work closely with the U.S. Fish and Wildlife Service in addressing this issue.

#### *Tuberculosis*

The Association supports the \$11.4 million (131 percent) increase in the fiscal year 2003 funding request in the Tuberculosis Program for the control of bovine tuberculosis, a continuation of an accelerated program begun in fiscal year 2001 to address inadequate national surveillance as it relates to international trade needs and enhanced tuberculosis testing, training and Mexican eradication efforts, with a goal of total eradication in domestic livestock by January, 2004. The Association recommends that APHIS-Veterinary Services work closely with, and provide financial support to, State fish and wildlife agencies involved in this activity. Funding should be provided to State fish and wildlife management agencies for TB surveillance, research, and control operations, and must be accompanied by close coordination and respect for State management authority over resident wildlife.

#### *Veterinary Diagnostics*

The Association recognizes that wildlife disease investigations often are dependent upon the USDA's animal disease resources for test reagents, consultations, and sample referrals, and commends APHIS for assistance with testing of free-ranging wildlife for diseases such as brucellosis, chronic wasting disease and bovine tuberculosis. The Association supports the \$6.73 million (37 percent) increase in fiscal year 2003 funding for increasing diagnostic capabilities at the Plum Island Animal Disease Diagnostics Laboratory in New York and at the National Veterinary Services Laboratories in Ames, Iowa.

#### *Security*

As was the case with USDA/APHIS-Wildlife Services, security at Veterinary Services laboratories and research facilities is of great concern, particularly in the aftermath of September 11, 2001. The Association supports the allocation of fiscal resources afforded under the Emergency Supplemental Appropriation Act to Veterinary Services to address homeland security needs of these facilities, thereby not diminishing the base budget for other important agency programs and services.

COOPERATIVE STATE RESEARCH, EDUCATION, AND EXTENSION SERVICE (CSREES) U.S.  
DEPARTMENT OF AGRICULTURE

The Association recognizes that the research and educational programs of the CSREES and its Land Grant partners effect relevant, positive changes in attitudes and implementation of new technologies by private landowners, communities, decision-makers, and the public. This results in significant benefits to the Nation through development of a productive natural resource base in concert with agriculture. Since over two-thirds of our land is privately owned, it is appropriate that the CSREES-Land Grant System, with its grass roots credibility and delivery system, be adequately funded to transfer knowledge that helps all private landowners move towards sustainability. However, in the fiscal year 2003 budget proposal, we see little emphasis on natural resources research and education directed toward these clientele. In fact, the total number of farmers based on recent statistics is just slightly over one million—only one-tenth of all private landowners—and, the majority of CSREES' budget is directed toward production agriculture on these lands. Conversely, only \$4.093 million is budgeted (out of a total of \$1.033 billion) for the Renewable Resources Extension Act (RREA) which assists the over ten million private landowners who own and manage most of the Nation's natural resources. The Association notes with gratitude that the appropriation for fiscal year 2002 is \$8 million larger than the Administration proposed and that the increase is carried into the fiscal year 2003 budget request. The Association is still seriously concerned that the amount (\$4.093 million) is so small as to be ineffective and we encourage Congressional reconsideration of this amount to better reflect the need to reach a higher percentage of all landowners.

The Association strongly recommends that the Renewable Resources Extension Act be funded at a minimum of \$15 million in fiscal year 2003. The RREA funds,

which are apportioned to State Extension Services, effectively leverage cooperative partnerships at an average of four to one, with a focus on development and dissemination of information needed by private landowners (in rural and urban settings). The increase to \$15 million would enable the Extension System to accomplish the goals and objectives outlined in the 1991-1995 Report to Congress. The need for RREA educational programs is greater than ever today because of fragmentation of ownerships, urbanization, the diversity of landowners needing assistance, and increasing societal concerns about land use and its effect on soil, water, wildlife and other environmental factors. It is important to note that RREA has been reauthorized through 2002 and was originally authorized at \$15 million annually; however, even though it has been proven to be effective in leveraging cooperative State and local funding, it has never been fully funded. An increase to \$15 million would enable the Extension Service to expand capability to assist more private landowners to improve management of additional land while increasing farm revenue.

The Association strongly encourages that McIntire-Stennis Forestry Research funds be increased from the \$21.884 million in the fiscal year 2002 budget to a level of \$25 million. These funds are essential to the future of resource management on non-industrial private forestlands. The rapid reduction in timber harvests from public lands bring expanded opportunities for small private forest owners to play an increasingly important role in the Nation's timber supply. In some places, these added opportunities are creating pressures and situations where timber harvest on private ownerships exceeds timber growth.

The Association is pleased to see \$12.97 million in the budget for Water Quality Integrated Activities but believes that this amount is insufficient considering the growing public concern over water quality, particularly on agricultural landscapes and therefore the Association recommends the appropriation be increased to \$20 million. And, we are concerned that there is no line item budget for water quality specific to educational programs under Smith-Lever in Extension activities. The Association recommends a minimum of \$3.5 million in Extension programs to focus on water quality education targeted at agricultural producers and other private landowners and managers. We believe that such program efforts are urgently needed to help these landowners learn how to address water quality degradation, which seriously affects drinking water, human health and fish and wildlife habitat. The Clean Water Act, TMDL's, Gulf of Mexico hypoxia and expanded animal feeding operation (AFOs) are just a few of the water quality issues that need to be addressed through Cooperative Extension efforts.

The value of National Research Initiative Competitive Grants is recognized by the Administration in a 100 percent increase in recommended funding to \$240 Million. It is important to note the great needs for creative and competitive grant programs to provide valuable new information to broaden approaches to land management, especially with integrated timber and wildlife management on private lands. There are few truly competitive programs in wildlife science and USDA NRI has a great opportunity to make a unique contribution with this type of program. This program will fund creative and new ideas in ways that "formula" funding cannot. The Association applauds and supports that funding level and requests Congressional approval.

#### FARM SERVICE AGENCY (FSA)

An adequately funded budget for the FSA is essential to implement conservation related programs and provisions under FSA administration and/or in cooperation with the Natural Resources Conservation Service (NRCS) as a result of passage of the Federal Agricultural Improvement and Reform (FAIR) Act of 1996 and the new Farm Bill of 2002. The Association strongly advocates that the budget include sufficient personnel funding to service a very active program and strongly believes that the past erosion of staffing levels has been inconsistent with the demonstrated need of agricultural producers. The Association is deeply concerned that the fixed level of staffing (17,057 FTE) proposed by the Administration is far too low to adequately address the need.

FSA programs have tremendous quantifiable impacts on natural resources, and yield substantial public as well as private benefits. Building on the provisions of the 1985 FSA, the 1990 FACT Act, and the 1996 FAIR Act, the Association wants to ensure that each program accomplishes the broadest possible range of natural resource objectives, and encourages close cooperation between FSA, NRCS and the State Technical Committees in implementing the 2002 Farm Bill.

Conservation Reserve Program (CRP)—The continued administration of CRP under the guidelines of the 1996 FAIR Act is a very significant and valuable commitment of USDA and the FSA. The Association applauds FSA efforts to fund and

extend CRP contracts for the multiple benefits that accrue to the public as well as the landowner. The Association provides special thanks to FSA for the continuous CRP sign-up of high value environmental practices and applauds the addition of new incentives to increase landowner participation, as well as ensure that practices incorporate fish and wildlife needs, along with soil and water considerations.

The commitment of FSA to provide high wildlife benefits in CRP contracts has been obvious since the advent of the Environmental Benefits Index (EBI) in the 15th sign-up. The Association applauds FSA in those efforts with their special emphasis on native grasses, endangered species and enlightened pine planting and management and urge that strong emphasis on the establishment and management of wildlife friendly cover be continued and where possible strengthened. Management/maintenance strategies are essential to ensure continuation of soil, water and wildlife benefits throughout the life of the CRP contract. The up-to-\$5/acre maintenance payment presently included in CRP contracts tends to be viewed by many landowners as additional rental payment, whether maintenance practices are performed or not. It makes sense to ensure and pay for maintenance when maintenance is needed and prudent to save public funds when maintenance is not needed. The Association encourages FSA to convert the annual maintenance fee in future contracts to cost-share on an as-needed basis to ensure soil, water and wildlife objectives reflected in the EBI are realized as well as to ensure wise use of public funding for CRP.

#### NATURAL RESOURCES CONSERVATION SERVICE (NRCS)

The Natural Resources Conservation Service has immense responsibilities for implementing the conservation provisions of the 1985 Food Security Act (FSA), the 1990 Food, Agriculture, Conservation and Trade (FACT) Act, the Federal Agricultural Improvement and Reform (FAIR) Act of 1996 and are expected to be carried through in the 2002 Farm Bill. In addition, the 2002 Farm Bill presently in Congress contains a promising new Grassland Reserve Program (GRP) as well as a much-needed revised Forestry Title to address conservation on non-industrial private forestland.

WRP, WHIP, FPP, EQIP, proposed GRP and Forestry Title programs—The Wetlands Reserve Program (WRP), Wildlife Habitat Incentives Program (WHIP) and Farmland Protection Program (FPP) have reached their authorized acreage or appropriation caps and, in the absence of legislation that continues these programs, NRCS does not include funding in the fiscal year 2003 budget proposal. Neither does the NRCS budget propose funding for the proposed GRP or Forestry Title programs. Since passage of the 2002 Farm Bill is imminent, and inclusion of the existing and proposed conservation programs are expected to be part of the new Farm Bill, NRCS is encouraged to provide the appropriate cost projections for these programs.

With approximately 50 percent of the land in the United States in agricultural production, conservation is inextricably linked with agriculture and, therefore, the importance of USDA conservation programs cannot be overemphasized.

Wetland conversions continue and wetland resources cannot be sustained without a proactive program like WRP that compensates landowners for voluntary restoration of wetlands. WRP is currently over-subscribed by a factor of 5, with many eligible landowners already qualified but unable to enter the program due to lack of funding.

Similarly, many wildlife species reside on agricultural landscapes with nowhere else to go—they must survive on those landscapes if they are to survive at all. WHIP has helped many landowners make significant contributions to conservation of imperiled species on lands where wildlife is a primary purpose. In complementary fashion, EQIP has tremendous potential to help interested agricultural producers incorporate fish and wildlife considerations, along with soil/water/other resource considerations, on lands that are managed with agricultural production as the primary purpose. This approach simplifies paperwork and conservation for landowners in that EQIP can be used as a self-contained program to address all resource needs (including fish and wildlife) on production lands and WHIP can be the vehicle on lands where wildlife is a primary purpose.

New programs, such as the GRP, present great opportunity to provide agricultural producers with an economic alternative to conversion of dwindling native prairie to other uses. GRP would enable producers to keep irreplaceable prairie in forage production, a use to which these lands have historically been so well suited. Programs proposed in the Forestry Title could provide a much needed boost to conservation of forest resources on agricultural ownerships across the Nation. This is important because these lands contribute to on-farm agricultural income just as do grasslands



and cropland. And, forest lands are just as key to conservation of soil, water and wildlife resources as are grasslands and cropland.

In a like manner, the FPP has been important in places where urban encroachment diminishes the long-term viability of the local farming economy and interest in the program far exceeds budget allocations.

All of the existing conservation programs have been tremendously successful and significant interest has been expressed in the proposed GRP and additional Forestry Title conservation programs. Due to the overwhelming success, customer interest and public benefits of these programs, the Association strongly encourages Congress to provide annual funding for these programs in the amount of \$286 million per year for WRP (reflecting an enrollment cap of 250,000 acres per year), \$100 million for WHIP, funding for a 400,000 acre enrollment in GRP, \$300 million for EQIP, \$100 million for Forestry Title programs and \$65 million per year for FPP.

*Technical Assistance.*—The NRCS Strategic Plan for 2000–2005 establishes natural resource priorities in support of agriculture and identifies staffing levels needed to achieve success. The Strategic Plan projects a steadily increasing need for technical assistance through 2005. Adequate technical assistance will be essential to ensure private landowners can deliver the conservation of natural resources while also providing affordable food for our citizens. However, despite increased workloads and increased societal demands on land and natural resources, NRCS staffing levels have been on steady decline since the 1980's, even in the face of increased landowner interest and Farm Bill emphasis on conservation. While the fiscal year 2003 budget proposal reflects a carryover of the NRCS staffing level of fiscal year 2002, it is far short of the 24,000 staff years identified in the NRCS Strategic Plan for fiscal year 2000–2005.

Since NRCS provides essential and complementary (to FSA) support to agricultural producers, it is prudent for both agencies to be adequately staffed to adequately deliver services. In addition, the Conservation Reserve Program (CRP), WRP, WHIP and EQIP all reflect long-term contracts that necessitate continuous technical support to participants, whether or not there is new sign-up. NRCS can draw some program funding for technical assistance but only in the year in which sign-up occurs and, consequently, program funding does not fully address the long-term technical assistance support these programs demand. It is essential for NRCS to maintain adequate staffing to address all on-going needs for which landowners need technical assistance. The Association strongly encourages Congress to provide NRCS with funding to better address the need for the nearly 24,000 staff years identified in the NRCS Strategic Plan for 2000–2005.

In these times of compelling conservation need, many State fish and wildlife agencies are contributing staff time to help NRCS field offices service fish and wildlife aspects of USDA assistance to landowners. Such partnerships help NRCS deliver specialized technical expertise to private landowners at less cost than adding NRCS staff with such expertise. The 2002 Farm Bill, presently in Congress, contains third party vendor aspects that could allow USDA to contract with State fish and wildlife agencies to provide fish and wildlife expertise more inexpensively and effectively than could be provided by adding NRCS staff to fill the discipline need. And, importantly, State fish and wildlife agencies have State-level constitutional authority for fish and wildlife resources of the State and are, therefore, in an excellent position to help service related aspects of Farm Bill programs. The Association strongly encourages the Administration and Congress to emphasize partnering arrangements, between NRCS and State fish and wildlife agencies and others that result in cost-efficiencies. The Association also encourages the Administration to develop a third party vendor certification system that fully recognizes the technical expertise and constitutional authority of State fish and wildlife agencies.

*Wetland Determination.*—We believe the need for wetland determination, certification, and mapping is significant and urge NRCS to proceed as soon as possible, under the guidance of the FAIR Act of 1996. The Association urges expeditious completion of the wetland determinations required to implement the Swampbuster provisions of the 1985 FSA, 1990 FACT Act, and the 1996 FAIR Act. The FAIR Act directed interagency cooperation, whereby NRCS assumed responsibility for wetland designation for Section 404 (Clean Water Act) purposes on farmland, including tree farms, rangelands, native pasture, and other private lands used to produce or support the production of livestock. The Association and individual State fish and wildlife agencies will continue to work with NRCS to help achieve these goals.

*Emergency Watershed Program (EWP).*—This program provides an important alternative to agricultural producers faced with localized and/or national natural disaster. Of particular importance is the aspect of EWP that provides compensation to landowners for removing at-risk land from production (via easement) and, therefore, a continual and expensive cycle of repair and income uncertainty. Utilization of the

floodplain protection element of EWP saves the government money in the long-run, provides needed assistance to producers and benefits natural resources including water quality and fish and wildlife. The Association supports the level of funding for EWP as reflected in the fiscal year 2003 budget proposal.

*National Buffer Initiative.*—NRCS has implemented this initiative in cooperation with industry and other partners. The National Academy of Sciences has found that buffer strips can reduce off-field pollution by 70 percent, thus also contributing to meeting non-point source remediation goals under the Clean Water Act. Unfortunately, the level of sign-up by producers remains relatively low in many places with conservation need. The reason for this needs to be identified and addressed based on actual field experience. In previous years, NRCS committed special emphasis and a major effort to use buffer practices in the continuous CRP and other programs like EQIP. However, there is no mention of the National Buffer Initiative in the fiscal year 2003 budget narrative. The Association encourages Congress to mandate that NRCS continue the National Buffer Initiative as a high priority effort and provide the necessary funding.

*Forestry Incentives Program (FIP).*—The Forestry Incentives Programs (FIP) has multiple resource values for fish, forests, wildlife, clean water and erosion control. Many farms contain forest resources that are as much in need of conservation treatment as are cropland and grassland. The Association opposes the NRCS proposed intention to zero out FIP funding and strongly recommends that the fiscal year 1999 level of \$16.325 million be restored in the fiscal year 2003 budget.

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#### PREPARED STATEMENT OF THE JOSLIN DIABETES CENTER

##### INTRODUCTION

Mr. Chairman, thank you for this opportunity to submit a statement for the public witness hearing record. The subject of this short statement is the continued funding in fiscal year 2003 for the Diabetes Project in the Extension Service of CREES. We have developed a plan for fiscal year 2003 that will require continued funding at the current year's level of \$906,000. This includes costs of Federal Administration, participation expenses of the states of Washington, New Mexico and Hawaii, and the personnel, equipment and associated costs of Joslin Diabetes Center within the total cost of the program.

##### FISCAL YEAR 2001–2002 BACKGROUND

I would like to express Joslin Diabetes Center's sincere appreciation to Senator Domenici and the Subcommittee for actions in the fiscal year 2002 process in providing \$906,000 for the third year of the Diabetes Project. We know you faced difficult decisions concerning funding priorities. We feel that the allocation of these funds indicates support for the growing community role and organizational flexibility of the Extension Service.

In May, Joslin, Washington State, Hawaii, New Mexico and Federal Extension personnel will meet with representatives of more than 20 sites within 12 different states to develop strategies for widespread use of the "On the Road" programs and materials.

The Diabetes Project in Washington State is working in partnership with clinics in 6 counties, collaborating with 47 community health centers using "On the Road" programs and materials, and actively involving Native Americans from the Colville tribe.

In New Mexico the Diabetes Project is working directly with Sangre de Cristo Community Health Partnership in Sante Fe, Las Clinicas Del Norte in El Rito, and the San Juan San Juan Pueblo; developing educational programs and materials with 12 clinics of the statewide Diabetes Collaborative; and implementing a partnership with the New Mexico Department of Health in District 3, the northwest part of the state.

Working in partnership with the Hawaii State Diabetes Prevention and Control Program, the Diabetes Project is expanding outreach within the Big Island to rural neighborhoods and biweekly "On the Road" educational programs and on Oahu with the Hispanic population through the Hispanic Education Center. Through fiscal year 2002 funding retinal imaging equipment will be installed in all three states, with image acquisition and training, and image reading procedure in place. At a rate of 30 patients per day per site, the three units will have the capacity to screen 18000 patients annually. This actually involves the examination of 36,000 eyes, because a patient can develop diabetes retinopathy in only one eye.

All participants remain committed to goals and objectives of the original project and are planning cooperatively for this and the coming fiscal year.

FISCAL YEAR 2003 PLAN

For fiscal year 2003, the mission and objectives for the three state pilot programs will be implemented on two levels:

- Continuation of distribution of educational materials for diabetes awareness and dieting/health guidelines;
- Retinal screening for diabetes mellitus in all three states.
- Assessment of progress and revision of materials and internal processes within each state will be conducted for refinement for each state's target population.

Joslin Diabetes Center will continue to welcome additional participation within the three states of the pilot project to better educate consumers about diabetes and the most effective methods to address diabetes and its complications.

While continuing current programs and activities fiscal year 2003 plans call for:

- Washington state expansion to provide educational programs to 2 additional counties, to provide JVN retinal screening for interested community clinics, and further outreach to Native American and Hispanic minorities;
- New Mexico expansion to reach out to the Navajo Nation and Zuni tribes, to include outreach in the southwest part of the state, and to enhance activity with the rural clinics of the New Mexico Diabetes Collaborative;
- Hawaii State expansion to extend diabetes education in Native Hawaiian clinics through partnership with Native Hawaiian Health, and to introduce diabetes education into school systems starting with Kumaya Maya schools.

Mr. Chairman, this concludes my brief statement. We are submitting a detailed budget for the fiscal year 2003 funds of \$906,000 to the Committee for continuation of this project with the Extension Service. If you or the Committee staff have any questions we may answer concerning this project, we would be pleased to meet and discuss the details in more detail.

The Extension Service and Joslin Diabetes Center appreciate your confidence in our capabilities and your focus on the improvement of quality of life in rural America. We respectfully request continued funding of \$906,000 in fiscal year 2003 to fully demonstrate the benefits and potential national returns that can be derived from this pilot effort.

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PREPARED STATEMENT OF THE KENT SEATECH CORPORATION

Mr. Chairman and Members of the Subcommittee: My name is James M. Carlberg. I am President of Kent SeaTech Corporation, the largest aquaculture company in California. I have been involved in aquaculture research and production for more than 32 years. I have served on the Board of Directors of the National Aquaculture Association, was a Founder and President of the U.S. Striped Bass Growers Association, and serve as a member of the Industry Advisory Council for the Western Regional Aquaculture Center.

I am writing to inform you of the need for continued funding for high quality research in the growing field of aquaculture. Kent SeaTech Corporation is a perfect example of the value of nationally funded research in aquaculture. During 1970-79, we conducted aquaculture research funded by the Sea Grant Program at UCSD Scripps Institution of Oceanography. In 1980, based on the successful results of extensive laboratory research, we obtained private funding and developed the first and largest striped bass culture operation in the world. The facility has grown to be the largest aquaculture operation in California and produces nearly four million pounds of high quality seafood each year, valued at nearly \$10 million. More importantly, the research has resulted in the development of an entirely new form of aquaculture for the U.S., the culture of striped bass and striped bass hybrids. This new industry, based entirely on preliminary research funded by the federal government, has quickly expanded to become the fifth largest form of fish culture in the U.S., trailing only catfish, trout, salmon and tilapia farming. Often, the annual production of striped bass from U.S. aquaculture facilities exceeds the entire wild fishery harvest. This important new source of supply relieves the fishing pressure on fragile ocean stocks and provides new employment at all levels of the seafood industry. This is truly a success story in which research supported by the federal government has grown into a multi-million dollar new industry that has provided significant benefits to the nation.

On behalf of Kent SeaTech Corporation, I would like to express our strong support for the Regional Aquaculture Centers and urge you to provide full funding for the next fiscal year. The valuable research supported by the Centers has been very sup-

portive of our industry and is addressing the most important problems encountered in aquaculture facilities throughout the nation.

Aquaculture is an extremely large industry worldwide, where more than 20 million metric tons of fish and shellfish are produced each year. The U.S. lags far behind many other countries such as China, India, and Russia in aquaculture, producing only a small fraction (about 2 percent) of the world's total supplies. The majority of U.S. production involves freshwater fish, primarily catfish, trout, tilapia, and striped bass. Aquaculture has become a one billion dollar industry in the U.S., providing nearly 15 percent of our seafood supplies. Aquaculture production in the U.S. is rapidly approaching 450 million kg annually. Annual production of catfish in the U.S. is estimated to be about 200 million kg, with trout between 22 and 27 million kg, salmon over 9.0 million kg, domestic tilapia production at 70 million kg, and hybrid striped bass at nearly 4.5 million kg.

Aquaculture is expanding at an annual rate of 20 percent and is the fastest growing sector of the agriculture industry. Predictions from independent surveys of the food industry indicate that aquaculture could become the most productive sector of food production in the U.S. within the next two decades. Furthermore, these studies suggest that most of the additional production will come from intensive culture, and that the culture will focus on the luxury species using innovative technologies. However, these advances can only occur if a coordinated effort is made to provide the technical and engineering breakthroughs needed to allow this new industry to develop.

Unfortunately, foreign competition is having a major impact on some U.S. aquaculture operations. More than 60 percent of our seafood supplies are now imported, resulting in a large annual trade deficit of \$7 billion. Many of the competing countries are located in tropical and sub-tropical climates, where large quantities of warm water are available for aquaculture. Also, land costs are low, there are few competing uses of water resources, semi-skilled labor is widely available for a fraction of U.S. costs, and often there are few controls on the quality of water discharges to the environment or the use of antibiotics and other disease treatments illegal in the U.S.

Foreign competition also is beginning to have an impact on our segment of the industry, the culture of striped bass. In the last 3 years, competition from Taiwan has increased significantly. Foreign farmers are now purchasing more than 200 million striped bass juveniles each year, which is about 20 percent of all of the fingerlings available from the U.S. hatcheries. The only means of protecting and fomenting the U.S. industry is to develop significant technological improvements in the culture process, so that U.S. producers will not be at a disadvantage.

Although aquaculture offers extremely high potential, some observers liken the status of our technology to the status of land-based agriculture in the 1950's. There is a real need for the development of high-tech solutions for many problems we face, such as the development of methods to treat and reuse wastewater, improved feed formulations, controlled reproduction and genetic improvements, and the testing of new medications to maintain healthy fish populations in culture systems. Well-planned aquaculture research programs could have extremely important commercial applications in the U.S. Almost every major review of aquaculture as described the critical need for improved culture technologies if this new industry is to continue to expand in the U.S. The National Aquaculture Act and the revised National Aquaculture Plan highlight the importance of aquaculture research and development. The Congressional Joint Subcommittee on Aquaculture and the National Research Council promote a "national agenda to encourage the development of advanced aquaculture technologies and environmentally sound, renewable resources", as part of the Presidential Initiative on Sustainable Development. Similar emphasis is placed on the topic by the Cooperative States Research, Education, and Extension Service (CSREES) Program, and the Sustainable Agriculture Research and Education Program (SARE). Aquaculture has been declared a National Need having top priority by the Agriculture in Concert with the Environment (ACE) program, a joint effort of the USDA and the EPA.

As former recipients of Sea Grant funding from the U.S. Department of Commerce (1970-80), and Small Business Innovation Research funds from several agencies (1982-present), we are fully aware of the difficulty that Congress faces each year in deciding which national research programs are of real merit to the country and should be funded. Now, as scientists who have become successful members of the seafood industry in California, please accept our sincere recommendation that this proposal would be of significant benefit to the growing aquaculture industry in the nation. In our view the importance of continued funding for aquaculture research programs cannot be overstated. It is the only means of studying the complex life cycles of aquatic species and developing the basic scientific concepts that future in-

dustry start-ups will need if they are to successfully develop new seafood farming ventures. We hope that the committee will agree with us regarding the importance of the Regional Aquaculture Centers and continue to provide funding at the highest possible level.

We would be glad to provide more information if required.

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PREPARED STATEMENT OF THE LEOPOLD CENTER FOR SUSTAINABLE AGRICULTURE

The Leopold Center for Sustainable Agriculture thanks you for your leadership and support last year in providing \$187,072 of our \$325,000 request to expand understanding and adoption of hooped structures as low-cost, humane, environmentally friendly production housing systems for swine and other agricultural animals. The hoop research is promoting viable and timely production options for struggling small and medium sized farmers as well as helping to open new markets. Specifically, first year funds will allow:

- Completion of a comprehensive manual of hoop barn use for swine production.
  - Collection and distribution of information on uses of hoop structures for other livestock species.
  - Establishment of a hoop house network of producers and demonstration sites.
  - A national workshop on Hoop Barn Swine Production.
- The first year funds will also allow us to begin work on the remaining objectives set out in the original proposal:
- Evaluation of hoop barns as a total production system, including labor and resource economics;
  - Development of protocols for using hoop barns to raise disadvantaged and light weight pigs for welfare, medical and production reasons;
  - Systematic investigation of farmers' perceptions of benefits and limitations of hoop structures;
  - Evaluation of meat quality characteristics of hoop pork; and
  - Determination of genetic and production interactions on pork quality traits.

We are again requesting your support of an appropriation of \$325,000 in fiscal year 2003. Part of this request is to further the remaining objectives set out in the original proposal. The additional part of this request would allow expansion of our original objectives to broaden the farmer network of hoop users, to support on-going efforts to create a marketing infrastructure that facilitates consumer access to hoop products, and to tighten nutrient cycles on individual farms.

We expect that the two year total request of \$512,072 will allow us to make significant progress toward the goals of the project.

It is critical to have unbiased research about the costs and benefits of production alternatives. Farmers need some less expensive, more ecologically-friendly production methods—as well as some encouragement and assistance before reentering or remaining in pork production. We will very much appreciate your leadership in obtaining continued funding for this important project. If you have any questions, please feel free to contact me. Thank you for your consideration.

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PREPARED STATEMENT OF THE MASSACHUSETTS DEPARTMENT OF FOOD AND AGRICULTURE

Mr. Chairman and Members of the Subcommittee: The Massachusetts Department of Food and Agriculture within the Executive Office Of Environmental Affairs is a State agency whose mission is to help insure a safe secure supply of locally grown food, and to support, promote and enhance the long-term viability of Massachusetts agriculture with the aim of helping the State's agricultural businesses become as economically and environmentally sound as possible. To that end we have recognized the importance of aquaculture and the opportunities that aquatic farming presents to our Commonwealth and have undertaken numerous efforts to promote aquaculture development in Massachusetts.

Our efforts to promote aquaculture development in Massachusetts primarily came about as a result of a fisheries crisis that commenced in 1994 and has lingered to the present. Through the development of the Gubernatorial directed Massachusetts Aquaculture White Paper and Strategic Plan, it became clear that aquaculture; presented employment opportunities for individuals displaced from their traditional commercial fishing activities, provided a source of high quality, wholesome fisheries products and offered economic development opportunities that are a "good fit" for our coastal communities. However, as a new initiative the Aquaculture Development Program at the Massachusetts Department of Food and Agriculture it was imperative to network and develop organizational relationships that were capable of fos-

tering program development without competing or dampening existing efforts that had similar goals. To our great fortune one the United States Department of Agriculture's (USDA) five (5) Regional Aquaculture Centers is located in Massachusetts (i.e. Northeastern Regional Aquaculture Center, NRAC) and it was without hesitation that the NRAC provided access to informational resources and opportunities for programmatic development benefiting from industry insight.

True to its mission statement, NRAC has served as a principal public forum for the advancement and dissemination of science and technology needed by Northeastern, aquacultural producers and support industries. Further, we have had the pleasure of working with NRAC through a variety of projects and fora that have facilitated regional stakeholder communications-linking industry and government representatives to university scientists and educators. These events have led to efforts that are appropriately targeted and responsive to the often-diverse needs of the northeastern aquaculture industry.

Considering the farm gate value of the United State's aquaculture industry that represents less than 2.5 percent of the global \$40 billion industry, as a nation we currently lag many other countries that view aquaculture as a significant if not primary contributor to their nation's economy and food supply. As the health benefits of seafood consumption are realized surely U.S. per capita consumption will increase. With this in mind and in regard to the availability of fish and seafood, the United States has what can be boiled down to two options; 1. Increase fish and seafood imports or 2. Undertake and promote activities that increase availability of domestic fish and seafood products. Already fish and seafood imports represent the second largest contributor, behind petroleum products, to the U.S. natural resources trade deficit. And considering the status of global fisheries resources, it is not unlikely that the availability of foreign wild harvest fisheries products will also be reduced as populations grow and global demand for fish and seafood increases. Further, considering the increased importance and emphasis on food security and the safety of our food supplies, it is now, perhaps more than ever before, important to shift our current reliance on foreign food sources toward that produced domestically. We have already seen the impact of increasing domestic fish and seafood production when approached with sole reliance on the natural productivity of our aquatic environments. It resulted in an over capitalized industry and resources that may have been impacted beyond the point of recovery. Fortunately, aquaculture presents opportunities to enhance resources while at the same time providing employment and economic development opportunities that rely on sustainable practices.

If we are to realize the full benefit and potential of aquaculture in the United State's there are a number of activities and services that must be available including research, development and the transfer of appropriate information and technology. Not coincidentally, the USDA Regional Aquaculture Centers provide these services and have done so on limited budgets in a way that is guided by the public, industry, researchers and government agencies. The role of the Regional Aquaculture Centers as an intersection for the myriad of interests associated with aquaculture is essential for continued industry development. Further, the support that the Regional Aquaculture Centers provide promotes efforts and publications that are likewise critical for industry progress and product development. With this in mind we strongly support the work of the Regional Aquaculture Centers and encourage continued support and increased program funding to the authorized level of \$7.5 million.

With the above in mind and the promise that aquatic production holds for our country, we respectfully request that Congress consider the opportunity at hand and support funding of the Regional Aquaculture Centers at the full authorized level. We would also like to offer our deepest gratitude for this opportunity to express our concern and support for this important initiative and look forward to your continued interest, encouragement and support.

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PREPARED STATEMENT OF THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

The Metropolitan Water District of Southern California (MWD) appreciates the opportunity to submit testimony regarding the U.S. Department of Agriculture's (USDA) fiscal year 2003 budget, for the Hearing on Agriculture, Rural Development and Related Agencies Appropriations. MWD 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 MWD includes 17 million people living on the coastal plain between Ventura and the international boundary with Mexico. It is an area larger than the State of Con-

necticut and, if it were a separate nation, would rank in the top ten economies of the world.

Included in our region are more than 225 cities and unincorporated areas in the counties of Los Angeles, Orange, San Diego, Riverside, San Bernardino, and Ventura. We provide nearly 60 percent of the water used in our 5,200-square-mile service area. MWD's water supplies come from the Colorado River via the district's Colorado River Aqueduct and from northern California via the State Water Project's California Aqueduct.

#### INTRODUCTION

MWD continues to favor USDA implementation of conservation programs. MWD firmly believes that interagency coordination along with cooperative conservation programs, that are incentive-based and 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 Congress provides USDA with the funding necessary to successfully carry out its commitment to natural resources conservation.

Our testimony focuses on USDA's conservation programs that are of major importance to MWD. In particular, MWD urges your full support for funding for USDA's Environmental Quality Incentives Program (EQIP). Funding for this program is essential for achieving Colorado River Basin salinity control objectives through the implementation of salinity control measures as part of EQIP. Sufficient Federal funding for USDA programs is necessary to achieve source water quality protection objectives in the Colorado River Basin.

#### ENVIRONMENTAL QUALITY INCENTIVES PROGRAM

EQIP provides cost-sharing and incentive payments, technical assistance and educational assistance to farmers and ranchers for the implementation of structural practices (e.g., animal waste management facilities, filterstrips) and land management practices (e.g., nutrient management, grazing management) that address the most serious threats to soil, water and related natural resources. EQIP is to be carried out in a manner that maximizes environmental benefits per dollar expended. This assistance has been focused in conservation priority areas identified by the Natural Resources Conservation Service's (NRCS) State Conservationists, in conjunction with state technical committees and Farm Service Agency personnel.

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, USDA's participation in the Colorado River Salinity Control Program (Salinity Control Program) has significantly diminished. The mechanism by which funding had been allocated by USDA inherently masked projects for which benefits are interstate and international in nature. After requests had been made by the Colorado River Basin Salinity Control Forum (Forum), the interstate organization responsible for coordinating the Basin states' salinity control efforts, and others, and directives from the Congress, USDA has 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 salinity control has benefits that are not merely local or intrastate in nature, but continue downstream. The President's Budget includes an additional \$73.5 billion in funding over a 10-year period for Farm Bill programs. The budget assumes that a portion of this will be allocated to conservation programs, including funds to support a \$1 billion level for EQIP in 2003. This level of Federal funding through financing provided the Commodity Credit Corporation is critical for implementation of EQIP in order to achieve nationwide EQIP objectives. This level of funding would allow acceptance and funding of additional EQIP proposals nationwide compared to previous years. USDA staff have indicated that a more-adequately funded EQIP would result in the availability of more funding for the Salinity Control Program.

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 first phase of the study (completed in February 1997) updated the findings of previous studies and 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 pro-

grams, 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 2002, the Coalition is being expanded to include major water and wastewater agencies throughout Southern California. Initial activities of the group are focusing on education, coordination, and development of local and regional solutions to problems associated with high salinity. In addition, Metropolitan and representatives from Arizona and Nevada have been collaborating to explore opportunities to develop a program that would address salinity issues associated with brine disposal in the region.

Reclamation estimates that water users in the Lower Basin are experiencing hundreds of millions of dollars in annual impacts from salinity levels in the river, and that impacts would progressively increase with continued agricultural and urban development upstream of California's points of diversion. Droughts will cause spikes in salinity levels 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 1999 Review, Water Quality Standards for Salinity, Colorado River System (1999 Review) in June 1999. The 1999 Review found that additional salinity control was necessary with normal water supply conditions beginning in 1994 to meet the numeric criteria in the water quality standards adopted by the seven Colorado River Basin states and approved by the U.S. Environmental Protection Agency (USEPA). For the last nine fiscal years (1994-2002), funding for USDA's salinity control program has not equaled 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 \$5.5 million in fiscal year 2002, with states and local cost-sharing adding about \$4.3 million, it is essential that implementation of salinity control efforts through EQIP 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 \$12 million in EQIP funds in fiscal year 2003 is needed for on-farm measures to control Colorado River salinity. This level of funding is necessary to meet the salinity control activities' schedule to maintain the state adopted and USEPA approved water quality standards. With this level of Federal funding, an additional \$9.3 million in states and local cost-sharing could be committed.

#### CONSERVATION TECHNICAL ASSISTANCE

MWD also supports adequate funding for Conservation Technical Assistance (CTA) within the NRCS Conservation Operations Program. Conservation technical assistance provides the foundation for implementation of EQIP and other conservation programs. While USDA has determined that 19 percent of the EQIP funds will be available for technical assistance, adequate funding for technical assistance and educational activities should be provided through the Conservation Operations Program, permitting these EQIP funds to be utilized for contracts with agricultural producers. USDA staff has indicated that the percentage of EQIP funds available for technical assistance is inadequate. Consequently, the Basin states have agreed that 40 percent of the states' cost sharing funds be utilized for technical assistance and educational activities. However, only through adequate Federal funding for technical assistance and educational activities can advance planning, proposal preparation assistance, comprehensive proposal review, and periodic verification of contract implementation occur.

#### CONCLUSION

MWD urges you and your Subcommittee to support funding of \$1 billion for EQIP and adequate funding for NRCS CTA, and advise USDA that \$12 million in 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 Col-



orado River Basin salinity control objectives, as well as broader source water quality protection objectives in the Colorado River Basin.

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PREPARED STATEMENT OF THE MOUNTAIN WATERSHED ASSOCIATION

The Mountain Watershed Association, Inc. (MWA) is a grassroots, community-based group working to restore the Indian Creek Watershed in Fayette and Westmoreland Counties. Most of the damage to this watershed is caused by mine discharges from abandoned mines. The area, particularly the degraded section in Fayette County, is one of the poorest in Pennsylvania with the second highest illiteracy rate in the state second only to inner city Philadelphia.

Over one hundred and 50 years of coal mining in this community have left us with mine discharges dumping 5,853.31 pounds per day of acid, 1,120.55 pounds per day of iron, and 363.45 pounds per day of aluminum into the streams and backup public water supply. This adds up to: 2,136,458.15 pounds of acid per year; 409,000.75 pounds of iron per year; and 132,659.25 pounds of aluminum per year. This has resulted in dead streams, mine drainage in homes, and yards and fields consumed and rendered useless.

Two years ago, MWA went through a lengthy process to qualify for Federal assistance through the Public Law 566 program. This assessment showed that mine drainage remediation in this watershed would glean a net average annual benefit of \$523,000 for this impoverished community. It has come to our attention that President Bush's proposed 2003 budget provides no funding for the Public Law 566 program or the Watershed Protection and Flood Prevention Act, (Public Law 83-566). The USDA Natural Resources Conservation Service administers the program.

This program adapts to local needs, creates economic growth, attracts other Federal, State and local dollars to projects, and solves major environmental problems and protects natural resources. For every Public Law 566 dollar spent, 6.3 dollars has been leveraged from local, state, and other Federal sources. The program has been a tremendous impetus to treatment and cleanup of agricultural and mine drainage problems.

With all of the economic and environmental problems in Pennsylvania we desperately need this program. It will help revitalize the economy in our area while remediating serious environmental problems caused from mine discharges.

With the help of local sponsors, NRCS has developed 6 watershed plans for the treatment of abandoned mine drainage and one for agricultural land treatment. The total estimated cost of Page two, Subcommittee on Agriculture, Rural Development and Related Agencies the 95 projects identified in these plans is \$19,544,000.00. As of February of 2002, 33 of these projects have been completed, or are under construction, for a total cost of \$9,084,030. The Public Law 566 program provided \$1,229,206 of this total; the remaining \$7,854,824 came from other Federal, State and local sources. Again, this means that every single Public Law 566 dollar leveraged 6.3 dollars of other money. All of these projects have a positive benefit to cost ratio. This means that every dollar spent will create a local benefit greater than the cost of the project. It also means that 122 miles of streams in western Pennsylvania will have water quality improvements allowing the return of economic sport fisheries.

The agricultural land treatment watershed is Yellow Creek in Bedford County. This project has an estimated cost of \$2,903,517. NRCS has entered into contracts with 42 landowners for a Public Law 566 cost of \$1,292,517 that will treat 4,528 acres to reduce soil erosion and animal waste pollution in Yellow Creek. Other funds in the amount of \$789,871 have been leveraged for this project. This project has an average annual benefit of \$332,600.

The Raystown reservoir benefits from this project because Yellow Creek flows into the reservoir. The reduction in chemical fertilizers, and animal waste nutrients reaching the reservoir will reduce or prevent detrimental algae blooms in the reservoir.

This program will help us restore 95 percent of the Indian Creek Watershed, ostensibly total restoration, and could be instrumental in bringing over \$523,000 each year into the Indian Creek Watershed toward economic revitalization. This restoration could take as little as 7 years if we keep this funding source. Or, it could never happen without funding.

Given the facts above, we hope you will agree that the Public Law 566 program needs to be fully funded so that Pennsylvania can continue to receive the economic and environmental benefits of this excellent program administered by the USDA Natural Resources Conservation Service. Please support a fully funded Public Law

566. The people of the Indian Creek Watershed need this funding. Pennsylvania needs this funding. All coal-producing states need this funding.

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PREPARED STATEMENT OF THE NATIONAL ASSOCIATION OF CONSERVATION DISTRICTS

The National Association of Conservation Districts is the nonprofit, nongovernment organization that represents the nation's 3,000 conservation districts and more than 16,000 men and women who serve on their governing boards. Established under state law, conservation districts are local units of state government charged with carrying out programs for the protection and management of natural resources at the local level. They work with nearly two-and-half million cooperating landowners and operators—many of them farmers and ranchers—to provide technical and other assistance to help them manage and protect private land in the United States. In carrying out their mission to coordinate and carry out all levels of conservation programs, districts work closely with USDA's Natural Resources Conservation Service (NRCS) through its Conservation Technical Assistance Program (CTAP) to provide the technical and other help farmers and ranchers need to plan and apply complex conservation practices, measures and systems.

The partnership of conservation districts, state conservation agencies and the NRCS provides farmers and ranchers with critical help in protecting and improving the quantity and quality of our soil and water resources while meeting both domestic and international food and fiber needs. America's agricultural producers provide many benefits to our citizens including clean water and air, fish and wildlife habitat and open space. Many of the conservation practices producers apply on their land also take carbon out of the atmosphere and store it in the soil, providing a hedge against global climate change. As stewards of the nation's working lands, farmers and ranchers manage the vast majority of America's private lands and provide tremendous environmental benefits to the country.

On behalf of America's conservation districts, I am pleased to provide our recommendations on selected conservation programs carried out through the U.S. Department of Agriculture, especially those of the Natural Resources Conservation Service.

Conservation districts' top funding priority for USDA conservation programs for fiscal year 2003 is to strengthen the Natural Resources Conservation Service's Conservation Technical Assistance Program (CTAP) to ensure that the nation's Federal, State and local conservation technical assistance infrastructure is able to provide private landowners and operators the technical assistance needed to support the application of sound conservation practices and systems on the nation's private working lands.

CONSERVATION TECHNICAL ASSISTANCE PROGRAM

Our request for the NRCS Conservation Technical Assistance Program (CTAP) is for a total of \$856.736 million. This request includes, among other increases, a \$48.7 million increase to be used for base technical assistance staff. This amount represents a 7.2 percent increase relative to total CTAP spending in fiscal year 2002. I note that the President's budget includes a requested increase for the same amount. We believe it is critical that this basic and essential program be strengthened to help landowners and operators address the nation's natural resource needs on private working lands. In order to cover inflation and increased pay costs our request also includes the same amount requested by the President for this purpose, \$22.5 million. We estimate that these increases will be needed in order for NRCS field staff to be able to make some headway on growing concerns such as soil erosion, water quality, animal waste management, wetlands conservation and other natural resource issues.

In addition to the base Conservation Technical Assistance Program, conservation districts support full funding for the Grazing Lands Conservation Initiative authorized to be carried out through NRCS by the Federal Agricultural Improvement and Reform Act of 1996. Resource problems such as brush, weeds and accelerated water or wind erosion threaten the capacity of nearly 300 million acres—more than 50 percent—of these lands to satisfy production needs and meet natural resource values. Working with partners such as the National Grazing Lands Conservation Initiative, conservation districts and their partners have determined that at least \$60 million is needed to fund the CPGL program. This amount represents a \$38.5 million, or 5.7 percent, increase relative to total fiscal year 2002 CTAP spending and will allow us to begin reversing the negative trends that affect both production and environmental concerns on these lands.

The President's budget request includes a proposal to cut almost \$31 million from CTAP relative to fiscal year 2002 levels to account for increases in "administrative efficiencies." NACD's request does not include this cut. NACD is fully supportive of the Administration's objectives of streamlining administrative functions so that more resources can be used in the field to support landowners and managers. But our experience with the practical details of what has been developed by the Administration to this point has been that these changes will result in administrative cost increases, not decreases. We do not see how such proposals can really help deliver more conservation assistance to the field, and accordingly, we encourage you to reject the Administration's proposal and the cut in funding that goes along with it.

When considering discretionary funding for NRCS relative to the mandatory spending that will likely be made possible by the new Farm Bill, it is important to keep in mind the real limitations of the Farm Bill programs and the fact that CTAP will be needed to fill the major gaps that remain. We have been strong and forceful advocates for increased conservation spending in the Farm Bill, and we welcome the major gains that Congress is proposing in this bill. But even under the best scenarios, the new Farm Bill's working agricultural lands conservation programs will reach less than 25 percent of the nation's agricultural lands, and an even smaller percentage of the nation's farms and ranches.

There are approximately 2.1 million farms and ranches in the U.S. today that cover much of the 1.5 billion acres of the nation's private land. These private working lands-cropland, grazingland and private forestland-comprise nearly 70 percent of the country's land mass. Two of the programs in the farm bill now being debated, EQIP and the Conservation Security Program (CSP), are directed towards conservation being applied to such lands if they are still in agricultural production. EQIP today has approximately 97,000 active contracts involving some 43 million acres, 11 million of which are crop acres. Even if the new Farm Bill results in a 6-fold increase in funds for these two programs, to apply conservation on lands still in production, NACD estimates they would reach approximately only 33 percent of the farms, and 20 percent of all working lands and cropland acres.

That means that CTAP, and the states' own conservation cost-share programs that CTAP helps support, will be needed to provide quality technical assistance to the other 1.4 million farms and ranches and the approximately 1.2 billion working acres that will not be reached by Farm Bill programs. CTAP was intended as a program itself with the purpose of helping the nation's farmers and ranchers and other landowners address their resource conservation needs by providing technical support at the local level. It also helps to support the many state and local conservation programs and initiatives that complement NRCS goals and objectives and address the nation's natural resource priorities. Many states also depend on NRCS technical guidance and standards to ensure that complex conservation treatments are installed properly.

NACD is committed to securing enough technical assistance funds to work with the producers managing these private lands to help ensure that good conservation is practiced wherever possible. NACD's fiscal year 2003 CTAP request makes only a very small start on the total increase necessary to reach this objective.

Lastly, with regard to CTAP, NACD's request also includes the \$67,758,000 proposed in the President's budget for health care, pension, rental and other costs. These costs have historically been carried in one single USDA account, not in CTAP. NACD has no policy objection if Congress chooses to carry these costs in this account if they are added to the funding level as requested by NACD.

The following table shows how our request is broken out.

[In millions of dollars]	
Fiscal year 2002 CTAP Funding .....	679.139
Increase in Base CTAP .....	48.689
Increase in Grazing Lands Conservation Initiative .....	38.500
Inflation and Pay Costs .....	22.650
Transfer for Rent/Pension Costs from USDA Account .....	67.758
<b>Total CTAP .....</b>	<b>856.736</b>

#### WATERSHED PROTECTION AND FLOOD CONTROL PROGRAM

Through its Watershed Protection and Flood Control Program, NRCS and local sponsors address numerous water-related and other natural resource issues, conduct studies, develop watershed plans and implement resource management systems. Projects are carried out primarily under the authority of Public Law 83-566 and Public Law 78-534. More than 500 active watershed projects primarily target land

treatment measures for water quality and water supply management and flood prevention.

Although the President requested no funding for the Watershed Protection and Flood Prevention Program or Watershed Surveys and Planning, NRCS documents an immediate need and ability to effectively utilize \$170 million and \$20 million, respectively, for these programs that address important watershed-based public health and safety issues across the nation and we urge you to make these funds available.

A related priority facing private lands conservation is the rehabilitation needs of the nation's aging watershed infrastructure—many of them built under the authority of the above programs. NRCS estimates that approximately 2,200 watershed structures, including dams, are in immediate need of rehabilitation and that more than 650 of these dams pose potential threats to public health and safety. Unless these issues are addressed, the magnitude of the problems will only increase as the infrastructure continues to age. We recommend funding Watershed Structure Rehabilitation efforts at \$25 million in fiscal year 2003 to begin the work needed.

Conservation districts fully support the President's request for \$111 million for the NRCS Emergency Watershed Program as an important step toward creating a separate, stand-alone account for helping landowners and operators respond to flooding and other emergencies.

#### RESOURCE CONSERVATION AND DEVELOPMENT (RC&D) PROGRAM

RC&D Councils play an important role in rural development and natural resource conservation. USDA has indicated that it takes \$161,000 to fully support an RC&D council. There are 368 existing councils and 20 pending applications. Conservation districts recommend that Congress appropriate \$64 million to fully support the existing councils and additional applicant areas.

Additional recommendations for USDA's discretionary-funded private lands conservation programs are contained in the attached chart.

#### MANDATORY PROGRAMS

In 1985, Congress recognized the important role that farmers and ranchers play in environmental protection when it enacted the first Farm Bill conservation title that required producers to incorporate conservation into their operations if they wanted to continue receiving USDA farm program benefits. The title also included a land retirement program—the Conservation Reserve Program (CRP)—to give farmers financial incentives to take sensitive lands out of production. In subsequent Farm Bills and other statutes, lawmakers added more incentives programs—the Wetlands Reserve Program (WRP), Environmental Quality Incentives Program (EQIP), Farmland Protection Program (FPP), Wildlife Habitat Incentives Program (WHIP) and Agricultural Management Assistance (AMA) Program—to provide additional incentives to increase conservation.

The authorizations for all of these programs expire at the end of fiscal year 2002. Conservation districts support extending these programs and, since all have tremendous backlogs of unfunded requests, expanding their funding levels to meet producer and environmental demands.

Conservation districts also support fully funding the new initiatives proposed in both the House and Senate Farm Bills, including a stand-alone conservation incentives program and a grassland reserve program.

Congress has not yet finalized the funding levels for the above-referenced Farm Bill conservation programs that will be funded through the mandatory accounts of the Commodity Credit Corporation. Nonetheless, we urge you to allow for their full funding once the new Farm Bill is enacted and signed into law.

#### CONCLUSION

As you continue your work on providing funding for critical NRCS programs, we again urge you to keep in mind that NRCS is the only Federal agency whose primary role is to provide conservation assistance on the nation's private lands. There are a few other agencies with narrowly targeted purposes, but no other agency even comes as close to touching all of America's private working lands as do NRCS and conservation districts. It is critical, therefore, that we strengthen the nation's commitment to providing adequate resources to help these land managers conserve and protect natural resources on America's private working lands.

On behalf of the nation's 3,000 conservation districts, we appreciate the opportunity to provide our views on fiscal year 2003 funding recommendations for select USDA conservation programs. We look forward to working with you over the next few months in finalizing your proposals.

FISCAL YEAR 2003 RECOMMENDED APPROPRIATIONS FOR NRCS AND CCC CONSERVATION  
PROGRAMS—FEBRUARY 2002

[In millions of dollars]

	Fiscal year				
	2002 admin	2002 NACD	2002 enacted	2003 admin	2003 NACD
U.S. Department of Agriculture Natural Resources Conservation Service					
Discretionary Spending:					
Conservation Operations (CO):					
Technical Assistance .....	678.000	809.000	657.435	765.500	796.736
Grazing Lands .....	(18.000)	60.000	21.500	21.500	60.000
Soil Surveys .....	80.000	82.000	81.497	90.000	90.500
Snow Surveys/Water Forecasting .....	6.000	6.250	8.516	9.000	9.500
Plant Materials Centers .....	9.000	9.300	9.849	11.000	11.000
Total .....	773.000	966.550	778.797	897.000	967.736
Emergency Watershed Program .....	N/A	N/A	N/A	111.000	111.000
Watershed Protection & Flood Prevention .....	100.000	250.000	106.590	0.000	170.000
Watershed Structure Rehabilitation .....	0.000	60.000	10.000	0.000	25.000
Watershed Surveys & Planning .....	11.000	20.000	10.960	0.000	20.000
RC&D .....	43.000	60.000	48.048	52.000	66.000
FIP .....	0.000	25.000	6.800	0.000	10.000
Transfer of RAMP funds from Interior .....	0.000	25.000	0.000	0.000	25.000
Mandatory (CCC) Programs: <sup>1</sup>					
EQIP .....	174.000	550.000	200.000	200.000	
AMA .....	6.000	7.000	7.000	7.000	
WRP (acres) .....	0.000	250.000	0.000	0.000	
WHIP .....	0.000	50.000	0.000	0.000	
FPP .....	0.000	65.000	0.000	0.000	
Conservation Incentives Program .....	N/A	N/A	N/A	N/A	
Grassland Reserve Program .....	N/A	N/A	N/A	N/A	
US Department of Agriculture Farm Service Agency—Mandatory Programs					
CRP (In millions of acres) .....			36.4	36.4	

<sup>1</sup> America's conservation districts support full funding and enrollment at the authorized levels for the mandatory conservation programs of the Commodity Credit Corporation.

PREPARED STATEMENT OF THE NATIONAL ASSOCIATION OF FARMERS MARKET  
NUTRITION PROGRAMS

Dear Subcommittee: The National Association of Farmers' Market Nutrition Programs (NAFMNP) respectfully submits testimony on the fiscal year 2003 appropriations for the U.S. Department of Agriculture relating to funding for the Farmers' Market Nutrition Programs for both WIC participants and Seniors.

In fiscal year 2001, on a mere \$35 million in federal appropriations (supplemented by more than \$10 million in state matching resources), the WIC and Senior FMNPs:—delivered benefits—in the way of fresh, locally grown, nutritious fruits and vegetables—to nearly 2.7 million low-income women, infants, children, and seniors to help improve their diet and health and combat obesity and chronic diseases;

—provided over \$32.5 million in increased sales and income to more than 14,600 independent fruit and vegetable farmers; and

—supported the operation of more than 3,200 farmers' markets, farm stands, and community supported agriculture programs, many of them serving low-income neighborhoods with limited access to fresh produce.

Sufficient, unconditional funding is essential for the uninterrupted operation of these small but cost effective and valuable programs.

NAFMNP strongly urges appropriators to provide fiscal year 2003 funding that is not contingent on unused funds from other nutrition assistance programs.

The WIC FMNP requires \$25 million next year to maintain the current programs of states, Indian Tribal Organizations (ITOs), and territories, allow for modest ex-

pansions within those jurisdictions, and permit new entities to join the program. We urge Congress and the Appropriations Committee NOT to make any portion of these funds contingent on caseload needs in the WIC Program or any other program.

In regard to funding for the Senior FMNP, the NAFMNP also endorses a \$25 million funding level for this program in fiscal year 2003. Prior to the enactment of fiscal year 2003 appropriations for USDA, passage of the Farm Bill may secure mandatory funding for this program at a level of at least \$15 million annually. We urge appropriators to augment mandatory funding by \$10 million or fully fund the program at \$25 million if there is no Farm Bill provision.

Thank you for your consideration of these funding concerns.

PREPARED STATEMENT OF THE NATIONAL ASSOCIATION OF PROFESSIONAL FORESTRY  
SCHOOLS AND COLLEGES (NAPFSC)

The National Association of Professional Forestry Schools and Colleges (NAPFSC) is comprised of the 69 universities that conduct the Nation's research, teaching, and extension programs in forestry and related areas of environmental and natural resource management. NAPFSC strongly supports increased funding for federal forestry research programs, including those operated by the USDA's Cooperative State Research Education and Extension Service (CSREES).

The management of nonfederal forestlands has become a critical economic, environmental, and security issue. Owners and managers of nonfederal forestlands are simply not equipped to deal with the tremendous changes in forest land use and management that have occurred in the last decade nor the pressures of the 21st century. The programs outlined below are key to addressing the stewardship of these lands. These programs are: the McIntire-Stennis Cooperative Forestry Research Program (McIntire-Stennis), the Renewable Resources Extension Act (RREA), the National Research Initiative (NRI), and the Initiative for Future Agriculture and Food Systems (IFAFS). The first three of these programs have stimulated the development of vital partnerships involving universities, federal agencies, non-governmental organizations and private industry, and the newest program—IFAFS—a competitive grants program, offers great potential for developing new uses for forest products, improving natural resource management, and building multi-state and multi-university partnerships for research and outreach activities.

NAPFSC RECOMMENDATIONS

[Amounts in dollars]

	Fiscal year			
	2001 enacted	2002 enacted	2003 Bush budget	2003 NAPFSC recommendation
MCINTIRE-STENNIS .....	21,884,000	21,884,000	21,884,000	30,000,000
RREA .....	3,192,000	4,093,000	4,093,000	15,000,000
NRI .....	105,767,000	120,110,000	240,000,000	150,000,000
IFAFS .....	120,000,000	0	0	120,000,000

*The Case for Enhanced Forestry Research Funding.*—The past, present, and future success of forestry research and extension activities arising from the NAPFSC member institutions results from a unique partnership involving federal, state, and private cooperators. Federal agencies have concentrated on large-scale national issues while state funding has emphasized applied problems and state-specific opportunities. University research in contrast, with the assistance of federal, state and private support, has been able to address a broad array of applied problems related to technology development and fundamental biophysical and socioeconomic issues and problems that cross ownership, state, region, and national boundaries.

The 1998 Farm Bill and various subsequent reports and conference proceedings have identified the need for greater attention on the emerging issues confronting non-federal forest landowners. NAPFSC is pleased to be one of the cofounders of the National Coalition for Sustaining America's Nonfederal Forests. The founding of the Coalition and its subsequent report emerged from a Forestry Summit held in 1999 that brought together key forestry leaders and landowners from across the nation. The Coalition has documented a plan of action to conserve, protect, and sustain our nation's nonfederal forest lands. The nation's recent experience with international terrorism heightens the importance of this plan. The plan stresses the importance of cooperation among the public universities, state forestry agencies, federal agen-

cies, and the many stakeholders in the natural resources arena. Key elements of this plan are research capacity and concerted action on stakeholder priorities.

The forests and other renewable natural resources of this country are primary contributors to the economic health of the nation; are reservoirs of biodiversity important to the well-being of our citizens; are significant to the maintenance of environmental quality of our atmosphere, water, and soil resources and provide diverse recreational and spiritual renewal opportunities for a growing population. Tremendous strains are being placed upon the nation's private forest lands by the combination of increasing demands for forest products coupled with dramatic changes in timber policies concerning our National Forests. Because of the changes in federal forest policy, private forest lands in the United States are now being harvested at rates not seen since the beginning of the 20th century.

To meet this challenge, research priorities must be adjusted to better address the needs of private landowners, and to specifically enhance the productivity of such lands through economically efficient and environmentally sound means. These challenges can be substantially addressed by the university community through the building of integrated research and extension programs assisted by McIntire-Stennis, RREA, and NRI.

There are currently approximately 10 million private forestland owners in the U.S. These landowners control nearly 60 percent of all forestland in the country. And it has been to the universities, with strong support from CSREES, that landowners traditionally look for new information about managing their lands. The overwhelming majority of the 10 million private landowners are not currently equipped to practice the sustained forest management that is critical to the health of our environment and economy. The combination of research conducted by the forestry schools, combined with the dissemination of that research through the cooperative extension network, has never been more essential.

*McIntire-Stennis Cooperative Forestry Research.*—The Cooperative Forestry Research Program (McIntire-Stennis Act) is the lead forestry effort administered by the USDA Cooperative State Research, Education, and Extension Service (CSREES). This program is the foundation of forestry research and scientist training efforts at universities. Funding this program provides for cutting-edge research on productivity, technologies for monitoring and extending the resource base, and environmental quality. The program is critically important today since universities provide a large share of the nation's research. Additionally, universities train nearly all of the nation's scientists in forestry. The main categories of need are:

- Significantly enhance sustainability and productivity of nonfederal forests;
- Increase the financial contributions of nonfederal forests to benefit landowners, the rural community, state and national economies, and environmental values; and
- Conserve and sustain the nonfederal forests and other natural resources for future generations.

The Cooperative Forestry Research Program is currently funded at \$21.884 million and matched more than three times by universities with state and nonfederal funds. The program is currently funded at little more than one-fifth its authorized level. We recommended funding McIntire-Stennis at a level of \$30,000,000 for fiscal year 2003. The requested additional funding would be targeted at:

- Sustainable and productive forest management on private lands to address issues of competitiveness and economic growth (\$2.8 million);
- Forest inventory, monitoring, and assessment with emphasis on new technologies (\$1.9 million);
- New products, improved processing technologies, and utilization of small trees to extend the forest resource and improve environmental quality (\$1.0 million);
- Forest health and risk to address issues of fire, pest species, and other disturbances affecting domestic resource security and downstream impacts (\$1.0 million); and,
- Assessing social values and tradeoffs to facilitate the understanding of policy options, economic impacts, and informed decisions at all levels of government (\$1.4 million).

The NAPFSC schools further recommend that CSREES provide this support to universities with direction to focus on new or existing approved projects for the explicit purpose of near term progress in addressing one or more of these research targets in each school's state or region. It is recognized that progress will be dependent on a critical mass of scientific effort, and collaboration among schools is thus encouraged. Additionally stakeholder advisory mechanisms should be a part of the funding allocation process. In the process of funding these projects, NAPFSC would also recommend that portions of this funding be used to build research capacity, including a provision calling for training of much needed new forestry scientists.

*Renewable Resources Extension Act.*—The Renewable Resources Extension Act (RREA) is the lead forestry extension effort administered by the USDA Cooperative State Research, Education, and Extension Service (CSREES). This program is the foundation of outreach and extension efforts at universities.

Funding for this program addresses critical forestry and related natural resources extension and stewardship needs in states, and would address the critical issues of forest management for productivity and environmental quality on non-federal lands brought about by diminished harvest levels on federal lands. NAPFSC is pleased that the House and the Senate, during their discussions of the 2002 Farm Bill, have both agreed to increase the authorization level of RREA to \$30 million.

Audiences for the products of outreach and extension are as diverse as are the stakeholders. Of highest priority are the owners of nonfederal forestlands and those involved in implementing forest management. Outreach programs that (1) solve immediate problems; (2) transfer research technologies and new knowledge; and (3) increase their awareness of the benefits of active management would best serve these groups.

It is vital that Congress increase funding for this important program for distributing the knowledge gained through our research institutions to the private landowners. NAPFSC recommends funding RREA at a level of \$15 million for fiscal year 2003. This increase would take RREA to its current full authorization level.

With nearly ten million nonfederal forest landowners, the most compelling priority areas for extension and outreach are:

- Develop databases and communication systems for landowner education and the delivery of information tailored to address owner values and objectives (\$4.0 million);
- Identify best management practices together with readily accessible information on programs, services, and benefits of natural resources management and planning to integrate water, wildlife, timber, fish, recreation and other products and services (\$3.5 million);
- Identify opportunities such as landowner cooperatives and other organizations linked to professional services, price reporting systems, and cooperative marketing to address local issues within the framework of landowner's objectives (\$1.9 million); and
- Use these databases, communication systems, and opportunities to communicate information on managing the risks from fire, pests, and other disturbances to simultaneously address local and larger scale issues of environmental and resource security (\$1.5 million).

The NAPFSC schools further recommend that CSREES provide this support to universities with direction to focus on new or existing approved projects for the explicit purpose of near term progress in addressing one or more of these outreach/extension targets in each school's state, region, or nationally. It is recognized that progress will be dependent on a critical mass of extension educator effort, and cooperation among schools is thus encouraged. Additionally stakeholder advisory mechanisms should be a part of the funding allocation process. In the process of funding these projects, NAPFSC would also recommend that portions of this funding be used to build outreach/extension capacity, including a provision calling for training of much needed new extension educators and associated technical support staff.

*National Research Initiative Competitive Grants.*—The National Research Initiative Competitive Grants program (NRICGP) is a significant source of funding for basic cutting-edge and applied research in categories important to sustainable forest management. Among these categories are (1) natural resources and the environment, (2) plants, (3) markets, trade and rural development, and (4) processing for value added/new products. This program is administered by the USDA Cooperative State Research, Education, and Extension Service (CSREES).

This program is currently funded at \$120 million of which approximately ten percent goes to successful forestry research proposals. NAPFSC supports the Administration's efforts to greatly increase the funding for this program for fiscal year 2003—with at least 20 percent of the increase directed to forest resources related research priorities in categories (1)–(4) above under existing and/or new research areas. However, we urge that part of the Administration's proposed increase be directed to base programs, particularly to move the Cooperative Forestry Research Program to the above noted \$30 million level. Addressing the base program needs will in turn build the capacity to compete effectively for competitive grants.

*Initiative for Future Agriculture and Food Systems.*—The Initiative for Future Agriculture and Food Systems (IFAFS) is a new research, extension, and education competitive grants program designed to address a number of critical emerging issues in the broad area of agricultural. These issues encompass future food production, food safety, environmental quality, natural resource management, and farm in-



come. Priority program areas include (1) the agriculture genome; (2) new and alternative uses and production of commodities and products; (3) biotechnology; and (4) and natural resource management, including precision agriculture. Priority for funding is for those proposals that were multi-state, multi-institutional, or multi-disciplinary, or that integrated research, extension, and/or education. This program, administered by CSREES, was funded at \$113.4 million in fiscal year 2001, but was suspended for fiscal year 2002. NAPFSC strongly supports this competitive grants program and urges your Subcommittee to provide the full \$120 million for fiscal year 2003 with an expansion of the focus to allow greater consideration of forestry and related natural resources issues.

#### CONCLUSION

The needed investment is substantial, but the potential returns are considerable. Disciplined and rigorous implementation of research and education on forest resources issues will contribute greatly to attaining our vision for America's non-federal forests for the future. NAPFSC urges cooperation at federal, state, and University levels to make this investment and the vision and security it will support a reality.

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#### PREPARED STATEMENT OF THE NATIONAL ASSOCIATION OF STATE UNIVERSITIES AND LAND-GRANT COLLEGES

Mr. Chairman, I am delighted to be able to submit testimony today in support of the International Science and Education grants program (ISEP) that has received an appropriation of \$1,000,000 in the Administration's Department of Agriculture fiscal year 2003 budget under the Integrated Activities Account of CSREES. I respectfully request that you include this funding in your fiscal year 2003 Agriculture Appropriations budget.

Mr. Chairman, I am the current chair of the International Agriculture Section of the Board on Agriculture Assembly of the National Association of State Universities and Land Grant-College (NASULGC). As the Section chair, it is my privilege to submit this testimony to you in support of this critically important program.

NASULGC's Board on Agriculture Assembly, Budget and Advocacy Committee has requested a \$212 million increase for USDA/CSREES in fiscal year 2003 of which one small part is the International Science and Education grants program. This increase is necessary to address immediate security needs for U.S. agriculture. This is a small price to pay for a safe and secure food supply. The International Science and Education grants program enhances the agro-security research, extension, and education program by providing an international link. In addition, this program seeks to incorporate substantive international activities into programs related to food systems, agriculture and natural resources at U.S. land-grant colleges and universities.

The Cooperative State Research Extension and Education Services (CSREES) of USDA intends to administer the International Science and Education grants program through a competitive grants system. We have worked closely with CSREES in the past to develop a solid program that meets real and demonstrated needs. In fact, we estimate that there is a demonstrated need of approximately \$8 million to address agro-security needs, although we are thrilled to see the \$1 million appropriation in this year's budget.

After 5 years of activity, GASEPA (Globalizing Agricultural Science and Education Programs for America) has succeeded in receiving funding through ISEP in the Administration's fiscal year 2003 budget. GASEPA/ISEP represents a global agenda for sustainable agriculture, food, natural resources, rural development and related science programs. It represents a broadening in focus from aid to trade and national security, including economic cooperation and the need to strengthen global competencies of U.S. citizens.

These grants will address five primary goals:

- Enhance global competitiveness of U.S. agriculture through human resource development;
- Develop and disseminate information about international market, trade, and business opportunities for U.S. agriculture;
- Establish mutually beneficial collaborative global partnerships;
- Promote trade through global economic development; and
- Promote global environmental quality and the stewardship of natural resources management.

This grants program is intended to help position U.S. agriculture to continue to be a major contributor to global food security in the post-Cold War and post 9/11

era. Its tenets of human resource development, global environmental conservation, global market creation, and increased participation in global markets have important implications for the US university community.

Our institutions of higher education continue to serve the needs of the citizens of their respective campuses, communities and states. They will also have an important role to play in this new era of heightened security—particularly in the area of bio-security—and global cooperation.

As we position U.S. agriculture for the 21st century, we are cognizant that education, research, and outreach programs at our land-grant and similar universities will need to address global issues more than in the past. We urgently need to find ways to increase the level of engagement of our resident teaching faculty, research scientists, and extension agents in addressing global dimensions of food and fiber industries, and the natural resource base on which they rely. Only in this way will we adequately serve the needs of the citizens of our respective states.

As I mentioned earlier, the International Science and Education Grants program is strongly supported by the National Association of State Universities and Land-Grant Colleges (NASULGC) and its Budget Committee. As you know, the land-grant higher education community has a strong tradition of commitment to a global agenda for sustainable agriculture, food, natural resources, rural development and related science programs. It also enhances agro-security programs by providing a complimentary international link. We seek to help position U.S. agriculture as a major contributor to global food security in today's new era of heightened national security.

This new funding line will directly contribute to addressing agro-security concerns, but it will also deal with some of the more fundamental issues facing our students today. We must ensure that our students are being sufficiently trained in the reality of today's international markets and that they have an understanding of other parts of the world in order to prevent some of the issues that have now emerged in the arena of agro-security.

I strongly believe that the International Science and Education grants program will play an important role in the domestic and international agriculture world of the 21st century. But it will depend on the appropriation of Federal funding. I look forward to working with you to meet this goal.

Mr. Chairman, again, thank you for the opportunity to submit this testimony to your committee today. I sincerely appreciate your favorable consideration of this request.

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PREPARED STATEMENT OF THE NATIONAL ASSOCIATION OF STATE UNIVERSITIES AND  
LAND-GRANT COLLEGES

Mr. Chairman, Members of the Committee, it is my pleasure to submit to you testimony regarding the fiscal year 2003 budget. I am commenting on behalf of the National Association of State Universities and Land-Grant Colleges, Board on Agriculture Assembly.

There is one critical issue facing the United States today that brings us before you; the need to secure the United States from a biological attack and the attendant concerns related to the security of the U.S. food production system. In addition to jeopardizing public health and safety, biological attacks on the U.S. agricultural sector would cause our nation and the world's food supply substantial damage, and undermine the U.S. economy. United States agricultural exports alone reached \$50.9 billion in fiscal year 2002. As noted in a study issued by the Department of Defense in January of 2001:

The potential threats to U.S. agriculture and livestock can come from a variety of pathogens and causative agents. With one in eight jobs and 13 percent of the gross national product dependent on U.S. agricultural productivity, economic stability of the country depends on a bountiful and safe food supply system. Similar to the human population, the high health status of crop and livestock assets in the U.S. creates a great vulnerability to attack with biological agents.

The President's fiscal year 2003 proposal provides more than \$6 billion across several Federal agencies to address biosecurity issues. Unfortunately, very little of this proposed investment is targeted to address the homeland security issues facing agriculture, our food production, natural resources, distribution system, or our rural and urban communities. We fully recognize that there is an immediate need to address public health, defense and law enforcement homeland security issues. However, it is just as important and just as urgent to protect our food production and distribution system. It is important not to alarm the public or our trading partners unneces-

sarily. It is even more important to take the immediate and straightforward steps that will ensure that there is no tampering with our food supply system.

The Land-Grant University (LGU) system is unique in the world in that it was designed to work in partnership with the Federal, State and local agencies. We were designed to address national issues at the state and local level. This partnership is critical in providing the science base and education outreach programs that are uniquely important in food production and distribution. This same distributed network will be critical in addressing homeland security needs. Our universities provide much of the innovative research and have the science knowledge base regarding biological pathogens that could impact the food production system and natural resources. Our Cooperative Extension System provides a network of personnel in every county of the country, with staff that are already trained to work with local community leaders to plan and respond to natural and civic disasters, as well as years of experience designing and implementing education programs for producers, processors, and consumers. The LGU system's premier teaching facilities can also educate the next generation of scientists about agro-security. It is imperative that the security issues facing our food production system be addressed. It is essential that the existing distributed information and outreach system that resides within the Land-grant universities be harnessed and integrated into the efforts of all Federal agencies seeking to collaborate with rural communities.

I respectfully offer the following testimony to describe the bridge between land-grant research and extension activities and the health sciences, security, and emergency management conducted by other Federal agencies. I will also offer ways in which the land-grant universities could be a valuable resource in the Federal, State, and local government solution to coordinating and conducting the prevention and response to biosecurity threats.

#### CAPABILITIES OF THE LAND-GRANT UNIVERSITY SYSTEM

The Federal Government created the LGU System in 1862 and is anchored in every state and U.S. territory. In partnership with the local, state, and Federal Governments, the LGU System addresses national issues at the local level. Central to the LGU System are the State Agricultural Experiment Stations (SAES) that conduct research and the Cooperative Extension Service (CES) that provides outreach from the university to our communities across the country.

SAES, with over 10,000 highly specialized researchers, has for years engaged in research that is relevant to protecting the nation's food production, processing and distribution system from acts of terrorism. CES has an established presence in communities across the country with 3,150 local offices that continuously manages and controls emergencies, particularly natural disasters. CES' unique capacity to self-evaluate its program effectiveness constantly improves agriculture and community safety. Moreover, multi-institutional/multi-state procedures for coordinating the research of SAES and integrated activities with CES are already in place, ready for immediate engagement.

#### WHAT MUST AGRICULTURE EXPERIMENT STATIONS AND THE COOPERATIVE EXTENSION SYSTEM DO TO ENHANCE AGRO-SECURITY?

##### *Address Immediate Security Needs*

##### *Securing Experiment Station Research*

Research results and data are often openly communicated and stored electronically via electronic posting and web sites and could be easily used to locate and abuse hazardous materials. SAES and Federal research laboratories must develop protocols to safeguard this information while keeping necessary information and communication channels open.

Furthermore, it will be important for state and Federal officials to be able to locate or track the location of these materials over time. Recent questions about the location of anthrax samples in Federal laboratories demonstrate why this new level of security will be needed. There should be a national list of potentially dangerous materials inventoried across agricultural research facilities that would be maintained and updated regularly and available to appropriate Federal, State and local emergency management agencies.

While laboratories should be secured, there should also be respect for the information sharing between scientists. Legitimate communication mechanisms and efforts should not be thwarted as a result of the, added security. Therefore, security plans should be made in conjunction with SAES and Federal laboratories to ensure the continuation of secure and critical agricultural research and communication.

*Training Industry to Secure Their Operations*

In a natural partnership with SAES, CES provides educational programs to the private sector on how to secure their operations. As we have sadly learned, equipment and materials such as fertilizers and crop dusting planes can be used as bio-weapons. Appropriate protocols for securing these materials should be developed in collaboration with USDA's Agricultural Research Service (ARS), the Animal and Plant Health Inspection Service (APHIS), the Food Safety Inspection Service (FSIS), and other appropriate Federal agencies.

*Secure Communities*

Producers, processors, suppliers, retailers, and consumers may one day be the "first responders" to an agroterrorist attack and thus play a pivotal role in quickly containing contamination. CES agents need to be trained to recognize possible threats and employ the appropriate protocols for working with local and Federal law enforcement and health agencies. CES has a unique role to play in training community leaders to prepare and plan for potential terrorist activity. CES can help rural and urban communities, businesses and farms develop tools to determine points of exposure and risk, so that they can develop programs at the local level that best meet their needs. Because rural communities are sparsely populated, the infrastructure may not already exist to mitigate a disaster. Many of the mitigation strategies will deal with preparedness and training of community volunteers. With more research on disease vectors, these communities could better shape both prevention and containment strategies via vaccines and agents to neutralize and treat the effects of disease outbreaks. CES has already developed a way to communicate with and keep on the same page as partner agencies called the Extension Disaster Education Network (EDEN). EDEN is a clearinghouse for educational and related materials used for disaster mitigation. The recovery process for communities and their constituents may require sustained presence within the communities and the mobilization of significant research resources.

*Respond to emergency outbreaks*

A purposeful biological attack on our plant and animal species would probably spread quickly and from separate locations. Immediate recognition that there is an unnatural outbreak of a disease in multiple locations is critical if the spread of the disease is to be contained. Although the food and fiber production process opens up many opportunities for purposeful contamination, most existing safeguards were not designed to protect against intentional attacks. Modeling and communication tools need to be developed that would facilitate early detection and recognition of unnatural outbreaks. The private sector, the Federal Government, and the LGU System will need to develop new standards and protocols to:

- improve detection and monitoring practices such as enhanced border screening practices;
- develop a communication system that alerts appropriate agencies and points of entry that a problem may exist, with guidance on appropriate actions;
- improve the ability to trace contamination back to its source; and
- enhance communication networks with public health agencies, law enforcement agencies and state and local officials.

The timing of the recognition and response is also critical. If a purposeful introduction of a biological agent is recognized quickly, the impact can be greatly reduced. A difference of several days can mean the difference between curtailing a viral outbreak and losing control over the spread of a contagion. As mentioned, with a lower population base distributed across vast areas, rural America typically lacks the infrastructure to recognize and respond to terrorist attacks.

*Educate scientists, teachers and specialists*

Who will provide the expertise for these efforts in the future? We will need people whose education concentrates on security in agriculture and natural resources. Courses or degrees in agricultural security will be necessary. This kind of expertise currently does not exist in institutions and initially will require outside expertise. Institutions will require help to design long-term educational programs that can provide the scientists and educators the ability to address the issues of agricultural security.

LINKING THE LAND-GRANT SYSTEM WITH FEDERAL AGENCIES

The LGU System offers across the broad experience with agricultural security research and extension that lends itself to the purposes of other Federal agencies. The attached budget summary table links funding requests from different agencies with biosecurity activities.

*United States Department of Agriculture*

The LGU System has a long historic relationship with USDA in protecting our food production system. We are recommending a \$212 million increase in new funding for USDA/CSREES to address agro-security and food safety issues. The LGU have a historic working relationship with USDA and our recommendations for agro-security funding have been detailed in testimony submitted to the House and Senate Agriculture Appropriations Subcommittees. While the LGU have worked with each of the following Federal agencies, we have not done so in a systematic way, and so we provide more detailed description of what our expanded cooperative efforts should include.

*Department Of Defense**Science and Security: Linking SAES with National Agro-Security Efforts*

The LGU System proposes to develop new ways in which to collaborate with the Department of Defense in order to engage the SAES and CES in providing Federal, State, and local governments with rapid access to the best information and services for eliminating, avoiding or mitigating domestic and foreign threats to national food systems and U.S. agricultural production. The SAES could help to provide the Department of Defense with support services in the following areas:

- National advisory service for research site security;
- Organization of research facilities (domestic and international);
- Strategic planning facilitation;
- Document services;
- Research outcome reporting;
- Resource mobilization and allocations;
- Financial accountability;
- Information security and confidentiality assurances; and
- Rapid responses for requested information.

Moreover, we recognize that certain data collection and monitoring activities, threat assessments; interventions, and related training activities are necessarily classified; and therefore, we propose forming with others a partnership that would draw upon selected (cleared) experts from the LGUs and from pools within intelligence and law enforcement certain expertise to provide decision makers specific support in the following areas:

- Security firewall for engaging the LGU expert community at large;
- Conduct, oversee and/or advise on classified data collection and monitoring activities;
- Conduct, oversee, advise and/or participate in classified research and assessments; and,
- Education and training programs for:
  - First responders;
  - Incident monitoring systems;
  - Diagnostic services providers; and,
  - Risk and threat assessment resources.

*Preparing Our Civil Defense*

Since World War II, CES has worked with the military in our rural communities to coordinate civil defense needs. The CES network could heed the call once more to increase our civil defense, and prepare it for biosecurity aspects through volunteer training programs conducted in collaboration with the military. Additionally, CES has ongoing family programming designed specifically for those families living on military bases. CES could adapt these programs to discuss and address potential biological threats to family security on military bases.

*Funding*

The costs of prevention are small relative to the cost of a terrorist attack. Severe economic disruption could result to our production, distribution and trade system, if we do not take responsibility to act now. We are recommending a beginning funding level of \$171 million in fiscal year 2003 from the DOD for the following purposes:

- \$136 million to link land-great research with DOD agro-security issues;
- \$76 million to collaborate in securing research facilities and developing a system for appropriate security screening and background checks for individuals with access to sensitive materials; and
- \$35 million to initiate CES technology transfer and networking activities related to improved diagnostic and testing technologies.

*Federal Emergency Management Agency*

FEMA is charged with working closely with state and local governments and agencies to ensure their planning, training, and equipment needs are addressed and to ensure that the response to weapons of mass destruction threats is well organized. Stepping up the partnership between CES and FEMA could improve the management of emergency agro-terrorism situations by employing programs for risk awareness, risk assessment, mitigation, and recovery.

*Coordinated Emergency Planning and Training*

CES has collaborated with FEMA for many years to manage and control emergencies, although to date, most disasters have been natural such as floods, storms, droughts and disease outbreaks. In addition, CES has almost 100 years of experience in the recruiting, training, utilization and management of volunteers. CES works with thousands of volunteers every day, is familiar with all aspects of volunteer training and management and has a reputation of being a "volunteer organization" in the community. Many of the volunteers seek more intensive training through one or more of the "master volunteer" programs which target specific community or program needs such as agro-terrorism mitigation. As part of its emergency management work, CES created the Extension Disaster Education Network (EDEN), a clearinghouse for educational and related materials used for disaster mitigation. Most recently, CES mounted a nationwide train-the-trainer program to prepare small and rural communities and public and private organizations for Y2K. CES trained hundreds of thousands of individuals, families, and private and public organizations to manage the Y2K threat in little more than 1 year.

Building on EDEN, CES could assist FEMA in ensuring that first responders at all points in the food production system are well trained in new technologies and techniques to improve emergency response efforts. Such a program could involve training first responders and citizen volunteers in biosecurity risk assessment and mitigation. The program could have four parts: (1) risk awareness to inform communities and leaders about the potential threats of terrorist activity; (2) self-directed risk assessment that allows for flexibility required in given community of producers, processors, retailers, and consumers; (3) mitigation; and (4) recovery.

*Awareness.*—This training would inform communities and leaders of the potential threats of terrorist activity including: likely approaches of terrorists, materials that may be used and their indicators, the symptoms of affected plants and animals, how materials might spread, the contacts to identify or verify contamination, and the ways in which the effects of materials manifest themselves in the community. This training could occur based on specific information about the nature of the threat and rapidly mobilized and disseminated through pre-organized train-the-trainers networks, the CES communications system, and local offices. Various State and Federal agencies could also be resources for this training.

*Risk Assessment.*—This would involve building self-directed risk assessment instruments. These instruments would make it possible for the communities, organizations and households that create them to rapidly determine and prioritize points of exposure. Risk assessment templates could be adapted to different types of threats and be used to monitor the progress of the communities, determine the elements of the communities involved, and determine where those who live in the communities feel the most susceptible. The latter information would be valuable in adding to the strategy for intervention and additional training.

*Mitigation.*—With risk assessments made, the users of the instrument are ready to deal with mitigation. What are the major areas of risk? How do they vary within and among communities, what are the efficient strategies, given the "distribution" of perceived and actual risk? Many of the mitigation strategies would deal with preparedness and training of community volunteers. Training certifications could adapt to the changing nature of terrorist threats. Using its close link with existing State and Federal programs, CES could leverage the distribution of the mitigation materials and training. Volunteer and community leader trainings could be delivered cooperatively with various State and Federal agency staff.

*Recovery.*—The recovery does for communities may require sustained presence within communities and the mobilization of significant research resources. The recovery process may itself be unknown and require close cooperation between the researchers and CES staff working "on the ground" in impacted communities. The land grant model that links strong research capacity with a field presence is likely to be of value to all agencies involved.

In addition to the risk assessment training program, CES could also develop education programs that would mitigate public health and economic disruptions to rural communities from terrorist attacks. A key example of a mitigation strategy is preparing individual families for an agro-terrorist attack. Families need to have sur-

vival kits on constant standby that would mitigate the effects of an attack. Should an attack occur, they may need to know how long their food will stay fresh in the refrigerator or how they can sustain their crops if contaminated. In partnership with appropriate Federal agencies, CES could develop proper survival kits and train the families to implement the survival tools in the case of a disaster.

*Linking Research to Extension and Asking New Research Questions*

The State Agricultural Experiment Stations (SAES) within land-grant colleges and universities have significant research capacity. The researchers within the land-grant system are used to working with CES and have established communication mechanisms about new technologies and techniques. Thus, CES and the land-grants can be supportive of the mitigation approaches and the identification of the materials that may have been introduced by the terrorists. SAES is engaged in a breadth of issues relating to technologies that would mitigate a disruption to nation's food safety and economic health from a terrorist attack.

There are many key examples of how SAES could support mitigation the effects of an agro-terrorist attack on rural communities. One topic could delve into the extent of a community's social capital. Is there a network of interested non-profits to address its community's particular piece of counter-terrorism? Another topic would be determining the impact on security by population variables. Demographics such as ethnicity, religious beliefs, and income levels are critical pieces of information in developing a mitigation plan for health and economic disruptions. Finally, research would need to be done on how to retain consumer trust. If there is a biological attack on the crops, consumers might question the safety of their food. SAES could determine methods that would alleviate these real or perceived fears.

*Funding*

To address emergency planning and training needs, the LGU system recommends—

- a beginning funding level of \$237 million in fiscal year 2003 to incorporate biosecurity concerns into the emergency and disaster education network, design and implement risk management training programs, and train community leaders and citizen volunteers—
- \$87.5 million for risk management education packages and training
- \$50 million for research to improve identification and intervention strategies and technologies
- \$25 million for monitoring and evaluation of training program results
- \$75 million to enhance communication and education systems

*Health and Human Services*

Agriculture production is inextricably linked to food safety and public health. There is necessary overlap between the health and agricultural sciences that should be reflected in the budget and in research efforts.

*Health Resources and Services Administration (HRSA)*

HRSA functions on the frontlines of public health protection in communities and will develop programs to address the emerging need for public health emergency response teams in the event of a biological attack. As part of HRSA, Health Centers provide public health education in under-served communities. The Centers' effectiveness is due in part to their ability to train and mobilize public health volunteers in these communities. Such training programs will need to be expanded to address new Homeland Security aspects such as biosecurity. With nearly 100 years of experience in recruiting, training, utilizing and managing volunteers, CES can add to the Center's capacity to meet the Homeland Security challenge. For decades, CES has successfully partnered with FEMA to prepare communities and families to respond effectively during natural disasters and can draw on this experience to collaborate with the Centers in designing biosecurity-public health emergency response plans. Health Centers also use volunteers to help assess operational capability at the community level and then provide on-site support to affected communities. CES could offer additional resources to the Centers in this area as well. In many states, CES is the public gateway to science-based information developed in academic disciplines across the university. CES could engage its research and evaluation tools, community planning experience, and facilitating skills in support of community capacity building.

*National Institutes of Health (NIH)*

NIH is charged with promoting biomedical research, and other scientific inquiries that may lead to medical advances, and will be the lead research agency in the Federal Government's effort to fight bioterrorism. Within NIH, the National Institute

of Allergy and Infectious Diseases (MAID) will lead research activities aimed at developing biomedical tools to detect, prevent, and treat infection by biological agents. The State Agricultural Experiment Stations (SAES) and veterinary diagnostic labs within land-grant universities have broad and deep research portfolios to improve public understanding of disease vectors, particularly for infectious diseases that can cross between animal and human populations. They also perform critical research in applied animal science designed to serve medical advances. With this knowledge base, the land-grant universities can provide a critical research foundation for the development of diagnostic technologies and treatment of infectious diseases suitable for responding to the circumstances surrounding purposeful exposure.

*Funding*

To initiate the activities described in this testimony, the LGU system recommends funding for fiscal year 2003 of \$265 million, which would be used to support the following activities:

- A total of \$165 million in support of SAES research and research facilities—
  - \$100 million for basic and applied research through the NIH
  - \$15 million for enhanced research facility security through the NIH
  - \$25 million for integrated food safety research through the FDA
  - \$25 million for basic and applied research through the CVM
- A total of \$100 million in support of CES education and outreach activities, with a budget estimate of \$500,000 per state per program—
  - \$25 million for Extension education and outreach to general public on food safety through FDA
  - \$25 million for integrated Extension for training in new food contamination detection and containment technologies through FDA
  - \$25 million for integrated Extension for farmer and rancher risk management program through CVM
  - \$25 million for Extension volunteer program development and training through HRSA

CONCLUSION

I would like to thank the Senate Appropriations Committee for taking the leadership to look at how our country is addressing homeland security issues across the Federal Government. Only by taking this comprehensive view can we insure that our Federal, State and local agencies are working together in the most effective way. The land-grant university system stands ready to provide its distributed research and education network to work in partnership with each of the Federal agencies to help them successfully address their specific homeland security missions.

MULTI-AGENCY BIOSECURITY—AGRO-SECURITY BUDGET LAND-GRANT UNIVERSITIES

[In millions of dollars]

	USDA	DOD	HHS	FEMA	Total
<b>By funding Mechanism:</b>					
Research Formula; NRI .....	64	60	100	n/a	224
Extension Formula .....	62	35	50	124.5	271.5
Integrated Sec. 406, RREA .....	28	n/a	100	87.5	215.5
Facilities .....	50	<sup>1</sup> 76	15	n/a	141
Education .....	8	n/a	n/a	25	33
<b>Total .....</b>	<b>212</b>	<b>171</b>	<b>265</b>	<b>237</b>	<b>885</b>
<b>By Agro-Security Issue—in millions:</b>					
Respond to <sup>2</sup> Outbreaks .....	49	<sup>3</sup> 55	75	137	316
Counteract Terrorism .....	30	<sup>4</sup> 40	100	n/a	170
Secure <sup>5</sup> Communities .....	45	n/a	75	75	195
Address Immediate Security Needs .....	80	<sup>6</sup> 76	15	n/a	141
Education Scientists, Teachers, and Specialists ...	8	n/a	n/a	25	33
<b>Total .....</b>	<b>212</b>	<b>171</b>	<b>265</b>	<b>237</b>	<b>885</b>

<sup>1</sup> Includes funding for site security assessment, security upgrades, and background check system.  
<sup>2</sup> All Extension and Integrated funding split between Respond to Outbreaks and Secure Communities.  
<sup>3</sup> Includes \$30 M for research, \$25 M for extension.  
<sup>4</sup> Includes \$30 M for research, \$10 M for extension.  
<sup>5</sup> See reference 1.  
<sup>6</sup> National Association of State Colleges and Land-Grant Universities.



PREPARED STATEMENT OF THE NATIONAL COMMODITY SUPPLEMENTAL FOOD PROGRAM ASSOCIATION

Mr. Chairman and subcommittee members, I am Andrew Fox, President of the National Commodity Supplemental Food Program (CSFP) Association. Our Association of state and local CSFP operators works diligently with the Department of Agriculture Food, Nutrition, and Consumer Service to ensure a quality supplemental nutrition assistance commodity food package program for low income persons aged sixty and older, and low income mothers, infants, and children. The program, which was authorized in 1969, serves approximately 450,000 individuals every month in 28 states, 2 Tribal Organizations and the District of Columbia.

This 32 year old CSFP stands as testimony to the power of partnerships between community and faith-based organizations, private industry and government agencies. The CSFP offers a unique combination of advantages unparalleled by any other food assistance program:

- The CSFP specifically targets our nation’s most vulnerable populations: the very young and the very old.
- The CSFP provides a monthly selection of foods specifically tailored to the nutritional needs of the population we serve. Each eligible participant in the program is guaranteed [by law] a certain level of nutritional assistance every month.
- The CSFP purchases foods at wholesale prices, which amounts to one-third the cost it would be to provide the same supplemental nutrients at retail voucher cost. The average food package cost for fiscal year 2002 is \$15.35, and the retail cost would be approximately \$45.00.
- The CSFP involves the entire community in the problems of hunger and poverty. Thousands of volunteers as well as many private companies donate money, equipment, and most importantly time to deliver food to homebound seniors. These volunteers not only bring food but companionship and other assistance to seniors who might have no other source of support.
- For these historical reasons I would like to submit the National CSFP Association legislative issues and a report of our 2001 survey of monthly volunteer labor hours to support our requests.

Chairman Kohl, the committee has consistently been helpful with funding support for our very prudent way of providing nutritional supplements to low income senior citizens and mothers and children. Please help us continue.

2002–2003 ISSUES AND GOALS

*2002 Farm Bill.*—A top priority is to ensure that the Conference Committee’s final bill retain the Senate version’s language regarding the CSFP “administrative funding fix:” increasing the per-caseload-slot administrative funding level each year by the State and Local Government Index of Inflation.

*Fiscal Year 2002 Funding.*—Increasing Participation and Funding Shortfall Require a \$5 Million Supplemental Appropriation.—Demand for CSFP services increased significantly during the last quarter of 2001, due to the national recession. A majority of CSFP States saw monthly participation increase between September, 2001 (normally the highest participation month of the year) and December, 2001, with some increases higher than 10 percent.

However, CSFP States operating in fiscal year 2001 saw their total assigned caseload decline from 453,481 slots in fiscal year 2001 to 438,121 slots in fiscal year 2002, a 3.4 percent decline. Twelve States experienced significant caseload reductions, the median decrease being –9.5 percent, with a range from –2 percent to –42 percent. Total funding for the program declined from \$105 million to \$103.7 million (the latter dollar figure being called upon to support five new State programs). Thus, program resources are declining at the same time that demand for services is reaching a new peak.

A \$5 million supplemental appropriation for fiscal year 2002 would restore States that lost caseload to their fiscal year 2001 levels and allow for additional participation generated by the weakened economy.

*Fiscal Year 2003 Caseload and Funding Request.*—500,000 Caseload Slots, Including Four Additional States—\$118,650,000 Requested

Caseload Requirements:

Restoration of fiscal year 2001 Caseload for Existing Programs .....	453,481 slots
Continuation Caseload for Five States Added in fiscal year 2002 .....	21,000 slots

Four Additional States (4,000 slots apiece) (Alaska, Indiana, Nevada, South Carolina) .....	16,000 slots
Expansion for Existing States: .....	9,519 slots
<hr/>	
Totals .....	500,000 slots
Required Food Funding: \$15.35 (average package cost) × 12 months × 500,000 slots .....	\$92.1 million
Required Administrative Funding: \$50.25 (fiscal year 2002 per caseload slot) × 102.5 percent (estimated State and Local Govern- ment Inflation Index for 2002) × 500,000 slots .....	\$25.75 million
Estimated USDA Costs for Procuring Commodities .....	\$.8 million

*(Restore Senior Income Guidelines to 185 percent of Poverty.*—Current income eligibility for senior clients is set at 130 percent of the poverty income guidelines, as opposed to 185 percent of poverty for CSFP women, infants, and children and clients of the WIC Program and the Seniors Farmers Market Nutrition Program. Many seniors are struggling with high housing, medical, and utility costs, and at the 130 percent poverty guideline, even the slightest inflation increase in Social Security income renders many seniors ineligible for CSFP.

NATIONAL CSFP ASSOCIATION CSFP ADMINISTRATIVE EXPENSE/VALUE SURVEY FOR FISCAL YEAR 2001 MARCH 2002

Programs	USDA reimbursed cash	Not reimbursed by USDA cash	CSFP expenditures cash	Goods & Services donated to agency value	Volunteer labor hours value	Annual total program value	Percent paid by USDA	Extra goods donated to CSFP participants
New Hampshire	\$499,073	\$41,109	\$540,182	\$6,250	\$122,627	\$669,059	75	\$1,000
New York 1	2,206,437	.....	2,206,437	.....	28,241	2,234,678	99	.....
Vermont 1	516,502	.....	516,502	.....	47,360	563,862	92	.....
Wash, DC	539,148	705,902	1,245,050	365,500	141,378	1,751,928	31	.....
Kentucky	316,214	67,007	383,221	.....	171,260	554,481	57	.....
Mississippi	160,386	3,761	164,147	.....	56,327	220,474	73	17,500
North Carolina	66,628	27,750	94,378	.....	.....	94,378	71	.....
Tennessee 1	866,965	75,738	942,703	.....	.....	942,703	92	.....
Illinois 1	860,530	.....	860,530	.....	.....	860,530	100	.....
Michigan 1	4,629,473	1,404,811	6,034,284	29,500	4,569,293	10,633,077	44	80,150
Ohio	117,364	90,767	208,131	43,803	51,079	303,013	39	.....
Red Lake, MN 1	10,631	.....	10,631	.....	.....	10,631	100	.....
Minnesota	631,290	221,709	852,999	24,325	81,444	934,443	66	.....
Louisiana	3,937,862	.....	3,937,862	819,723	861,039	5,618,624	70	.....
New Mexico	1,122,764	125,250	1,248,014	61,687	159,225	1,468,926	76	260,792
Texas	259,262	.....	259,262	.....	57,251	316,513	82	10,882
Colorado	1,199,722	230,562	1,430,284	36,925	425,607	1,892,816	63	822,637
Iowa	241,625	423,315	664,940	.....	5,387	670,327	36	229,654
Kansas	326,117	83,989	410,106	40,500	143,066	593,672	55	18,000
Montana 1	250,200	4,091	254,291	250	13,974	268,515	93	.....
Nebraska	728,021	38,029	766,050	21,315	507,885	1,295,250	56	32,730
South Dakota 1	33,043	.....	33,043	.....	.....	33,043	100	.....
Arizona	1,002,056	436,681	1,438,737	.....	521,590	1,960,327	51	3,826,785
California 1	2,323,386	699,171	3,022,557	35,177	1,701,226	4,758,960	49	990,335
Oregon 1	56,499	.....	56,499	.....	.....	56,499	100	.....
Washington 1	27,321	.....	27,321	.....	.....	27,321	100	.....
Total	22,928,519	4,679,642	27,608,161	1,484,955	9,665,259	38,758,375	59	6,290,465

1 Full Survey Data Not Received; USDA Reimbursed Cash=fiscal year 2001 Final state Administrative data; Goods and Services Donated to Agency=facilities, warehouse space, transportation services, etc needed to operate and distribute food packages; Volunteer Labor hours=\$15.39/hour (determined by Points of Light Foundation Washington, D.C.); Extra Goods Donated to Participants=donations in addition to CSFP monthly food package, ie. food, clothing, books, immunizations, catses; Percent Paid by USDA=USDA Reimbursed Cash/Annual Total Program Value (Calculations do not include value of Extra Goods donated to participants).

## PREPARED STATEMENT OF THE NATIONAL CONGRESS OF AMERICAN INDIANS

On behalf of the National Congress of American Indians (NCAI) and its more than 200 member tribal nations, we are pleased to have the opportunity to present written testimony on fiscal year 2003 appropriations for the Department of Agriculture.

The tragic events of September 11 brought forth the strength and the determination of our nation to survive in the face of adversity. It is this same spirit that has carried Indian Country through years of annihilation and termination. It is this same spirit that has propelled Indian Nations forward into an era of self-determination. And it is in this same spirit of resolve that Indian Nations come before Congress to talk about honoring the federal government's treaty obligations and trust responsibilities throughout the fiscal year 2003 budget process.

On February 4, President Bush proposed a \$74.4 billion budget for the Agriculture Department that freezes funding for most Indian-specific programs within USDA, continuing the trend of consistent declines in federal per capita spending for Indians compared to per capita expenditures for the population at large. This trend demonstrates the abject failure of the federal government to commit the serious resources needed to fully honor its trust commitment to Indian tribes.

The federal trust responsibility represents the legal obligation made by the U.S. government to Indian tribes when their lands were ceded to the United States. This obligation is codified in numerous treaties, statutes, Presidential directives, judicial opinions, and international doctrines. It can be divided into three general areas—protection of Indian trust lands; protection of tribal self-governance; and provision of basic social, medical, and educational services for tribal members.

NCAI realizes that Congress must make difficult budget choices this year. As elected officials, tribal leaders certainly understand the competing priorities that members of Congress must weigh over the coming months. However, the fact that the federal government has a solemn responsibility to address the serious needs facing Indian Country remains unchanged, whatever the economic or political climate may be. We at NCAI urge you to make a strong commitment to meeting the federal trust obligation by fully funding those programs that are vital to the creation of vibrant Indian Nations. Such a commitment, coupled with continued efforts to strengthen tribal governments and to uphold the government-to-government relationship, will truly make a difference in helping us to create stable, diversified, and healthy economies in Indian Country.

NCAI's statement focuses on our key areas of concern surrounding the President's budget request. Of course, there are numerous other programs and initiatives within USDA that are important to American Indians and Alaska Natives. Attached to this testimony is a breakdown of key programs for which we urge your support at the highest possible funding level as the appropriations process moves forward.

## RURAL ECONOMIC DEVELOPMENT PROGRAMS

The Census Bureau's Poverty in the United States for 2000 showed that American Indians and Alaska Natives remain at the bottom of the economic ladder—with 25.9 percent of our population falling below the poverty line. This compares to an 11.9 percent poverty rate for all races combined.

Congress has authorized USDA's rural development programs to assist in building economic growth in the rural areas of the nation with the highest percentage of low-income residents. The tribal program allocation within the budget request is only a very small percentage of the total funding available for Rural Community Advancement Programs, but it will go a long way toward helping to address the needs of some of America's poorest communities.

The President has requested level funding of \$24 million for the Rural Community Advancement Program Indian Set-Aside. Within both the fiscal year 2002 appropriation and the fiscal year 2003 request, \$4 million of this amount is earmarked for community facilities grants to tribal colleges and \$250,000 is for a grant to provide technical assistance on rural transportation. The remainder of the funds may be used for water and waste disposal grants and loans to tribes, as well as for rural business opportunity grants and rural business enterprise grants to tribes.

NCAI urges that the Subcommittee adopt language to specify further how this tribal funding should be allocated among the various rural development programs, as follows: \$1 million for rural business opportunity grants; \$5 million for community facilities grants for tribal colleges; \$15 million for grants for drinking water and waste disposal systems; and, \$3 million for rural business enterprise grants.

*Water and Wastewater Grants.*—We urge Congress to authorize USDA to provide 100 percent of project costs for the most economically disadvantaged tribes that otherwise would not qualify for a loan.

*Tribal Colleges.*—Many of the nation's tribally controlled community colleges (TCCCs) are housed in substandard facilities, where common hazards include leaking roofs, asbestos insulation, exposed and below-code wiring, and crumbling foundations. TCCC's are located on federal trust land, and the upkeep of their physical plants is a federal responsibility.

*Rural Business Enterprise and Opportunity Grants.*—Today, unemployment rates in Indian Country are the highest in the nation, sometimes topping 50 percent. The development of new and diverse businesses in Indian Country is one cornerstone of self-sufficiency. NCAI supports a \$3 million amendment in rural business enterprise grants to support the development of small and emerging tribal business enterprises. These funds can be used to develop land, construct buildings and factories, purchase equipment, provide road access and parking areas, extend basic utilities, or provide technical assistance, startup and operating costs, or working capital for new business. We also urge \$1 million for tribal rural business opportunity grants to help tribes to analyze business ventures that will make use of existing economic and human resources. Funding can also be used to train tribal entrepreneurs and to establish business support centers.

#### EXTENSION SERVICES

Since fiscal year 2001, funding for extension agents on Indian reservations has been frozen at \$2 million. The Extension Indian Reservation Program, authorized under the Food, Agriculture, Conservation and Trade Act, has provided services to Indian Country since 1991 on issues ranging from crop and animal production practices to farm business management. It also has furnished extension agents, employees of the State Cooperative Extension System, who work with tribal advisory committees to develop educational programs in agriculture or agriculture-related youth programs that respond to tribal priorities. NCAI strongly supports an increase to \$5 million for fiscal year 2003 so that the program can hire additional extension agents on large Indian reservations to help promote productive and efficient land use.

#### FOOD DISTRIBUTION PROGRAM ON INDIAN RESERVATIONS

The Food Distribution Program on Indian Reservations (FDPIR) is administered at the federal level by the Food and Nutrition Service (FNS) in cooperation with 98 tribal organizations and six state agencies. Many Native Americans actually participate in the FDPIR rather than the Food Stamp Program because of rural isolation and the lack of easy access to food stores.

The \$26.25 billion request for the Food Stamp program would provide full funding to FDPIR, which is critical to providing nutrition assistance to low-income households on reservations and to Native American families residing in designated areas near reservations.

In fiscal year 2001 and fiscal year 2002, up to \$3 million in FDPIR funds were reserved to purchase bison from Native American producers and cooperatives. Bison meat is a healthy meat product, low in cholesterol, fat, and calories, and it is a culturally preferable food choice for many Native Americans. NCAI strongly supports the inclusion of a similar provision in the fiscal year 2003 Agriculture appropriations bill.

#### *Tribally Controlled Community Colleges*

The fiscal year 2003 budget request once again freezes funding for tribally controlled community colleges. Although tribal colleges are relatively new to the Land Grant community, they are making impressive strides with limited resources. More support is needed, however, for them to achieve full participation in the Land Grant system and to realize their full potential.

Executive Order No. 13021 on Tribal Colleges and Universities, issued on October 19, 1996, reaffirms the important role tribal colleges play in reservation development by directing all federal departments and agencies to increase their support to the colleges. According to recent testimony before the Senate Committee on Indian Affairs by Tom Corwin, the Deputy Assistant Secretary of the Office of Elementary and Secondary Education, President Bush intends to reaffirm the Executive Order in the near future.

In the meantime, we urge Congress to show its support for TCCCs by increasing funding for 1994 Institutions Equity Grants (currently funded at \$1.5 million) and the Agriculture Research Initiative (currently funded at \$1.0 million).

## CONCLUSION

Thank you for this opportunity to present written testimony regarding the fiscal year 2003 appropriations for the Department of Agriculture. The National Congress of American Indians calls upon Congress to fulfill the federal government's fiduciary duty to American Indians and Alaska Native people. This responsibility should never be compromised or diminished because of any political agenda or budget cut scenario. Tribes throughout the nation relinquished their lands and in return received a trust obligation, and we ask that Congress maintain this solemn obligation to Indian Country and continue to assist tribal governments as we build strong, diverse, and healthy nations for our people.

## ATTACHMENT A.—THE FISCAL YEAR 2003 BUDGET REQUEST FOR AGRICULTURE PROGRAMS BENEFITING TRIBES

The fiscal year 2003 USDA budget request is \$74.4 billion, \$2.2 billion less than the current estimate of fiscal year 2002 expenditures, including \$146 million for food safety-related homeland security and an increase in nutrition program spending. Among the decreases is funding for telecommunications access grants. In most instances, funding for Indian-specific programs remains frozen at current levels.

[In millions of dollars]

USDA	Fiscal year		
	2001 enacted	2002 enacted	2003 request
Rural and Economic Development:			
Rural Community Advancement Program Indian Set-Aside <sup>1</sup> .....	24.0	24.0	24.0
Water/Sewer Grants for Alaska Rural and Native Villages .....	20.0	24.0	20.0
Enterprise Zone/Empowerment Community Grants .....	15.0	11.7	7.1
Circuit Rider Program .....	9.5	11.0	9.5
Distance Learning and Telemedicine Grants and Loans <sup>2</sup> .....	26.9	49.4	31.1
Rural Development Loan Fund Indian Set-Aside .....	2.0	1.7	1.7
Indian Tribal Land Acquisition Loans .....	2.0	2.0	2.0
Extension Services: Tribal Colleges Extension Services .....	3.3	3.3	3.3
Indian Reservation Agents .....	2.0	2.0	2.0
Food Programs:			
Food Stamps (incl. Food Distribution Program on Indian Reservations) <sup>3</sup> .....	20,100.0	22,922.0	26,250.0
WIC .....	4,000.0	4,348.0	4,751.0
Tribal Colleges:			
Endowment Fund .....	7.1	7.1	7.1
1994 Institutions Equity Grants .....	1.5	1.5	1.5
Agriculture Research Initiative .....	1.0	1.0	1.0
Alaska Native and Native Hawaiian-Serving Institutions .....	3.0	3.0	3.0

<sup>1</sup> Within the fiscal year 2002 set-aside and fiscal year 2003 request for the Rural Community Advancement Program, \$4 million is provided for community facilities grants to tribal colleges. This funding may be used for water and waste disposal grants and loans to tribes, as well as for rural business opportunity grants and rural business enterprise grants to tribes.

<sup>2</sup> In fiscal year 2002, \$22 million was set aside for broadband transmission and local dial-up Internet service in rural areas, including \$12.5 million in grants. The fiscal year 2003 request cuts this level to \$6.1 million. The remainder of the Distance Learning and Telemedicine funds in both fiscal year 2002 and the fiscal year 2003 request will finance an estimated loan program level of \$80 million for broadband and Internet access and \$300 million for distance learning and telemedicine.

<sup>3</sup> In fiscal year 2002, up to \$3 million is reserved to purchase bison for the Food Distribution Program on Indian Reservations from Native American producers and cooperatives.

## PREPARED STATEMENT OF THE NATIONAL COUNCIL OF FARMER COOPERATIVES

The National Council of Farmer Cooperatives (NCFC) appreciates very much this opportunity to submit its views regarding the fiscal year 2003 agriculture appropriations bill, and respectfully requests this statement be made part of the official hearing record.

## OVERVIEW OF NCFC AND FARMER COOPERATIVES

NCFC is a national trade association representing America's farmer-owned cooperative businesses. Our members include nearly 60 national and regional marketing, supply and credit cooperatives which, in turn, are comprised of more than 3,000 local cooperatives whose member owners represent a majority of our nation's nearly 2 million farmers. In addition, NCFC's membership includes 31 separate state councils.

Farmer cooperatives are farmer owned and controlled. They exist for the mutual benefit of their farmer members. As farmer-owned businesses, they handle, process and market virtually every type of commodity produced in the U.S.; manufacture and sell farm supplies; and provide credit and related financial services for and on behalf of their member owners. Earnings from such activities are returned to their farmer owners on a patronage basis, thereby helping improve their income and providing greater opportunities to capture more of the value of what they produce beyond the farm gate. With approximately 300,000 full-time and seasonal employees, farmer cooperatives also represent an important source of employment in many rural communities, and contribute significantly to the local, state and national economy.

#### PUBLIC POLICY AND FARMER COOPERATIVES

For these reasons, public policies and programs that serve to encourage and enhance the ability of farmers to join together in cooperative self-help efforts should be strongly supported and fully funded to achieve their objectives.

Such action is necessary if farmers are to be able to:

- Improve their income from the marketplace;
- Better manage their risk;
- Capitalize on potential new market opportunities, especially value-added; and
- Compete more effectively in a rapidly changing global economy.

#### RECOMMENDATIONS FOR FISCAL YEAR 2003

To help achieve these important objectives, we recommend the following for fiscal year 2003:

*USDA Farmer Cooperative Programs.*—Programs to help foster and promote cooperative self-help efforts by farmers need to be revitalized and given a high priority. Funding for such programs should be specifically provided at not less than \$6 million. Further, consideration should be given to re-establishing a separate agency within USDA to carry out such programs.

In addition, funding for USDA research, education and technical assistance programs in support of cooperative self-help efforts by farmers should be strengthened. We recommend not less than \$3 million for cooperative research agreements and not less than \$3 million for cooperative education grants. We also recommend that USDA continue to work closely with the private sector to carry out programs to provide farmers with greater access to the information and technical assistance needed for organizing and operating a farmer owned cooperative business.

*B&I Loan Guarantee Program and Farmer Cooperatives.*—One of the major challenges facing farmer-owned cooperatives in helping farmers capture more of the value of what they produce beyond the farm gate is access to capital. Farmer cooperatives, being farmer owned and farmer controlled, can not go to Wall Street for equity capital as easily as other types of businesses. Instead, they generally must look to their farmer owners as a source of capital, a particularly limited pool of capital—especially at a time of low commodity prices and continued economic stress, or rely on debt equity.

To help address this challenge, both the House and Senate farm bills would expand eligibility for farmer cooperatives under USDA's business and industry (B&I) guaranteed loan program and make other needed improvements in the program for the benefit of farmers. With the hope that Congress will soon complete action on the farm bill, it is vital that this important program be fully funded to help meet the needs of farmers and their cooperatives, and to achieve its overall objectives. At a minimum, the program should be maintained at not less than the level for fiscal year 2002 with recognition that additional increases may be needed in future years.

*Value-Added Market Assistance Grants.*—Both the House and Senate farm bills authorize increased funding for this important program, which provides technical assistance and other support to help farmers through cooperative efforts become more involved in value-added activities to improve their income. We strongly support such increased funding.

*Export Programs.*—We also believe it important to maintain and strengthen funding for USDA's export programs, and we endorse the recommendations of the Coalition to Promote U.S. Agricultural Exports of which NCFC is a member, with regard to the Market Access Program (MAP) and Cooperator Program (FMD). We also urge continued funding for other related USDA export programs, including the Export Enhancement Program (EEP), Dairy Export Incentive Program (DEIP), GSM Export Credit Guarantee Program, and Public Law 480 Programs. These programs encourage U.S. agriculture exports, meet humanitarian needs, counter subsidized foreign competition, protect American jobs, and strengthen farm income.

*Agricultural Research.*—Another important area of emphasis when it comes to enhancing the global competitiveness of farmer cooperatives and American agriculture is research. NCFC endorses the recommendations of the National Coalition for Food and Agricultural Research of which NCFC is a member, which has set an objective of doubling Federal funding over the next 5 years.

*Conservation Programs.*—Water quality issues are presenting increasing expectations and regulatory requirements for farmers and ranchers, particularly those with animal feeding operations. USDA's Natural Resources Conservation Service (NRCS) is the lead technical agency within USDA offering "on-farm" technical and financial assistance, principally through EQIP and CTA programs. We strongly support full funding for both programs, which provide farmers and ranchers with needed assistance to meet important environmental goals through adoption of best management practices. We also support funding of incentive payments for technical assistance that can be carried out in partnership with the private sector, including farmer-owned cooperatives, as provided in the House-passed farm bill. Farmer cooperatives have invested heavily in developing the technical skills of their employees to help their farmer owners 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.

*Meat Inspection/User Fees.*—We continue to be opposed to user fees relating to Food Safety and Inspection Service (FSIS) for meat inspection. Such inspection programs provide important public benefits relating to food safety and quality and should continue to be publicly funded.

#### CONCLUSION

Mr. Chairman, on behalf of NCFC and its members, we want to again thank you for the opportunity to share our views with regard to the fiscal year 2003 agriculture appropriations bill. We look forward to working with you.

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#### PREPARED STATEMENT OF THE NATIONAL DRY BEAN COUNCIL

Dry & Snap beans (*Phaseolus vulgaris* L.) are versatile short season, high value food crops that niche well into shorter production seasons of the northern and intermountain states, providing vital alternatives to growers where crop options are limited. Beans offer the consumer a healthy, tasty and inexpensive food choice as either low-fat, low-calorie vitamin/mineral-rich green bean pods or as a protein-rich source of complex carbohydrates and fiber in a variety of canned and dry bean products differing in color, size, shape, and flavor. Clinical studies have documented that the soluble fiber or pectin content of dry bean seed has potent effects in the prevention and treatment of chronic medical conditions such as cardiovascular disease, diabetes mellitus, obesity, hypertension, cancer and diseases of the digestive tract. Beans are currently endorsed by the American Heart Association, the American Cancer Society, and the American Diabetes Association.

*Processing.*—The canning and freezing industry for both seed and pod types is diverse and located across the country offering employment outside the 20 major production states. Over 90 percent of the navy bean crop is processed as canned baked beans, while only 20 percent of the pinto bean market class is processed as a canned food. The same processing industry which cans over half the dry bean crop as beans in either clear brine, sauce with pork, or chili has seen an increase in production in the last 10 years of 10 million cases. This volume represents an increase of \$160 million to a current value in excess of \$900 million.

*Production.*—*Phaseolus* dry edible beans are planted on approximately 1.9 million acres (1.1–2.6) in the U.S. Production fluctuates around 22 million hundred weight (cwt) annually, ranging from 15 million cwt in 1983 to over 32 million cwt in 1990, 1991 and 1999. On-farm value of this crop ranges from \$350 to \$700 million, depending on the season and price. The major production states ranked in order of acreage are: ND, MI, NE, MN, CO, CA, ID, WY, WA, NY, KS, and MT. Ten dry bean commercial classes are produced in the U.S. and these classes are differentiated by color, size and shape of the bean. In addition to production of *Phaseolus* dry beans, green bean (snap bean) production occurs in several regions of the U.S. (approximately 220,000 acres), with an estimated value of \$110 M annually. States leading in snap bean production for processing are WI, OR, IL, MI, and NY. Snap beans for fresh market are grown primarily in FL, with smaller acreages in NJ, AR, and TN. Snap beans for fresh market are grown on approximately 80,000 acres nationwide with an additional value of \$80 million annually.



*Utilization and Exportation.*—Approximately 60 percent of the total U.S. dry bean production is consumed nationally. Per capita dry bean consumption has increased from 5.7 to 7.8 pounds since 1984. This represents a 36 percent increase that is largely due to the recognition of the food and health value of beans. A large share of the U.S. dry bean production is now targeted at export markets. Exports peaked in the early 1980's at over 12 million cwt. Currently, 40 percent of the U.S. production is exported with certain commercial classes grown exclusively for export. Cultural preferences in certain export markets for specific commercial classes of dry bean allows for diversification of U.S. dry bean agricultural production. Bean exports have played an important role in reducing the balance of payment deficit the U.S. suffers in world trade. Bean exports are becoming increasingly important because they are an indispensable protein source in Latin America and many developing countries, particularly those in East Africa. Their value in famine relief in these countries is vital. The array of seed types currently grown in the U.S. makes beans an important choice to meet the energy and protein needs of the estimated 21 million people at risk of death from starvation and disease in Central Africa.

These four programs represent the only Federal effort on bean research and the only projects with a national scope for these crops. Currently four scientists carry out this effort. The national leadership extended by ARS scientists in areas of pathology, germplasm maintenance and enhancement and food quality genetics has strengthened the entire bean industry nationally. The National Dry Bean Council (NDBC) truly believes that a continued and strong investment by the Federal Government in research and subsequent development and distribution of new technologies provides a return to the consumer many times the cost of the research investment.

#### VEGETABLE AND FORAGE CROP PRODUCTION RESEARCH UNIT, PROSSER, WASHINGTON

The ARS Bean Project at Prosser, Washington has been long standing with a reputation of excellence for research conducted on the pathogenic variability of bean common mosaic virus (BCMV), the production problems caused by the soil root-rot complex of pathogens, and the introgression of diverse resistance genes into snap and dry bean germplasm. The project has made significant contributions to bean development by the release of more than 10 snap bean lines and 18 dry bean lines in six distinct market classes. A number of the dry bean lines have become successful dry bean varieties in the West and Intermountain states (CO, ID, MT, OR, WA, and WY) and the upper-Midwest (ND). The dry bean varieties developed by ARS, Prosser, WA have generated about \$500 million in income to farmers in the Pacific NW over the past 25 years. Over 90 percent of the foundation and certified bean seed (dry and garden) is produced in California, Washington and Idaho. The ARS bean project at Prosser, WA has saved the Western bean seed industry considerable sums of money that could have been lost to disease epidemics.

The ARS Prosser, WA bean project is currently under the leadership of Dr. Phillip Miklas who, in addition to introgressing genes from diverse germplasm, is conducting basic genetic studies on the resistance to different strains of BCMV, common bacterial blight, root rot, and white mold. Worldwide, Dr. Miklas is considered an authority on the development and application of DNA marker-assisted selection technologies for the improvement of bean. Dr. Miklas has developed effective cooperative research efforts with ARS and SAES scientists at several locations in the U.S. and Puerto Rico, and with commercial plant breeders in CA, ID, FL, and WI. Over the years the facilities at Prosser, Washington have evolved to a point where there is an excellent infrastructure in which dry and snap bean disease and germplasm enhancement research is conducted productively, efficiently, and has garnered a wide customer base. A rapport has been established with this customer base that is extremely supportive of ARS research efforts. In addition, nurseries have been established that facilitate long term research and breeding for resistance to white mold, curly top virus, and the pathogen complex of root rot.

The NDBC calls on Congress and ARS to maintain bean research at Prosser, WA and increase funding by \$220,000 to enable ARS-Prosser to better meet the needs of the bean seed industry located in the West, and to better address chronic disease and environmental stress problems that face bean production nationwide. For example, ARS Prosser is currently addressing the new virus disease complex of snap bean in the Great Lakes region (IL, IN, MI, OH, PA, NY, and WI) and has recently developed germplasm with resistance to an emerging fungal disease problem affecting dry bean production in North Dakota and Minnesota. The additional funds will also enable maintenance and enhancement of several important long-term nurseries that have been established at or near Prosser to conduct bean pathology research.

The project is currently undergoing a downsizing of field research activities and losing technical help due to insufficient funds.

SUGAR BEET & BEAN RESEARCH UNIT, EAST LANSING, MICHIGAN

Dr. G.L. Hosfield, the incumbent of the ARS Food Quality Position at East Lansing, Michigan, is the ARS lead scientist to improve the availability of nutrients and consumer acceptance of dry beans as a food source. Dr. Hosfield is expected to provide new and fundamental knowledge that increases our understanding of the current food-value limitations in dry bean relevant to indigestibility of seed proteins and starch and their interactions with seed coat flavonoids, darkening of seed coats in storage, hardening of seeds, prolonged cooking time (due to a hard-to-cook phenomenon that restricts cell wall breakdown during cooking), and flatulence caused by indigestible starch, protein, hemicellulose, raffinose family oligosaccharides. Knowledge of the factors that define food quality in bean will permit the inherent complexity of food quality to be dissected into a number of component characters that can individually be measured, selected, and altered via genetic technology. The resulting extension of new, and/or the alteration of existing fundamental concepts and techniques impacts significantly the food-quality breeding of other food-legume crops. The incumbent releases new germplasm with improved food quality, architecture, horticultural characteristics and multiple and durable disease resistance to breeders and industry along with methodologies that enable breeders to efficiently screen and transfer food-quality genes into commercial cultivars. The improvement of food quality in bean contributes positively and significantly to the highest national research priorities established by the National Research Council and the President's initiatives. Improved food quality of dry bean promotes and optimizes human health and well-being through better nutrition, increased productivity, maximized use of agricultural products for domestic and export markets, decreased vulnerability of beans to adverse weather and disease stresses, and the transfer of technology to users. The research contributes positively to the U.S. trade balance.

This program is highly productive. Dr. Hosfield is internationally recognized for his research on the use of genetic technologies to improve the biological utilization and consumer quality of dry bean and the development of new knowledge and methodologies to select dry bean germplasm with improved food quality. Procedures developed by Dr. Hosfield for testing bean quality have been adopted in bean quality laboratories in other countries. The incumbent receives numerous calls for advice and is consulted regularly by industry, other researchers, and the general public on food quality issues. Frequently, those consultations impact across food legume crop species. Dr. Hosfield cooperates effectively with other USDA, ARS scientists, SAES researchers in at least seven states, commercial plant breeders, and industry personnel. He has invented and co-invented numerous bean germplasms and varieties in several market classes.

The NDBC calls on Congress and ARS to increase funding by \$125,000 for this critical and productive food quality improvement research program at East Lansing, MI to allow the project leader to work more efficiently in the germplasm enhancement area. There is a critical need to screen germplasm from a wider base of national and international programs and expand research efforts into the study of the relationship between antioxidant potential and the health related benefits of these compounds in beans, the effect of bean diets on decreasing the incidence of some forms of cancer, and the hard seed problem that limits consumer acceptance and reduces the availability of nutrients to consumers.

VEGETABLE LABORATORY, BELTSVILLE, MARYLAND

The ARS Bean Project at Beltsville, Maryland has been long standing with a presence of excellence under the legacy of Dr. J.R. Stavely, who devoted 100 percent of his research effort to the study of fungal and viral pathogens attacking beans. Historically, Dr. Stavely studied the foliar fungal pathogen causing rust disease in dry and snap beans. He developed important technologies for introgressing rust resistant genes into adapted and useful germplasm. He is also studying the new viral disease, Bean Golden Mosaic Virus, introduced in 1993 in South Florida. This disease has the potential to "wipe-out" the snap bean industry in Florida and cause economic losses in other snap bean production areas in the Eastern seaboard. Under the leadership of Dr. Stavely, this highly productive ARS project released 43 processing and 24 fresh market snap beans and 41 dry bean germplasm lines in three market classes: 9 great northern, 20 pinto, and 12 navy. Research has focused on the introgression and pyramiding of rust resistance genes into both snap and dry beans as the most effective control of the variable rust pathogen.

This long-term germplasm enhancement project involves identification of novel sources of resistance present in the USDA Plant Introduction collection, the genetic characterization of these new disease resistance genes, and the incorporation of these genes, both individually and as groups, into snap bean and several dry bean market classes. In addition, the incumbent monitors the pathogenic variability of the bean rust pathogen and uses this information to identify strategies that result in durable and sustainable bean production. The project also aims to conduct basic plant pathological studies on the epidemiology and genetics of the rust fungus.

The current project leader Dr. M.A. Pastor-Corrales cooperates effectively with other USDA scientists, SAES researchers in at least nine states, and commercial plant breeders. This position serves the national needs for bean research in the area of fungal pathogens attacking beans and provides leadership to SAES and industry in both dry and snap bean breeding efforts.

The NDBC calls on Congress and ARS to increase funding by \$90,000 to maintain the program in bean rust pathology germplasm enhancement research at Beltsville, MD and expand the program into anthracnose and bean golden yellow mosaic disease breeding and pathology. Increased funding would allow this project to perform at optimum efficiency to develop improved rust, anthracnose, and bean golden yellow mosaic-resistant germplasm lines. An increased emphasis on the genetics of pathogen virulence will offer insights on the development of strategies needed to obtain stable rust and broad-based genetic resistance to variable fungal and viral pathogens.

#### TROPICAL AGRICULTURE RESEARCH STATION, MAYAGUEZ, PUERTO RICO

Currently, Dr. J. Smith is the Bean Germplasm scientist at the Tropical Agriculture Research Station (TARS), in Mayaguez, PR. Dr. Smith is working to increase the genetic diversity of U.S. bean germplasm, domesticate unadapted tropical germplasm, and develop multiple disease-resistant beans for tropical and temperate regions. Through the years, the ARS bean position in Puerto Rico has played a vital part in supplying many of the bean breeding programs in the U.S. with improved germplasm. Strategically, the location allows evaluation of tropically adapted lines that would not be possible in northern temperate climates where the bean lines would not flower. In a given year, three field seasons can be conducted at each of three locations on the island with distinct environmental stresses and disease problems which serves to expedite germplasm evaluation and development. Thus, the tropical location of Puerto Rico is ideal for germplasm enhancement work, and is very functional as a bridge between tropical and temperate regions.

Tropical lines developed by TARS, with adaptation in Michigan, have been used directly by the breeding program at MSU. The variety Mayflower has a TARS line (2W-33-2) as a parent. Mayflower is a popular high yielding navy bean in Michigan that is credited with contributing to the 25 percent increase in commercial bean yields in the state over the last 5 years. Currently over 40 percent of the navy beans produced in the U.S. are marketed overseas, mainly in the UK. British Food Health Legislation now requires that information be made available on the pesticides used in bean production. Breeding for disease resistance using new sources of resistance is vital to help reduce the use of chemicals in our bean production. The health of the industry is dependent on maintaining and expanding these overseas markets. Black beans are becoming an increasingly important national and export commodity, so disease resistance and productivity is vital to maintain a competitive edge in world markets, where 95 percent of the crop is exported. In a white mold trial, a black seeded line from TARS topped the trial and outyielded the check variety by over 30 percent under disease pressure. This is the kind of bean germplasm that is desperately needed by our industry.

Minor market classes like Cranberry beans are a vital part of the bean industry in the U.S. Work at TARS in recent years has been directed at the improvement of this market class since commercial companies cannot direct resources to these minor market classes. All the cranberry beans produced in the U.S. are exported. The devastation of the winter snap bean crop in Florida was caused by the presence of a recently imported viral disease, bean golden mosaic virus, from the Caribbean. Resistance germplasm at TARS was made available to local breeders to assist in breeding for resistance to this devastating disease in Florida.

The NDBC calls on Congress and ARS to increase funding by \$65,000 to maintain the Mayaguez program for bean germplasm enhancement and to strengthen the program's capacity for molecular marker development and basic agronomy support. Increased funding would allow the project to refill an agronomist position, recently vacated due to insufficient funding, and to fill a technician position in molecular biology. This would enable the expansion of germplasm screening and evaluation, the

“pyramiding” of multiple resistance genes from diverse sources, and a more efficient integration of resistance genes to alleviate biotic and abiotic stresses.

#### FUNDING NEEDS FOR THE FUTURE

The National Dry Bean Council (NDBC) is urging Congress to approve appropriations in fiscal year 2003 for the USDA Agricultural Research Service (ARS) Plant Science Program that increases funding from fiscal year 2002 levels to ensure that each existing bean CRIS (Current Research Information System) is funded at \$350,000. This appropriation will enable ARS to provide the necessary support to existing programs. Specifically, the NDBC is recommending that Congress address the following priority needs in bean research.

For existing ARS bean programs<sup>1</sup> at Prosser, WA (add \$220,000<sup>2</sup>); East Lansing, MI (add \$125,000); Beltsville, MD (add \$90,000); and Mayaguez, PR (add \$65,000), increase funding to approximately \$350,000 each. This additional funding of \$500,000 will allow the incumbents to maintain critical core programs and to discover new knowledge about the biology and genetics of abiotic and biotic stresses that limit bean yields; expand studies on antioxidants, folate, and other nutritional compounds in beans that improve human health; address emerging pathogen problems; and develop new export markets by adapting exotic bean germplasm for U.S. production. The new knowledge base and farming technologies made possible by the increased base funding will facilitate sustainable bean production to meet export and local consumption demands and help promote and optimize human health and well-being by solving problems impacting digestibility, nutrition, and processor and consumer acceptance of beans. The new cultivars developed with improved stress resistance will promote a cleaner environment and safer food through reduced use of agricultural chemicals and increased water use efficiency.

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#### PREPARED STATEMENT OF THE NATIONAL ORGANIZATION FOR RARE DISORDERS, INC.

Mr. Chairman and members of the Senate Appropriations Subcommittee on Agriculture, Rural Development, Food and Drug Administration and Related Agencies, the National Organization for Rare Disorders (NORD) wishes to express its views regarding appropriations for the Orphan Products Research Grant Program administered by the Office of Orphan Product Development (OOPD) at the Food and Drug Administration (FDA).

NORD is a federation of approximately 140 voluntary health organizations and over 70,000 individual patients, healthcare providers and clinical researchers dedicated to helping the 25 million people in the United States suffering with rare “orphan” diseases. An orphan disease is defined by statute as any disease or condition impacting fewer than 200,000 Americans (The Orphan Drug Act of 1983). It makes no difference whether you are male or female, rich or poor, young or old, white, African-American, Latino, Asian or American Indian. These diseases affect everyone.

In 1989 the HHS National Commission on Orphan Diseases estimated that only 30 percent of the 25 million patients suffering with rare diseases receive a diagnosis in 3 to 5 years after the onset of symptoms. That works out to about 7.5 million patients who are shuffled from specialist to specialist, year after year. Fifteen percent, or 3.7 million people, wait 7 years or more. And even after diagnosis, they can only hope that someone, somewhere, will conduct research to develop a treatment for their disease.

Recognizing that the rare disease community has not received sufficient funding, Senators Edward Kennedy and Orrin Hatch introduced the Rare Diseases Act of 2001, S. 1379, on August 3, 2001. This important legislation would provide additional funding for the Orphan Product Research Grant Program at the FDA in the amount of \$25 million.

On March 20, 2002, Mr. Mark Foley, cosponsored by Representatives Henry Waxman, John Shimkus, Sherrod Brown, Marge Roukema, Bobby Rush, James Greenwood, John Dingell, Peter King, James McGovern, Steve Horn and Christopher Smith, introduced the Rare Diseases Orphan Product Development Act of 2002, H.R.

<sup>1</sup>Note: it has been more than 10 years since any ARS-Bean Project has attained an additional influx of funds for research and germplasm development.

<sup>2</sup>Also please note that the Prosser, WA bean research project is partnered with the equally important and financially strapped edible legume pathology project that addresses bean, chickpea, lentil and pea problems. To keep bean research viable at Prosser both projects of the single CRIS require funding of \$110,000 each; thus, the reason for requesting \$220,000 for this location.

4014, which would increase funding to \$25 million for the Food and Drug Administration's Orphan Product Research Grants Program.

Note: The Rare Diseases Act of 2002, H.R. 4013, was also introduced on March 20, 2002, by Mr. John Shimkus, and cosponsored by the same Representatives above, which would provide for the statutory authorization for the existing Office of Rare Diseases (ORD) at the National Institutes of Health (NIH) in order to enhance the national investment in the development of diagnostics and treatments for patients with rare disorders. Additional funding for the office will augment NIH Institutes' research for neglected rare diseases in order to take advantage of emerging research opportunities.

On behalf of the 25 million Americans suffering with the over 6,000 known rare "orphan" diseases and the 119 organizations currently advocating for increased funding for this worthy program, we respectfully request that this Subcommittee support H.R. 4014 and appropriate the necessary funding authorized by this legislation. Just one dollar for each and every person suffering with a rare disease appropriated for the FDA'S Orphan Products Research Grant Program represents a minimal investment by the Federal Government in the development of lifesaving treatments in which the private sector has no interest. But the return on investment could be phenomenal if only a few new orphan drugs or devices are developed to reduce the burden of disease and death for thousands of patients with rare disorders.

Appropriating just one dollar for each rare disease patient in America, rather than the current funding level, is a win-win proposition. Patients win when their symptoms are alleviated or cured. Families win when their loved ones no longer suffer. Society, as a whole, wins when patients are able to return to school or work to become productive tax-paying citizens. Pharmaceutical and biotechnology companies win when they are able to market new therapeutic products when part of the development costs are subsidized. The scientific community wins when the knowledge it gains can be applied to more prevalent diseases. And, finally, the government wins when the drain on healthcare dollars is minimized.

#### FDA ORPHAN PRODUCTS RESEARCH GRANT PROGRAM

This Subcommittee created the research grant program in fiscal year 1983 to provide funding for pivotal clinical trials on new orphan drugs, medical devices, and medical foods for rare diseases. The funds have been made available to academic scientists and small companies. By definition, "orphan products" are treatments for rare conditions that have small potential markets and thus are not attractive to the commercial sector. Such treatments were not being developed for "orphan" diseases by the private sector until the Orphan Drug Act was enacted in 1983.

Since then, the FDA has approved 227 orphan drugs for marketing, and more than 800 additional drugs are in the research pipeline. Of those products approved for marketing, 27 (23 drugs and 4 medical devices) were developed with funding from the orphan product grants. These 27 treatments would not be on the American market today saving the lives of thousands of Americans, enabling them to return to school or work, if this Subcommittee had not created this small but critically important pool of research funds.

Most of FDA's Orphan Products Research Grants support small clinical trials at academic institutions throughout the nation to develop the preliminary evidence that is necessary to attract commercial sponsors. It is the quintessential model for a successful government/industry partnership. There is no more appropriate program deserving of Federal support because it fills a major gap between academic research and the private sector, and it creates lifesaving products that are needed throughout the world.

For example, children with Severe Combined Immune Deficiency ("Bubble Boy Disease") no longer have to live in a plastic bubble because now their immune systems can fight off germs, thanks to an orphan drug developed with these grant funds. Children with urea cycle disorders no longer slip into a coma and die because an orphan drug enables their bodies to eliminate toxic levels of ammonia. Babies born without ribs no longer suffocate in infancy because an artificial rib (orphan medical device) is being developed now with funds from the Orphan Products Research Grant Program that allows the children's lungs to expand and breathe. Cystic fibrosis, Crohn's disease, and multiple sclerosis drugs are on the market today only because these grants supported some of their research.

Unfortunately, there are many diseases and conditions that are simply too rare to attract private investment because the commercial sector is not interested in developing treatments for small markets. The investment necessary for research and development of new drugs and devices is too large in comparison to the size of the

potential market for a rare disease. Case in point, there are only about 125 patients in the United States suffering with an orphan disease called fibrodysplasia ossificans progressiva (FOP), only 15,000 with Huntington's disease, and only 30,000 with cystic fibrosis. Many of the genetic diseases each impact no more than 40,000 Americans, whereas drugs for cancer, arthritis and hypertension each affect many millions of Americans, representing several billion dollars in potential sales each year.

Given the fact that the Orphan Products Research Grant Program is attracting greater attention, more researchers are eager to participate each year. Therefore, it is very unfortunate that the annual appropriation for this program cannot begin to cover all of the meritorious grant requests for promising research projects. About 100 grant applications are received annually, but many scientifically important applications are never funded simply because the appropriation is too small to meet the needs of the program. In fact, the appropriation now is less than it was in fiscal year 1995, and has remained between \$10 to \$12 million for many years.

Mr. Chairman, if the government does not fund this research, who will? The private sector is simply not interested in rare diseases. If this Subcommittee does not meet the need of this unique sector of scientific research, people with rare diseases will be further victimized by the injustice of the supply and demand marketplace. For these diseases, no company wants to supply a treatment when the market demand is small.

#### CONCLUSION

And so, on behalf of the medically disenfranchised Americans and their families, we respectfully request that the members of this Subcommittee appropriate no less than \$25 million to the FDA Orphan Products Research Grant Program for fiscal year 2002. We are relying on the members of this Subcommittee to fill the void between government and the private sector, and propel these treatments forward from academic laboratories to our local pharmacies. Ultimately, your compassion and insight will put new orphan drugs and devices into the waiting hands of critically ill patients. If you don't provide adequate resources for the Orphan Products Research Grant Program, unfortunately no one else will.

For additional information about the Rare Diseases Act of 2001, S. 1379, please contact Diane E. Dorman, Vice President for Public Policy, (202) 496-1296 or via e-mail at [ddorman@rarediseases.org](mailto:ddorman@rarediseases.org). Thank you.

#### ATTACHMENT I.—SUPPORTING ORGANIZATIONS

Alph-1 Association, Minneapolis, MN  
 Alpha-1 Foundation, Miami, FL  
 Alpha1VOICE, Evansville, IN  
 Alstrom Syndrome International, Mount Desert, ME  
 American Brain Tumor Association, Des Plaines, IL  
 American Hemochromatosis Society, Lake Mary, FL  
 American Laryngeal Papilloma Foundation, Spring Hill, FL  
 American Syringomyelia Alliance Project (ASAP), Longview, TX  
 Angel Flight America, Virginia Beach, VA  
 Angel Flight Samaritans, Fairfax, VA  
 Angel Flight for Veterans, Fairfax, VA  
 ARPKD/CHF Alliance (Autosomal Recessive Polycystic Kidney Disease & Congenital Hepatic Fibrosis), Kirkwood, PA  
 Association of Glycogen Storage Disease (U.S.), Durant IA  
 Barth Syndrome Foundation, Perry, FL  
 Batten Disease Support and Research Association, Reynoldsburg, OH  
 Biotechnology Industry Organization (BIO), Washington, DC  
 Blepharophimosis, Ptosis, Epicanthus Inversus (BPEI) Family Network, Pullman, WA  
 Cardio-Facio-Cutaneous Family Network, Vestal, NY  
 CARES (Congenital Adrenal Hyperplasia Research, Education & Support) Foundation, Short Hills, NJ  
 Carol Ann Foundation, The, Tucson, AZ  
 Celgene Corporation, Chevy Chase, MD  
 Children's Angel Flight, Virginia Beach, VA  
 Children's Brittle Bone Foundation, Pleasant Prairie, WI  
 CDG Family Network Foundation, The, Shannon, IL  
 Chromosome 9p- Network, Las Vegas, NV  
 Chronic Granulomatous Disease Family Network Foundation  
 Coalition of Advocates for Research on the Eye (CARE), Sharon, MA

Coalition of Heritable Disorders of Connective Tissue, Sharon, MA  
 Cornelia de Lange Syndrome (CdLS) Foundation, Avon, CT  
 Corticobasal Ganglionic Degeneration (CBDG) Support Group, Haslett, MI  
 Cystinosis Foundation, Oakland, CA  
 Cystinosis Research Network, Burlington, MA  
 Dubowitz Syndrome Information & Parent Support, Visalia, CA  
 Dystonia Medical Research Foundation, Chicago, IL  
 Ehlers-Danlos National Foundation, Los Angeles, CA  
 Fabry Support & Information Group, Concordia, MO  
 Families of Spinal Muscular Atrophy (SMA), Libertyville, IL  
 FFF Enterprises, Temecula, CA  
 FOD (Fatty Oxidation Disorder) Family Support Group, Greensboro, NC  
 FORCE: Facing Our Risk of Cancer Empowered, Coral Springs, FL  
 Foundation for Ichthyosis & Related Skin Types, Lansdale, PA  
 Genetic Alliance, Washington, DC  
 Genetics Information and Patient Services, Phoenix, AZ  
 Hallervorden-Spatz Syndrome Association, El Cajon, CA  
 Hermansky-Pudlak Syndrome (HPS), Oyster Bay, NY  
 Hydrocephalus Association, San Francisco, CA  
 Immune Deficiency Foundation, Towson, MD  
 Incontinentia Pigmenti International Foundation, New York, NY  
 International Children's Anophthalmia Network (ICAN), Philadelphia, PA  
 International Joseph Disease Foundation, Livermore, CA  
 International Morquio Support Group, Tucson, AZ  
 International Rett Syndrome Association, Clinton, MD  
 International Society for Mucopolysaccharidosis & Related Diseases, Baltimore, MD  
 Interstitial Cystitis Association, Rockville, MD  
 Joubert Syndrome Foundation, Baltimore, MD  
 Kennedy's Disease Association, Simi Valley, CA  
 Kids With Heart National Association for Children's Heart Disorders, Green Bay, WI  
 Klinefelter Syndrome and Associates, Roseville, CA  
 LAM (Lymphangiomyomatosis) Foundation, Cincinnati, OH  
 Les Turner ALS Foundation, Skokie, IL  
 Lewy Body Disease Association, The, Brooklyn, NY  
 Lowe Syndrome Association, West Lafayette, IN  
 MAGIC Foundation, The, Oak Park, IL  
 Mucopolysaccharidosis and Related Diseases, The International Society for, Baltimore, MD  
 Medical Journeys Network, Alexandria, VA  
 Mercy Medical Airlift, Virginia Beach, VA  
 Mastocytosis Society, Spanish Fork, UT  
 National Coalition for PKU & Allied Disorders, Mansfield, MA  
 National Foundation for Ectodermal Dysplasias, Mascoutah, IL  
 National Hemophilia Foundation, New York, NY  
 National Incontinentia Pigmenti Foundation, New York, NY  
 National Marfan Foundation, Port Washington, NY  
 National MPS (Mucopolysaccharidoses/Mucopolysaccharidosis) Society, Downingtown, PA  
 National Multiple Sclerosis Society, Washington, DC  
 National Organization for Rare Disorders, New Fairfield, CT  
 National Patient Travel Center, Virginia Beach, VA  
 National Society of Genetic Counselors, Wallingford, PA  
 National Spasmodic Torticollis Association, Fountain Valley, CA  
 National Tay-Sachs & Allied Diseases Association, Boston, MA  
 National Urea Cycle Disorders Foundation, La Canada, CA  
 Noonan Syndrome Support Group, Upperco, MD  
 Organic Acidemia Association, Plymouth, MN  
 Orphan Medical, Minnetonka, MN  
 Osteogenesis Imperfecta Child Advocacy (OICA), Woodville, WI  
 Osteogenesis Imperfecta Foundation, Gaithersburg, MD  
 Osteogenesis Imperfecta Parents' Support Group, San Diego, CA  
 Parents of Galactosemic Children, Sparks, NV  
 Pediatric/Adolescent Gastroesophageal Reflux Association (PAGER), Germantown, MD  
 Pediatric Neurotransmitter Disease (PND) Association, Plainview, NY  
 Periodic Paralysis Association, Monrovia, CA  
 Peutz-Jeghers Syndrome Online Support Group Pierre Robin Network, Fowler, IL  
 Polyarteritis Nodosa Support Group (PNSG), Pittsburgh, PA  
 Polychondritis Educational Society, Somerton, AZ

PRISMS (Parents and Researchers Interested in Smith-Magenis Syndrome),  
 Frankestown, NH  
 Project DOCC—Delivery of Chronic Care, Oyster Bay Cove, NY  
 PXE (Pseudoanthoma Elasticum) International, Sharon, MA  
 Reflex Sympathetic Dystrophy Syndrome Association, Milford, CT  
 Restless Legs Syndrome Foundation, Rochester, MN  
 Rupertus Foundation to Cure ALS, Virginia  
 Sarcoid Networking Association, Sumner, WA  
 Scleroderma Foundation, Byfield, MA  
 Sickle Cell Disease Association of America, Culver City, CA  
 Sigma Tau Pharmaceuticals, Gaithersburg, MD  
 Society for Progressive Supranuclear Palsy, Baltimore, MD  
 Sotos Syndrome Support Association, Pueblo, CO  
 Stickler Involved People, Augusta, KS  
 Sturge-Weber Foundation, Mt. Freedom, NJ  
 Tourette Syndrome Association, Bayside, NY  
 Transkaryotic Therapies, Inc., Cambridge, MA  
 Trigeminal Neuralgia Association, Barnegat Light, NJ  
 Trimethylaminuria Support Group, New York, NY  
 Tuberos Sclerosis Alliance, Silver Spring, MD  
 Tyler for Life Foundation, Winston, GA  
 Von Hippel-Lindau Family Alliance, Brookline, MA  
 United Mitochondrial Disease Foundation, Monroeville, PA  
 Wegener's Granulomatosis Association, Kansas City, MO  
 Wilson's Disease Association, Brookfield, CT  
 Zeroderma Pigmentosum Society, Poughkeepsie, NY  
 XLH (X-linked Hypophosphatemic Rickets) Network, Bowie, MD

ATTACHMENT II.—DEPARTMENT OF HEALTH AND HUMAN SERVICES OFFICE OF  
 INSPECTOR GENERAL

In a Department of Health and Human Services report entitled "The Orphan Drug Act—Implementation and Impact (May, 2001, OEI-09-00-00380), the Office of Inspector General concluded that:

The Orphan Drug Act's incentives and the Office of Orphan Products Development's clinical superiority criteria motivate drug companies to develop orphan products. Since Congress passed the Orphan Drug Act of 1983, the Food and Drug Administration has awarded more than 1,000 designations and approved more than 200 products.

Advocates report that orphan products are usually accessible to patients. Orphan products are usually accessible, although they can be costly and in limited supply. Insurance typically pays for the treatments, and companies offer patient assistance programs to help patients obtain their products.

The Office of Orphan Products Development provides a valuable service to both companies and patients. Companies report an excellent relationship with this office, which awards orphan product designations and disseminates public information about orphan products.

Orphan products meet the legal prevalence limit, and most fall well below the threshold of 200,000 patients. Average patient population has climbed since 1983 but remains well below the legal limit."

ATTACHMENT III.—GRANT SUPPORTED PRODUCTS WITH MARKETING APPROVAL

Product: 4-methylpyrazole (trade name Antizole); Fomepizole  
 Indication: Ethylene Glycol and Methanol Poisoning  
 Approval Date: 12/04/1997  
 Institution: Orphan Medical, Inc.  
 Investigator: Dr. Dayton Reardan

Product: Actimmune  
 Indication: Osteopetrosis  
 Approval Date: 02/11/2000  
 Institution: Medical University of South Carolina  
 Investigator: Dr. Lester Key

Product: Auditory Brainstem Implant  
 Indication: Bilateral deafness  
 Approval Date: 10/24/00  
 Institution: Cochlear Corp.  
 Investigator: Dr. Steven J. Staller



Product: Anti-TNF (cA2) (trade name Remicade)  
Indication: Severe Crohns Disease  
Approval Date: 08/24/1998  
Institution: Centocor, Inc.  
Investigator: Dr. Richard McCloskey

Product: Baclofen Intrathecal (trade name Lioresal)  
Indication: Severe Spasticity  
Approval Date: 06/25/1992  
Institution: Rush-Presbyterian-St. Lukes' Medical Center  
Investigator: Dr. Richard Penn

Product: Betaine (trade name Cystadane)  
Indication: Homocystinuria  
Approval Date: 10/20/1996  
Institution: University of Virginia  
Investigator: Dr. William Wilson

Product: Busulfan IV  
Indication: Bone Marrow Ablation  
Approval Date: 02/04/1999  
Institution: UT MD Anderson Cancer Center  
Investigator: Dr. Borge Andersson

Product: Cladribine (trade name Leustatin)  
Indication: Mycosis fungoides and hairy cell leukemia  
Approval Date: 03/01/1993  
Institution: Scripps Research Institute  
Investigator: Dr. Ernest Beutler

Product: Clonidine (trade name Duraclon)  
Indication: Intractable pain in cancer patients  
Approval Date: 10/02/1996 Institution: Wake Forest University  
Investigator: Dr. James Eisenach

Product: CroFab  
Indication: Crotalid snake bites  
Approval Date: 10/02/00  
Institution: Therapeutic Antibodies, Inc.  
Investigator: Dr. Richard C. Dart

Product: Cysteamine (trade name Cystagon)  
Indication: Nephropathic Cystinosis  
Approval Date: 08/15/1994  
Institution: University of California, San Diego  
Investigator: Dr. Jerry Schneider

Product: Ganciclovir Intravitreal (trade name Vitrasert)  
Indication: CMV Retinitis  
Approval Date: 03/04/1996  
Institution: University of Kentucky Research Foundation  
Investigator: Dr. Thomas Smith

Product: Glatiramer acetate (trade name Copaxone)  
Indication: Relapsing remitting multiple sclerosis  
Approval Date: 12/20/1996  
Institution: Lemmon Company  
Investigator: Dr. Yafith Stark

Product: Histrelin Acetate (trade name Supprelin)  
Indication: Central precocious puberty  
Approval Date: 12/24/1991  
Institution: Massachusetts General Hospital  
Investigator: Dr. Paul Boepple

Product: In-Exsufflator (trade name Cofflator)  
Indication: Assist Ventilator dependent patients  
Approval Date: 02/01/1993  
Institution: University of Medicine and Dentistry of New Jersey  
Investigator: Dr. John Bach

Product: Iobenguane sulfate I-131  
Indication: Localization of Pheochromocytoma  
Approval Date: 03/24/1994

Institution: University of Michigan  
 Investigator: Dr. Brahm Shapiro  
 Product: Levocarnitine (trade name Carnitor)  
 Indication: Primary and Secondary Carnitine Deficiency of Genetic Origin  
 Approval Date: 12/16/1992  
 Institution: Duke University  
 Investigator: Dr. Charles Roe  
 Product: Nafarelin Acetate Intranasal (trade name Synarel)  
 Indication: Central Precocious Puberty  
 Approval Date: 02/06/1992  
 Institution: Baylor College of Medicine  
 Investigator: Dr. John Kirkland  
 Product: Neurostimulator implantable electrodes  
 Indication: Quadra-paraplegia with loss of hand function  
 Approval Date: 08/18/1997  
 Institution: Case Western Reserve University  
 Investigator: Dr. Paul Peckham  
 Product: Pegademase (trade name Adagen)  
 Indication: ADA replacement in Severe Combined Immunogenicity Disease  
 Approval Date: 03/21/1990  
 Institution: Enzon, Inc.  
 Investigator: Dr. Abraham Abuchowski  
 Product: Pulmonary angioscope  
 Indication: Visualization of pulmonary emboli  
 Approval Date: 01/31/1989  
 Institution: Regents of the University of California  
 Investigator: Dr. Deborah Shure  
 Product: Sodium phenylbutyrate  
 Indication: Urea cycle disorders  
 Approval Date: 04/30/1996  
 Institution: Johns Hopkins University  
 Investigator: Dr. Saul Brusilow  
 Product: Succimer (trade name Chemet)  
 Indication: Lead Poisoning in Children  
 Approval Date: 01/30/1991  
 Institution: The Kennedy Institute  
 Investigator: Dr. J. Julian Chisolm  
 Product: Sucrase enzyme  
 Indication: Sucrase-isomaltase deficiency  
 Approval Date: 04/09/1998  
 Institution: Hartford Hospital  
 Investigator: Dr. Jeffrey Hyams  
 Product: Tobramycin for inhalation (trade name Tobi)  
 Indication: Management of CF patients with Pseudomonas Aeruginosa  
 Approval Date: 12/22/1997  
 Institution: Pathogenesis Corporation  
 Investigator: Dr. Alan Montgomery  
 Product: Tretinoin (trade name Vesanoid)  
 Indication: Acute Promyelocytic Leukemia  
 Approval Date: 11/22/1995  
 Institution: Memorial Hospital for Cancer and Allied Diseases  
 Investigator: Dr. Raymond Warrell, Jr.  
 Product: Zinc Acetate (trade name Galzin)  
 Indication: Wilson's Disease  
 Approval Date: 01/28/1997  
 Institution: University of Michigan  
 Investigator: Dr. George Brewer

## ATTACHMENT IV

FDA Office of Orphan Products Development fiscal year 2001 Accomplishments  
 FDA's Office of Orphan Products Development (OPD) encourages the development

of drugs, biologics, medical devices, and medical foods for rare diseases and conditions by offering the sponsors of these products financial incentives.

Since the Orphan Drug Act was enacted in 1983, FDA's Office of Orphan Products Development (OPD) has designated 1,152 products to treat many rare conditions. Of these, 228 orphan products are now available to treat a potential patient population of more than 11 million people in the U.S.

During fiscal year 2001, OPD received 129 applications for orphan designation. The OPD medical and pharmaceutical review staff approved 78 of those applications for orphan status and six orphan products received FDA market approval.

A significant component of OPD is the Orphan Products Grants Program, which funds studies to develop treatments or diagnostic products for rare diseases. Since the Orphan Drug Act began, FDA has funded 150 million dollars in rare disease research.

In 2001, Congress appropriated 12.5 million dollars for the program, which provided funds for both new studies, and for the continuation of previously funded studies.

The grants program funded 24 new studies to test products to treat rare diseases in 2001 and currently, 84 OPD grant studies are underway.

OPD staff made ten grant site visits to advise and support clinical investigators. Since 1983 the orphan products grant program has led to the development and approval of 29 new products to treat or diagnose rare diseases.

OPD continues to facilitate the development of treatments for rare diseases worldwide. This year the OPD director consulted with interested European Community legislators, and spent considerable time briefing and mentoring members of the Committee on Orphan and Medicinal Products of the European Agency for the Evaluation of Medicinal Products. The OPD hosted visits from foreign legislative organizations currently investigating new strategies for orphan product development.

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#### PREPARED STATEMENT OF THE NATIONAL POTATO COUNCIL

My name is Dave Warsh. I am a potato farmer from Colorado and current Vice President, Legislative/Government Affairs for the National Potato Council (NPC). On behalf of the NPC, we thank you for your attention to the needs of our potato growers.

The NPC is the only trade association representing commercial growers in 50 states. Our growers produce both seed potatoes and potatoes for consumption in a variety of forms. Annual production in 2001 was 444,766 cwt with a farm value of \$2.9 billion. Total value is substantially increased through processing. The potato crop clearly has a positive impact on the U.S. economy.

The potato is the most popular of all vegetables grown and consumed in the United States and one of the most popular in the world. Annual per capita consumption was 138.7 pounds in 2000 up from 104 pounds in 1962 and is increasing due to the advent of new products and heightened public awareness of the potato's excellent nutritional value. Potatoes are considered a stable consumer commodity and an integral, delicious component of the American diet.

The National Potato Council's fiscal year 2003 appropriations priorities are as follows:

##### *Cooperative State Research Education and Extension Service (CSREES)*

*Potato Special Grant Program.*—The NPC urges that the \$1.568 million provided by the Congress in fiscal year 2002 be maintained and that \$1.6 million be appropriated for fiscal year 2003. This has been a highly successful program and the number of funding requests from various potato-producing regions are increasing.

The NPC also urges that the Congress, once again, include Committee report language as follows:

*"Potato research.*—The Committee expects the Department to ensure that funds provided to CSREES for potato research are utilized for varietal development testing. Further, these funds are to be awarded competitively after review by the Potato Industry Working Group."

##### *Agricultural Research Service (ARS)*

The NPC urges that the Congress once again add Committee report language urging the ARS to work with the NPC on how overall research funds can best be utilized for grower priorities.

The NPC urges that the Congress maintain all increases for potato research provided in fiscal year 2001 and 2002 including funding for Orono, Maine, Aberdeen, Idaho and golden nematode research at Cornell University.

*Grand Forks and East Grand Forks.*—Appropriate \$350,000 for a new scientist to be located at the Potato Research worksite in East Grand Forks, Minnesota. The scientist would address the effects of postharvest storage and treatments on potato market quality and value added traits. Since over 70 percent of the U.S. fall potato crop is placed into storage for year around sale, this research will benefit potato growers throughout the country.

*Fort Collins, Colorado.*—Appropriate \$300,000 for the Soil, Plant, and Nutrient Research Program at Fort Collins to conduct research to enhance water and soil quality with precision conservation farming.

*Aberdeen, Idaho.*—Appropriate \$30,000 for additional work by the potato breeder at Aberdeen. In fiscal year 2002 the Congress provided \$120,000 out the \$150,000 needed for this researcher. Since an estimated 96 percent of the current budget is committed to salaries and fixed costs, this additional funding is needed to provide for the development of a strong molecular biology program component to speed the incorporation of disease resistance from wild potato species into the cultivated potato.

Appropriate funds for the construction of an advanced molecular genetics laboratory at the National Small Grains Germplasm Research Facility. This facility at Aberdeen is needed to assure the continuation of advanced molecular genetics research for potatoes and small grains. It is estimated that total construction costs will be \$4.6 million. In fiscal year 2002, the Congress provided \$400,000 in design funds.

*Beltsville, Maryland.*—Improving the nutritional value of potatoes is a high priority of the NPC. Research should also be initiated at the Beltsville Vegetable Laboratory that combines traditional breeding and plant biotechnology to increase the nutritional value of the potato and add value to the crop. The nutrition research currently underway in the Beltsville potato breeding program relates to the development of potato tubers with anti-cancer properties (high lutein/carotene) and a product to help alleviate osteoporosis (high available tuber calcium). Approximately \$150,000 is currently devoted to this newly developing field. The NPC urges that \$300,000 be appropriated in fiscal year 2003 for this important research effort.

#### *Plant Protection and Quarantine Service (APHIS-USDA)*

The NPC urges that the Congress appropriate at least \$810,000 for the Golden Nematode Quarantine Program. The National Potato Council also supports the budget request of \$72 million for the AQI appropriated fund account and \$27 million for pest detection. As new trade agreements are negotiated, the agency must have the necessary staff and technology to deal with the threat of pests and diseases.

#### *FQPA Funding*

The NPC also supports the appropriation of \$2.6 million for the USDA Office of Pest Management Policy (OPMP). The NPC has devoted considerable time and resources to the evaluation of pesticides required by the FQPA. However, it is essential that the USDA have adequate resources to assist in this effort. Otherwise, given the tight time frame for these assessments, the EPA will rely on default assumptions in the absence of actual data.

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#### PREPARED STATEMENT OF THE NATIONAL RURAL HOUSING COALITION

Mr. Chairman and members of the Senate Subcommittee on Agriculture, my name is Robert Rapoza and I wish to testify on behalf of the National Rural Housing Coalition.

I wish thank you for the Subcommittee's support of the Rural Development programs of the United States Department of Agriculture and to urge you to support an increase in its budget for fiscal year 2003.

As you may know, the National Rural Housing Coalition (the Coalition) has been a national voice for rural low-income housing and community development programs since 1969. Through direct advocacy and policy research, the Coalition has worked with Congress and the Department of Agriculture to design new programs and improve existing programs serving the rural poor. The Coalition also promotes a non-profit delivery system for these programs, encouraging support for rural community assistance programs, farm labor housing grants, self-help housing grants, and rural capacity building funding.

The Coalition is comprised of approximately 300 members nationwide. We hope to work with you to assure that the voices of rural America are heard and its needs met. Our concerns are focused on rural housing and rural water and sewer systems.

## THE NEED FOR AFFORDABLE RURAL HOUSING

A disproportionate amount of the nation's substandard housing is in rural areas. Rural households are poorer than urban households, pay more of their income for housing than their urban counterparts, and are less likely to receive government-assisted mortgages. They also have limited access to mortgage credit and the secondary mortgage market, making them prime targets for predatory lending. Rural America needs programs which focus on the issues facing it. The Rural Housing Service of Rural Development provides many of these needed programs.

Renters in rural areas are the worst housed individuals and families in the country. Thirty-three percent of rural renters are cost-burdened, paying more than 30 percent of their income for housing costs. Almost one million rural renter households suffer from multiple housing problems, 60 percent of whom pay more than 70 percent of their income for housing. The Section 515 rural rental housing loan program at USDA serves low and very-low income families with safe affordable housing.

Although issues around rental housing are of vital concern, homeownership is the principal form of housing in rural America. However, there are a number of obstacles to improving homeownership in rural areas including high rates of poverty and poor quality of housing. According to a 1999 Economic Research Service report, the poverty rate in rural America was 15.9 percent, compared to 13.2 percent in urban areas. Minorities in rural areas have much higher rates of poverty with an average of 34.1 percent compared to urban minorities at 28.1 percent. More than 1.6 million low-income rural households live in moderately to severely inadequate housing. These are units without hot or cold piped water, and/or have leaking roofs, walls, rodent problems, inadequate heating systems, and peeling paint, often lead-based.

Rural residents also have limited access to mortgage credit. The consolidation of the banking industry that accelerated throughout the 1990s has had a significant impact on rural communities. Mergers among lending institutions have replaced local community lenders with large centralized institutions located in urban areas. Aside from shifting the locus of loan-making, this has resulted in the diminishment of a competitive environment which, in the past, encouraged rural lenders to offer terms and conditions that were attractive to borrowers.

Because of the gap left by traditional lenders, rural households are often prime targets for predatory lenders. Predatory lending practices include excessive fees, prepayment penalties, and loan flipping into high cost subprime loans. Rural America depends upon the affordable loans through USDA's Section 502 single family direct loan program for homeownership.

## USDA'S RURAL HOUSING SERVICE

I would like to begin with the rental housing program.

*Section 515 rental housing program*

Although we often talk about the surge in homeownership and all of its benefits, not all us are or are prepared to be homeowners. USDA's Rural Housing Service Section 515 rural rental housing program is invaluable to low-income residents in rural areas. The portfolio contains 450,000 rented apartments in Section 515 developments. The delinquency rate is a low 1.6 percent. The average tenant income is \$7,900, which is equal to only 30 percent of the nation's rural median household income. More than half of the tenants are elderly or disabled and one-quarter are minority.

Federal policy faces two challenges regarding rural rental housing. The first is to increase the production of affordable rental housing units in rural communities. The second is to maintain the existing stock of Section 515 units.

This year, the President's budget cut Section 515 almost in half to \$60 million and limited it to repair, rehabilitation, and preservation. If the fiscal year 2003 budget request for Section 515 is approved, it will be the first time in more than 30 years that the Federal government provides no new rental units for rural America. All new construction is postponed pending a comprehensive program review, which will cost up to \$2 million.

As I mentioned earlier, almost one million households either cannot afford their rents, live in unsafe, unsanitary conditions, or both. The capital replacement needs alone for 2001 were \$130 million, with only \$50 million in funding available.

Section 521 rental assistance is used in conjunction with Section 515 to help families who cannot afford even their reduced rent. In recent years, mostly in response to an escalating number of expiring contracts, appropriations for rental assistance have gone up. Despite the fact that the current appropriations stand at \$701 million (fiscal year 2002), the funds are insufficient. Although about 50 percent of the

450,000 Section 515 households receive rental assistance, almost 90,000 Section 515 households who need assistance do not receive it. The need for rental assistance is projected to increase to \$937 million by 2006.

Prepayment of 515 properties is a real threat to two-thirds of the portfolio over the next 7 years. Prepayment often means the units are lost for low-income residents. In 1987, Congress enacted legislation restricting prepayment, and providing financial incentives to owners to stay in the program. However, Section 515 funding has fallen off dramatically, and stands at \$114 million, its lowest level in 25 years. This allows little money to provide incentives and other resources for preservation.

The demand for incentives is estimated at approximately \$100 million for equity loans alone. This includes \$11 million in approved, but un-funded requests some of that date back three to 4 years. Spending for Section 515 rental subsidized housing has been cut by 73 percent since 1994. And rural rental housing unit production by the Federal Government has been reduced by 88 percent since 1990.

For fiscal year 2003, we recommend a total of \$250 million for section 515. With these funds, we proposed that \$100 million be used for basic maintenance and preservation and \$150 million for loans for new construction. In addition we recommend an increase of \$50 million for rural rental assistance that will be used in conjunction with section 515 and farm labor housing, described later.

#### *Section 502 single family direct loan program*

To qualify for the direct loan program, borrowers must have very low or low incomes but be able to afford mortgage payments. Also, applicants must be unable to obtain credit elsewhere, yet have reasonable credit histories. The average income of households assisted under Section 502 is \$18,500. About nine percent of households have annual incomes of less than \$10,000. Since its inception, Section 502 has provided loans to almost two million families.

The cost to the government per house under the Section 502 direct loan program is only \$10,000. However, this effective program has also received severe cuts in recent years. Fund was available for 132,000 units in 1976, but because of funding, production has dropped by 89 percent to fewer than 15,600 units.

Currently funded at \$1.1 billion, the President's budget cuts this program by 13 percent to \$957 million in program level.

Of particular interest in the budget is the unexplained increase in the subsidy rate for section 502 direct loans. At a time of historically low interest rates, in a budget that does not project an increase in long-term rates, the subsidy rate for section 502 direct loans increases from 13.16 percent to 19.37 percent. What has changed? Are there increases in subsidy costs or in default or delinquency rates that led to this adjustment? Is this change based on recent experience? Is this a change in the assumptions that underlie the subsidy? If so, what are those changes? Our understanding is that the cost of the program has not changed, only the model that is used to estimate the cost to the government.

We urge the Committee to restore section 502 to at least the current rate of \$1.08 billion. There is a \$5 billion backlog in applications for 502 direct loans. No other program provides home ownership assistance to rural low-income families. The cost of continuing section 502 at the current rate will add \$23 million to the cost of section 502 to the government. It will also add over 2,500 units of additional housing for low-income families.

#### *Work with Non-Profit Organizations*

With dramatic program reductions and continued strength in the nation's real estate market, the private sector delivery system is no longer dominant as it was when funding levels were higher, and in many rural communities does not even exist. In some rural areas, non-profits have picked up the slack and pursued a multiple funding strategy. Skilled local organizations meld Federal, State, local and private resources together to provide affordable financing packages to low-income families. But there is not a dedicated source of Federal support to promote a non-profit delivery system for rural housing.

As one way to improve its programs, USDA has expanded its cooperation with non-profit housing and community development organizations. Two successful programs are Mutual and Self-Help Housing and the Rural Community Development Initiative.

Under Mutual and Self-Help Housing, with the assistance of local housing agencies, groups of families eligible for Section 502 loans perform approximately 65 percent of the construction labor on each other's homes under qualified supervision. This program, which has received growing support because of its proven model, has existed since 1961. The average number of homes built each year over the past 3

years has been approximately 1,500. For fiscal year 2003, we recommend a total of \$35 million for self-help housing. This is the same as fiscal year 2002.

The Rural Community Development Initiative (RCDI) program enhances the capacity of rural organizations to develop and manage low-income housing, community facilities, and economic development projects. These funds are designated to provide technical support, enhance staffing capacity, and provide pre-development assistance—including site acquisition and development. RCDI provides rural community development organizations with some of the resources necessary to plan, develop, and manage community development projects. Using dollar-for-dollar matching funds and technical assistance from 19 intermediary organizations, some \$12 million in capacity building funds were distributed to 240 communities. There is a tremendous demand for capacity building funding. In the fiscal year 2000 funding round, USDA's Rural Housing Service received some \$80 million in applications for \$6 million in appropriated funds. This valuable program is also at risk in the budget request this year—it has been eliminated. For fiscal year 2003, we recommend \$6 million for the Rural Community Development Initiative to continue level funding for fiscal year 2002.

*Section 514 loan and Section 516 grant farm labor housing programs*

Two additional rental housing programs specifically address the needs of farm laborers. Migrant and seasonal farmworkers are some of the nation's most poorly housed populations. The last documented national study indicated a shortage of some 800,000 units of affordable housing for farmworkers.

Farmworker households are also some of the least assisted households in the nation. Some 52 percent of farmworker households' incomes are below the poverty threshold, four times the national household poverty rate, and 75 percent of migrant farmworkers have incomes below the poverty line. Yet little more than 20 percent of farmworker households receive public assistance; most commonly food stamps, rarely public or subsidized housing.

There are only two Federal housing programs that specifically target farmworkers and their housing needs: Sections 514 and 516 of the Housing Act of 1949 (as amended). Borrowers and grantees under Rural Housing Service Sections 514 and 516 receive financing to develop housing for farmworkers. Section 514 authorizes the Rural Housing Service to make loans with terms of up to 33 years and interest rates as low as 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 its own resources or through a 514 loan.

Non-profit housing organizations and public bodies use the loan and grant funds, along with RHS rural rental assistance, to provide units affordable to eligible farmworkers. These funds are used to plan and develop housing and related facilities for migrant and seasonal farmworkers. Current funding for Sections 514/516 totals \$37 million in program authority. This amount provides about 700 units of housing. The estimated need is two to three times the appropriated level.

We applaud the President for proposing an additional \$8 million in loans for fiscal year, and hope that you will recognize the even greater need for funding. We recommend that funding for farmworker housing grants and loans be increased to \$100 million in budget authority for fiscal year 2003. We ask that these funds be equally divided between loans and grants authorized under sections 514 and 516. This will result in approximately \$150 million in financing for much needed farmworker housing.

THE NEED FOR RURAL WATER AND SEWER SYSTEMS

Hundreds of rural communities nationwide do not have access to clean drinking water and safe waste disposal systems. A 1995 USDA needs assessment of rural areas showed that more than one million households had no indoor plumbing, and 2.4 million households had critical drinking water needs. In its 1997 Drinking Water Infrastructure Needs Survey, the Environmental Protection Agency estimated that over the next 20 years, water systems serving communities of less than 10,000 people will require \$37.2 billion in funding for water systems improvements and upgrades. And regarding wastewater, a 1996 EPA Survey demonstrated that small communities with up to 10,000 residents will need 21,000 wastewater treatment facilities by 2016 at a cost of approximately \$14 billion. According to EPA's numbers, approximately \$51.2 billion will be needed to address the basic water and wastewater needs of small communities.

Many projects that the Rural Utilities Service funds are under consent order from the State EPA office for immediate action. The problems that the agency deals with range from communities and systems that are out of compliance with health and pollution standards, to communities without sewer systems where raw sewage runs

in ditches after a heavy rainfall. Because so much time and money are spent on critical needs, the State offices spend less time on prevention. The programs and communities do not have enough resources to address issues before they become larger problems.

The issue of affordability moves to the forefront with waste disposal systems, which are generally more expensive than water systems. Waste systems naturally succeed water systems—with central water comes indoor plumbing, washing machines, dishwashers, etc., all of which eventually require an efficient wastewater disposal system. Low-income communities often already pay as much as they can afford for water service alone and are unable to manage the combined user fees for water and waste. According to EPA data, ratepayers of small rural systems are charged up to four times as much per household as ratepayers of larger systems. In some extreme situations, some households are being forced out of homeownership because they cannot afford rising user costs.

As I mentioned earlier, rural communities have limited access to much-needed debt and equity capital, and small water and wastewater systems lack the economies of scale needed to reduce costs on their own. In order for communities to cut back on project costs and have affordable rates, operation and maintenance are typically underestimated in the budgets for many new systems. This often results in limited or no capital improvement accounts for future upgrades and expansions needed for community development including stabilization of local small business, affordable housing development, and other needed industrial development.

#### USDA'S RURAL UTILITIES SERVICE

USDA's Rural Utilities Service (RUS) is the primary Federal force in rural water and waste development, providing loans and grants to low-income communities in rural areas. The agency assists low-income rural communities that would not otherwise be able to afford such services. Approximately one-fifth of the communities served live below the national poverty line.

In providing these important services, the program also protects public health and promotes community stabilization and development. Aging municipal sewage systems alone are responsible for 40,000 overflows of raw sewage each year. The overflows cause health hazards including gastrointestinal problems and nausea, as well as long-term damage to the environment. Businesses and industries are unable or reluctant to locate in areas without functioning water and sewer systems. But with the assistance of RUS, communities are able to have the services they need so that their health and economies may benefit.

Although the need for RUS services continues, the level of available funds has continued to remain low. In fiscal year 1995, \$1.35 billion was obligated by the Federal program to the States. Due to decreasing appropriations and increasing interest rates, the obligations decreased. By fiscal year 2000, funding was at \$1.24 billion—a decrease of over \$100 million—and was approximately 90 percent of its fiscal year 1995 level. Fortunately, these programs received a boost in fiscal year 2001 and fiscal year 2002, and are currently at \$1.46 billion. However, the Administration's budget request again asks for a decrease down to \$1.4 billion.

Through Federal and State initiatives, RUS is working to confront the challenges faced by rural communities. With increasingly restricted time and money, State offices are using other resources such as leveraged funds and technical assistance from the Rural Community Assistance Program (RCAP). Funds are being leveraged through HUD's Community Development Block Grant program and the EPA's State Revolving Loan Funds, as well as some private lenders. Through the RCAP technical assistance program, more than 2,000 communities and over 1.6 million households in 49 States have received assistance to identify solutions to water problems, improve and protect water quality, and construct and operate facilities. The RCAP program has proven to be an effective and efficient way of ensuring that small rural communities receive the information, technical assistance, and training needed to provide for the water and waste disposal needs of their residents.

Mr. Chairman and members of the Committee, we look to you for continued support of the efforts of Rural Development. These programs are vital to the survival of our small communities nationwide. They address the most basic needs of affordable housing and clean water that still exist all over the country. Because of the overwhelming need, we wish to submit the following proposals for increases to Rural Development funding:



[In millions of dollars]

Program	Fiscal year 2002 final	Fiscal year 2003 proposed
USDA Programs:		
502 direct .....	1,100	1,700
502 guarantee .....	3,100	3,700
504 grants .....	30	50
504 loans .....	32	50
514 loans .....	28	100
516 grants .....	17.9	50
515 loans .....	114	250
521 rental assistance .....	701	800
523 self-help grants .....	35	35
Water sewer loans .....	894	1,050
Water sewer grants .....	584	700
Community facilities .....	210	250
Community facilities grants .....	14	50
RCDI .....	6	25

## 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 2003 in the same amounts as those contained in the fiscal year 2002 Agriculture Appropriations Act for hardship, cost-of-money, Rural Telephone Bank and guaranteed loan programs and the associated subsidy to fund those programs at the existing level. Opposing the budget recommendation to not fund new Rural Telephone Bank loans in fiscal year 2003.
- Supporting continued funding, as requested in the President's budget, in the amount of \$31 million in loan and grant authority designated for distance learning and telemedicine purposes, \$6.1 million of which to continue to be made available through the pilot program to finance broadband transmission and dial-up Internet service in rural areas.
- Supporting an extension of the language removing the 7 percent interest rate ceiling on cost-of-money loans.
- Supporting continuation of the restriction on retirement of Rural Telephone Bank class A stock at the level contained in the fiscal year 2002 Agriculture Appropriations Act and an extension of the prohibition against the transfer of Rural Telephone Bank funds to the general fund. Opposing the proposal contained in the budget to transfer funds from the unobligated balances of the liquidating account of the Rural Telephone Bank for the bank's administrative expenses.

Mr. Chairman, Members of the Committee: My name is John F. O'Neal. I am General Counsel of the National Rural Telecom Association. NRTA is comprised primarily of commercial telephone companies which borrow their capital needs from the Rural Utilities Service of the U.S. Department of Agriculture (RUS) to furnish and improve telephone service in rural areas. Approximately 1000, or 71 percent of the nation's local telephone systems borrow from RUS. About three-fourths of these are commercial telephone companies. RUS borrowers serve almost 6 million subscribers in 46 states and employ over 22,000 people. In accepting loan funds, borrowers assume an obligation under the act to serve the widest practical number of rural users within their service area.

## PROGRAM BACKGROUND

Rural telephone systems have an ongoing need for long-term, fixed rate capital at affordable interest rates. Since 1949, that capital has been provided through telecommunications lending programs administered by the Rural Utilities Service and its predecessor, the Rural Electrification Agency (REA).

RUS loans are made exclusively for capital improvements and loan funds are segregated from borrower operating revenues. Loans are not made to fund operating revenues or profits of the borrower system. There is a proscription in the Act

against loans which would duplicate existing facilities providing adequate service and state authority to regulate telephone service is expressly preserved under the Rural Electrification Act.

Rural telephone systems operate at a severe geographical handicap when compared with other telephone companies. While almost 6 million rural telephone subscribers receive telephone service from RUS borrower systems, they account for only four percent of total U.S. subscribers. On the other hand, borrower service territories total 37 percent of the land area—nearly 1½ 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 the United States endeavors to deploy telecommunications “information superhighway” technology and as customers and regulators constantly demand improved and enhanced services.

At the same time, the underlying statutory authority which governs 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. The subsidy that remains has been targeted to the highest cost, lowest density systems. Other loans are made at Treasury’s cost-of-money or greater, and, in fact, involve negative subsidies.

We are proud to state once again for the record that there has never been a default in the RUS/REA telephone program! All loans have been repaid in accordance with their terms—almost \$10.5 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.

These rapid technological changes and Federal policies of competition and deregulation in the telephone industry, as evidenced by passage of the “Telecommunications Act of 1996”, underscore the continuing need for targeted assistance to rural areas. The inherently higher costs to serve these areas have not abated. Regulatory trends encouraging competition among telephone systems increase pressures to shift more costs onto rural ratepayers. Interstate subscriber line charges continue to shift substantial costs to local exchange customers. Pressures to recover more and more of the higher costs of rural service from rural customers to foster urban competitive responses will further burden rural consumers. The Telecommunications Act of 1996 responded to a number of rural needs and differences with a series of safeguards to ensure that rates, services and network development in rural America will be reasonably comparable to urban telecommunications opportunities.

The ongoing process of implementing the new law continues to raise troubling uncertain ties and concerns about whether the FCC and the states will honor the balance Congress achieved in its policy, as regulators (a) radically revise the mechanisms for preserving and advancing “universal service,” (b) adjust the cost recovery responsibilities and allocations of authority between Federal and State regulation, (c) effectuate the Act’s somewhat different urban and rural ground rules for how new companies and incumbent universal service providers connect their networks and compensate each other and (d) peel back layers of regulation developed over a century. The FCC continues to be overzealous in expanding the Act’s market-opening provisions to give new entrants a regulatory head start and advantage at the expense of the Act’s rural development and universal service provisions. The FCC is trying to usurp the role of competition by dictating a whole new—and wholly inadequate—way to measure the costs of modern, nationwide telecommunications access to information. The FCC needs to reorder the sequence of its proceedings to ensure that rural Americans are not denied the ongoing network development and new services the Act requires. Rural telephone systems with universal service obligations must not be thwarted in their efforts to upgrade and provide rates and services reasonably comparable to urban offerings.

#### EXPANDED CONGRESSIONAL MANDATES FOR RURAL TELECOMMUNICATIONS

Considerable loan demand is being generated because of additional mandates for enhanced rural telecommunications standards contained in the authorizing legisla-

tion. These mandates coupled with the need for stable financing sources to meet the infrastructure demands envisioned for rural areas by the 1996 telecommunications act amply demonstrate the continuing need for this important program at the following levels:

[In dollars]

5 percent Hardship Loans .....	75,000,000
Cost-of-Money Loans .....	300,000,000
Guaranteed Loans .....	120,000,000
Rural Telephone Bank Loans .....	175,000,000
Total .....	670,000,000

These are essentially the same levels established in the fiscal year 2002 appropriations act for the hardship, cost-of-money, Rural Telephone Bank and guaranteed loan programs. The authorized levels of loans in all programs were fully obligated in fiscal year 2001 and we expect these levels to be met in fiscal year 2002. We believe that the needs of this program balanced with the minimal cost to the taxpayer make the case for its continuation at the stated levels.

#### RURAL TELEPHONE BANK LOANS

The administration again proposes to not fund new Rural Telephone Bank (RTB) loans in fiscal year 2003.

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. The bank's mission is not complete—far from it! If Rural Americans are to be full participants with their urban neighbors in the Information Age, that job is just beginning! Economists agree that modern telecom infrastructure is the key to rural economic development which generates jobs and tax revenues for the government.

The administration proposal will not “generate increased member and borrower support for statutorily authorized privatization”, as suggested in the President's budget documents. That already exists! Privatization of the RTB began in 1995 under the current law and is proceeding annually at the rate of approximately \$25 million per year. The Bank has now retired over \$139 million, or over 20 percent, of the government's \$592 million investment. As we pointed out in our testimony last year, not funding new loans in could actually impede privatization of the Bank since the law requires that the Bank annually retire government stock at the rate of at least 5 percent of the amount of Class B stock sold in connection with new loans. If no new loans were made, there would be no minimum requirement for retirement of additional government stock.

The current loan level of \$175 million has remained the same for many years. As a matter of fact, after factoring in the eroding effect of inflation, loan levels over the years have actually been reduced systematically. Despite this fact, we believe that the \$175 million level is adequate to meet current program needs and strikes a cost effective balance for the taxpayer. This amount was fully obligated in fiscal year 2001 and we expect it to be met again this year. If no bank loans were made in fiscal year 2003, the budgetary outlay savings would be minimal because RTB loans are funded over a multi-year period. Moreover, if administration interest rate predictions are accurate, RTB loans could actually generate a profit for the government because of the minimum statutory interest rate of 5 percent!

#### SPECIFIC ADDITIONAL REQUESTS

##### *Continue the Removal of the 7 percent Cap on Cost-of-Money Loans*

Again this year we are supporting removal of the 7 percent ceiling on cost-of-money loans even though long-term Treasury rates are currently below this level.

##### *Continue the Restriction on Retirement of Class A Government Stock in the Rural Telephone Bank (RTB) and also Continue the Prohibition Against Transfer of RTB Funds to the General Fund and Require the Payment of Interest*

The Committee should continue the restriction on retirement of the amount of class A stock by the Rural Telephone Bank in fiscal year 2003. The Bank is currently in the process of retiring the government's stock as required under current law. We believe that this process which began in fiscal year 1996 should continue to be an orderly one as contemplated by the retirement schedule enacted 6 years ago and continued through last year's bill to retire no more than 5 percent of the total class A stock in 1 year. The Rural Telephone Bank board, earlier this year,

commissioned a private firm to perform a privatization study. This study is expected to be completed later this year. In this year's budget documents, the administration has indicated a desire to fully privatize the bank by the end of 2003. After reviewing the results of the pending study, both Congress and the rural telephone industry will be in a better position to evaluate the feasibility of that timetable as well as the appropriate level of retirement of the government's Class A stock in the future. In the meantime, we urge the Committee to continue the prohibition against the transfer of any unobligated balance in the bank's liquidating account which is in excess of current requirements to the general fund of the Treasury along with the requirement that the bank receive interest on those funds. The private Class B and C stockholders of the Rural Telephone Bank have a vested ownership interest in the assets of the bank including its funds and their rights should be protected.

Previous appropriations acts (fiscal year 1997 through 2002) have recognized the ownership rights of the private class B and C stockholders of the bank by prohibiting a similar transfer of the bank's excess unobligated balances which otherwise would have been required under the Federal credit reform act.

*Reject Budget Proposal to Transfer Funds from RTB Liquidating Account for Administrative Costs*

The President's budget proposes that the bank assume responsibility for its administrative costs by a transfer of funds from the unobligated balances of the bank's liquidating account rather than through an appropriation from the general fund of the Treasury. This recommendation is contrary to the specific language of Sec. 403(b) of the RTB enabling act and would require enactment of new authorizing legislation as a prerequisite to an appropriation. It would not result in budgetary savings and has been specifically rejected by this Committee in previous years. No new justification is contained in the budget.

*Loans and Grants for Telemedicine, Distance Learning and Internet Access*

We support the continuation in fiscal year 2003 of the \$31 million in loan and grant authority provided in the President's budget for telemedicine and distance learning purposes. Loans are made at the government's cost-of-money. The purpose is to accelerate deployment of telemedicine and distance learning technologies in rural areas through the use of telecommunications, computer networks, and related advanced technologies by students, teachers, medical professionals, and rural residents. We also support making available \$6.1 million of the above amount available for continuation of the pilot program to finance broadband transmission and local dial-up access to the Internet in rural areas, as recommended in this year's budget. This 2-year old loan and grant pilot program continues to be oversubscribed each year and is effectively accomplishing its program mission.

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.

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PREPARED STATEMENT OF THE NATIONAL TELECOMMUNICATIONS COOPERATIVE ASSOCIATION

SUMMARY

NTCA makes the following fiscal year 2003 funding recommendations with regard to the Rural Utilities Service Telecommunications Loan Program and related programs.

- Support the provisions of the president's budget proposal calling for the required subsidy to fully fund the RUS Telecommunications Loan Program's Hardship Account at a \$75 million level, Cost of Money Account at a \$300 million level, and the Guaranteed Account at a \$120 million level.
- Reject the provisions of the president's budget proposal calling for zero funding for the Rural Telephone Bank (RTB). Instead, provide the required subsidy to fully fund the bank at last fiscal year's \$175 million level.
- Support an extension of language that temporarily sets aside the 7 percent interest rate cap on loans made through the RUS Cost of Money fund.
- Support an extension of the restriction against RTB Liquidating Account funds from being transferred into the general Treasury.

—Support an extension of language prohibiting the expenditure of RTB Liquidating Account funds to provide for the subsidy or operational expenses of the bank.

BACKGROUND

NTCA is a national association representing more than 550 small, rural, cooperative and commercial, community-based local exchange carriers (LECS) located throughout the nation. These locally-owned and operated LECS provide local exchange service to more than 2.5 million rural Americans. Since the creation of the RUS Telecommunications Loan Program, more than 80 percent of NTCA’s member systems have been able to utilize the Federal program to one degree or another.

NTCA’s members, like most of the country’s independent LECS, evolved to serve high-cost rural areas of the nation that were overlooked by the industry’s giants as unprofitable. On average, NTCA members have approximately 6 subscribers per mile of infrastructure line, compared with 130 for the larger urban-oriented LECs. This results in an average plant investment per subscriber that is 38 percent higher for NTCA members compared to most other systems.

Congress recognized the unique financing dilemma confronting America’s small rural LECS as early as 1949, when Congress amended the Rural Electrification Act (REA) to create the Rural Electrification Administration Telephone Loan Program. Today, this program is known as the RUS Telecommunications Loan Program. Through the years Congress has periodically amended the REA to ensure that original mission—to furnish and improve rural telephone service—was met. In 1971, the Rural Telephone Bank (RTB) was created to as a supplemental source of direct loan financing. In 1973, the RUS was provided with the ability to guarantee Federal Financing Bank (FFB) and private lender notes. In 1993, Congress established a fourth lending program—the Treasury Cost of Money account.

RUS HELPS MEET INFRASTRUCTURE DEMANDS

While the RUS has helped the subscribers of NTCA’s member systems receive service that is comparable or superior to that available anywhere in the nation, their work is far from complete. As the Telecommunications Act of 1996 and other Federal policies continue to evolve, and as policymakers and the public alike continue to clamor for the deployment of advanced telecommunications services, the high costs associated with providing modern telecommunications services in rural areas will not diminish.

RUS telecommunications lending has stimulated billions of dollars in private capital investment in rural communications infrastructure. In recent years, on average, less than \$13 million in Federal subsidy has effectively generated \$670 million in Federal loans and guarantees. For every \$1 Federal funds that were invested in rural communications infrastructure, \$4.50 in private funds were invested. The RUS is also making a difference in rural schools, libraries, and hospitals. Since 1993, the RUS Distance and Learning Telemedicine Grant program has funded hundreds of projects throughout the nation of interactive technology in rural schools, libraries, hospitals, and health clinics.

In addition, two other RUS-related programs are making a difference in rural America. Formerly known as the Zero Interest Loan and Grant Program, the Rural Economic Development Grants Programs, and the Rural Economic Development Loans Programs are now managed by the Rural Business Cooperative Service. The two programs provide funds for the purpose of promoting rural economic development and job creation projects, including for feasibility studies, start-up costs, incubator projects and other expenses tied to rural development.

NTCA’S FISCAL YEAR 2003 APPROPRIATIONS RECOMMENDATIONS

*Fully Fund The Entire RUS Telecommunications Loan Program*

It is imperative that the entire RUS Telecommunications Loan Program be funded at the following levels:

Hardship Account .....	\$75,000,000
Cost of Money/Treasury Account .....	300,000,000
Guaranteed Account .....	120,000,000
Rural Telephone Bank Account .....	175,000,000

Additionally, to support the operations of the RUS, it is critical that Congress provide at least \$36 million in administrative appropriations the president’s budget proposal envisions.

*Reject the President's Proposal To Provide Zero RTB Funding*

The President's budget contains a proposal that suggests the Rural Telephone Bank should not be funded in fiscal year 2003. In presenting last year's budget, the administration stated that the RTB had outgrown its need and usefulness. The demand for advanced telecommunications services continues to grow and NTCA members continue to meet this demand. To this end, we believe the president's decision to zero out funding for the RTB is without merit. When the Bush administration presented its first budget to Congress, it too included a proposal to zero out funding for the RTB, stating it was a result of the RTB moving towards privatization.

Privatization of the RTB is moving at a Congressionally mandated pace, and while Congress must stay aware of changes to the RTB program as it proceeds toward privatization, NTCA remains concerned about unnecessary disruptions that would cause instability to shareholders, borrowers, and taxpayers. In light of this fact, as well Congress' decision to reject the president's previous proposal to zero out RTB funding, we urge Congress to again reject this ill-conceived proposal and instead fully fund the bank at its regular \$175 million annual level.

*Prohibit The Transfer Of Unobligated RTB Liquidating Account Balances*

NTCA also recommends that Congress continue the prohibition against the transfer of any unobligated balances of the Rural Telephone Bank liquidating account to the general fund of the Treasury. This language has routinely been included in annual appropriations measures since the enactment of the Federal Credit Reform Act (FCRA, Public Law 101-508) that allows such transfers to potentially occur. Re-statement of this language will ensure that the RTB's private class B & class C stockholders are not stripped of the value of their statutorily mandated investment in the Bank.

*Prohibit RTB From Self Funding Subsidy and Administrative Costs*

NTCA urges Congress to maintain its prohibition against unobligated RTB Liquidating Account Balances being used to cover the bank's administrative and operational expenses for the following reasons: (1) such action would require amending the REA, (2) the proposal appears to be in conflict with the intent of the FCRA, (3) the proposal will not result in Federal budgetary savings, (4) it is unnecessary to the determination of whether the bank could operate independently, and thus would amount to wasting the resources of the bank which could be put to better use upon its complete privatization.

*Extend Removal Of the Interest Rate Cap On Treasury-Rate Loans*

NTCA is also requesting that Congress again include language removing the 7 percent interest rate cap on Treasury-rate loans. This provision has been included in recent appropriations measures to prevent the potential disruption of the program in the case where interest rates exceed 7 percent and insufficient subsidy cannot support authorized lending levels.

*Continue Distance Learning and Telemedicine Loan and Grant Program*

The RUS Distance Learning and Telemedicine Loan and Grant program has proven to be an indispensable tool for rural development. In this regard NTCA urges Congress to provide adequate funding for this critical program. NTCA supports the recommendations for this program that are contained in the president's budget proposal.

*Preserve RBCS Rural Development Grant and Loan Programs*

Likewise, NTCA has witnessed the good these programs have done for rural communities. NTCA urges Congress to ensure adequate funding is at levels that are adequate to meet current demand for the programs.

CONCLUSION

The RUS Telecommunications Loan Program bears a proud record of commitment, service and achievement to rural America. Never in its entire history has the program lost a dollar to abuse or default—unparalleled feat for any government-sponsored lending program. Clearly such a successful program should remain in place to continue ensuring rural Americans have the opportunity to play a leading role in the information age in which we live. After all, an operational and advanced rural segment of the nation's telecommunications infrastructure is critical to truly ensuring that the national objective of universal telecommunications service is fulfilled. We look forward to working with you to accomplish this objective.

## PREPARED STATEMENT OF THE NATIONAL TREASURY EMPLOYEES UNION

Chairman Dorgan, Ranking Member Campbell, and distinguished members of this Subcommittee, my name is Colleen Kelley and I am the National President of the National Treasury Employees Union. NTEU represents more than 155,000 Federal employees across the Federal government, including the employees who work at the Food and Drug Administration. I want to thank you for giving me the opportunity to present testimony on behalf of these dedicated men and women who work to ensure the safety of our food, drugs, cosmetics, and medical devices.

The past 6 months have been a very trying time for the American public. In particular, the tragic events of September 11th and the anthrax outbreak in October and November brought to light how vulnerable our nation is to such a wide variety of attacks. Without question, these horrible events have focused the attention of the American public and our elected leaders on the need to invest in a highly wined, highly skilled, dedicated Federal workforce to respond to and prevent these attacks. Our nation depends on these patriots who work for the Federal Government.

The men and women who work at the Food and Drug Administration have been on the front lines in our nation's war on terrorism. They have been protecting the public against contaminated foods coming in through our ports and borders. They have been working overtime to facilitate the availability of safe and effective vaccines to protect Americans from anthrax or other bioterrorist attacks, even during a period when FDA's own facilities were thought to be contaminated with anthrax. And they are working to protect the health of our troops abroad who are at great risk for exposure to biological and chemical weapons. This is only a sampling of the efforts FDA employees contribute to our nation's war on terrorism. But it was not September 11th or the spread of anthrax that created these roles for FDA. Rather, the FDA workforce has been a critical component of our homeland defense for decades.

It has been the FDA employees day in and day out—during times of war and times of peace—who have responded to the call of the American people for ensuring our food supply is safe and more effective drugs and medical products are brought to consumers more quickly. In fact, the FDA regulates more than \$1 trillion worth of products that account for about 25 cents out of every dollar of American consumer spending. The FDA is staffed with experts in an extraordinary range of fields. Microbiologists, chemists, consumer safety officers, and others are working around the clock testing, approving, and regulating new drugs, robotics, and other medical devices, that will not only improve the health conditions for millions of Americans, but in many cases actually save lives. They are working to ensure the food we eat is safe and free of disease-causing contaminants, and working to ensure new food products, food additives, and dietary supplements pose no threat to our health.

And the FDA employees who work in the field offices and laboratories located throughout the country have developed valuable working relationships with top scientists, health officials, and local industries. These employees help protect consumers from mislabeled foods, food borne diseases, defective medical devices, or unsafe cosmetics or drugs. And they work very closely with Customs, USDA, and others at our borders and ports, to inspect and test imported foods and drugs.

We would like to offer our feedback on a few critical areas of the FDA budget for fiscal year 2003. First, while the Administration has requested a \$123 million budget increase for the FDA over last year's funding level, more than half of that increase is attributed to a budget gimmick suggested by the Administration, that would, for the first time, require the agency to pre-fund future retiree health and retirement costs from current appropriations. On March 13, the House Budget Committee declined to include this proposal in its fiscal year 2003 Budget Resolution unless, and until, the appropriate authorizing committee makes this change into law.

Thus, the "real" increase in funding over last year's levels is merely \$60 million. Congress should not be misled about the impact these new creative accounting procedures being used by the Office of Management and Budget will have on the FDA and other agencies.

NTEU urges Congress to provide significantly more funding than the amount requested by the Administration so that FDA can better respond to the constantly changing and complex public health threats facing our nation. Denying FDA adequate staffing and resources to do its job will deny Americans the public health protections and benefits they expect and deserve. It is impossible to put a dollar figure on the lives saved by expediting the approval of a new medical device or detecting a food borne pathogen before that food product makes it to the supermarket shelf. But what is clear is that dollars spent in the FDA budget today will reap enormous benefits for the American public tomorrow.

With regard to programs aimed at ensuring the safety of our food supply, NTEU believes the FDA budget falls short. Each year in the United States alone, there are 76 million food borne illnesses, which result in 325,000 hospitalizations and 5,200 deaths annually. NTEU applauds Congress for providing funds in the current fiscal year for FDA to hire and train additional staff to inspect, test, and investigate food imports and our domestic food supply. But without more funding for staffing to conduct additional inspections, our food supply will remain vulnerable.

Next, regarding drug and medical device activities, the budget request for FDA does not come anywhere near the amount needed to match the dramatic increases in funding for research by the National Institutes of Health and the private sector. NIH, pharmaceutical companies, and academia have nearly tripled the amount of money spent on medical research over the past ten years, from a total of approximately \$20 billion in 1992 to nearly \$60 billion in 2002. Yet during this same period, the FDA budget, adjusted for inflation, has remained flat. If Americans are to benefit as quickly as possible from medical breakthroughs resulting from our research investments, then the Administration and Congress must ensure the FDA the agency charged with regulating these new drugs and medical technologies—receives, at a minimum, funding increases proportionate to the increases for the NIH. While the Administration did request a modest increase for drug and medical device programs, the increase does not provide enough funding to staff the increased workload in approving and ensuring the safety of drugs and medical devices before they reach the public.

NTEU was also very disappointed the Administration requested only a \$1 million increase for counter terrorism activities performed by FDA employees. Last year, in the emergency supplemental appropriations bill, Congress recognized the need for increased counter terrorism resources for the FDA by appropriating nearly fifty percent more funding than what the Administration had requested. Yet even with Congress' strong endorsement of FDA's role in the war on terrorism, the Administration requested an increase of less than one percent over last year's funding level for FDA counter terrorism activities. If provided with additional funding, the FDA could rapidly train and place in the field an additional 500 employees to bolster counter terrorism efforts.

Next, I would like to express NTEU's concerns about the proposal to transfer the FDA Offices of Legislative and Public Affairs to the Office of the Secretary at the Department of Health and Human Services. This proposal would also require the consolidation within HHS of communications, legislative, and public affairs offices from other agencies such as NIH and the Centers for Disease Control and Prevention. While NTEU recognizes the importance of keeping the Secretary involved in FDA activities, we believe the decentralized public information and legislative affairs structure within HHS has given lawmakers and the American public the access to experts they need to get specialized information in science and medicine. Consolidation of these important functions will likely slow the flow of information from the agencies and could also lead to inaccurate and/or incomplete communications to the public and to Congress.

Finally, we wish to express our concerns about a different consolidation proposal being floated by Governor Tom Ridge, the Director of the Office of Homeland Security. This proposal would consolidate the food inspection programs at the FDA with meat inspection functions at the Agriculture Department. While the FDA and Agriculture inspection activities are similar in many ways, they have many differences that should not be overlooked. Before moving forward with this consolidation, the Office of Homeland Security should work with the front-line employees actually doing the inspections now, to determine how best to improve our food inspection programs. Again, agencies should not consolidate merely for the sake of consolidating. There ought to be measurable operational efficiencies and benefits gained for the American public by doing so.

Thank you for giving NTEU the opportunity to share our views on the FDA budget for fiscal year 2003. We thank this subcommittee for its support of FDA programs in the past, and we urge you to work with the Administration to provide FDA with the staffing and resources necessary to protect and improve the health of the American public.

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PREPARED STATEMENT OF THE NATIONAL TURFGRASS EVALUATION PROGRAM

Mr. Chairman and Members of the Subcommittee: On behalf of the National Turfgrass Evaluation Program (NTEP), I appreciate this opportunity to provide the Subcommittee with the turfgrass industry's perspective in support of continuation of the \$55,000 appropriation for the National Turfgrass Evaluation Program (NTEP)



included in the President's fiscal year 2003 budget request for the Agricultural Research Service (ARS). Also, I appreciate the opportunity to present to you the turfgrass industry's need and justification for continuation of the \$490,000 appropriated in the President's fiscal year 2002 budget for the full-time turfgrass scientist position within ARS. In addition, I appreciate the consideration of an additional appropriation of \$3,500,000 for the establishment of a national turfgrass research laboratory, as a part of the national turfgrass research initiative proposed by ARS, with ten new research scientist positions.

*Justification of \$55,000 Appropriation Request for Program Support.*

Once again, NTEP and the turfgrass industry come to the appropriations process to request continuation of the \$55,000 basic program support in the ARS budget for NTEP's activities at Beltsville. We appreciate the Subcommittee's continuation of this amount as in previous fiscal years, and hope that you will agree with us that this request is justified for the ensuing fiscal year.

The National Turfgrass Evaluation Program (NTEP) is unique in that it provides a working partnership that links the Federal Government, turfgrass industry and land grant universities together in their common interest of turfgrass cultivar development, improvement and evaluation. The National Turfgrass Evaluation Program is the primary means by which cultivated varieties of turfgrass are evaluated in this country. It provides unbiased information on turfgrass cultivar adaptations, disease and insect resistance and environmental stress tolerance. The public and private sectors of the turfgrass industry use this information to develop cultivar recommendations for home owners, sod producers, sports turf and parks managers, golf course superintendents and highway vegetation managers.

Our nation's awareness of safety is at an all-time high. Turfgrass provides multiple benefits to society including child safety on athletic fields, environmental protection of groundwater, reduction of silt and other contaminants in runoff, green space in home lawns, parks, golf courses, etc. With the advancements being made to turfgrasses that require less pesticides, water and other inputs as well as other efforts to improve integrated pest management programs, recycling, etc., the USDA has a unique opportunity to take positive action in support of the turfgrass industry. With a minuscule investment of Department funds, in relative terms within USDA's budget, a tremendous return can be gained for society and the turfgrass industry.

While the vast majority of the USDA's funds have been and will continue to be directed toward traditional "food and fiber" segments of U.S. agriculture, it is important to note that turfgrasses (e.g., sod production) are defined as agriculture in the Farm Bill and by many other departments and agencies. Further, it is estimated by the Economic Research Service that the turfgrass industry, in all its forms, is a \$35-40 billion industry. It should also be noted that the turfgrass industry is the fastest growing segment of U.S. agriculture, while it receives essentially no Federal support. There are no subsidy programs for turfgrass, nor are any desired.

For the past 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. Failing to support the National Turfgrass Evaluation Program, would be a tremendous oversight of a major opportunity. USDA's basic support of NTEP at the \$55,000 level does not cover all costs. In fact, NTEP represents an ideal partnership of the public and private sectors in terms of program cost sharing. The NTEP relies most heavily on turfgrass industry (i.e., public sectors, end-users) support. However, it is essential that the USDA maintain its modest financial support and work closely with NTEP. The turfgrass industry relies heavily on NTEP for unbiased information. Discounting this support will also eliminate a highly reliable and credible level of objectivity that is associated with the NTEP program.

*Justification of \$490,000 Appropriation Request for the ARS Scientist Position as well as \$3,500,000 Appropriation Request for the Establishment of a National Turfgrass Research Laboratory*

NTEP and the turfgrass industry are requesting the Subcommittee's support for \$490,000 continuing funding for the full-time scientist staff position at ARS, focusing on turfgrass research, that was appropriated in the fiscal year 2002 budget. We also request that the Subcommittee appropriate an additional \$3,500,000 for establishment of the initial stage of a national turfgrass research laboratory within USDA, ARS, which ARS estimates will be a \$20 million venture over several years of development. This laboratory would address the specific need of collecting, evaluating and enhancing turfgrass germplasm. For this undertaking, we ask that five new scientist positions be created and located at the Beltsville Agricultural Research Center in Beltsville, MD. In addition, we ask that five new scientist positions

be created to conduct watershed-level modeling research on turfgrass and development of management systems to minimize surface runoff and groundwater impacts from turf inputs. These five positions may be located at existing ARS centers of watershed quality/modeling expertise.

Our society is becoming increasingly more urbanized. Currently, turfgrasses impact more than 90 percent of all people in the U.S. through exposure to home lawns, business landscapes, roadsides, parks, or recreational turf on a daily basis. As more and more cropland is converted to houses, office parks, shopping centers, etc., the acreage of turfgrass is increasing exponentially. However, with the increasing urbanization comes a greater demand on resources, such as potable water. Also, with the general public experiencing heightened awareness of the environment and its protection, use of inputs such as fertilizer, pesticides and water on turfgrass areas is coming under greater scrutiny. In some jurisdictions, use of these inputs will either be banned or severely restricted for turfgrass use. In addition, the urbanization of America is leading to an overuse of current recreational facilities such as parks, athletic fields and golf courses. New facilities are being considered or constructed, many on abandoned sites such as landfills, industrial wastelands, gravel pits or mine spoils. Turfgrasses in these areas will play an important role in reclamation vegetation, recreational turf or both.

The USDA needs to initiate and maintain ongoing research on turfgrass development and improvement for the following reasons:

The value of the turfgrass industry in the U.S. is \$35–\$40 billion annually. Turfgrass is the number one or two agricultural crop in value and acreage in many states (i.e. MD, PA, FL, NJ, NC).

As our society becomes and more urbanized, the acreage of turfgrass will increase significantly. Consequently, state and local municipalities will require the utilization of other water sources (i.e. effluent, reclaimed, etc.), reduction of pesticide use and elimination of nutrient runoff from turfgrass. However, demand on recreational facilities will increase while these facilities, for safety reasons, will still be required to provide safe, attractive athletic fields, parks and grounds.

Private and university research programs are working to develop improved turfgrasses, but they do not have the time nor resources to identify completely new sources of beneficial genes in commonly used species or the usefulness of potential new species. In addition, new plant materials collected by these institutions most often are not placed in the National Plant Germplasm System for use by all interested parties. Additionally, long-term research to identify and transfer desirable genes from other species (turfgrass or other crop species) is not being undertaken by public and private interests. ARS scientists working with turfgrass will enhance the ongoing research and development currently underway within the public and private sectors of the turfgrass industry.

Water management is a key component of healthy turf and has direct impact on nutrient and pesticide losses into the environment. New and improved technologies are needed to monitor turf stresses and to schedule irrigation to achieve the desired turf quality. Increasing demands and competition for potable water make it necessary to use water more efficiently for turf irrigation. Technologies are needed to more efficiently and uniformly apply irrigations to achieve desired turf quality for the intended use. Also, there is greater competition for potable water. Therefore, to increase water availability for turf irrigation, waste water (treated and untreated) from both animal and municipal sources as well as from food processing plants must be utilized. Some of these waste waters contain contaminants such as pathogens, heavy metals, and organic compounds. consequently, movement and accumulation of these contaminants in the atmosphere, soil profile, and ground water must be determined.

USDA conducted significant turfgrass research from 1920–1988. However, since 1988, no full-time scientist has been employed by USDA, Agricultural Research Service (ARS) to conduct turfgrass research specifically.

Research on florist, nursery and ornamental crops is significant within USDA, industries with far less public and commercial value than turfgrass.

A new turfgrass research scientist position within USDA, ARS was created by Congress in the fiscal year 2001 budget. Accordingly, in January 2001, the turfgrass industry met with USDA, ARS officials to discuss the position description, hiring process, facilities needed, etc. for the new position. ARS welcomed the new position but felt strongly that just one person working in turfgrass research would be ineffective in addressing the needs and concerns of the industry. Therefore, in January 2002, ARS held a customer workshop to gain valuable input from turfgrass researchers, golf course superintendents, sod producers, lawn care operators, athletic field managers and others on the research needs of the turfgrass industry. As a result of the workshop, ARS is developing and proposing a national strategy to ad-

dress the specific needs and concerns within the turfgrass industry. The highlights of this strategy are below:

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. Turf Germplasm, Genetics, and Genomics*

*Rationale.*—Grasses that better resist diseases, insects, drought, traffic, etc. are deparately needed. Also, a better understanding of the basic biology of turfgrass species is essential.

*Component II. Soil Management for Turf*

*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 III. Turf Water Supply and Use*

*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 IV. Turf Pest Control and Management*

*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 V. Environmental Aspects of Turf*

*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 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.

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/genomics and water quality/use as their top priority areas for ARS research, for fiscal year 2003, the turfgrass industry requests that the following units be established within USDA, ARS:

A turfgrass genomics unit (five new positions) to conduct the following research:

—*Plant Germplasm Collection and Evaluation.*—The new position created in the fiscal year 2001 budget will fulfill these duties.

—*Genomics/Genetics Studies.*—A molecular geneticist or cytogeneticist to better understand the genomics of various turfgrass species, collected wild germplasm and their evolution.

—*Transfer of Desirable Genes.*—A molecular geneticist to identify desirable genes and how they may be transferred to current turfgrass species.

—*Evaluation and Enhancement of Genetically Altered Grasses.*—A turfgrass breeder to evaluate and enhance the genetically altered plants from the program.

—*Turfgrass Entomology.*—An entomologist to identify insect resistant germplasm and evaluate promising new species and potential releases.

—*Turfgrass Pathology.*—A pathologist to identify disease resistant germplasm and evaluate promising new species and potential releases.

A turfgrass water quality/systems unit (five new positions) to conduct the following research:

—*Watershed Modeling.*—To first conduct watershed modeling of existing turf systems on a regional basis. This research is essential to document the contribution of turf to the overall quality of surface and groundwater in the U.S.

—*Management Systems.*—This unit also needs to conduct research on management systems designed to reduce/eliminating any runoff and groundwater contamination from turf inputs.

In conclusion, on behalf of the National Turfgrass Evaluation Program and the turfgrass industry across America, I respectfully request that the Subcommittee continue the vital \$55,000 appropriation for the National Turfgrass Evaluation Program (NTEP) as well as the \$490,000 appropriated in fiscal year 2002 for the new turfgrass scientist position within the Agricultural Research Service. I also request that the Subcommittee appropriate an additional \$3,500,000 for the establishment of a turfgrass genetics/genomics unit and a turfgrass water quality/systems unit within USDA, ARS.

Thank you very much for your assistance and support.

#### PREPARED STATEMENT OF THE NATIONAL WATERSHED COALITION

Mr. Chairman and Members of the Subcommittee: Mr. Chairman and members of the Subcommittee, I am Larry Smith from Berkeley Springs, West Virginia, and I am pleased to represent the National Watershed Coalition (NWC) as its Chairman. The National Watershed Coalition is privileged to present this testimony in support of the most beneficial water resource conservation programs ever developed in the United States. The Coalition recognizes full well the need to use our tax dollars wisely. That makes the work of this Subcommittee very important. It also makes it imperative that the Federal programs we continue, are those that provide real benefit to society, and are not programs that would be nice to have if funds were unlimited. We believe the Watershed Program (Public Law 83-566) and the Flood Prevention Operations Program (Public Law 78-534) are examples of those rare programs that address our nation's vital natural resources which are critical to our very survival, do so in a way that provide benefits in excess of costs, and are programs that serve as models for the way all Federal programs should work. The President's proposed budget, which would eliminate these most beneficial programs, is illogical and completely unacceptable to watershed project sponsors throughout the United States.

#### GENERAL WATERSHED PROGRAM OBSERVATIONS

The watershed as the logical unit for dealing with natural resource problems has long been recognized. Public Law 566 offers a complete watershed management approach, and should have a prominent place in our current Federal policy emphasizing watersheds and total resource management based planning. Proper watershed management improves water quality. Why should the Federal Government be involved with these watershed programs?

- They are programs whose objectives are the sustaining of our nation's precious natural resources for generations to come.
- They are not Federal, but Federally assisted, locally sponsored and owned. They do not represent the continued growth of the Federal Government.
- They are locally initiated and driven. Decisions are made by people affected, and respect private property rights.
- They share costs between the Federal Government and local people. Local sponsors pay between 30-40 percent of the total costs of Public Law 566 projects.
- They produce net benefits to society. The most recent program evaluation demonstrated the actual ratio of benefits to costs was approximately 2.2:1. The actual adjusted economic benefits exceeded the planned benefits by 34 percent. How many other Federal programs do so well?
- They consider and enhance environmental values. Projects are subject to the discipline of being planned following the National Environmental Policy Act (NEPA), and the Federal "Principles and Guidelines" for land and water projects. That is public scrutiny!
- They are flexible programs that can adapt to changing needs and priorities. Objectives that can be addressed are flood damage reduction, watershed protection (erosion and sediment control), water quality improvement, rural water supply, water conservation, fish and wildlife habitat improvement, recreation, irrigation and water management, etc. That is flexibility emphasizing multiple uses.
- They are programs that encourage all citizens to participate.
- They can address the needs of low income and minority communities.
- They are targeted to address the most serious resource problems.
- And best of all—they are programs the people like!

The National Watershed Coalition is concerned with the Administration's lack of support for these watershed programs, and trusts your support will cause the out-

come of the fiscal year 2003 appropriations process will enable this vital work to continue and expand as we seek to preserve, protect and better manage our nation's water and land resources. Every State in the United States has benefited from the Small Watershed Program.

NATIONAL WATERSHED COALITION USDA WATER RESOURCE PROGRAM BUDGET  
RECOMMENDATIONS

*Watershed and Flood Prevention Operations*

In order to continue this high priority work in partnership with states and local governments, the Coalition recommends a fiscal year 2003 funding level of \$170 million for Watersheds and Flood Prevention Operations, Public Law 83-566 and Public Law 78-534. The current unfunded Federal commitment for this program is currently over \$1.4 billion.

We recommend that \$30 million of this amount be for Public Law 78-534 projects. For some years now, the Federal budget has eliminated the separate line items for the Public Law 534 and Public Law 566 watershed projects, and just lumped a total figure under Public Law 566 with a note that some amount "may be available" for Public Law 534 projects. This is an entirely unsatisfactory way of doing business. Public Law 534 still exists in law; it has not been repealed. It should be funded as a separate program. This tactic is unfair to both Public Law 566 and Public Law 534. We ask that the Public Law 534 projects be funded at \$30,000,000.00, and that it be separate from Public Law 566. These are two distinct authorities that should not be confused. The current situation really penalizes both Public Law 534 and 566, as 534 has no funds at the outset, and in order to provide a little something to the Public Law 534 watershed projects, NRCS has to take money from the Public Law 566 accounts which are already very underfunded. Please restore funding for Public Law 534 watershed projects to \$30 million in fiscal year 2003.

The \$170 million request represents the actual amount watershed project sponsors across the country have indicated they can use now for projects ready for installation. It is a real, documented need.

*Watershed Surveys and Planning*

We recommend that watershed surveys and planning be funded at \$20 million. Watershed sponsors throughout the country have indicated a need for \$35 million for surveys and planning, however the National Watershed Coalition believes the \$20 million amount is a more reasonable request when all national water resource priorities are considered.

*Watershed Rehabilitation*

We also suggest that \$25 million be used for structural rehabilitation and replacement, in accordance with Public Law 106-472, the Small watershed Rehabilitation Amendments of 2000, passed by the Congress and signed into law on November 9th, 2000, and that another \$5 million be available for a thorough assessment of rehabilitation needs. The condition of our nation's dams, and the need for watershed structure rehabilitation, is a national priority. We are very disappointed to see the Administration's proposed budget apparently doesn't believe it is a national priority to protect the lives of America's citizens. Congress has indicated it is with passage of Public Law 106-472.

The issue of the current condition of those improvements constructed over the last 50 years with these watershed programs is a matter of great concern. Many of the nearly 11,000 dams that NRCS assisted sponsors build throughout the United States no longer meet current dam safety standards largely as a result of development, and need to be upgraded to current standards. A USDA study published in 1991 estimated that in the next 10 years, \$590 million would be needed to protect the installed works. Of that amount, \$100 million would come from local sponsors as their operation and maintenance contributions. NRCS also conducted a more recent survey, and in just 22 states, about \$540 million in rehabilitation needs were identified. We are recommending starting with \$30 million (\$25 million for rehabilitation work and \$5 million to start a more precise assessment of needs) for the work necessary to protect these installed structures, and commend Congress for their leadership in passing Public Law 106-472. Watershed project sponsors throughout the U.S. appreciate your leadership on this vital issue. We now have the authorization, and need the appropriations. If we don't start to pay attention to our rural infrastructure needs, the ultimate cost to society will only increase, and project benefits will be lost. This is a serious national issue. Since most of these structures were constructed in the 1950's, 60's, and 70's, and were originally designed for a 50-year life, it is apparent we need to look at their current condition. If we do the rehabilitation work to bring these older structures up to current health and safety standards,

they will continue to provide benefits far into the future. We are appalled that the Administration's budget would eliminate this work. Elimination is not acceptable to watershed project sponsors.

*Emergency Watershed Protection (EWP)*

We also suggest \$20 million be provided for the Emergency Watershed Protection (EWP) program. This would allow NRCS to start providing disaster planning and survey assistance in a timely manner while supplemental natural disaster appropriation bills are being considered. These funds should not be taken from watershed protection and flood prevention, or the watershed surveys and planning accounts.

*Watershed Research and Development*

There is also a research and development (R&D) need as we get the structural rehabilitation process underway. In USDA, that work is undertaken by the Agricultural Research Service (ARS). That need is estimated at \$2.0 million, and we ask that it be included in the ARS budget. It would be used for evaluation of upstream and downstream changes to the stream channel systems in cases of decommissioning, evaluation of the water quality impact of stored sediment releases, and the evaluation of impacts of the loss of flood protection, among other things.

People should understand these funds are only a part of the total that is committed to this vital national, conservation purpose. The local project sponsors in these "federally assisted" endeavors have a tremendous investment also. Congress increasingly talks of wanting to fund those investments in our nation's infrastructure that will sustain us in the future. Yet past budgets have regularly cut funding for the best of these programs. This makes absolutely no sense! We can't seem to invest and re-invest in our vital watershed infrastructure. That is simply unconscionable. Isn't water quality and watershed management a national priority? We believe it is.

*The President's Budget Proposals*

While we have mentioned it in this testimony, we would like to once again express our dismay with the Administration's budget proposals to eliminate all watershed program funding in fiscal year 2003. The President's budget was released February 4th, and since then sponsors from all across the U.S. have told us these proposals are unacceptable. Once again we are disappointed with what appears to us to be a lack of Administration commitment for these very beneficial conservation programs. The Administration needs to recognize watershed natural resources conservation as a high national priority, as you do. It's only common sense.

The Coalition appreciates the opportunity to offer these comments regarding fiscal year 2003 funding for the water resource programs administered by USDA's Natural Resources Conservation Service (NRCS). With the "downsizing" the NRCS has experienced, we would be remiss if we did not again express some concern as to their ability to provide adequate technical support in these watershed program areas. NRCS technical staff has been significantly reduced and budget constraints have not allowed that expertise to be replaced. Traditional fields of engineering and economics are but two examples. We see many states where NRCS capability to support their responsibilities is seriously diminished. This is a disturbing trend that needs to be halted. This downsizing has a very serious effect on state and local conservation programs. Local Watershed and Conservation Districts and the NRCS combine to make a very effective delivery system for providing the technical assistance to local people—farmers, ranchers and rural communities—in applying needed conservation practices. But that delivery system is currently very strained! Many states and local units of government also have complementary programs that provide financial assistance to land owners and operators for installing measures that reduce erosion, improve water quality, and maintain environmental quality. The NRCS provides, through agreement with the USDA Secretary of Agriculture, "on the land" technical assistance for applying these measures. The delivery system currently is in place, and by downsizing NRCS, we are eroding the most effective and efficient coordinated means of working with local people to solve environmental problems that has ever been developed. Our system and its ability to produce food and fiber is the envy of the entire world. In our view, these programs are the most important in terms of national priorities.

We continue to be disappointed that the subcommittee no longer has a practice of accepting oral testimony from organizations such as the National Watershed Coalition. When we were allowed to make an oral presentation in the House, we were able to talk to subcommittee members who could ask us questions. It was a chance for them to actually talk with people doing the work on the land. That personal contact in both houses is now missing, and it would be easy to think that our written

testimony may not be seriously considered. We hope you will reconsider this practice in future years, and again allow oral testimony.

The Coalition pledges its full support to you as you continue your most important work. Our Executive Director, Mr. John W. Peterson, who has over 40 years experience in natural resource watershed conservation, is located in the Washington, DC area, and would be pleased to serve as a resource as needed. John's address is 9304 Lundy Court, Burke, VA 22015-3431, phone 703-455-6886 or 4387, Fax; 703-455-6888, email; jwpeterson@erols.com.

Thank you for allowing the National Watershed Coalition (NWC) this opportunity.

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PREPARED STATEMENT OF THE NEZ PERCE TRIBE

The Nez Perce Tribe requests the following funding amounts for fiscal year 2003, which are specific to the Nez Perce Tribe: \$228,708 through the United States Department of Agriculture, Animal and Plant Health Inspection Service for the biological control of noxious weeds for implementation, monitoring, and education.

The Tribe urges support for the full and adequate funding of tribal programs through the Department of Agriculture fiscal year 2003 budget, with the specific request discussed below.

*Nez Perce Tribe Biological Control Center Funding: USDA, \$228,708*

The Nez Perce Tribe established the Bio-Control Center in 1999 thanks to grant funds from the USDA-Business Cooperative Services program. Since its inception, the Center has developed partnerships and networks to coordinate the biological control of weeds through the State of Idaho and worked collaboratively with the USDA to develop and implement monitoring protocols. The Center has been instrumental in providing biological control agent releases and monitoring under contractual agreements with private landowners and state and Federal agencies throughout the region. In coordination with the University of Idaho, the USDA-APHIS Plant Protection and Quarantine staff in Idaho, Oregon, Montana, and Washington, and the ARS Western Regional Research Unit, the Center has established biocontrol organism nurseries, distributed biocontrol organisms, and has monitored the results to biocontrol on targeted weed infestations. The Center is also an active participant in several Cooperative Weed Management Areas within Idaho.

The biological control of weeds uses the weeds' natural enemies to reduce the weeds' ability to compete with the desired vegetation. Biological control techniques have been used in the West since 1940 to reduce weed density on range and wildlands where cultural and chemical control methods are not economically feasible or practical. This allocation would enable the Tribe to continue to rear and provide biological control organisms to private and public entities at no cost, to monitor the impacts, develop technology transfer materials, and host seminars and other educational programs for all interested parties.

For fiscal year 2003, the Nez Perce Tribe requests that Congress earmark \$228,708 from the USDA Animal Plant Health Inspection Service to continue the Biocontrol Center's efforts to establish nurseries to increase biological control availability, distribute biological control organisms throughout weed infestation areas, monitor the impacts, and provide annual technology transfer seminars to Cooperative Weed Management Area partners. This program will be developed in coordination with USDA, local universities, and regional experts.

Biological control offers long-term solutions to the management of invasive weeds through the West. As biological control organisms reduce the weeds' competitive edge over desirable and native vegetation, both tribal and non-tribal users of the region's wildland resources will benefit and become more aware of the advantages of a biological weed control approach.

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PREPARED STATEMENT OF THE NEW JERSEY AQUACULTURE ASSOCIATION

Mr. Chairman and members of the Subcommittee: The New Jersey Aquaculture Association membership represents about fifty individuals and companies that are engaged in a variety of aquaculture activities, ranging from shellfish, ornamentals and finfish production to research and technical assistance for the producer community. I have personally been involved in aquaculture initiatives for over forty years in applied research, technology development and as a small scale producer of shellfish. I have participated in the evolution of the Northeastern Regional Aquaculture Center since its inception, having served on its Board of Directors and Executive Committee as an industry advocate for server terms. My origin in the research community, a close liaison with governmental resource management agencies and a long

and intimate association with commercial aquaculturists in America and in Europe have fostered a perspective in this field which is somewhat broader than that of most observers. The operational strategy of the RAC system incorporates formulating and executing research, development and extension projects. I am convinced that this is probably the most cost-effective approach to increasing our aquaculture production capacity. I have seen this strategy applied successfully in implementing many of the projects supported by the NRAC.

It is clear that yields from the wild fisheries have reached a plateau, and in many cases are in decline; however, the demand for fisheries products continues to expand and will soon greatly exceed the productivity of wild populations. Aquaculture is an obvious means to satisfy the impeding production deficit. Other countries, having long since recognized that reality of this vexing shortfall, have taken the initiative to develop a strong aquaculture industry. The majority of research that originates within the academic community, though scientifically valid, seldom addresses the immediate technical problems of the aquaculturist. The RAC approach, by virtue of the program's mission, is ideally suited to selecting and funding the types of research and development projects that are critical to successfully meeting the goal of increasing levels of aquaculture productivity.

There is a considerable potential for benefits to accrue from a relatively small investment dedicated to increasing aquaculture production, as envisioned and fostered by the RAC program. These benefits will have substantial positive impact, not only for the industry, but for the consumer, for auxiliary businesses and for society in general. Therefore, we request that your committee give careful consideration to adequate support for this program and recommend to Congress that it provide funding at the level authorized in the Food Security Act of 1985.

#### 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 commercial harvests costs which will assist the tribes in fulfilling the 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.

Clams, crab, oysters, shrimp, and many other species were readily available year round. The relative ease with which large amounts could be harvested, cured, and stored for later consumption made shellfish an important source of nutrition second



only in importance to salmon. Shellfish remain important for subsistence, economic, and ceremonial purposes. With the rapid decline of many salmon stocks, due to habitat loss from western Washington's unrelenting populous growth, shellfish harvesting has become a major factor in tribal economies.

The tribes have used shellfish in trade with the non-Indian population since the first white settlers came into the region a century and a half ago. Newspaper accounts from the earliest days of the Washington Territory tell of Indians selling or trading fresh shellfish with settlers. Shellfish harvested by members of western Washington's Indian tribes is highly sought after throughout the United States and the Far East. Tribal representatives have gone on trade missions to China and other Pacific Rim nations where Pacific Northwest shellfish particularly geoduck is in great demand. Trade with the Far East is growing in importance as the tribes struggle to achieve financial security through a natural resources-based economy.

Treaty language pertaining to tribal shellfish harvesting included this section:

"The right of taking fish at usual and accustomed grounds and stations is further secured to said Indians, in common with all citizens of the United States; and of erecting temporary houses for the purposes of curing; together with the privilege of hunting and gathering roots and berries on open and unclaimed lands. Provided, however, that they not take shell-fish from any beds staked or cultivated by citizens."

(TREATY WITH THE S'KLALLAM, JANUARY 26, 1855)

In exchange for the peaceful settlement of what is today most of western Washington, the tribes reserved the right to continue to harvest finfish and shellfish at all of their usual and accustomed grounds and stations. The tribes were specifically excluded from harvesting shellfish from areas "staked or cultivated" by non-Indian citizens.

Tribal efforts to have the Federal Government's treaty promises kept began in the first years of the 20th Century when the United States Supreme Court ruled in *U.S. v. Winans*, that where a treaty reserves the right to fish at all usual and accustomed places, a state may not preclude tribal access to those places.

Sixty years later, the tribes were again preparing for battle in court. After many years of harassment, beatings and arrests for exercising their treaty-reserved rights, western Washington tribes took the State of Washington to Federal court to have their rights legally re-affirmed. In 1974, U.S. District Court Judge George Boldt ruled that the tribes had reserved the right to half of the harvestable salmon and steelhead in western Washington.

The "Boldt Decision," which was upheld by the U.S. Supreme Court, also re-established the tribes as co-managers of the salmon and steelhead resources in western Washington.

As a result of this ruling, the tribes became responsible for establishing fishing seasons, setting harvest limits, and enforcing tribal fishing regulations. Professional biological staffs, enforcement officers, and managerial staff were assembled to ensure orderly, biologically-sound fisheries.

Beginning in the late 1970s, tribal and state staff worked together to develop comprehensive fisheries that ensured harvest opportunities for Indian and non-Indian alike, and also preserved the resource for generations to come.

It was within this new atmosphere of cooperative management that the tribes sought to restore their treaty-reserved rights to manage and harvest shellfish from all usual and accustomed areas. Talks with their state counterparts began in the mid-1980s, but were unsuccessful. The tribes filed suit in Federal court in May 1989 to have their shellfish harvest rights restored.

The filing of the lawsuit brought about years of additional negotiations between the tribes and the state. Despite many serious attempts at reaching a negotiated settlement, the issue went to trial in May 1994.

In 1994, District Court Judge Edward Rafeedie upheld the right of the treaty tribes to harvest 50 percent of all shellfish species in their Usual and Accustomed fishing areas. Judge Rafeedie also ordered a shellfish Management Implementation Plan that governs tribal/state co-management activities.

After a number of appeals, the U.S. 9th Circuit Court of Appeals let stand Rafeedie's ruling in 1998. Finally, in June 1999, the U.S. Supreme Court denied review of the District court ruling, effectively confirming the treaty shellfish harvest right.

*Assist the tribes in fulfilling the demands for their shellfish products, \$500,000*

Shellfish harvested by members of Western Washington's Indian tribes is highly sought after throughout the United States and the Far East. We request \$500,000

which will assist Tribes in promoting our shellfish products, in both domestic and international markets. We are now at a point in time when telecommunicating is both cost effective and timely when marketing products. Tribal fishers are not capable of supporting such an effort individually, but, could collectively benefit if such a network could be developed through the Northwest Indian Fisheries Commission and the Northwest Indian College in Bellingham, Washington. This institution is capable of providing the technology needed to implement such a marketing program for Tribal shellfish products.

*Water and pollution sampling, sampling and research for paralytic shellfish poisoning and coordination of research projects with State 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 also is necessary to ensure 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.

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 2003 loan levels for the telecommunications loans program and Rural Telephone Bank (RTB) program administered by the Rural Utilities Service (RUS) in the following amounts:

	[In millions of dollars]	
5 percent hardship loans .....		75
Treasury rate loans .....		300
Guaranteed loans .....		120
RTB loans .....		175

In addition, OPASTCO requests the following action by the Subcommittee: (1) removal of the statutory 7 percent cap on Treasury rate loans for fiscal year 2003; (2) removal of previous appropriations act language limiting the retirement of Class A stock of the RTB to 5 percent; (3) a prohibition on the transfer of unobligated RTB funds to the general fund of the Treasury; and (4) funding of the distance learning/telemedicine and broadband grant and loan programs at sufficient levels.

*General*

OPASTCO is a national trade association of more than 500 small telecommunications carriers serving rural areas of the United States. Its members, which include both commercial companies and cooperatives, together serve over 2.5 million customers in 42 states. Approximately half of OPASTCO's members are RUS or RTB borrowers.

Perhaps at no time since the inception of the RUS (formerly the REA) has the telecommunications loans and RTB programs been so vital to the future of rural America. The telecommunications industry is at a crossroads, both in terms of technology and public policy. Rapid advances in telecommunications technology in recent years have already begun to deliver on the promise of a new "information age." The Federal Communications Commission's (FCC) ongoing implementation of the landmark Telecommunications Act of 1996, as well as modernization resulting from prior statutory changes to RUS's lending program, will expedite this transformation. In addition, both Federal and State policymakers have made deployment of advanced telecommunications services a top priority. However, without continued support of the telecommunications loans and RTB programs, rural telephone companies will be hard pressed to build the infrastructure necessary to bring their communities into this new age, creating a bifurcated society of information "haves" and "have-nots."

Contrary to the belief of some critics, RUS's job is not finished. Actually, in a sense, it has just begun. We have entered a time when advanced services and technology—such as broadband fiber optics, high-speed packet and digital switching equipment, and digital subscriber line technology—are expected by customers in all areas of the country, both urban and rural. Unfortunately, the inherently higher costs of upgrading rural wireline networks, both for voice and data communications, has not abated.

Rural telecommunications continues to be more capital intensive and involves fewer paying customers than its urban counterpart. Nationally, the population density in areas served by rural carriers is only about 13 persons per square mile. This compares to a national average population density of 105 persons per square mile in areas served by non-rural carriers. The FCC's most recent report on the deployment of advanced telecommunications capability noted that a positive correlation persists between population density and the presence of subscribers to high-speed services. Indeed, the report stated that high-speed subscribers were reported in 97 percent of the most densely populated zip codes but in only 49 percent of the zip codes with the lowest population densities. In order for rural telephone companies to modernize their networks and provide their customers with advanced services at reasonable rates, they must have access to reliable low-cost financing.

The relative isolation of rural areas increases the value of telecommunications services for these citizens. Telecommunications enables applications such as high-speed Internet connectivity, distance learning, and telemedicine that can alleviate or eliminate some rural disadvantages. A modern telecommunications infrastructure can also make rural areas attractive for some businesses and result in revitalization of the rural economy. For example, businesses such as telemarketing and tourism can thrive in rural areas, and telecommuting can become a realistic employment option.

While it has been said many times before, it bears repeating that RUS's telecommunications loans and RTB programs are not grant programs. The funds loaned by RUS are used to leverage substantial private capital, creating public/private partnerships. For a very small cost, the government is encouraging tremendous amounts of private investment in rural telecommunications infrastructure.

Most importantly, the programs are tremendously successful. Borrowers actually build the infrastructure and the government gets paid back with interest. There has never been a default in the history of the telecommunications lending programs.

*The Telecommunications Act of 1996 has heightened the need for the telecommunications loans and RTB programs*

The FCC's implementation of the Telecommunications Act of 1996 will only increase rural telecommunications carriers' need for RUS assistance in the future. The forward-looking Act defines universal service as an evolving level of telecommunications services that the FCC must establish periodically, taking into account advances in telecommunications and information technologies and services. As anticipated, in August 2001, the Federal-State Joint Board on Universal Service sought comment on its review of the services supported by the universal service mechanism. RUS has an essential role to play in the implementation of the law, as it will compliment support mechanisms established by the FCC and enable rural America

to move closer to achieving the federally mandated goal of rural/urban service and rate comparability.

*A \$75 million loan level should be maintained for the 5 percent hardship loan program*

One of the most vital components of RUS's telecommunications loans program is the 5 percent hardship loan program. These loans are referred to as hardship loans for good reason: They provide below-Treasury rate financing to telephone companies serving some of the most sparsely populated, highest cost areas in the country. The commitment these companies have to providing modern telecommunications service to everyone in their communities has made our nation's policy of universal service a reality and, in many cases, would not have been possible without RUS's hardship loan program. Companies applying for hardship loans must meet a stringent set of eligibility requirements and the projects to be financed are rated on a point system to ensure that the loans are targeted to the most needy and deserving. In fiscal year 2002, the government subsidy needed to support a \$75 million loan level was only \$1.74 million. Given the necessity of this indispensable program, it is critical that the loan level be maintained at \$75 million for fiscal year 2003.

*Removal of the 7 percent cap on Treasury rate loans should be continued*

With regard to RUS's Treasury rate loan program, OPASTCO supports the removal of the 7 percent ceiling on these loans for fiscal year 2003. This Subcommittee appropriately supported language in the fiscal year 1996 Agriculture Appropriations Act to permit Treasury rate loans to exceed the 7 percent per year ceiling contained in the authorizing act. The language has been continued in each subsequent year. Were long-term interest rates to exceed 7 percent, adequate subsidy would not be available to support the Treasury rate loan program at the authorized levels. Accordingly, OPASTCO supports the continuation of this language in the fiscal year 2003 appropriations bill in order to prevent potential disruption to this important program.

*A \$175 million loan level should be maintained for the rtb program*

As previously discussed, the RTB's mission has not been completed as rural carriers continue to rely on this important source of supplemental financing in order to provide their communities with access to the next generation of telecommunications services. In fiscal year 2002, the government subsidy necessary to fund a \$175 million loan level was only \$3.74 million, or 2.14 percent of the capital that the program generates. The ongoing need for the RTB program makes it essential that a \$175 million loan level be maintained for fiscal year 2003.

*The 5 percent limitation on the amount of class a stock of the RTB that can be retired should be removed*

OPASTCO believes it would be appropriate to remove or change the language contained in previous agriculture appropriations acts restricting the retirement of Class A stock of the RTB to 5 percent. This restriction is an impediment to the timely privatization of the RTB, as envisioned by the Rural Electrification Act of 1936. OPASTCO further suggests that Congress, the Administration, and the RTB Board of Directors develop a schedule and plan for privatizing the bank in a timely manner. OPASTCO believes that the timely privatization of the RTB is of great importance to rural telecommunications carriers as they seek to upgrade their networks for the provision of advanced services to their customers.

*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 the language introduced in the fiscal year 1997 Agriculture Appropriations Act, and continued in the years following, 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. Once all loans are completely repaid, a borrower may then convert its Class B stock into Class C stock. 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 2003 appropriations bill will ensure that RTB borrowers are not stripped of the value of this required investment.

*The distance learning/telemedicine and broadband programs should continue to be funded at adequate levels*

In addition to RUS's telecommunications loans and RTB programs, OPASTCO supports adequate funding of the distance learning /telemedicine and broadband grant and loan programs. Through distance learning, rural students gain access to advanced classes which will help them prepare for college and jobs of the future. Telemedicine provides rural residents with access to quality health care services without traveling great distances to urban hospitals. In addition, by continuing the pilot broadband program, more rural communities will gain access to the Internet and other enhanced services. Loans are made at the government's cost-of-money, which should help to meet demand for the programs in the most cost effective way. 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 2003.

#### 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 PUBLIC CITIZEN'S CRITICAL MASS ENERGY AND ENVIRONMENT PROGRAM

Chairman Kohl, Ranking Member Cochran and members of the Subcommittee. My name is Wenonah Hauter and I am Director of Public Citizen's Critical Mass Energy and Environment Program. Public Citizen is a consumer organization that was founded by Ralph Nader. We currently have some 150,000 members.

As you know, Title VI of H. Rept. 107-225, the Conference Committee Report that accompanied the fiscal year 2002 Agriculture, Rural Development, Food and Drug Administration and Related Agencies Appropriations Bill, directed the Food and Drug Administration (FDA) to report to the House and Senate Appropriations Committees the "outcome of recent focus groups regarding the labeling of irradiated food products and to report on how the results will be integrated into future rulemaking decisions."

For the past 5 years, there have been efforts by irradiation proponents to weaken the labeling requirements for foods that have been irradiated. At the present time, FDA regulations require that most foods that are irradiated display the radura—the international symbol for irradiation—and the disclosure "treated by irradiation" or "treated with radiation." There have been some in the food irradiation industry who have tried to convince the FDA that it should be permissible to call irradiation either "cold pasteurization" or "electronic pasteurization."

In 1999, the FDA issued an advanced notice for rule-making that called for public comments on proposed changes to the labeling regulations for irradiated foods. The proposed changes would have permitted the phrases "cold pasteurization" and "electronic pasteurization" to be used in place of the term "irradiation."

The agency received over 20,000 comments, 98.2 percent of which opposed changing the current labeling requirements for irradiated foods.

At the request of Congress in the fiscal year 2001 Agriculture-FDA Appropriations Bill, the FDA was directed to revisit the issue. In response to that congressional directive, the FDA impaneled six focus groups of consumers in Calverton, Maryland; Minneapolis, Minnesota; and Sacramento, California during the summer of 2001. Public Citizen and the Center for Food Safety were permitted to send observers to watch the focus group deliberations at all three locations, as was the food irradiation industry. What was remarkable about all of the focus groups was the fact that the consumers who participated in them were unanimous in their opinion—the word "pasteurization" has no business being included in the labeling used to describe irradiated food. This feeling on the part of consumers did not change even after the FDA altered its script to make the association between pasteurization and irradiation stronger.

Since Public Citizen and the Center for Food Safety were able to secure copies of most of the transcripts from these proceedings, we distributed a summary to each member of the Subcommittee back in January of this year.

I would like to convey to you some of the comments that focus group participants made about using “pasteurization” to label irradiated foods:

- “That’s deceitful.”
- “Pasteurization is not going to translate in anybody’s mind to irradiation.”
- “I think it’s nasty trying to mask this.”
- “The choice between ‘treated by cold pasteurization’ and ‘treated by cold pasteurization (radiation)’ is a difference between a lie and bad lie.”
- “I think it’s totally unbelievable. It’s, it has the potential to make people worry about pasteurization, rather than making them feel good about irradiation.”
- “It’s an oxymoron. You can’t heat something up and it be cold.”
- “Because they’re trying to fool you. Pasteurization has nothing to do with irradiation.”
- “They’re pulling the wool over your eyes.”

Associate FDA Commissioner Lester Crawford, when testifying before the House Subcommittee on Agriculture, Rural Development, Food and Drug Administration and Related Agencies Appropriations on March 21, 2002, stated that consumers viewed any attempt to supplant the term “irradiation” with “pasteurization” as a “. . . ruse to conceal the fact.”

Public Citizen has also conducted public opinion research on this issue. In January 2002, we polled 1000 consumers in a national public opinion survey conducted by Lake, Snell, Perry and Associates. We asked consumers two questions on food irradiation labeling.<sup>1</sup>

Overwhelmingly, consumers favored irradiated foods to be labeled. Nearly three-quarters of the respondents (73.4 percent) favored such labeling. This seemed to be especially important to working women (80 percent), homemakers (81 percent), and women with children living at home (82 percent).

On the issue of what to call irradiated foods, consumers overwhelmingly rejected those terms that used “pasteurization” in the description: 16.4 percent of the respondents favored “electronic pasteurization”; 12.5 percent favored “cold pasteurization”; 47.1 percent preferred “irradiation”; 5.7 percent did not like any of the choices presented them; 18.3 percent were not sure. Again, working women (54 percent), homemakers (50 percent) and women with children (57 percent) were more likely to favor clear and unambiguous labeling that called the process “irradiation.”

These poll results corroborate those from a public opinion survey conducted by the Center for Science in the Public Interest (CSPI) in 1999 when only about a quarter of the respondents favored describing irradiation as either “cold pasteurization” or “electronic pasteurization.”

In a related matter, Public Citizen requested a clarification from the Food Safety and Inspection Service (FSIS) of the United States Department of Agriculture (USDA) about a claim made by an irradiation firm—the SureBeam Corporation of San Diego, California—that it had secured permission from the USDA to describe its process as a form of pasteurization. We received correspondence from Philip Derfler, Deputy Administrator for the Office of Policy, Program Development and Evaluation at FSIS who stated:

“The Food Safety and Inspection Service (FSIS) has no information as to whether the SureBeam Corporation irradiation equipment is capable of pasteurizing meat and poultry products. . . . (N)either SureBeam nor any other firm has yet presented FSIS with data proving that their irradiated meat and poultry products are, in fact, ‘pasteurized.’ Additionally, neither Surebeam (sic) nor any other firms has yet presented FSIS with labeling bearing the term ‘pasteurized’ that was not viewed as misleading.”<sup>2</sup>

We believe that the FDA has received enough guidance on this issue and it should leave the current labeling regulations for irradiated food in place. All of the recent consumer data collected on this issue in addition to the professional opinion rendered by those responsible for administering our food safety laws clearly indicate

<sup>1</sup> Question 1. Do you favor or oppose requiring food be labeled to indicate whether it has been irradiated? (If favor/oppose) Is that strongly (favor/oppose) or not so strongly (favor/oppose)?

<sup>2</sup> Question 2. Irradiation is a process of exposing food to radiation to kill bacteria. The government and the food industry have proposed various terms for use in the labeling of irradiated foods. Which do you think should be used:—treated with electronic pasteurization,—treated with cold pasteurization, or—treated by irradiation? (choices were rotated).

Letter from Philip Derfler to Tony Corbo, Public Citizen, dated September 29, 2001.

that weakening the current labeling requirements for irradiated foods is not good public policy.

I thank the Subcommittee for this opportunity to share our views on this very important consumer issue.

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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.

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 since the 11 September terrorist attack we have had to re-evaluate our national priorities; however, we cannot sacrifice what has been accomplished. 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. We strongly believe that this national program must be preserved.

The President's fiscal year 2003 budget for NRCS indicates an increase of \$75.4 million from fiscal year 2002. In reality NRCS actually took a major decrease in program funding and staff years. Fiscal year 2003 is the first year additional administrative overhead burdens, totaling \$145 million, were directed to be absorbed by the agency. This increase in overhead, from within the agency's Conservation Operation Account, provides for less funding for technical assistance to land owners. Even worse, the Administration took \$111 million used to assist landowners in "Watershed and Flood Prevention" and placed it in "Emergency Watershed Protection", which has traditionally been Congressional Supplemental Appropriations, in addition to the NRCS appropriated budget. This amounts to \$256 million of the fiscal year 2003 budget that in the past has been used for landowner assistance that will not be available for assistance in fiscal year 2003. This is also reflected in the fact that NRCS manpower for fiscal year 2003 will decrease by 254 staff years.

This means that NRCS programs will not be adequately funded, to the detriment of the agency and our natural resources. We would like to address several of the programs administered by the NRCS. Failure to adequately fund these initiatives would reduce assistance to those who want it and the resources that need protection.

*Conservation Operations.*—This has been in steady decline, in real dollars, over the past several years. It has occurred partly as a result of funds being reduced from Conservation Operations to balance increases in technical assistance for mandatory conservation financial assistance programs. The President's budget included \$897 million, which even though reflects an increase of \$118 million from fiscal year 2002, is not the case. This account, for the first time, is required to absorb additional burdens totaling \$145 million. These include mandatory pay raises, pensions and health benefits previously funded by OMB; GSA rent and decreased funding due to anticipated administrative efficiencies. In fact, a reduction of over \$27 millions is realized from fiscal year 2002 for assistance to landowners. This is far short of what is required to serve the needs of our nation's private lands. We request a total of \$796 million be appropriated For Conservation Technical Assistance, increasing Conservation Operations to \$927,190,000.

Conservation Technical Assistance is the foundation of technical support and a sound, scientific delivery system for voluntary conservation to the private users and owners of lands in the United States. It is imperative that we provide assistance to all working lands' not just those fortunate few who are able to get enrolled in programs. Working lands are not just crops and pasture (commodity staples) but includes forests, wildlife habitat and coastal marshes. The problem is that personnel funded from programs' can only provide technical assistance to those enrolled in cost share programs, leaving the majority of the agricultural community without technical assistance. We recommend that this funding for technical assistance be placed in "Conservation Technical Assistance", and allow NRCS to provide assistance to everyone.

We do not support the use of third party vendors for technical assistance. We would then have to address the question of quality assurance and administration for these programs. Why establish a new process that will ultimately cost more then using the in-house expertise that now exists and has proven to be successful.

*Watershed and Flood Prevention Operations (Public Law 566 & 534).*—We are greatly disappointed that the President's Budget provided absolutely NO funding for watershed operations. There is no doubt that this is a Federal responsibility, as well as for the local sponsor. We ask our legislators to support the local sponsors in this national issue.

We DO NOT agree with the Administration's proposal to eliminate the "Watershed and Flood Prevention Program" line item and putting it under "Emergency Watershed Protection". It appears they are trying to hide these programs and must not be allowed to do so. We request that Congress maintain the "Watershed and Flood Prevention Program" as a separate line item.

There are many new projects, which are awaiting funds for construction under this program. We strongly recommend that a funding level of \$170 million be appropriated for Watershed Operations, Public Law 534 (\$35 million) and Public Law 566 (\$135 million) programs. This is realistic and comparable to appropriation levels in the years prior to 1994.

More than 10,400 individual watershed structures have been installed nationally. They have contributed greatly to conservation, environmental protection and enhancement, economic development and the social well being of our communities. More than half of these structures are over 30 years old and several hundred are approaching their 50-year life expectancy. Today you hear a lot about the watershed approach to resource management. These programs offer a complete watershed management approach and should continue for the following reasons:

- They protect people and communities from flooding.
- 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 programs 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.

*Watershed Rehabilitation Program.*—It was a great step forward to have the "Lucas Bill" passed; now adequate appropriations must be provided. 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. With no funding authorized in the President's budget we neglect our community needs. We request that \$5 million be appropriated for NRCS to conduct assessments of the rehabilitation needs nationwide. We request that \$20 million be appropriated to provide financial and technical assistance to those watershed projects where sponsors are prepared to commence rehabilitation measures.

*Watershed Survey and Planning.*—In fiscal year 2002 \$11 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 zero out this program and provided NO funding. We strongly disagree with this action and ask Congress to fund this important program.

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 \$20 million.

*Emergency Watershed Protection Program.*—This program has come under Watershed and Flood Prevention Operations, but is a separate line item. It has traditionally been a zero budget line item; however, there will always be emergency needs, which were funded through Supplemental Appropriations.

As our land use expands to include sensitive environmental ecosystems, major weather events will have an adverse impact requiring NRCS assistance. It is important that NRCS is prepared for a rapid response, not waiting for legislative action. With some funds available, they would be able respond immediately to an emergency when it occurs.



We appreciate that \$111.4 million was in the President's Budget for fiscal year 2003; however, it is obvious that this funding was taken from "Watershed and Flood Prevention Operations". NRCS cannot pay staff years from this account unless it is in reaction to an emergency. 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. We also request that \$110 million be placed in "Watershed and Flood Prevention Operations" as a separate line item.

This is another example of a major budget cut to NRCS. This funding must be used for emergencies and not for technical assistance to landowners; therefore, it is a realized \$111.4 million reduction to the NRCS budget from fiscal year 2002.

*Forestry Incentives Program.*—Congress transferred this program to NRCS from the Farm Service Agency as a restructuring in the Federal Agricultural Improvement and Reform Act of 1996. Forestry on small, privately owned lands is recognized as a farming activity. NRCS is the best agency to administer this program, which assists farmers in production agriculture. It is more than just a timber production program. Forests are the most effective use of land as they relate to water quality, non-point source pollution, air quality, greenhouse gas reduction and wild-life habitat.

Again, the Administration provided NO funding for this program and we request Congress fund the Forestry Incentives Program at a level of \$7 million for fiscal year 2003.

*Environmental Quality Incentives Program (EQIP).*—Request for assistance through the EQIP program has been overwhelming. Requests far exceed the available funds and place an additional workload on NRCS's delivery system. Additionally, adequate funding for technical assistance must be provided to administer the program at a minimum of 19 percent of total program cost.

The EQIP Financial Assistance program for fiscal year 2003 should be appropriated at the \$200 million authorized and the technical assistance budgeted at \$38 million to meet the 19 percent TA level.

*Irrigation Project "Earmarks".*—Findings in the Natural Resources Inventory (NRI) have concluded that irrigated agriculture is moving from western states to the east. A prime example of this is the interest to irrigate along the Red River in Arkansas and Louisiana.

The recent drought conditions have accelerated the efforts of different regions to form irrigation districts and start the process to install irrigation systems. The farmers along Red Bayou, Caddo Parish, Louisiana, and Walnut Bayou, Little River County, Arkansas have been very aggressive in their attempts to become operational.

*Red Bayou Irrigation Demonstration Project, LA.*—The impacted region has formed an Irrigation District and established a process to collect funding for operating and maintaining the system. The total project would cost approximately \$5.5 million; \$2.7 million off-farm components and \$2.8 million on-farm components; with cost sharing involved with the Irrigation District. To initiate this project \$200,000 would be required in fiscal year 2003 to complete the plans and environmental assessment. This will provide a more detailed cost analysis for the project.

We request an 'earmark' in the fiscal year 2003 appropriations under the watershed operations program.

Language: Notwithstanding any other provision of law, Secretary of Agriculture, acting through the Natural Resource Conservation Service, shall provide \$200,000 for planning and design associated with the Red Bayou Irrigation Demonstration Project, LA. These funds will be from watershed surveys and planning and be accompanied with an equivalent increase in funding over current fiscal year 2003 appropriations.

*Walnut Bayou Irrigation Project, AR.*—We appreciate the \$250,000 allocated in fiscal year 2002 for the planning and design of this project. It is important to continue with the next phase of construction. We request that the funding for this project be earmarked' in the fiscal year 2003 appropriations.

Language: Notwithstanding any other provisions of law, Secretary of Agriculture, acting through the Natural Resource Conservation Service, shall provide \$4,000,000 for construction associated with the Walnut Bayou Irrigation Project, AR. These funds will be from watershed surveys and planning' and be accompanied with an equivalent increase in funding over current fiscal year 2003 appropriations.

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 apply conservation measures needed to sustain our natural resources for future generations.

There have been new clean water initiatives, but why do we ignore the agency that has a proven record for implementing watershed conservation programs? Congress must decide; will NRCS continue to provide the leadership within our communities to build upon the partnerships already established? It is up to Congress to insure NRCS is properly funded and staffed to provide the needed assistance to our taxpayers for conservation programs.

All these programs apply to the citizens in the Red River Valley and their future is our concern. The RRVA is dedicated to work toward the programs that will benefit our citizens and provide for high quality of life standards. We therefore request that you appropriate the requested funding within these individual programs, to insure our nation's conservation needs are met.

I thank you for the opportunity to present this testimony on behalf of the members of the Red River Valley Association and we pledge our support to assist you in the appropriation process.

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#### PREPARED STATEMENT OF THE SEMINOLE TRIBE OF FLORIDA

The Seminole Tribe of Florida is pleased to submit this statement regarding the fiscal year 2003 budget for the Natural Resources Conservation Service (NRCS) in the Department of Agriculture.

The Seminole Tribe of Florida asks that Congress earmark a total of \$200,000 in the Natural Resources Conservation Service's (NRCS) Watershed Operations 06, Watershed Planning account that funds the Small Watershed Program, as authorized by Public Law 83-566, for planning of a portion of the Tribe's Water Conservation Plan on the Big Cypress Reservation. The Tribe has worked with the NRCS in Florida for six years to develop this small watershed project as a part of the Tribe's overall Everglades Restoration Initiative. The results of this small watershed project will complement the joint effort of the Tribe and the Corps of Engineers to complete the Initiative.

#### THE SEMINOLE TRIBE OF FLORIDA

The Seminole Tribe lives in the Florida Everglades. The Big Cypress Reservation is located in the western basins, directly north of the Big Cypress National Preserve. The Everglades provide many Seminole Tribal members with their livelihood. Our traditional Seminole cultural, religious, and recreational activities, as well as commercial endeavors, are dependent on a healthy Everglades ecosystem. In fact, the Tribe's identity is so closely linked to the land that Tribal members believe that if the land dies, so will the Tribe.

During the Seminole Wars of the 19th Century, our Tribe found protection in the hostile Everglades. But for this harsh environment filled with sawgrass and alligators, the Seminole Tribe of Florida would not exist today. Once in the Everglades, we learned how to use the natural system for support without harm to the environment that sustained us. For example, our native dwelling, the chickee, is made of cypress logs and palmetto fronds and protects its inhabitants from the sun and rain, while allowing maximum circulation for cooling. When a chickee has outlived its useful life, the cypress and palmetto return to the earth to nourish the soil.

In response to social challenges within the Tribe, we looked to our Tribal elders for guidance. Our elders taught us to look to the land, for when the land was ill, the Tribe would soon be ill as well. When we looked at the land, we saw the Everglades in decline and recognized that we had to help mitigate the impacts of man on this natural system. At the same time, we acknowledged that this land must sustain our people, and thereby our culture. The clear message we heard from our elders and the land was that we must design a way of life to preserve the land and the Tribe. Tribal members must be able to work and sustain themselves. We need to protect the land and the animals, but we must also protect our Tribal farmers and ranchers.

Recognizing the needs of our land and our people, the Tribe, along with our consultants, designed a plan to mitigate the harm to the land and water systems within the Reservation while ensuring a sustainable future for the Seminole Tribe of Florida. The restoration plan will allow Tribal members to continue their farming and ranching activities while improving water quality and restoring natural hydroperiod to large portions of the native lands on the Reservation and ultimately, positively effecting the Big Cypress National Preserve and Everglades National Park.

The Seminole Tribe's Big Cypress Initiative addresses the environmental degradation wrought by decades of federal flood control construction and polluted urban and

other agricultural runoff. The interrupted sheet flow and hydroperiod have stressed native species and encouraged the spread of exotic species. Nutrient-laden runoff has supported the rapid spread of cattails, which choke out the periphyton algae mat and sawgrass necessary for the success of the wet/dry cycle that supports the wildlife of the Everglades.

The Seminole Tribe designed an Everglades Restoration Initiative to allow the Tribe to sustain ourselves while reducing or eliminating impacts on the ecosystem. The Seminole Tribe is committed to improving the water quality and flows on the Big Cypress Reservation. We have already committed significant resources to the design of the projects and to our water quality data collection and monitoring system. Within the next few months, the Tribe will begin construction on the conveyance system that will serve as the backbone to Big Cypress water control system. We are willing to continue our efforts and commitment of resources, for our cultural survival is at stake.

#### SMALL WATERSHED PROJECT ON BIG CYPRESS

As a part of the Tribe's Everglades Restoration Initiative, the Tribe completed a water conservation plan for the design and construction of surface water management systems to remove phosphorus, convey and store irrigation water, improve flood control, and rehydrate the Big Cypress National Preserve. This water conservation plan has been permitted for construction under the Clean Water Act Section 404 program.

Through the Corps of Engineers (COE) critical project program authorized by the Water Resources Development Act of 1996, the Tribe is building part of that water conservation plan. The first phase of the critical project, for which construction is about to begin, is to construct a conveyance canal system that will supplement and improve the existing system. The balance of the critical project will construct water storage and treatment areas on the east-side of the Reservation.

Over the last six years, the Tribe has enjoyed the support of the Florida State Conservationist and the Florida staff of the NRCS in the development of a small watershed project to address some needs identified in the water conservation plan. While some preliminary planning has been completed, an existing funding commitment prevented commencement of the small watershed project until fiscal year 2004. In fiscal year 2003, both the Tribe and the NRCS in Florida are prepared to begin planning of water storage and treatment areas on the west-side of the Reservation. To do so, Congress must appropriate the initial funding.

While all the project component options have not been fully vetted, the cost estimates range from downward from \$34.6 million. This project is approved to operate with a 75 percent federal and 25 percent Tribal cost share. The timing of the design and construction are dependent on the funding stream.

#### CONCLUSION

Everglades restoration is a well-recognized national priority. The Tribe's goal of sustainable agriculture is consistent with the goals of the NRCS and the restoration activities in South Florida. The NRCS's support of the Tribe's conservation measures in the past, along with the implementation of future programs, will make a significant impact on the Big Cypress Reservation and the South Florida Ecosystem.

Through its assistance to the Tribe, NRCS has provided valuable technical assistance to date. Beginning in fiscal year 1999, NRCS has provided programmatic support through EQIP and WRP, which is anticipated to continue. Additional programmatic assistance through the small watershed program will provide the needed design and construction to complete the water conservation plan. None of the joint objectives of the Tribe and the NRCS can be accomplished, however, without sufficient funding.

The Tribe has demonstrated its economic commitment to the Everglades Restoration effort; the Tribe is asking the federal government to also participate in that effort. This effort benefits not just the Seminole Tribe, but all Floridians who depend on a reliable supply of clean, fresh water flowing out of the Everglades, and all Americans whose lives are enriched by this unique national treasure.

Thank you for the opportunity to present the request of the Seminole Tribe of Florida. The Tribe will provide additional information upon request.

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#### PREPARED STATEMENT OF THE SOCIETY FOR ANIMAL PROTECTIVE LEGISLATION

The Society for Animal Protective Legislation appreciates the support that this Subcommittee has provided consistently to the above-referenced programs of the

United States Department of Agriculture (USDA) and respectfully requests modest increases in the annual appropriation for their operation in fiscal year 2003. These additional funds are essential to ensure the adequate enforcement of and compliance with Federal laws enacted to ensure the welfare of animals and prevent unnecessary animal suffering.

*\$17.7 Million is needed for the Animal and Plant Health Inspection Service Animal Care Program*

A coalition of organizations including the American Veterinary Medical Association, the American Zoo and Aquarium Association, the Humane Society of the United States, and the Society for Animal Protective Legislation has worked together to secure additional funds to ensure adequate enforcement of the Animal Welfare Act by APHIS Animal Care staff. The Animal Welfare Act is the chief Federal law for the protection of animals. The USDA seeks compliance with its minimum standards for the care and treatment of animals during transportation and at the approximately 10,000 sites of dealers, research, testing and teaching facilities, zoos, circuses, carriers and handlers. In fiscal year 2000, Animal Care inspectors conducted over 11,000 compliance inspections.

Approximately forty percent of the facilities that are inspected by USDA are found to be noncompliant. Facilities with serious deficiencies require reinspections to ensure that corrective action is taken but lack of funds has prevented USDA from conducting this much-needed follow-up.

In 1966, the Laboratory Animal Welfare Act (later renamed the Animal Welfare Act) was adopted to prevent the sale of lost or stolen pets into research. Pet theft and fraudulent pet acquisition for sale into research continues to be a serious problem. In an attempt to remedy this situation in the 1990s, Animal Care instituted a policy of conducting quarterly inspections of random source dealers. Since stepping up enforcement in this area in 1993 (which has come at the expense of inspections conducted elsewhere), six Class B dealer licenses have been suspended, twelve have been revoked, six cases were under investigation (at the end of fiscal year 2000) and nearly \$525,000 in fines were levied. The number of random source, Class B dealers, who supply dogs and cats to research, has dropped from over 100 to 23.

This approach, with respect to regulating and inspecting Class B dealers, illustrates the value of frequent, unannounced inspections of licensees and registrants. Increasing the ability to conduct these inspections more frequently will ensure effective compliance with the law. Facilities found to be consistently out of compliance with the minimum standards of the Animal Welfare Act should not be in business.

The 1985 amendment to the AWA mandates at least one inspection per year of all registered research facilities. A vigorous inspection program is critical to maintaining public confidence in the quality of research and ensuring the humane treatment of animals used in experimentation. With the need to evaluate performance, as well as engineering standards, each inspection is time-consuming and necessitates skilled veterinary inspectors.

An appropriation of \$17.7 million would enable APHIS Animal Care to hire much needed inspectors, upgrade computer software, establish an emergency reserve for confiscated animals, and enhance the enforcement program to reduce the number of problem facilities, among other laudable goals.

*\$1,150,000 is needed for the Animal Welfare Information Center at the National Agricultural Library*

The Animal Welfare Information Center (AWIC) was established by the 1985 amendments to the Animal Welfare Act, the "Improved Standards for Laboratory Animals Act," to serve as a clearinghouse and educational resource of information on alleviating or reducing pain and distress in experimental animals (including anesthetic and analgesic procedures), reducing the number of animals who are used for research and identifying alternatives to the use of animals for specific research projects.

AWIC is the single most important resource for educating research facility personnel on their responsibilities under the Animal Welfare Act. There are more than 1,200 registered research facilities nationwide, and the services of the AWIC are available to all individuals at these institutions including the members of the Institutional Animal Care and Use Committees.

AWIC staff responds to requests for information on topics related to the Animal Welfare Act. The staff conducts training sessions in workshops for Federal regulatory agencies, research facilities, military facilities, and universities. The staff also attends conferences where they maintain informational exhibits. The number of requests to AWIC has increased substantially. According to the latest information available in APHIS's 2000 Animal Welfare Report, AWIC staff responded to roughly

18,000 information requests in the year and distributed more than 40,000 published documents. The valuable AWIC website ([www.nal.usda.gov/awic](http://www.nal.usda.gov/awic)) received an average of 58,000 hits per month in 2000, almost doubling the previous year's monthly average.

Additional funding is vital to maintain the level of excellence exhibited by AWIC and to advance the Center appropriately. \$1,150,000 specifically designated for AWIC would allow AWIC to increase the number of full-time staff, improve the search capabilities on the AWIC website and enable documents to be converted into different programs, thus improving user-friendliness, continue providing useful AWIC workshops, update information on animals in laboratories such as alternatives to animal models and appropriate animal housing documentation, develop an audiovisual library on animal welfare to improve the training of APHIS inspectors, among other important advancements.

Again, it is imperative that this money be earmarked specifically for the AWIC program.

*\$10,049,000 is needed for Investigative and Enforcement Services*

Investigative and Enforcement Services (IES), the enforcement arm within APHIS, is responsible for conducting investigations, tracking unresolved cases, coordinating investigations within APHIS and between APHIS and other Federal and/or State agencies and training APHIS inspectors in the collection of evidence and documentation of violations. IES provides support to Animal Care and to three other APHIS programs.

A \$10,049,000 appropriation would enable IES to investigate competently alleged violations of the Animal Welfare Act. In 2000, IES inspectors already began implementing technological advancements to improve their work, including the use of digital and video cameras to document situations that reflect noncompliance with the law. Additional money in fiscal year 2003 would help IES keep pace with the inflationary costs of recently-filled field positions while concomitantly improving IES's ability to engage in its important work.

Additional money would assist in the continued filling of animal care investigator positions in significant border/port areas. Four or five additional inspectors in fiscal year 2003 would complement the already improved staff level. Similarly, intelligence gathering is a substantial part of the work of IES. Analysts, funded by this additional appropriation, would ensure that data is collected and analyzed properly regarding, for instance, animal dealer activities, the operations of traveling animal acts or exhibitors, or animal fighting ventures. To this end, on animal fighting, an additional appropriation would assist in the enforcement of existing animal fighting prohibitions and the possible addition of legislation currently moving through Congress to prohibit the interstate shipment of birds for fighting purposes. A specific unit could be developed of between six to ten people to coordinate these activities against illegal animal fighting ventures.

*\$500,000 for the Horse Protection Act*

Congress adopted the Horse Protection Act (HPA) more than 30 years ago yet soring of Tennessee Walking Horses continues to be a widespread problem. Soring is defined by APHIS as "the application of any chemical or mechanical agent used on any limb of a horse or any practice inflicted upon the horse that can be expected to cause it physical pain or distress when moving." Horses are sored to produce an exaggerated gait.

The most effective method of reducing the showing of horses who have been sored is to have Animal Care (AC) inspectors present at the shows. AC has been restricted to attending about 10 percent of horse shows because of insufficient funds. Unless funding is provided to enable AC to attend more events, the industry will continue to defy the law with impunity. Certain members of the Walking Horse industry with a careless disregard for the HPA have utilized a variety of strategies to prevent fair and proper enforcement of this law. The current effort to undermine the law is to deny inspectors the ability to use digital palpitation of the pastern to determine soreness in horses. Use of digital palpitation, an accepted veterinary diagnostic technique, is vital to AC's ability to enforce the law.

Lack of financial support has made it necessary for AC to rely heavily on the industry to assume responsibility for enforcement of the law. This is the same industry that has turned a blind eye to compliance with the law since 1970! "Designated Qualified Persons" (DQPs) are the "inspectors" from industry who are supposed to assist AC identifying sore horses and pursuing action against the individuals who are responsible. The history of DQPs reveals their failure to achieve the level of enforcement of the unbiased, well-trained, professional AC inspectors. The gap is widening between the enforcement when AC inspectors are present versus the level of

enforcement by unsupervised DQPs, clearly demonstrating the abysmal failure of the industry to regulate itself. For example, in fiscal year 1999 the rate at which DQPs turned down horses for soring was .44 percent. The turndown rate more than tripled to 1.49 percent when government AC inspectors were present to oversee the activities of the DQPs. The record was still worse for certain Horse Industry Organizations like the Kentucky Walking Horse Association; there was a nearly 12-fold increase in horses who were turned down for soring when AC inspectors were present as compared to when DQPs were unsupervised!

We respectfully request that the Subcommittee resist all efforts by the industry to restrict AC's ability to enforce the Horse Protection Act. An increase in appropriations to \$500,000 would allow Animal Care to attend a greater percentage of horse shows, thereby ensuring significantly stronger compliance with the HPA.

*\$2.5 Million is needed for additional line inspectors to enforce the Humane Slaughter Act*

The USDA budget includes specific budget increases related to the Food Safety and Inspection Service (FSIS) activities, including maintaining 7,600 meat and poultry inspectors. However, these inspectors are primarily tasked with slaughter epidemiological surveys and risk prevention activities regarding disease and microbiological contaminants on animal carcasses. Specific additional funds are necessary to hire inspectors dedicated to enforcement of the Humane Slaughter Act to ensure that animals are stunned properly as they move through the slaughter process. An additional appropriation of \$2.5 million would enable the hiring of approximately 50 new employees to work exclusively on enforcement of the Humane Slaughter Act through full-time inspection of unloading, handling, stunning, and killing of animals at slaughter plants.

The Washington Post expose, "Modern Meat: A Brutal Harvest," from April 10, 2001, reveals that the Humane Slaughter Act is frequently ignored at "overtaxed" slaughterhouses "with cruel consequences for animals as well as workers. Enforcement records, interviews, videos and worker affidavits describe repeated violations of the Humane Slaughter Act at dozens of slaughterhouses, ranging from the smallest, custom butcheries to modern, automated establishments such as the sprawling IBP, Inc. plant. The attached article from the Animal Welfare Institute magazine, the AWI Quarterly, "Gutting the Gordian Knot," describes in great detail the historical increases in slaughterhouse line speeds and the needs for more diligent enforcement of the Humane Slaughter Act.

To this extent, Resolutions were introduced in both the Senate and House of Representatives to call for greater enforcement of the Humane Slaughter Act. Both Senator Fitzgerald's and Congresswoman Morella's resolutions were attached to the 2002 Farm Bill and a compromise version of the Resolution presumably will be approved during the deliberations of the Farm Bill Conference Committee.

*Birds, Rats and Mice in the Animal Welfare Act*

In 1970 and again in 1985 the United States Congress passed and improved on laws ensuring the protection and coverage of all "warm blooded animals" under the Animal Welfare Act (AWA). Last year The Honorable Robert Dole, distinguished former U.S. Senator and author of 1985 AWA amendments wrote a letter on the protections of birds, rats, and mice and recent misrepresentations regarding the intent of their coverage. In his letter he stated:

"I would hope that the Bush Administration and Members of the present Congress, some of whom stood with me in 1985 in advancing my amendments, will recognize that all animals used in experimentation deserve care the benefit of the modest requirements of the Animal Welfare Act. I would urge them to allow USDA to achieve this end by pursuing a full and fair rulemaking as provided in the settlement agreement."

We commend the Committee for allowing USDA to proceed during fiscal year 2002 with its rulemaking regulating birds, rats, and mice under the Animal Welfare Act, as required by a court settlement in 2000. These species account for approximately 95 percent of animals used in research, and they deserve basic minimum standards of care. Ensuring that they receive adequate care is imperative not only as a humane matter, but also as a matter of sound science, since animal suffering compromises the integrity of research results. We urge the Committee not to include any language in the fiscal year 2003 bill or committee report that would interfere with USDA's ability to carry out this important rulemaking on a timely basis.

## PREPARED STATEMENT OF THE STATE OF ARIZONA

As a member of the Colorado River Basin Salinity Control Forum representing the State of Arizona, I wish to indicate strong support for the designation of funds for the Colorado River Basin Salinity control effort within the Environmental Quality Incentives Program (EQIP).

The Colorado River Basin Salinity Control Program is funded within EQIP and has been designated as an area of special interest. Under this designation, about \$4.5 million have been earmarked for the Colorado River Basin Salinity Control Program. These funds, together with cost-sharing from local farms and the Colorado River Basin states, have produced projects which demonstrate an effective methodology for controlling salinity in the Colorado River. However, the water quality control plan, which is prepared by the Forum, adopted by the Colorado River Basin states, and approved by the EPA, recommends that the USDA portion of these efforts be funded at \$12 million. An appropriation of this amount would allow the implementation of the approved water quality control plan and help control the economic damages in the Lower Basin states due to salinity from the Colorado River.

Arizona's cities, industries, farms, and Indian Tribes depend on the Colorado River. As we import the water to support our growing economy, we also import the salt that has accumulated in the river. Approximately 1.5 million tons per year of salt are now being imported into Arizona via the Colorado River. If the accumulation of salt in the river can be reduced, the economic costs of salt disposal and salt damages will be reduced. Currently, the damages due to salt are estimated to be over half a billion dollars annually in Arizona, Nevada, and Southern California. These damages would be significantly higher if the Colorado River Basin Salinity program had not been in place during the last three decades.

Over the last few years the salinity control efforts under the EQIP program have been under-funded, resulting in control efforts lagging behind goals agreed upon by the Colorado River Basin states to meet the EPA criteria adopted pursuant to the Clean Water Act. The \$12 million in earmarked funds for Colorado River salinity control would provide the appropriations necessary to more aggressively meet these goals and reduce the significant economic costs to the Lower Basin States.

In addition to controlling water quality for water users in the United States, the Salinity Control program helps the United States to comply with Minute 242 of the Mexican Water Treaty of 1944. The United States has always met the commitments agreed to in Minute 242, but water quality at the International Boundary continues to be a subject of discussion between the United States and Mexico sections of the International Boundary and Water Commission.

Thank you for your subcommittee's consideration of additional funding for the Colorado River Salinity Control Program and we hope to have your continued support of this vital program.

## PREPARED STATEMENT OF THE STATE OF WYOMING

Dear Chairman Kohl and Ranking Minority Member Cochran: This statement is sent in support of the designation of \$12,000,000 of fiscal year 2003 Environmental Quality Incentive Program (EQIP) funding for the Department of Agriculture's Colorado River Salinity Control (CRSC) Program. Pursuant to Public Law 104-127, the USDA's CRSC Program is a component program within EQIP. The USDA's Natural Resources Conservation Service designated the Colorado River Salinity Control Program as a national conservation priority area in fiscal year 2000. Wyoming views the inclusion of the CRSC Program in EQIP as a direct recognition on the part of Congress of the Federal commitment to maintenance of the water quality standards for salinity in the Colorado River—and that the Secretary of Agriculture has a vital role in meeting that commitment.

The State of Wyoming is a member state of the seven-state Colorado River Basin Salinity Control Forum. Established in 1973 to coordinate with the Federal Government on the maintenance of the basin-wide Water Quality Standards for Salinity in the Colorado River System, the Forum is composed of gubernatorial representatives and serves as a liaison between the seven States and the Secretaries of the Interior and Agriculture and the Administrator of the Environmental Protection Agency (EPA). The Forum advises the Federal agencies on the progress of efforts to control the salinity of the Colorado River and annually makes funding recommendations, including the amount believed necessary to be expended by the USDA for its on-farm CRSC Program. Overall, the combined efforts of the Basin States, the Bureau of Reclamation and the Department of Agriculture have resulted in one of the nation's most successful non-point source control programs.

For the past 18 years, the seven State Colorado River Basin Salinity Control Forum has actively assisted the U.S. Department of Agriculture in implementing its unique, collaborative and important program. At its recent October 2001 meeting, the Forum recommended that the USDA CRSC Program should expend \$12,000,000 in fiscal year 2003. In the Forum's judgment, the approximately \$4,500,000 being designated annually for the CRSC Program by the NRCS is inadequate to implement the needed program and to gain any ground on the "shortfall" in program funding. "Catch-up" funding in the future will require expending greater sums of money, increase the likelihood that the numeric salinity criteria are exceeded, and create undue burdens and difficulties for one of the most successful Federal/State cooperative non-point source pollution control programs in the United States.

The State of Wyoming greatly appreciates the Subcommittee's support of the Colorado River Salinity Control Program in past years. We continue to believe this important basin-wide water quality improvement program merits support by your Subcommittee. We request that your Subcommittee direct the expenditure of \$12,000,000 for the USDA's CRSC Program during fiscal year 2003. Thank you in advance for your consideration of this statement and its inclusion in the formal record for fiscal year 2003 appropriations.

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PREPARED STATEMENT OF THE TAYLOR SHELLFISH FARMS

Mr. Chairman and Members of the Subcommittee: My name is William Dewey. I am the Project Development Division Manager for Taylor Shellfish Farms. Our company employs approximately 250 people farming clams, oysters, and mussels on approximately 8,500 acres of tidelands across Washington State. I am president of the Pacific Shellfish Institute and past president of the Pacific Coast Oyster Growers Association. I am the Governor appointed representative for the shellfish industry on the Puget Sound Council, and serve on the Interstate Shellfish Sanitation Conference Executive Board. I am also chair of the Industry Advisory Council for USDA's Western Regional Aquaculture Center which is housed at the University of Washington in Seattle.

I have been professionally involved in shellfish aquaculture for over 20 years and I am familiar with all aspects of growing, harvesting, processing, and marketing shellfish. Recent technological advances, particularly in hatchery technology and seed production have positioned our industry to play a major role in meeting the nation's seafood demand and in offsetting the immense seafood trade deficit. We are further encouraged by recent national support for aquaculture development through the Joint Subcommittee on Aquaculture's efforts to develop a National Aquaculture Development Plan as well as Department of Commerce and NOAA Fisheries aquaculture policies.

The continued growth and success of the shellfish industry hinges on our ability to do crucial research in areas such as disease, genetics, integrated pest management, harmful algae blooms, human health issues, marketing and the ecological impacts associated with out culture systems. The USDA Regional Aquaculture Centers support this critical research as well as extension of the results to the industry. Most importantly, unlike a number of other competitive grants programs, the mechanism by which the Regional aquaculture Centers fund research assures they are addressing priorities specifically identified by the aquaculture industry.

Funds supporting aquaculture research and development have historically been limited. To achieve anything close to the five-fold increase in 25 years projected by the department of Commerce's new aquaculture policy, this is going to have to change. The diversity of species and culture systems involved in marine farming versus traditional land based agriculture and today's increased environmental scrutiny require a greater investment in R&D to achieve successful outcomes.

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Aquaculture is the fastest growing segment of U.S. agriculture. Successful aquaculture directly offsets the seafood trade deficit and in the northwest brings economic relief to regions severely depressed from the decline in timber and fishing jobs. Clearly there is much to be gained by continued growth in the aquaculture industry. We therefore urge your support for funding the five Regional aquaculture Centers at the fully authorized level of \$7.5 million.



Thank you for the opportunity to provide testimony in support of this very important appropriation.

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PREPARED STATEMENT OF THE UNIVERSITY OF ILLINOIS, THE UNIVERSITY OF MISSOURI, AND THE SOUTHERN ILLINOIS UNIVERSITY

Our testimony is on behalf of the federally funded project entitled the Illinois-Missouri Alliance for Biotechnology (IMBA). We much appreciate the strong, continuing support of the committee for this effort. The project continues to produce valuable results and open new options for the corn and soybean industries in the Midwest and for the nation as a whole.

*Request.*—In order to enhance this productive and strategically focused program, we request that \$3.0 million be appropriated for IMBA for fiscal year 2003. It is particularly important to push this initiative forward at this time because of the race among nations to capitalize on dramatic findings in the field of genomics. Powerful tools are now available to determine the function of genes in microorganisms, plants, animals, and humans. Knowledge of gene function will allow much better targeting of projects on genes of major economic, health, and social promise. The increased appropriation will allow us to fund a larger proportion of worthy proposals, expand use of the powerful tools of genomics, and include more socioeconomic research that addresses stakeholder concerns about product quality and safety as well as economic and social impacts of biotechnology. Additional federal support will provide significant economies of scale and scope, increasing the funds directly allocated to research and the leveraged contributions to about \$9 million.

*Needs and opportunities.*—IMBA is focused on the world's most important agricultural challenge, meeting the nutritional needs of a growing population. Rapidly growing population, urbanization, and affluence, especially in Asia, are resulting in dramatic increase in the consumption of animal protein. These changes are leading to unprecedented growth in animal production and global markets for animal products. Corn and soybeans are economically and nutritionally superior to other grain crops for feeding swine, beef, dairy, poultry, and confined fish. These classes of livestock are increasingly being produced in large scale facilities around the world. With superior technology, Illinois, Missouri, and surrounding Midwestern states can be principal global suppliers, not only of corn and soybeans, but also of value-added food products produced from these crops. To capture these emerging markets, however, the U.S. will have to compete vigorously against sophisticated foreign producers and we will have to address consumer concerns about quality, safety, and efficacy of products containing genetically modified corn and soybeans.

*Mission, objectives, and strategy.*—IMBA seeks to maximize the benefits of biotechnology for the American agriculture and food sector and the American consumer by improving the quality, safety, affordability, and acceptance of agricultural and food products. It accomplishes this mission by supporting competitively funded, cutting-edge biotechnology research conducted as part of research programs organized around clearly defined, practical objectives. IMBA scientists are strongly encouraged to work closely with the private sector to assure that promising new discoveries move rapidly to practical application in Midwest agriculture.

To avoid spreading the IMBA research investment too thinly, the scope of the program is limited to the corn and soybean industries; geographical scope to Illinois, Missouri, and other Midwestern states; and disciplinary scope to biotechnology, including technical, economic, and social dimensions of that subject.

IMBA-funded biotechnology research grants are awarded competitively, based on relevance to IMBA objectives, soundness of proposed research strategy, and scientific merit. Proposals are evaluated by scientific peers to assure that the best strategies are brought to bear on agricultural problems and opportunities that are important to the region. A Program Manager located at the University of Missouri, [www.imba.missouri.edu](http://www.imba.missouri.edu), works with an Executive Management Committee to design and develop a biotechnology research investment portfolio that addresses the following objectives: (1) Develop new and improved uses for corn and soybeans and increase the value of these crops as raw material for manufacturing various products, (2) lower the cost of producing, processing, and utilizing these products, (3) maximize positive and minimize negative impacts of the corn and soybean industries on the environment and conserve nonrenewable resources that are consumed by the corn and soybean industries, (4) anticipate and understand the economic and social impacts of agricultural biotechnology and capture as many benefits as possible for the American agriculture and food sector, (5) define the roles of experts and knowledge systems in resolving social conflicts over agricultural biotechnology so as to understand and manage agricultural biotechnology risks as perceived by consumers,

and (6) understand and improve economic, organizational, and institutional approaches to value-enhancement and identity preservation.

*Recent achievements of IMBA research.*—IMBA continues to support AgBioForum, a unique, web-based, peer-reviewed journal designed to reach and educate a broad audience on issues of central importance. AgBioForum articles are widely reproduced in the classroom, by the media, and as references in academic journals. Total readership has surpassed 175,000 and includes scientists and interested lay persons from universities, industry, government, international organizations, and commercial sites. In 2001, AgBioForum produced and distributed a major special issue on the influence of governmental policy on the development of agricultural biotechnology in Europe.

Proprietary protocols for soybean transformation have been developed to incorporate peptide carrier protein genes into soybean as a way to protect against the fungal pathogen, *Phytophthora*. The intellectual property from this project is being prepared for patent application.

IMBA-funded scientists are studying the process of apomixis, which allows seed to be produced in the absence of sexual reproduction. If hybrid corn plants could be produced that produce seed through apomixis, that seed would produce plants genetically identical to the hybrid parents, unlike seed produced on current hybrid plants. This would enable farmers to save seed from hybrid parents for use as seed the next year. Eastern gamma grass, *Tripsicum dactyloides*, the closest apomictically reproducing relative to corn, has already been used to visually characterize the chromosomes of selected offspring plants obtained from crosses. DNA sequences to distinguish the two parents also have been identified.

With funding from IMBA, scientists produced genetically transformed soybeans with significantly higher levels of oil than conventional lines—and better fatty acid composition. Linkage maps and fast oil analysis procedures developed by this group are simplifying selection of soybean lines for oil and protein content. Analysis of nucleotide sequence information is revealing the specific genes involved in protein and oil synthesis in soybeans and how these genes differ among lines with different oil quantity and quality.

In a joint project with leading French scientists, a group of IMBA investigators has found that time of maturity has a major effect on levels of isoflavones in soybean seeds. These compounds have important functional food properties and could be used to enhance the value of soybean as an American crop. There is a two-fold range in total isoflavones among commercial U.S. cultivars with similar maturity and a four-fold range in exotic accessions.

Phytic acid contains much of a plant's phosphorus. It is relatively indigestible to non-ruminant animals, including humans, and so it is excreted. In this way, phosphorus is passed into ground and surface waters, creating pollution. IMBA scientists are working to produce soybeans with low levels of phytic acid. Using an *E. coli* phytase gene, an embryo-specific promoter, and a series of other signal sequences, they have successfully introduced this gene into the model plant, *Arabidopsis*. The gene is active, and transgenic plants produce phytase and store lower levels of phytic acid than controls. This research group is now working to introduce phytase into soybeans.

Several IMBA scientists are cooperating to develop high oil, high oleic acid oil, corn hybrids. Grain produced with these hybrids will command a premium based on higher digestible energy level, added value in manufacturing certain kinds of food products, and potential human health benefits. These scientists have identified molecular markers that will make it much easier to select for oil concentration and for specific fatty acid profiles. They also have developed new genetic constructs that, when introduced into elite germplasm, should enhance oil concentration and oleic acid concentration.

*Cooperators.*—Current cooperators in IMBA projects include the Universities of Illinois and Missouri, Southern Illinois University, University of Nebraska, Iowa State University, the USDA-Agricultural Research Service group at Woodward, Oklahoma, and ESA-Purpan in Toulouse, France. Private, non-profit cooperators include Sapien's Institute and Northwestern University. Commercial firms cooperating or involved in negotiations include Monsanto Company, ICI Garst, Inc., DuPont/Pioneer, ADM-Growmark, Clarkson Grain, Cargill, Biosys, Zeneca Agrochemicals, Novartis, DowElanco, Genentech, Healthtech, Electropharmacology, and others. Each project is generating potential new and improved products, and private firms are evaluating the commercial potential of each product of IMBA research.

*Summary.*—We believe IMBA projects constitute an outstanding portfolio of promising research investments focused on the major problems and opportunities associated with the U.S. corn and soybean industries. Because of the economically impor-

tant subject matter being addressed by IMBA, unique opportunities afforded by advances in genomics, outstanding capabilities of participating institutions, and the innovative research management approach being employed, we believe that IMBA will continue to be highly productive and will generate an unusually high return on the federal investment. An appropriation of \$3.0 million is requested to continue the project in fiscal year.

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PREPARED STATEMENT OF THE UNIVERSITY OF ILLINOIS

We propose to establish a Future Foods Initiative based at the University of Illinois in Urbana-Champaign. This will be a unique program for discovery, development and evaluation of new foods, food ingredients, and food functionality, including health-related, genetically enhanced foods, building on the seminal research work now being done at the University of Illinois. A competitive process is envisioned for research teams to address the most significant issues related to the functionality and benefits of new foods and food components and to create the necessary procedures and protocols that can lead to practical acceptance and effective use of such foods. We request \$3 million to fund the initial research and development program.

*Background.*—The global food industry is in the midst of a new health and business trend termed “functional foods,” fueled in part by rapid development of new technologies applied in food production and processing. For improved human health and greater value for food and agricultural products, functional foods offer tremendous potential. Functional foods are defined by the National Academy of Sciences as . . . any food or food ingredient that may provide a health benefit beyond the traditional nutrients it contains.” During the past decade, considerable scientific evidence has indicated that foods we consume and their bioactive components can promote optimal health and contribute to reduced risk factors for chronic diseases, such as heart disease and cancer. Consumers readily accept the notion that food is an important part of healthy and high quality lifestyles. Leadership is needed in academia, government and industry to ensure that consumers obtain safe and effective products based on sound, scientific data. The Centre for Food and Health Studies in London depicts the world’s food industry as “looking to leverage their nutritional and scientific expertise in pursuit of the health benefits of food” making food and health “just about the biggest food industry business and product development issue for the new century.” The functional foods market is presently valued at \$18 billion in the United States and is projected to reach \$50 billion worldwide by 2004.

*Vision.*—The long-term goal of the University of Illinois is to establish a center of excellence that will stimulate unique, multidisciplinary research collaborations on the most critical questions for discovery, development and evaluation of new and improved foods and will contribute essential scientific information and testing procedures to help bring beneficial products to the public. Researchers in the food, agricultural and biomedical fields will focus particularly on bioactive food components and health, generating and providing consumers with accurate food and health information, leading to development of effective and safe food products. This initiative is critically important and timely as the world’s consumers are faced with an increasingly wide and diverse array of new food products and ingredients, many being generated through new applications of biotechnology.

*Benefits.*—Products developed and evaluated in the Future Foods Initiative will address major issues of human health and welfare. Some will have enhanced protein, carbohydrate, lipid, and fiber quality, contributing to overall nutritional value and addressing malnutrition. Some will contain enhanced levels of vitamins, minerals, and other functional components that are essential to human health. Many products will be generated from research in the Illinois Post-Genomics Institute, a large functional genomics research facility to be constructed at the University of Illinois in Urbana-Champaign, and in other research programs and facilities across the nation. A healthier population and business opportunities for producers, processors and others in the food value chain will provide a needed stimulus to the American economy.

*Function.*—Research projects conducted under the Future Foods Initiative will be overseen by University of Illinois scientists and other specialists. The program will leverage major strengths across research disciplines to study the implications for nutrition and health, aspects of food safety, and processes in the agricultural and food industries that are essential to bring the potential benefits of nutritionally enhanced foods to consumers. Because of close association with basic biotechnology research, scientists involved will be able to conduct unique tests, designed to detect subtle effects, both positive and negative, and create new understanding of the biochemical and genetic interactions between people and the foods they consume.

*Setting.*—The University of Illinois provides an ideal setting for the Future Foods Initiative, since it is already the home for the nation's first full-scale scientific program dedicated to studying the roles of naturally-occurring food components in preventing disease and promoting health and optimizing their concentrations in food products. The Functional Foods for Health program, conceived in 1992, involves more than ninety scientists from multiple disciplines located at the University's campuses in Urbana and Chicago and receives support from twenty-five industry affiliates. Scientists from highly ranked Colleges, for example ACES, Medicine, Pharmacy, and Engineering, and the Department of Food Science and Human Nutrition provide the world-class scientific leadership. The University of Illinois is unique among public institutions in having led a successful effort to obtain F.D.A. approval for a health claim for a food ingredient, namely soy. Previously, thirty studies had demonstrated the cholesterol-lowering effect of soy protein in the diet. However, the data was inadequate to support a health claim, because some of the research was not conducted under the strict protocols required by F.D.A., and certain cohorts of human subjects had not been studied. The University worked closely with F.D.A., soybean commodity groups, and soy processing firms to correct these deficiencies and achieve the claim.

The University of Illinois has a proven track record for managing research programs that address specific problems in food and agricultural systems with crucial societal outcomes. Successful examples include the C-FAR Sentinel programs and Strategic Research Initiatives, the National Soybean Research Laboratory, the Dudley-Smith Initiative for sustainable agriculture, and the Illinois-Missouri Biotechnology Alliance, to name a few. Thanks in part to significant Federal investments, the University of Illinois mounts one of the largest and best equipped public sector biotechnology research programs in the world with major strengths in both agricultural and biomedical applications of biotechnology. Major state commitments totaling over \$130 million in the Post-Genomics Institute and Illinois Food and Nutrition Institute will improve an already superb infrastructure for basic and developmental research on foods and food ingredients.

*Estimated cost.*—We request \$3 million to initially fund the Future Foods Initiative. To maintain America's competitive leadership for the emerging opportunities in new food functionality and to ensure that consumers derive the potential benefits of new and improved foods and food ingredients, especially those resulting from biotechnology research, this request is of utmost importance. We thank the committee for its strong support of food and agriculture research and ask your consideration of this very important initiative.

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PREPARED STATEMENT OF THE UNIVERSITY OF ILLINOIS

Our testimony is on behalf of the Livestock Genome Sequencing Initiative (LGSI), an extremely important scientific initiative with profound implications for the future of U.S. agriculture and for the biological security of our nation's animal resources. We appreciate the strong support of the Committee for this effort that began in fiscal year 2002. To continue the effort in fiscal year 2003, we request that funding of \$1.6 million be appropriated through USDA, to complete the funding of Stage I for the cattle genome and Stage I of the pig genome mapping effort.

*Concept.*—International participants in the Livestock Genome Sequencing Initiative will create maps of the entire genomes of cattle and pigs and will sequence all the DNA in those genomes, so that every gene in each of the two species is identified by its unique sequence and location on specific chromosomes. The resulting map and sequence information will be placed in databases that can be accessed by scientists using bioinformatics to help establish the function of each of tens of thousands of genes, thus leading to valuable practical applications. Similarities to the human and mouse genomes will be extremely useful in the mapping and sequencing effort and subsequent research.

Funding provided to the University of Illinois, as a member of international consortia, will lead to the completion of the whole-genome physical maps for cattle and for the pig. Specifically, the funding is being used to sequence the ends of approximately 120,000 bacterial artificial chromosomes (BACs) that contain large inserts of cattle and pig DNA. This enables scientists to build and enhance the quality of a whole-genome, high-quality physical map for each species, the critical first step in sequencing these livestock genomes.

*Progress.*—During the first year of the Livestock Genome Sequencing Project (fiscal year 2002), 60,000 new sequences from the cattle genome (cattle genomic inserts in bacterial artificial chromosomes, or BACs) were generated at the University of Illinois. These 60,000 new "sequence tagged sites" are being integrated with maps

that are being created collaboratively with the USDA-ARS and the British Columbia Cancer Research Centre. The sequences generated provide the necessary "anchoring" of the cattle map to the map of the human genome. The second year's work will allow the sequencing of 60,000 additional cattle BAC-ends for the whole-genome cattle map and 60,000 BAC-ends for the swine gene map. When completed, the resulting maps will permit rapid isolation and characterization of genes affecting health, well-being and productivity of cattle and pigs and will provide an indispensable template for the DNA sequencing of both genomes. Preliminary discussions are already underway with other institutions and federal agencies to create the funding base for complete sequencing of the cattle and pig genomes.

*Justification.*—For the long-term protection and security of our nation's food supply, the ability to rapidly diagnose and respond to threats from exposure to infectious and chemical agents rests increasingly on our knowledge of the genomes of critical plant and animal species. Mapping and sequencing genes are the essential first steps to learning the function of each gene. Knowledge of gene location and sequence, as is amply demonstrated by the human genome-sequencing project, opens a whole new vista of approaches to health, welfare, and quality of life issues and serves as the basis for future biological research. Diagnostics and cures for some of the major scourges of mankind, including cardiovascular disease, cancer, diabetes, and obesity are among the potentials of this initiative. In livestock, the initiative will enable powerful, environmentally safe approaches to disease prevention, resistance, and treatment; stress alleviation; increased productivity and profitability; improved food quality, safety, functionality, and diversity; improved odor and waste management; improved environmental quality; and enhanced quality of life for food animals. Above all, the initiative will address the growing aspirations of the world's population for nutritious, healthy, safe, and affordable livestock products and will provide new technology to secure those products against bioterrorist threats.

Even though it is an international undertaking, there is a very important global competitiveness dimension to this initiative, as well. To illustrate, China, the world's largest pork producer, and Denmark, the largest pork producer per capita and a major world exporter of pork and pork products, have launched an aggressive swine genome sequencing initiative. Independent efforts to sequence the cattle genome are underway in New Zealand. If the U.S. is to remain technologically competitive in global food markets, it is absolutely essential for the U.S. to be among the first to map and sequence food animal genomes. This fundamental biological information is the foundation for sustainable competitive advantage.

*Economic development impact.*—Focusing on the agricultural and food implications alone, rapid population growth, urbanization, and growing affluence in the most populous parts of the world are resulting in rapidly expanding world markets for livestock products. Enormous future growth is very likely, as developing countries improve both political and economic systems. To compete effectively for those markets, Illinois and the nation must be among the first to implement new livestock technology derived from genomics. Livestock production is the leading source of added value for the feed grains and oilseeds produced in Illinois and the Midwest, and technological leadership will allow that value to be captured in the areas where the new technology is implemented. This increased value would accrue to Illinois and the nation as increased profits throughout the swine and cattle industries, greater demand for feed grains and oilseeds, reduced costs of government farm programs, increased employment and economic development, and improved consumer products. Substantial economic returns can also be expected from applications of this technology to various aspects of human health. New technology emerging from the interface of animal genomics with nanotechnology will yield new opportunities to produce biosensors that will protect the nation's cattle and swine from biological threats.

*University capabilities.*—The University of Illinois is uniquely positioned to lead in mapping the pig and cattle genomes. The Biotechnology Center, which includes the W. M. Keck Center for Comparative and Functional Genomics, provides one of the highest-throughput public gene mapping and sequencing capabilities in the nation, as well as a number of state-of-the-art genetic analysis capabilities, such as microarray analysis. Cutting edge bioinformatics capabilities are provided by the National Center for Supercomputing Applications.

These superb research support capabilities enabled University of Illinois scientists to become leaders in research concerning cattle, swine, and soybean genomes. The infrastructure is further enhanced by sizeable public investments in facilities, including the Edward R. Madigan Laboratory and the Post-Genomics Institute. The University of Illinois was also selected by USDA to establish the "Agricultural Genome Sciences and Public Policy Training Program."

Additional state appropriations are enabling many distinguished scientists of demonstrated excellence to join a faculty that is already internationally preeminent in the genomics area. Also, the University has a long history of productive alliances and cooperation with other public and private institutions, both here and abroad, in biotechnology research. For example, the University was the first in the Western Hemisphere to import Chinese swine and exploit their advantages in prolificacy, disease resistance, and superiority for genetic research.

*Sponsor and funding status.*—Under the leadership of USDA–ARS and University of Illinois scientists, international consortia for cattle and pig genome mapping and sequencing are being formed. The consortium that has initially undertaken the mapping of the cattle genome is presently comprised of the USDA–ARS, the University of Illinois, Shirakowa Institute of Animal Genetics (Japan), and the Alberta Livestock Genomics Initiative (Canada). The international consortium for sequencing the pig genome is being established with USDA–ARS and the University of Illinois to also include the Sanger Center—Cambridge (UK) and INRA (France).

The long-term objective of the multinational, multi-institutional Livestock Genome Sequencing Initiative (LGSi) is to obtain the complete sequences of the cattle and pig genomes with a total expected investment of approximately \$100 million per species. The first stage, anchored by the initial federal appropriation (\$800,000) in the fiscal year 2002 LGSi initiative, is creating the physical maps of the cattle and pig genomes from the sequence-ready bacterial artificial chromosomes (BACs). Continuing appropriation of \$1.6 million in fiscal year 2003 will allow for completion of this stage. The second stage, to be accomplished in the third through the 5 years, will result in targeted sequencing of chromosomal regions containing genes of economic importance to the livestock industry or approximately eight million DNA bases annually for each species. This will lead to the eventual complete genome sequences, three billion DNA bases for each species, with funding recruited from public and private sources by the international consortia.

*Request and summary.*—For fiscal year 2003, \$1.6 million is requested to be appropriated through the USDA to complete the funding of Stage I for cattle and of Stage I of the pig. If appropriated, these funds will be provided to the University of Illinois, as a member of the international consortia, to lead the completion of the whole-genome physical map for cattle and for the pig. Specifically, the funding will be used to sequence the ends of approximately 120,000 bacterial artificial chromosomes (BACs) that contain large inserts of cattle and pig DNA. This will greatly speed and facilitate building a whole-genome, high-quality, physical map of each species, the critical first step in sequencing the genomes.

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PREPARED STATEMENT OF THE UNIVERSITY OF SOUTHERN MISSISSIPPI

Mr. Chairman, distinguished Members of the Subcommittee, I would like to thank you for this opportunity to provide testimony describing ongoing research and commercializing efforts of The University of Southern Mississippi (USM) and the Mississippi Polymer Institute. I am very grateful to the Subcommittee for its leadership and the continued support of the Institute and its work. This testimony will include an update on the progress of the Institute since my testimony of approximately one year ago. During the past year, our efforts have focused principally on two commercialization thrusts. One effort involves our novel, agricultural-based inventions in emulsion polymerizations, and the other is to produce a commercial, formaldehyde-free, soybean derived adhesive for a variety of composite board materials, i.e., particle-board or oriented strand board (OSB). During the past year, we have continued to refine the adhesive and have prepared particle boards from our novel adhesive that meet commercial specifications. We are optimistic that these materials can be commercialized. We are currently working to reduce the cost of the adhesive in order to improve its commercial viability. With respect to the agricultural derived emulsions, I am happy to say that they have found commercial viability at this time. However, much more needs to be done in order to exploit the many uses of this novel technology. It is my belief that many applications exist, and our efforts to date have uncovered but a few applications. I will discuss the progress made with the two inventions separately in order to offer more clarity.

In the case of castor and soy oil, we have designed and synthesized almost one hundred novel vegetable oil macro-monomers (VOMM) or polymer building blocks that offer state-of-the-art technology. For instance, the attributes of this technology include the ability to produce odor free, solvent free, non-polluting latex coatings. This represents the best-available technology for the production of solvent free latex coatings. The success of the technology depends on the use of agricultural materials as a building block of emulsion derived polymers offering a new opportunity for ag

derived materials as a raw material in the polymer industry. By contrast, contemporary latex coatings contain 250 grams/liter or more of air pollutants or volatile organic content (VOC) per gallon. Moreover, this novel technology, if practiced, would allow governmental regulatory agencies to tighten the restrictions on VOC emissions of applied coatings without financial harm to the coatings industry. The fundamental scientific principles regarding its mode of action have been confirmed, yet additional data must be collected as even more novel monomers, or polymer building blocks, are designed and synthesized. We have identified emulsion polymerization as a synthetic technique particularly suited for use of these materials. We have also found that it holds much promise in ultraviolet cured polymers in that hard, scratch resistant coatings are produced in seconds from this novel technology. We have utilized this technology in the design and fabrication of industrial coatings that offer high performance, flexible, and non-blocking products. We have secured a pilot scale manufacturing facility for this material, and as a result, can produce 20 gallons of VOMM per run. Financial assistance was obtained via the USDA SBIR division competitive grant applications. We have met our SBIR objectives for Phase I and are currently implementing the Phase II award protocol. As a result of this work, we are now able to provide sufficient quantities of product to prospective users of this technology. We have sampled many interested parties and are continuing negotiations with several firms regarding commercialization. Finally, we have manufactured and shipped VOC free and low odor paints to the Pentagon for use in renovation and maintenance of this facility.

Over the past year, new patent applicants have been filed and others have been issued. Foreign patent filings have also been affected. New patent applications will certainly be submitted during the coming year.

In summary, commercialization efforts have continued over the past year with sales of paint to the Pentagon and polymer for textile treatments. Patents have been approved, new patent applications have been submitted, several toll manufacturing runs have been made, a USDA SBIR grant is in force to assist in the development of this technology, new industrial coatings have been designed, manufactured, formulated, and tested, and formulation efforts have been directed toward the generation of high performance, low odor, and low VOC coatings. We are optimistic that sales of these ag derived products will expand dramatically during 2002!

In yet another of our novel ag based technologies, we have developed formaldehyde-free adhesives for use in the composites industry, specifically for particle board and oriented strand board. The new adhesives are composed of more than 98 percent agricultural products and are comparable in properties with traditional formaldehyde adhesives. Formaldehyde emissions are regulated as formaldehyde is considered a potential cancer producing agent. Consequently, there is a move afoot to remove formaldehyde from articles of commerce. This work to reduce water absorption values has been successfully completed. Moreover, while water absorption values are within limits so are values for internal bond strength, modulus of elasticity, and modulus of rupture. These developments represent major technical advancements during the past year. The cost of the soy adhesive is higher than formaldehyde derived adhesives, and our current goal is therefore to reduce adhesive costs while maintaining adhesive properties.

In 1983, the Mississippi Legislature authorized the Polymer Institute at USM to work closely with emerging industries and other existing polymer-related industries to assist with research, problem solving, and commercializing efforts. The institute has maintained that thrust during the past year with much success. In fact, while manufacturing jobs alone in Mississippi have declined over the past 10 years, manufacturing jobs in the plastics sector have risen and continue to rise.

The Institute provides industry and government with applied or focused research, development support, and other commercializing assistance. This effort complements existing strong ties with industry and government involving exchange of information and improved employment opportunities for USM graduates. Most importantly, through basic and applied research coupled with developmental and commercializing efforts of the Institute, the School of Polymers and High Performance Materials continues to address national needs of high priority.

The focus of my work is commercialization of alternative agricultural crops in the polymer industry. We are having success! This approach offers new opportunities for agriculture since the polymer industry is the largest segment of the chemical products industry in the world, and heretofore has been highly dependent upon petroleum utilization. However, the theme of our work is simple; high performance, and environmentally friendly technology utilizing agricultural (sustainable) crops when possible. In this way, we as a Nation can improve our environment, reduce our dependence on imported petroleum, and keep America's farmlands in production. As farm products meet the industrial needs of the American society, rural America is

the benefactor. Heretofore, this movement to utilize alternative agricultural products as industrial raw materials has received some attention but much less than opportunities warrant. Your decisions are crucial to the accomplishment of these goals as funding from this Subcommittee has enabled us to implement and maintain an active group of university-based polymer scientists whose energies are devoted to commercializing alternative crops. We are most grateful to you for this support, and ask for your continued commitment.

The faculty, the University, and the State of Mississippi are strongly supportive of the Mississippi Polymer Institute and its close ties with industry. Most faculty maintain at least one industrial contract as an important part of extramural research efforts.

Polymers, which include fibers, plastics, composites, coatings, adhesives, inks, and elastomers, play a key role in the materials industry. They are used in a wide range of industries including textiles, aerospace, automotive, packaging, construction, medical prosthesis, and health care. In the aerospace and automotive applications, reduced weight and high strength make them increasingly important as fuel savers. Their non-metallic character and design potentials support their use for many national defense purposes. Moreover, select polymers are possible substitutes for so-called strategic materials, some of which come from potentially unreliable sources.

As a polymer scientist, I am intrigued by the vast opportunities offered by American agriculture. As a professor, however, I continue to be disappointed that few of our science and business students receive training in the polymer-agricultural discipline as it offers enormous potential. The University of Southern Mississippi, the School of Polymers and High Performance Materials, and the Mississippi Polymer Institute are attempting to make a difference by showing others what can be accomplished if appropriate time, energy, and resources are devoted to the understanding of ag based products.

I became involved in the polymer field 38 years ago and since that time, have watched its evolution where almost each new product utilization offered the opportunity for many more. Although polymer science as a discipline has experienced expansion and a degree of public acceptance, alternative agricultural materials continue to be an under-utilized national treasure for the polymer industry. There is less acceptance of petroleum derived materials today than ever before, and consequently the timing is ideal for agricultural materials to make significant inroads as environmentally friendly, biodegradable, and renewable raw materials. These agricultural materials have always been available for our use, yet society for many reasons, has not recognized their potential. The following examples are included and represent opportunities other than those already described which supports this tenet:

—A waterborne, waterproofer has been designed and formulated with the help of several natural products. It is being evaluated by select chemical companies as a possible product in their product mix. The material functions as a waterproofer yet is carried in water. However, after application to the intended substrate, typically wood or cementous products, the material becomes hydrophobic and highly water resistant. We have collected two and one-half years of exposure data on this product with excellent success. We have made additional contacts with industrial firms during the year in hopes for commercialization but industry is complacent and no driving force for change exists. For instance, unless VOC emission laws are tightened, little movement will be toward new, environmentally friendly, products. However, we will continue our efforts to promote the use of ag based products offering improved environmental attributes, i.e., high performance accompanied by low odor and low VOCs.

—We have exploited the potential of lesquerella, a crop that produces a triglyceride similar to castor oil. Several high performance products have been prepared and include polyesters, stains, foams, pressure sensitive adhesives, and 100 percent solid ultraviolet (UV) coatings. This technology was highlighted at the AARC/NASDA meeting in Washington, DC. We have developed a cooperative relationship with Alcorn State University, Lorman, MS to grow and thus evaluate the agronomics of lesquerella as a new crop for the Southeastern U.S. region. Consequently, we have fabricated ag based foams for use as weed retardant mulches. The new foams are under test as this report is being written.

U.S. agriculture has made the transition from the farm fields to the kitchen tables, but America's industrial community continues to be frightfully slow in adopting ag based industrial materials. The prior sentence was included in my last two testimonies but continues to ring true, even as I write this report. However, we are making progress and we must persist. We must aggressively pursue this opportunity and in doing so:



- Intensify U.S. efforts to commercialize alternative crops and dramatically reduce atmospheric VOC emissions and odor. The result will be much cleaner and less noxious air for all Americans.
- Reduce U.S. reliance on imported petroleum.
- Maintain a healthy and prosperous farm economy.
- Foster new cooperative opportunities between American farmers and American industry.

Mr. Chairman, your leadership and support are deeply appreciated by the entire University of Southern Mississippi community. While I can greatly appreciate the financial restraints facing your Subcommittee, I feel confident that further support of the Mississippi Polymer Institute will continue dividends of increasing commercialization opportunities of agricultural materials in American industry. Advances in polymer research are crucial to food, transportation, housing, and defense industries. Our work has clearly established the value of ag products as industrial raw materials and we must move it from the laboratories to the industrial manufacturing sector. Only then can the U.S. enjoy a cleaner and safer environment which these technologies offer, as well as new jobs, and expanded opportunities for the U.S. farmer. We are most grateful for the support you have provided in the past. The funding you have provided has allowed laboratory work to be conducted, pilot commercial manufacturing to be completed, and limited sales of products derived from this technology. However, additional funds are needed to make these technologies cost effective while maintaining the high performance standards of which we are accustomed. Pilot scale processes are necessary to move this technology into the market place and this will be the principal focus of our upcoming work. Of course, while working to achieve commercialization, continued technology advancement will be in effect, as will basic research on those topic areas where knowledge is required.

Since our testimony last year we have reached new levels of commercializing efforts in that we have manufactured final and finished products for sale. Indeed, the technology has matured and marketing and sales must move parallel with continued commercial development of new products. Thus, we are in need of additional resources to take these technologies to the market place and to continue our developments of other exciting technologies. We therefore respectfully request \$1.5 million in federal funding to more fully exploit the potentials of commercializing the technologies described herein. We have shown that we can be successful, yet we need additional resources in order to optimize the potential of this technology. Our efforts will be recognized as instrumental in developing a "process" for commercialization of new ag based products. That is, we will have taken a technology from the "idea" stage to commercialization in several market areas. The development of this process, and to show it successful, is extremely important to all entrepreneurs who believe in ag based products. Thank you Mr. Chairman and Members of the Subcommittee for your support and consideration.

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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.

Funding for conservation programs on private lands has eroded over time and is now less in constant dollars than during the depths of the Great Depression. The USDA's conservation programs and technical assistance are crucial alternatives to a totally regulatory approach to improving water quality. These important programs are inadequately funded, and many require reauthorization in the pending Farm Bill, making coordination of the authorizing and the appropriations processes absolutely critical this year. The UMRBA supports continuation and expansion of these programs, and urges Congressional appropriators to make adequate provisions for programs pending in the Farm Bill.

Of particular importance to the UMRBA is funding for the Conservation Reserve Program (CRP), Wetlands Reserve Program (WRP), and Environmental Quality Incentives Program (EQIP). Taken together, these three Commodity Credit Corporation-funded programs provide an invaluable means for the USDA to work with landowners, local conservation districts, and the states to ensure that agricultural productivity is maintained while protecting the nation's soil and water resources. Moreover, they do this in a voluntary, non-regulatory fashion. CRP, WRP, and EQIP 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. In addition, these conservation programs will be absolutely essential to addressing the growing national concern with hypoxia in the Gulf of Mexico through the reduction of nutrient loads from agriculture. 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 (UMRB) believe these programs are vital. Strong farmer interest and state support demonstrate the region's commitment to the objectives of these programs. In 1998, state, local, and private entities matched every dollar of NRCS investment in the five states with an additional \$0.80.

#### CONSERVATION RESERVE PROGRAM

Under President Bush's fiscal year 2003 budget request, funding for the CRP would increase modestly to \$1.856 billion. While this increase is certainly welcome, it is not adequate to fund the expanded CRP provided for in both the House- and Senate-passed Farm Bills. Since its inception, enhancements to the CRP have increased its effectiveness in improving water quality, soil conservation, and habitat. These same enhancements, which include noncompetitive enrollment for filter strips, riparian buffers, and similar measures, as well as establishment of the Conservation Reserve Enhancement Program (CREP), have made the program more flexible and thus more attractive to farmers. In Illinois, Iowa, Minnesota, Missouri, and Wisconsin, CRP enrollment currently totals 6.6 million acres, or almost 20 percent of the national total. All five states also have active CREP programs tailored to meet their priority conservation needs. Current CREP enrollment in the UMRB states is almost 146,000 acres, or 50 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.

However, while demand for the program is up, the CRP has been unable to capitalize fully on its increased attractiveness and effectiveness because of its 36.4 million acre cap, which USDA projects will be reached this calendar year. Currently, new enrollments are limited to priority areas through noncompetitive enrollment, the CREP, and a farmable wetlands pilot. Thus, it is essential that Congress act this year to increase the CRP enrollment cap and then provide sufficient funding to support the program, thereby ensuring that the CRP will continue its vital role in helping states, local communities, and landowners meet their water quality and conservation goals.

#### WETLANDS RESERVE PROGRAM

Equally pressing is the need to fund and expand the enrollment cap for the WRP, which has already reached its 1.075 million acre cap. Citing the cap, President Bush has not requested any fiscal year 2003 funding for the WRP. Since the WRP's establishment in 1996, its easements have proven to be important tools for restoring and protecting wetlands in agricultural areas. This is clearly evident from the overwhelming landowner response and the resulting improvements to water quality and habitat. WRP enrollment in Illinois, Iowa, Minnesota, Missouri, and Wisconsin totals almost 178,000 acres, or more than 15 percent of the national total. But, as of 2001, the backlog of land in these five states offered for WRP enrollment totaled almost another 122,000 acres. As with the CRP and CREP, the WRP is a vital tool in the agricultural conservation toolbox. Clearly the time is right for Congress to secure the WRP's future this year by significantly expanding the acreage cap and providing continued funding for this valuable program.

#### ENVIRONMENTAL QUALITY INCENTIVES PROGRAM

The CRP and WRP have been extremely effective in helping Midwest farmers to protect land and water resources by curtailing production on some of their most sensitive land. And there are certainly many more opportunities to make good use of the CRP and WRP in the region. However, it is also essential to support sound conservation practices on the far greater amount of land that remains in production. EQIP is the USDA's largest and most effective means of assisting farmers and ranchers to implement conservation practices on land currently in production. EQIP assistance can, for example, help operators balance the new dynamics of livestock production with the need to protect soil and water resources.

Like many other conservation programs, EQIP funding has not kept pace with demand. In 2001, unmet requests for EQIP assistance in Illinois, Iowa, Minnesota, Missouri, and Wisconsin alone were estimated at \$147.9 million. The President has requested the current authorized funding level of \$200 million for EQIP in fiscal

year 2003. Moreover, should EQIP be reauthorized this year, the President's budget has recommended up to \$1 billion for the program in fiscal year 2003. The states are gratified by the Administration's support for EQIP and concur that the program offers the best opportunity to support conservation measures on working lands.

#### CONSERVATION TECHNICAL ASSISTANCE

The UMRBA remains concerned with the adequacy of funding and staffing levels in the NRCS's conservation operations account. The technical assistance funded through conservation operations provides the foundation for the USDA's voluntary conservation planning. The Administration has proposed an increase of \$46 million in conservation technical assistance funding for fiscal year 2003. However, this overall increase would be more than entirely consumed by a \$48 million increase directed toward technical assistance for animal feeding operations. While the states agree that the water pollution problems associated with such operations must be addressed, they are concerned that other critical technical assistance functions would actually experience a net decrease under the President's budget. As a result, NRCS field staff will continue to have difficulty providing the timely, comprehensive technical assistance that farmers need if they are to participate effectively in the USDA's conservation programs and related state programs. A 2001 National Workload Analysis found that the NRCS needs approximately 1,900 employees at the field level in Illinois, Iowa, Minnesota, Missouri, and Wisconsin. At the time, actual field staff in the five states numbered about 1,250, or one-third below the estimated needs. Under the Administration's fiscal year 2003 budget, overall NRCS staffing would continue its multi-year decline, further reducing the effectiveness of technical assistance. The House- and Senate-passed Farm Bills would both authorize NRCS to work with third party vendors to deliver conservation technical assistance. This approach has the potential to alleviate problems associated with insufficient NRCS field staff. However, regardless of who delivers the technical assistance, it will remain imperative for Congress to ensure that the NRCS has resources necessary to effectively meet landowners' needs for such assistance.

#### WATERSHED PROGRAMS

The UMRBA is extraordinarily disappointed by the President's failure to fund three critical watershed programs—i.e., Watershed and Flood Prevention Operations, Watershed Surveys and Planning, and the Watershed Rehabilitation Program. These programs all provide significant local, regional, and national benefits in the areas of erosion, sediment, and flood damage reduction; conservation; water supply; and development. They are soundly within USDA's tradition of working with states and local communities to enhance rural America. By shifting the Watershed and Flood Prevention Operations account entirely to emergency response work, the Administration would transform a proactive program to an entirely reactive one. Together with terminating funding for Watershed Surveys and Planning, this would virtually eliminate the NRCS's ability to address vital rural water resource needs. Similarly, the states oppose the President's proposal to eliminate funding for the Watershed Rehabilitation Program. This program was established under the Small Watershed Rehabilitation Amendments of 2000 and authorizes the NRCS to assist local sponsors in rehabilitating aging Public Law 534 and Public Law 566 flood control structures. A 1999 estimate put national rehabilitation needs at \$543 million, with needs in Illinois, Iowa, Minnesota, Missouri, and Wisconsin accounting for more than 10 percent of the total. These are very real needs, with very real potential public health and safety implications. As Congress rightly concluded when it authorized the program in 2000, the Federal Government has an appropriate role in addressing those needs. The states urge Congress to restore funding for these three important watershed programs.

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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 three areas: the Market Access Program (MAP); Food Quality Protection Act (FQPA) implementation; and Agricultural Research Service (ARS) funding.

U.S. Apple is the national trade association representing all segments of the apple industry. Members include 40 state and regional apple associations representing the 9,000 apple growers throughout the country as well as more than 500 individual firms involved in the apple business. Our mission is to provide the means for all

segments of the U.S. apple industry to join in appropriate collective efforts to profitably produce and market apples and apple products.

*Market Access Program (MAP).*—U.S. Apple strongly supports increasing the annual appropriation for MAP from \$90 million to \$200 million.

The apple industry receives roughly \$3 million annually in export development funds from the U.S. Department of Agriculture's Market Access Program (MAP). These funds are matched by grower dollars to promote apples in more than 20 countries throughout the world. Since this program's inception in 1986, the U.S. apple industry has expanded fresh apple exports by 277 percent, thanks in large part to the foreign promotions made possible by this program. One-quarter of U.S. fresh apple production is exported, with an annual value of roughly \$400 million.

The U.S. apple industry faces keen competition around the globe from competitors who receive significant government funds for generic promotions. The governments of our foreign competitors spend approximately \$500 million on export promotion and market development. It has become increasingly difficult for U.S. exporters to compete with European and Chinese producers who receive massive government assistance. Increased funding for this critical program will assist U.S. apple producers to better compete and revive export demand in countries recently hit by adverse economic conditions.

*Food Quality Protection Act (FQPA) Implementation.*—U.S. Apple strongly supports full funding for the following programs intended to facilitate fair FQPA implementation and to offset its anticipated negative impact on apple growers.

Specifically, U.S. Apple supports the U.S. Department of Agriculture's following budget requests.

- \$14.8 million for the Pesticide Data Program, administered by the Agricultural Marketing Service (AMS);
- \$8.0 million for the National Agricultural Statistics Service (NASS) pesticide-usage surveys;
- \$2.6 million for the Office of Pest Management Policy administered by the Agricultural Research Service (ARS);
- \$3.6 million for minor-use registration of crop protection tools (IR-4) administered by ARS;
- \$7.2 million for area-wide Integrated Pest Management research administered by ARS;
- \$13.5 million for the Integrated Pest Management Research Grant Program administered by the Cooperative State Research, Extension and Education Service (CSREES);
- \$10.5 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.

*Temperate Fruit Fly Research Position—Yakima, Wash.*—U.S. Apple requests continued funding of \$300,000 to conduct critical research at the USDA-ARS laboratory in Yakima, Wash. on temperate fruit flies, a major pest of apples.

The Yakima, Wash., USDA Agricultural Research Service (ARS) facility is conducting research critical to the crop protection needs of the apple industry. FQPA implementation has reduced the number of pesticides currently available to growers for the control of pests, such as cherry fruit fly and apple maggot. Left unchecked, these temperate fruit flies can be devastating. Thus, research is needed to develop alternative crop protection methods as growers struggle to cope with the loss of existing tools. While Congress appropriated \$300,000 last fiscal year for this critical research, the administration's proposed budget for fiscal 2003 rescinds this funding.

*Post Harvest Quality Research Position—East Lansing, Mich.*—U.S. Apple requests that the committee provide continued funding of \$309,600 for postharvest-quality research at the ARS laboratory in East Lansing, Michigan.

The East Lansing, Mich., USDA Agricultural Research Service (ARS) facility is conducting research critical to the future economic recovery of the apple industry. Using a series of new sensing technologies, researchers at this facility are developing techniques that would allow apple packers to measure the sugar content and firmness of each apple before it is offered to consumers. Research indicates consumer purchases will increase when products consistently meet their expectations, suggesting consumers will eat more apples once this technology is fully developed and employed by our industry. While Congress appropriated \$309,600 last fiscal year for this critical research, the administration's proposed budget for fiscal 2003 rescinds this funding.

*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.

Worldwide apple production increased by 126 percent between 1990 and 2000, while U.S. apple production grew by 10 percent during this same period. This dramatic increase in global apple production continues to threaten the profitability of America's apple growers. Global oversupply, subsidized foreign competition and unfairly priced imports have caused apple prices to plummet, while regulatory, production and distribution costs are steadily increasing. The U.S. apple industry's future survival may depend on its ability to develop and utilize new technology to decrease costs, while improving apple quality. Thus, the industry is seeking Federal support of a research initiative to develop new technology to automate orchard and fruit handling operations, optimize fruit quality, nutritional value, and safety, and integrate digital technologies and communication.

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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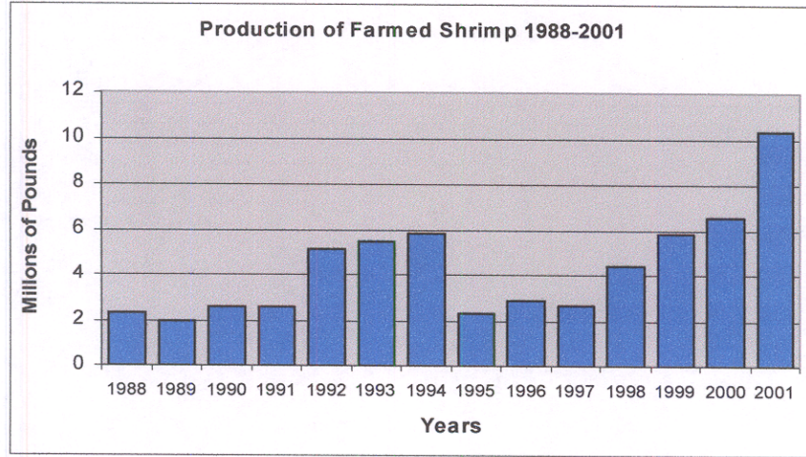
#### PREPARED STATEMENT OF THE U.S. MARINE SHRIMP CONSORTIUM

Mr. Chairman, we greatly appreciate the opportunity to provide testimony to you and the Subcommittee, to thank you for your past support and to discuss the achievements and opportunities of the U.S. Marine Shrimp Farming Program.

We would like to bring to your attention the success of the U.S. Marine Shrimp Farming Consortium and its value to the nation. The Consortium consists of institutions from six states: The University of Southern Mississippi/Gulf Coast Research Laboratory, Mississippi; The Oceanic Institute, Hawaii; Tufts University, Massachusetts; Texas A & M University, Texas; The Waddell Mariculture Center, South Carolina; and the University of Arizona, Arizona. These institutions have made major advances in technology to support the U.S. shrimp farming industry, and the program's excellent performance through multi-state collaboration has been recognized by the USDA in its recent program reviews. The Consortium is at a point of making significant contributions to building the U.S. industry, reducing the trade deficit, and satisfying increasing consumer demand for shrimp. Seafood imports constitute the second largest trade deficit item for the U.S. at \$7.1 billion and shrimp represents approximately half of this deficit.

#### ACCOMPLISHMENTS

The Consortium, in cooperation with private industry, industry associations, and government agencies has generated new technologies for producing premium quality marine shrimp at competitive prices. To date the program has: (1) established the world's first and currently most advanced breeding and genetic selection 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 Sub-committee on Aquaculture's efforts to assess the threat of globally transported shrimp pathogens; (6) supplied the U.S. industry with selectively bred and disease resistant shrimp stocks; (7) developed advanced technology biosecure shrimp production systems to protect both cultured and native wild stocks from disease; and (8) developed new feed formulations to minimize waste generation. These substantial accomplishments advance the continued growth of our industry, place an important emphasis on environmental sustainability, and increase market competitiveness. Judging from the state of our industry today, USMSFP programs continue to have measurable positive effects. The coastal industry continues to lead in the production of farmed raised shrimp in the U.S. Recent improvements in farm management practices have resulted in bumper crops for the industry. The year 2001 resulted in the largest harvest ever for U.S. farmers at over 10 million pounds. This represents a 50 percent increase in U.S. production over the last 8 years.



INDUSTRY VULNERABILITY

While exceptional progress has been made, this emerging and important industry is continually confronted with new challenges. It depends on the U.S. Marine Shrimp Farming Program (USMSFP) for high-health and improved stocks, disease diagnosis and production technologies. As a result of the consortium's support, the U.S. industry has maintained relative stability while other countries have had major losses in their production due to diseases and environmental problems. Disease losses due to exotic viruses in Asia and Latin America during the past 5 years have approached \$6 billion U.S. There have been no outbreaks of notifiable disease in the U.S. during the last 3 years and a commensurate increase in shrimp production during the same period. With reliable protection in place, we have also seen a commensurate geographic expansion of the industry within the U.S. A broader industry base, while increasing production through the addition of new farms, also provides additional protection to the industry by geographically isolating different regional sectors of the industry in the event of disease outbreaks or natural disaster. Significant amounts of shrimp production now comes from a wide part of the South with farms now operational in South Carolina, Florida, Alabama and Texas. Arizona and Hawaii have also greatly expanded production during the same period.

THE STATE OF THE U.S SHRIMP INDUSTRY, 2001

States	Production in lbs	Farms	Hatcheries
AL .....	400,000	4	0
SC .....	435,000	10	2
FL .....	500,000	4	3
AZ .....	500,000	4	1
HI .....	1,000,000	7	5
TX .....	7,500,000	18	1
Total .....	10,335,000	47	12

But, while significant progress has been made in risk assessment and risk management with visible success, to further improve the competitiveness of the U.S. industry, the industry and the USMSFP must remain constantly vigilant. In addition to providing significant input on the development of national and international regulatory standards for shrimp farmers, important service work for government agencies and NGOs keeps us continuously apprized of new developments pertaining to emerging regulations so that USMSFP research plans can be kept proactively responsive to dynamic shifts in industry needs.

## INDUSTRY INDEPENDENCE

As a result of the work of the Consortium, investor confidence is increasing. In addition to supporting today's industry, advanced biosecure shrimp production systems will allow the expansion of shrimp farming into near-shore, inland/rural, and desert sites away from the environmentally sensitive coastal zone. Importantly, these new production technologies produce the highest quality shrimp at world competitive prices, consume U.S. grains as feed, and do not pose any threat to the environment. Shrimp farming is the newest agricultural industry for the U.S. and USDA/CSREES has suggested that our program represents a model program for resolving important problems and capturing opportunities in both agriculture and aquaculture. Clearly the U.S. shrimp farming industry has emerged from the early 90's with a larger and more diverse industry for the new millennium.

To begin completion of our remaining tasks, an increase in the current funding level from \$4.277 million to \$5 million is being requested. Allocation of \$5 million per year for the next few years to work in cooperation with the private sector, to support existing efforts, and to build this new industry with its associated jobs and economic benefits is in the best interests of the nation.

Mr. Chairman, the U.S. shrimp farming industry and our Consortium deeply appreciate the support of the Committee and respectfully ask for a favorable consideration of this request.

## PREPARED STATEMENT OF THE UNITED STATES TELECOM ASSOCIATION

## SUMMARY OF REQUEST

*Project Involved.*—Telecommunications Loan Programs Administered by the Rural Utilities Service (RUS) of the U.S. Department of Agriculture.

*Actions Proposed.*—Supporting RUS loan levels and the associated funding subsidy for the hardship, cost of money, Rural Telephone Bank and loan guarantee programs in fiscal year 2003 in the same amount as loan levels specified in the fiscal year 2002 Agriculture Appropriations Act. Opposing the Administration's proposal to not fund Rural Telephone Bank loans in fiscal year 2003. Also supporting an extension of the language removing the 7 percent interest rate cap on cost of money loans. Also supporting an extension of the prohibition against the transfer of Rural Telephone Bank funds to the general fund. Opposing the proposal contained in the budget to transfer funds from the unobligated balances of the liquidating account of the Rural Telephone Bank for the Bank's administrative expenses. Supporting funding in the amount of \$6.1 million of the distance learning and telemedicine loan and grant authority to extend the pilot program to finance broadband transmission and local dial-up Internet service in rural areas.

The United States Telecom Association (USTA) represents over 1,400 telecom companies that provide telecom services. USTA members range from large publicly-held corporations to small family-owned companies, as well as cooperatives owned by their customers. I am Walter B. McCormick, Jr., President and CEO of USTA. I submit this testimony in the interests of the members of USTA and their subscribers.

USTA members firmly believe that the targeted assistance offered by a strong RUS telecommunications loan program remains essential in order to maintain a healthy and growing rural telecommunications industry that contributes to the provision of universal telephone service. We appreciate the strong support this committee has provided for the telecommunications program since its inception in 1949 and look forward to a vigorous program for the future.

## A CHANGING INDUSTRY

As Congress recognized through passage of the Telecommunications Act of 1996, telecommunications in the United States is in the midst of the most significant changes any industry has ever undergone. Both the technological underpinnings and the regulatory atmosphere are changing at an extraordinarily rapid pace. Without system upgrades, rural customers will be left out of the emerging information revolution.

The need for modernization of rural telecommunications technology employed by RUS borrowers. Primarily, rural telecommunications companies, has never been greater. In addition to upgrading switching capability to allow new services to be extended to rural subscribers, it is critical that rural areas be included in the nationwide drive for greater bandwidth capacity. In order to provide higher speed data services, such as Digital Subscriber Line (DSL) connections to the Internet, outside

plants must be modernized and new electronics must be placed in switching offices. With current technology, DSL services cannot be provided to customers located on lines more than three miles from the switching office. Rural areas have a significant percentage of relatively long loops and are therefore particularly difficult to serve with these higher speed connections. Rural telecommunications companies are doing their best to restructure their networks to shorten loops so that DSL may be provided, but this is an expensive proposition that 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 and human development more than justify this investment in the future by the federal government.

Greater bandwidth and switching capabilities are crucial infrastructure elements that will allow rural businesses, schools and health care facilities to take advantage of other programs available to them as end users. The money spent on having the most modern and sophisticated equipment available at businesses, schools or clinics is wasted if the local telecommunications company cannot afford to build facilities that quickly transport and switch the large amounts of data that these entities generate. RUS funding enhances the synergies among the FCC and RUS programs targeted at improving rural education and health care through telecommunications.

The RUS program provides needed incentives, in the form of a reliable source of fairly priced, fixed rate long term capital, to help offset regulatory uncertainties related to universal service support, interstate access revenues and interconnection rules. RUS is a voluntary incentive program that encourages local telecommunications companies to build the facilities essential to economic growth.

RUS endures because it is a brilliantly conceived public-private partnership in which the borrowers are the conduits for the federal government benefits that flow to rural telephone customers, the true beneficiaries of the RUS program. The government's contribution is leveraged by the equity, technical expertise and dedication of local telecommunications companies. The small amount of government capital involved is more than paid back through a historically perfect repayment record by telecommunications borrowers, as well as the additional tax revenues generated by the jobs and economic development resulting from the provisioning 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.

#### IMPACT OF CREDIT REFORM ON THE RURAL TELEPHONE BANK

Contrary to the intent of Congress, the interpretation of credit reform by the Office of Management and Budget (OMB) has significantly affected the operation of the Rural Telephone Bank (RTB). One of the most damaging impacts of OMB's interpretation of the credit reform law is to essentially split the RTB into two banks—a liquidating account bank, which is responsible for pre-credit reform loans, and a financing account bank, which is responsible for post credit reform loans. USTA has protested this arrangement since it began, since it prevents the relending of borrower repayments to fund new loans in direct contravention of Sec. 409 of the bank's enabling act. This, in turn, forces the RTB to borrow unnecessarily from the Treasury to fund new loans. It also permits funds to build up in the liquidating account that were generated by GAO-documented interest rate overcharges, instead of those funds being returned through relending to the same universe of borrowers that initially generated them. OMB should adhere to Sec. 409 of the Rural Electrification Act and allow those repayments to be used to fund new RTB loans.

#### RECOMMENDATIONS

Continuation in fiscal year 2003 of the loan levels and necessary associated subsidy amounts for the RUS telephone loan programs that were recommended by this Committee and signed into law for fiscal year 2002 would maintain our members' ability to serve the nation's telecommunications needs, maintain universal service and bring advanced telecommunications services to rural America.

USTA strenuously objects to the proposal in the budget recommendation to not fund RTB loans in fiscal year 2003. The proposal is fundamentally flawed. The RTB's mission is far from complete. Loans made today are to provide state of the art telecommunications technology in rural areas. If no bank loans were made in fiscal year 2003, the budgetary outlay savings would be minimal because RTB loans



are funded over a multiyear period. Moreover, because of the minimum statutory interest rate of 5 percent, the RTB has an excellent opportunity to actually generate a profit for the government!

Not funding RTB loans will not “generate increased member and borrower support for statutorily authorized privatization”. This ignores the fact that privatization of the RTB began in 1995 under the current law and is proceeding annually. Over \$139 million, or more than 20 percent, of the government’s equity investment in the bank has already been retired. In fact, not funding new loans in fiscal year 2003 actually could impede privatization since the law requires that the bank annually retire government stock at the rate of at least five-percent of the amount of new loans. With no new loans, there is no minimum requirement for retirement of government stock.

The Administration’s budget proposes that funds be transferred from the unobligated balances of the bank’s liquidating account to fund the bank’s administrative expenses, instead of those expenses being funded through an appropriation from the general fund of the Treasury. This proposal would not result in budgetary savings and has been specifically rejected by this Committee in previous years.

For a number of years, Congress has eliminated the seven percent “cap” placed on the insured cost-of-money loan program through the appropriations process. The elimination of the cap should continue. If long term Treasury interest rates exceeded this seven percent ceiling contained in the authorizing act, adequate support for the program would not be available at the authorized level. This would be extremely disruptive and would hinder the program from accomplishing its statutory goals. Accordingly, USTA supports continuation of the elimination of the seven percent cap on cost-of-money insured loans in the fiscal year 2003 appropriations legislation. The Committee should also continue to protect the legitimate ownership interests of the Class B and C stockholders in the bank’s assets by continuing to prohibit a “sweep” of any unobligated balance in the bank’s liquidating account in excess of current requirements funds into the general fund.

*Recommended Loan Levels*

USTA recommends telephone loan program loan levels for fiscal year 2002 as follows:

	[In millions of dollars]	
RUS Insured Hardship Loans (5 percent) .....		75
RUS Insured Cost-of-Money Loans .....		300
Rural Telephone Bank (RTB) Loans .....		175
Loan Guarantees .....		120
		670
Total .....		670

*Broadband Pilot Program*

USTA supports continued allocation of \$6.1 million of the distance learning and telemedicine appropriation for the pilot program of loans and grants to finance broadband transmission and local dial up access to the Internet in rural areas. RUS was founded on the premise that rural Americans should have comparable services, facilities and prices for telephone service as those who live in more densely populated, lower cost areas. As we move into the Information Age, in which increases in productivity, economic development, education and medicine can greatly benefit from the tremendous potential of the Internet, it is a continuation of the historic mission of RUS to support the extension of vital new services to rural America.

CONCLUSION

Our members take pleasure and pride in reminding the Subcommittee that the RUS telecommunications program continues its perfect record of no defaults in over a half century of existence. RUS telecommunications borrowers take seriously their obligations to their government, their nation and their subscribers. They will continue to invest in our rural communities, use government loan funds carefully and judiciously and do their best to assure the continued affordability of telecommunications services in rural America. Our members urge the Subcommittee to continue to recognize the importance of assuring a strong and effective RUS Telecommunications Program through appropriation of adequate loan levels.

PREPARED STATEMENT OF THE WORKING GROUP TO PRESEVE THE ANIMAL WELFARE ACT

My name is Nancy Blaney and I am the coordinator of the Working Group to Preserve the Animal Welfare Act, which includes the following organizations: American Humane Association, the American Society for the Prevention of Cruelty to Animals, Alternatives Research and Development Foundation, Doris Day Animal League, Humane Society of the U.S., Massachusetts Society for the Prevention of Cruelty to Animals, and the Society for Animal Protective Legislation. This statement supports allowing USDA to proceed with a rulemaking process to extend the AWA to the 95 percent of research animals covered by the law but not the regulations

In 1970, the U.S. Congress amended the Animal Welfare Act to extend its protections to all "warm-blooded species" used in research. It amended it again in 1985 to strengthen those humane handling and care standards. However, for 30 years, USDA has ignored the law by excluding birds, rats, and mice used in labs from its regulations implementing the AWA.

We commend the Subcommittee and the full Committee for allowing USDA to proceed during fiscal year 2002 with its rulemaking finally to bring birds, rats, and mice under the Act, as required by a court settlement in 2000. Twenty million of these animals 95 percent of the total number of experimental animals are used each year in research, and they deserve coverage under these basic minimum standards of care. We urge you to allow this process to continue.

Ensuring that these research animals receive adequate care is imperative not only as a humane matter, but also as a matter of sound science, since animal suffering compromises the integrity of research results. A "survey of Institutional Animal Care and Use Committee members reveals that most researchers actually favor AWA regulation of these species. A clear majority of animal researchers and other IACUC members favored AWA coverage for mice, rats, and birds. Even animal researchers in psychology, psychopharmacology, and behavioral neuroscience support AWA coverage of these animals, despite the fact that these disciplines would be among the most affected by AWA regulation of mice, rats, and birds." [Survey conducted by Scott Plous (Dept. of Psychology, Wesleyan University) and Harold Herzog (Dept. of Psychology, West Carolina University), *Science*, v.290, 10/27/2000.] Support also comes from, among others, the American College of Laboratory Animal Medicine, The American Association for Laboratory Animal Science, Procter & Gamble, Scientists Center for Animal Welfare, Johns Hopkins University Center for Alternatives to Animal Testing, and DuPont Pharmaceutical Co.

The fact of the matter is, however, that without the oversight and enforcement that only USDA can provide, good animal care cannot be assured. Just in the past couple of weeks, very serious cases of abuse of birds, rats, and mice in laboratories have come to light:

- At the University of North Carolina-Chapel Hill, an undercover investigator documented animal mistreatment that violates NIH guidelines and accreditation standards, including:
  - Extremely sick and injured mice and rats being left to die with no veterinary care
  - Paralyzed animals who had had their necks broken but were still alive being placed in the dead animal cooler
  - The use of death as an "endpoint" in experiments when such an endpoint is prohibited by policy
  - Severely overcrowded cages
  - A nonresponsive and ineffectual Institutional Animal Care and Use Committee
- A former researcher at the National Jewish Medical and Research Center in Denver told of a colleague who, among other acts, failed to adequately anesthetize mice before piercing the eardrums of mice to hold their heads in place in a frame and then drilling into their skulls. In this case, no effort was made to stop this scientist, even though a member of the Institutional Care and Use Committee observed these behaviors.
- At the University of California San Francisco, the minutes from a meeting of the Committee on Animal Research reveal that "for the third time in just over one month, live mice were found in the dead animal freezer, indicating improper euthanasia technique."

Unfortunately, NIH conducts no inspections; grantees must provide written "assurances" of their compliance with the guidelines. The Association for the Assessment and Accreditation of Laboratory Animal Care conducts announced site visits once every three years. Once in awhile, AAALAC catches something:

—Last week it was reported that Johns Hopkins University is under scrutiny by USDA for violations of the AWA related to protected species. According to the Baltimore Sun of April 18, 2002, “[in] about a dozen cases, (USDA) inspectors found that animals were given inadequate pain medication after experimental procedures and may have suffered unnecessarily “ Alerted by the USDA investigation, AAALAC came in and, among other things, raised questions about JHU’s housing and handling of its rats and mice. Had USDA also been required to inspect these species, a red flag would have been raised and corrective steps taken that much sooner.

These cases, and others, underscore the indisputable need for and value in having birds, rats, and mice covered by the AWA and subject to the oversight of USDA veterinary inspectors. As the distinguished former Senator Robert Dole author of the 1985 AWA amendments wrote in a letter last year:

“I would hope that the Bush Administration and Members of the present Congress, some of whom stood with me in 1985 in advancing my amendments, will recognize that all animals used in experimentation deserve the benefit of the modest requirements of the Animal Welfare Act. I would urge them to allow USDA to achieve this end by pursuing a full and fair rulemaking as provided in the settlement agreement.”

We urge the Committee not to include any language in the fiscal year 2003 agriculture appropriations bill or committee report that would interfere with USDA’s ability to carry out this important rulemaking on a timely basis.



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