

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

THURSDAY, MARCH 25, 2004

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

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

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

DEPARTMENT OF AGRICULTURE

OFFICE OF THE SECRETARY

STATEMENT OF ANN M. VENEMAN, SECRETARY

ACCOMPANIED BY:

KEITH COLLINS, CHIEF ECONOMIST
STEPHEN DEWHURST, BUDGET OFFICER

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

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

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

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

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

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

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

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

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

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

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

Thank you very much.

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

Senator Craig.

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

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

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

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

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

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

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

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

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

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

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

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

Thank you, Mr. Chairman.

PREPARED STATEMENTS

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

PREPARED STATEMENT OF SENATOR ROBERT C. BYRD

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

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

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

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

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

PREPARED STATEMENT OF SENATOR TIM JOHNSON

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

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

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

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

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

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

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

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

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

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

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

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

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

Secretary VENEMAN. Oh, good. I was panicking.

Senator BENNETT. You were panicking; all right.

We will give you 6½ minutes.

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

STATEMENT OF ANN M. VENEMAN

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

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

Secretary VENEMAN. Okay.

Senator BENNETT. That helps, yes.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

PREPARED STATEMENT

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

Thank you very much.
[The statement follows:]

PREPARED STATEMENT OF ANN M. VENEMAN

Mr. Chairman, Members of the Committee, it is an honor for me to appear before you today to discuss the 2005 budget for the Department of Agriculture (USDA). I have with me today Chief Economist, Keith Collins; and our Budget Officer, Steve Dewhurst.

I want to thank the Committee again this year for its support of USDA and for the long history of effective cooperation between this Committee and the Department in support of American agriculture. I look forward to working with you, Mr. Chairman, as well as the other Members to make progress on these issues during the 2005 budget process and ensure strong programs for our Nation's farm sector—but as well—the many other USDA mission areas.

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

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

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

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

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

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

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

FOOD AND AGRICULTURE DEFENSE

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

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

Strengthening food defense by requesting increases totaling \$38 million to:

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

Strengthening agriculture defense by requesting increases of:

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

BSE RELATED ACTIVITIES

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

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

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

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

BETTER NUTRITION FOR A HEALTHY US

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

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

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

FARM AND FOREIGN AGRICULTURAL SERVICES

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

Farm Program Delivery

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

International Trade

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

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

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

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

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

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

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

Farm Credit

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

Crop Insurance

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

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

MARKETING AND REGULATORY PROGRAMS

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

Pests and Diseases

Helping protect the health of animal and plant resources from inadvertent as well as intentional pest and disease threats is a primary responsibility of APHIS. The 2005 budget requests an appropriation of \$828 million for salaries and expenses, an

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

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

Marketing

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

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

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

The GIPSA budget includes two user fee proposals which have been submitted to the authorizing committees. New user fees would be charged to recover the costs of developing, reviewing, and maintaining official U.S. grain standards used by the grain industry. Those who receive, ship, store, or process grain would be charged fees estimated to total about \$6 million to cover these costs. Also, the Packers and Stockyards Programs would be funded by new license fees of about \$23 million that would be required of packers, live poultry dealers, poultry processors, stockyard owners, market agencies, and dealers as defined under the Packers and Stockyards Act.

FOOD SAFETY

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

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

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

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

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

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

The 2004 budget also repropose legislation submitted to Congress in August 2003 to collect an additional \$124 million in user fees annually by recovering 100 percent of the cost of providing inspection services beyond an approved primary shift. Assessing user fees in this manner promotes equity among producers that have enough production for a full second shift paid for by the Government and other establishments that may only have enough production for a partial shift which they must currently pay for themselves. Recovering a greater portion of these funds through user fees would result in savings to the taxpayer. These fees will have a minimal impact on prices received by producers or prices paid at retail by consumers.

FOOD, NUTRITION, AND CONSUMER SERVICES

The budget includes \$50.1 billion for USDA's domestic nutrition assistance programs, an increase of \$2.9 billion, and the highest level ever requested. The budget will ensure access to nutrition assistance for low-income families and individuals as they work toward economic self-sufficiency. USDA is working hard to provide information to help improve nutritional intakes, increase breastfeeding rates, and reduce obesity and overweight among Americans. In addition to its work with the President's Healthier US Initiative, USDA will work with nutrition assistance program stakeholders to identify strategies to improve health outcomes for eligibles.

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

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

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

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

NATURAL RESOURCES AND ENVIRONMENT

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

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

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

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

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

RURAL DEVELOPMENT

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

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

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

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

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

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

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

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

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

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

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

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

RESEARCH, EDUCATION, AND ECONOMICS

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

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

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

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

The 2005 budget for CSREES includes funds to continue the formula programs at current levels. There are proposed increases in funds for the 1994 Tribal Land Grant schools and an increase in the CSREES graduate fellowship program that will allow more funding for fellowships at the masters degree level which is especially important for the recruitment of minority graduate students. Additional increases are proposed for the Expanded Food and Nutrition Education Program which assists low income youth and low-income families with children in acquiring the skills, attitudes, and changed behavior necessary to formulate nutritionally sound diets.

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

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

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

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

To improve NASS' statistical accuracy, an increase of \$7.4 million is requested to continue the restoration and modernization of its core survey and estimation program for U.S. agricultural commodities and other economic, environmental and rural data. These data are used by a variety of customers for business decisions, policy making, research, and other issues. They are also necessary for the calculation of national countercyclical payment rates provided under the 2002 Farm Bill.

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

CIVIL RIGHTS

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

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

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

DEPARTMENTAL MANAGEMENT

The Departmental staff offices provide leadership, coordination and support for all administrative and policy functions of the Department. These offices are vital to USDA's success in providing effective customer service and efficient program delivery.

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

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

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

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

NATIONAL ANIMAL IDENTIFICATION PROGRAM

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

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

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

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

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

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

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

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

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

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

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

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

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

Senator BENNETT. Fine, thank you very much.

Senator Kohl.

HUNGER TASK FORCE PILOT PROGRAM

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

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

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

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

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

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

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

WIC CONTINGENCY FUNDS

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

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

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

ANIMAL WELFARE ACT VIOLATIONS

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

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

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

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

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

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

CENTRAL FILING SYSTEM PROGRAMS

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

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

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

Senator Craig.

Senator CRAIG. Thank you, Mr. Chairman.

NATIONAL ANIMAL IDENTIFICATION SYSTEM

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

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

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

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

NATIONAL RURAL DEVELOPMENT PARTNERSHIP

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

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

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

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

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

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

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

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

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

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

Thank you.

Senator BENNETT. Thank you.

Senator Durbin.

Senator DURBIN. Thanks, Mr. Chairman.

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

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

And I am glad that they are with you today.

SINGLE FOOD SAFETY AGENCY

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

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

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

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

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

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

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

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

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

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

But that will be many years from now.

BSE TESTING

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

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

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

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

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

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

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

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

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

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

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

Senator DURBIN. Nonambulatory.

Secretary VENEMAN. Right.

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

Thank you, Mr. Chairman.

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

Senator DURBIN. Thank you.

Senator BENNETT. If you have got an opportunity.

Senator DORGAN.

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

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

BSE AND CATTLE FROM CANADA

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

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

AGRICULTURAL TRADE AND CAFTA

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

STANDARD REINSURANCE AGREEMENT

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

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

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

IMPORTATION OF LIVE CATTLE FROM CANADA

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

Secretary VENEMAN. I would be happy to, Senator.

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

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

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

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

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

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

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

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

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

Secretary VENEMAN. Thank you.

Senator BENNETT. Senator Bond.

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

EXPORTS TRANSPORTATION INFRASTRUCTURE

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

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

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

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

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

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

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

TRANSPORTATION EFFICIENCY

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

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

CORN SHIPMENTS

Senator BOND. I just hope we maintain that edge.

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

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

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

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

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

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

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

Senator BOND. Thank you.

Senator BENNETT. Senator Harkin.

CONSERVATION SECURITY PROGRAM

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

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

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

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

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

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

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

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

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

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

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

Will you commit yourself to that?

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

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

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

Secretary VENEMAN. I understand.

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

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

Senator HARKIN. Well, it is a big problem.

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

Senator HARKIN. All right; I appreciate it.

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

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

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

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

Mr. COLLINS. I did not know that.

Senator BENNETT. But go ahead.

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

Senator HARKIN. Is it capped beyond fiscal year 2004?

Mr. COLLINS. It is not capped beyond 2004.

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

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

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

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

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

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

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

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

Thank you, Mr. Chairman.

Senator BENNETT. Thank you.

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

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

Senator HARKIN. I appreciate it. Thank you.

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

SECTION 521 RENTAL ASSISTANCE

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

CYBER SECURITY

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

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

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

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

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

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

Senator HARKIN. Just 60 seconds, please.

ADDITIONAL COMMITTEE QUESTIONS

Senator BENNETT. All right. I will time you.

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

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

Secretary VENEMAN. Thank you for being there with us.

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

QUESTIONS SUBMITTED BY SENATOR ROBERT F. BENNETT

RD STATE OFFICES

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

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

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

RHS/GAO REPORT ON RENTAL ASSISTANCE

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

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

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

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

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

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

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

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

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

Answer. The Agency developed a working group consisting of staff from the Department's IT Systems Services Division, the Financial Management Division, national office and field staff, and private contractors from Unisys, IBM and Rose International. This team developed a model based on relevant informational elements using several software applications. The Rental Assistance Forecasting Tool was completed in November 2003, was reviewed by GAO in December 2003, and has undergone several months of testing to ensure accuracy and debugging. The Department expects to use the Forecasting Tool to develop the fiscal year 2006 Rental Assistance Renewal budget estimate.

RURAL PROGRAMS

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

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

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

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

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

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

RD INFORMATION TECHNOLOGY

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

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

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

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

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

Question. How compatible are the systems?

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

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

COORDINATION OF USDA RURAL PROGRAMS

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

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

Question. What is the Department's rural policy?

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

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

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

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

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

PILOT PROGRAM

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

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

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

NATIONAL BOARD ON RURAL AMERICA

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

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

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

MULTI FAMILY HOUSING

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

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

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

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

RURAL BUSINESS AND COOPERATIVE SERVICE

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

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

As a result of these reviews, we are evaluating:

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

BUSINESS AND INDUSTRY PROGRAM

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

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

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

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

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

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

FARM CREDIT ADMINISTRATION REVIEW

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

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

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

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

CENTRALIZED SERVICING CENTER

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

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

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

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

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

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

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

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

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

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

MERGING OF URBAN AND RURAL HOUSING AND COMMUNITY DEVELOPMENT PROGRAMS

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

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

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

RENTAL ASSISTANCE PRESERVATION

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

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

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

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

USDA KEY INFORMATION SECURITY WEAKNESSES

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

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

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

[The information follows:]

Examples of progress made during the past year include:

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

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

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

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

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

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

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

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

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

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

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

HOLDING SENIOR MANAGEMENT ACCOUNTABLE FOR INFORMATION SECURITY

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

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

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

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

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

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

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

ENSURING EFFECTIVENESS OF SECURITY MANAGEMENT

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

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

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

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

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

FILLING ACIO FOR CYBERSECURITY

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

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

BUDGET IMPACT OF INFORMATION SECURITY REQUIREMENTS

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

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

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

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

COMPLETING RISK ASSESSMENTS

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

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

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

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

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

PLANS TO FINALIZE SECURITY POLICIES AND PROCEDURES

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

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

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

EMPLOYEE SECURITY AWARENESS TRAINING

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

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

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

SYSTEMS TESTING AND EVALUATION

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

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

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

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

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

ENSURING SYSTEMS ARE CERTIFIED AND ACCREDITED

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

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

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

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

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

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

HOW USDA BUDGET CORRECTS SECURITY WEAKNESSES

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ENSURING ADEQUATE FUNDING FOR FISMA REMEDIATION

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

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

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

BOVINE SPONGIFORM ENCEPHALOPATHY (BSE)

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

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

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

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

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

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

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

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

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

TESTING OF ANIMALS PRIOR TO EXPORT

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

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

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

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

LOW PATHOGENIC AVIAN INFLUENZA

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

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

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

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

AVIAN INFLUENZA

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

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

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

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

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

BEEF EXPORT MARKETS

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

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

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

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

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

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

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

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

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

BOVINE SPONGIFORM ENCEPHALOPATHY (BSE)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

STANDARD REINSURANCE AGREEMENT

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

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

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

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

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

FRAUD AND ABUSE

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

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

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

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

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

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

ASSISTANCE ON PUBLIC LANDS

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

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

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

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

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

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

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

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

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

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

NATIONAL FINANCE CENTER/TSP COMPETITIVE BIDDING

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

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

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

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

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

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

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

Question. Will the NFC compete to retain these functions?

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

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

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

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

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

USDA'S CENTER FOR VETERINARY BIOLOGICS

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

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

What is the USDA reaction to this article?

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

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

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

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

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

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

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

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

QUESTIONS SUBMITTED BY SENATOR CHRISTOPHER S. BOND

RISK FACTORS

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

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

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

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

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

QUESTIONS SUBMITTED BY SENATOR TED STEVENS

BUDGET CUTS

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

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

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

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

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

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

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

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

DISTANCE LEARNING, TELEMEDICINE AND BROADBAND

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

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

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

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

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

TRANSHIPMENT OF BEEF FROM THE LOWER 48 TO ALASKA

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

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

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

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

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

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

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

QUESTIONS SUBMITTED BY SENATOR HERB KOHL

HEALTH CARE COOPERATIVE PILOT

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

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

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

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

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

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

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

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

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

COOPERATIVE SERVICES TECHNICAL ASSISTANCE

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

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

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

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

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

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

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

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

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

QUESTIONS SUBMITTED BY SENATOR TOM HARKIN

CONSERVATION PROGRAMS

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

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

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

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

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

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

The 10 year spending cap is no longer in effect.

BOVINE SPONGIFORM ENCEPHALOPATHY (BSE)

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

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

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

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

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

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

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

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

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

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

MEAT AND POULTRY SAFETY

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

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

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

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

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

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

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

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

NATIONAL ANIMAL IDENTIFICATION SYSTEM

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

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

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

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

Question. How did you arrive at this decision?

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

MCGOVERN-DOLE INTERNATIONAL FOOD FOR EDUCATION PROGRAM

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

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

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

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

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

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

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

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

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

[The information follows:]

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

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

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

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

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

⁴ CCC funded Food for Progress.

DESIGNATE BIOBASED PRODUCTS

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

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

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

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

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

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

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

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

RENEWABLE ENERGY SYSTEMS

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

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

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

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

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

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

RENEWABLE ENERGY

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

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

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

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

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

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

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

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

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

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

NATIONAL CENTER FOR ANIMAL HEALTH

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

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

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

SOUND SCIENTIFIC INFORMATION FOR REGULATORY DECISIONMAKING

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

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

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

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

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

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

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

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

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

QUESTIONS SUBMITTED BY SENATOR BYRON L. DORGAN

EMPOWERMENT ZONES

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

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

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

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

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

OBESITY PREVENTION INITIAIVE GRAND FORKS ARS

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

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

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

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

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

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

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

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

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

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

BSE SURVEILLANCE PROGRAM

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

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

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

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

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

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

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

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

BROADBAND FUNDING

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

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

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

RURAL TELECOMMUNICATIONS

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

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

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

NORTHERN GREAT PLAINS REGIONAL AUTHORITY

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

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

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

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

STANDARD REINSURANCE AGREEMENT

Question. When can we expect a new SRA?

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

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

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

UNDERWRITING GAINS TAX

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

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

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

MULTI-PERIL CROP INSURANCE

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

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

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

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

STANDARD REINSURANCE AGREEMENT

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

AGRICULTURAL TRADE

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

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

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

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

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

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

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

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

ASIAN SOYBEAN RUST

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

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

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

INTEREST ASSISTANCE LOANS

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

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

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

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

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

COUNTRY OF ORIGIN LABELING

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

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

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

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

BOVINE SPONGIFORM ENCEPHALOPATHY (BSE)

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

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

RESIGNATION OF ADMINISTRATOR BOBBY ACORD

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

Was his resignation the result of a disagreement over policy?

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

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

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

BSE POLICY

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

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

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

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

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

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

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

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

DURUM AND SPRING WHEAT YIELDS

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

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

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

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

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

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

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

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

WOOL FOR BERETS IN IRAQ

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

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

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

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

QUESTIONS SUBMITTED BY SENATOR DIANNE FEINSTEIN

SPECIALTY CROPS

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

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

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

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

Most specialty crops of significant size or value have either a program already developed or are a future project on RMA's Prioritized Research and Development Plan. The ten highest valued specialty crops not insured are listed below with the current plan for addressing each:

(In dollar amount)

Crop	Crop Insurance Status	Value
Bedding/Garden Plants	Target 2007 crop year	\$2,392,495
Lettuce	Target 2007 crop year	2,261,185
Mushrooms	Industry not interested	911,509
Sod	Industry not interested	800,694
Cut Flowers & Cut Greens	No action based on Feasibility Study	717,612
Carrots	No action based on Feasibility Study	551,433
Broccoli	Target 2007 crop year	536,226
Cut Christmas Trees	Target 2005 crop year	441,604
Cantaloupes	Target 2007 crop year	404,685
Melons	Target 2007 crop year	328,550

Note: Pilot program is scheduled for implementation in the target year.

In addition, RMA recently issued a statement of objectives request for proposals for innovative and cost effective approaches to providing crop insurance for crops with small value. The purpose is to develop a program that responds to small value crop producers, provides a minimal requirement transaction between a producer and insurance provider, and identifies the vulnerabilities for waste, fraud and abuse. A contract was awarded in March 2004 to begin research for possible development of a new approach that provides crop insurance coverage for crops with small value. One possible approach that may be proposed is some form of whole farm program, perhaps similar to the existing Adjusted Gross Revenue program, which is being piloted in a limited number of counties in California.

REVENUE BASED PROGRAMS

Question. The crop insurance program has been piloting a number of new programs which address not only production losses, but revenue losses as well. However, most of these programs have been made available to only the major commodities: corn, wheat, cotton, rice etc. I understand that in certain states in the mid-west a corn grower has up to 6 different options in insuring their crop.

When will these new revenue based programs be made available to specialty crop growers?

Answer. RMA conducted a feasibility study for developing a revenue model of insurance for certain specialty crops, which is currently in the process of development for revenue based programs tailored to those specialty crops. The new revenue based programs should be made available to specialty crop producers for the following crops in the proposed pilot program states for the crop year 2007, pending approval by the FCIC Board of Directors. The list of crops and states include: Apples, NY, PA, OR, VT, and WA; avocados, grapefruit, and oranges, FL; dry beans (Baby Lima, Blackeye Peas, and Large Lima), CA; dry peas and lentils, ID; maple syrup, ME, NH, NY, and VT; and revenue product modification (corn), IA, IL, and IN.

ADJUSTED GROSS REVENUE PROGRAM

Question. There is currently a pilot crop insurance program available in a very limited number of counties Nation wide called the "Adjusted Gross Revenue" (AGR) program. The program is available in 8 counties in California. However, I understand the Agency has put a hold on further expansion of the program pending an evaluation.

When is the evaluation expected to take place and when is the earliest that expansion of this program can be expected?

Answer. The Adjusted Gross Revenue (AGR) pilot program began in 1999 in five States (36 counties). In 2000, six more States and 52 new counties were added. In 2001, RMA made a number of significant changes to the program in order to increase the number of eligible producers, coverage available, and producer acceptance. At the same time, AGR was expanded into six additional States and 126 new counties to provide a broader base upon which to test the pilot program.

The Agricultural Risk Protection Act (ARPA) required the expansion of AGR into at least eight counties in California and into at least eight additional counties in Pennsylvania. RMA worked with the respective State Departments of Agriculture to select the expansion counties, gathered the data necessary for expansion and the FCIC Board of Directors approved expansion into eight counties in both states for 2003. Effective for 2003, AGR was available in 17 states and 214 counties.

RMA is currently in the process of contracting for an evaluation to be conducted of the AGR pilot program. The evaluation will commence during 2004 using 2001–2003 AGR experience data reflecting the program changes and broad expansion made in 2001. Once the evaluation is completed, the results will be made available to the Board of Directors, who will determine any future direction and expansion of this pilot program.

TECHNICAL ASSISTANCE FOR SPECIALTY CROPS PROGRAM

Question. The Technical Assistance for Specialty Crops (TASC) program, authorized in the 2002 Farm Bill, was developed exclusively to provide the specialty crop industry with financial assistance to help overcome trade barriers such as sanitary, phytosanitary, and technical barriers that prohibit or threaten exports. Funds are applied for by industry and distributed upon approval by USDA. The need for the program is great as noted by the overwhelming requests by industry for assistance. During the past 2 years, since the program's inception, USDA has received 111 proposals totaling \$20 million in funding requests—compared to actual funding of only \$4 million. The \$2 million annually, while beneficial, is clearly insufficient.

What is USDA doing to expand this program and encourage growth of specialty crop exports?

Answer. The Technical Assistance for Specialty Crops (TASC) program was established in the Farm Security and Rural Investment Act of 2002. As program managers, the Foreign Agricultural Service (FAS) is responsible for ensuring all funds are used in the most effective way to maximize benefits to U.S. specialty crops. To accomplish that objective, FAS has taken several steps to maximize the use and effectiveness of this program that include:

- outreach to the U.S. specialty product industries to maximize awareness of the program;
- established regulations to ensure fair and equitable allocation of the funds to worthy projects;
- program flexibility to address unexpected trade barriers, enabling the availability of funds throughout the year; and
- selected projects that had the highest expected return in value to expanding exports.

In addition, FAS continues to support the specialty crops through ongoing activities such as market intelligence, trade policy, and export market development. The Market Access Program (MAP) includes over 30 nonprofit associations that represent specialty crops and received \$40 million of MAP funds in fiscal year 2003.

FRUIT AND VEGETABLE PILOT PROGRAM

Question. The 2002 Farm Bill authorized a \$6 million Fruit and Vegetable Pilot program in fiscal year 2003 to provide free fruit and vegetable snacks to students in 25 schools each in Michigan, Ohio, Indiana, Iowa, and seven schools in the Zuni Nation in New Mexico. Results of the program have been positive. According to a report by the USDA Economic Research Service, the pilot has shown consumption increases in school children by at least one serving a day.

Various nutrition groups, the United Fresh Fruit and Vegetable Association, and other anti-obesity advocates have been pushing for expansion of this successful fresh fruit and vegetable pilot program under the Child Nutrition Reauthorization Bill.

However, due to funding technicalities, the expansion of the pilot has been removed from the House bill. The Child Nutrition Reauthorization Bill is being written so it contains very little opportunity for participants to access fresh fruit and vegetables, at a time when childhood obesity is becoming an enormous issue.

What is the USDA doing to increase the consumption of fresh fruits and vegetables in the school lunch, school breakfast, WIC and related programs?

Answer. The Department shares your interest in the fruit and vegetable initiative, and would support its expansion provided Congress is able to fund it through savings or offsets that do not compromise access to school meal benefits. USDA, as part of the Department's Strategic Goal 4: "Improve the Nation's Nutrition and Health," established a specific performance measure to improve the diets of children and low-income people by at least five points as measured by their Healthy Eating Index (HEI) scores; and to increase the score for the broader U.S. population by at least two points. USDA is working harder than ever with stakeholders to devise program initiatives to achieve these changes. Since fruit consumption and vegetable consumption are two of the ten elements of the HEI on which the most progress can and should be made, I am particularly keen to see innovations addressing these areas.

The Department believes that the Federal nutrition assistance programs are an effective way to support and promote the consumption of fruits and vegetables. For example, I know that children who participate in the National School Lunch Program eat nearly twice as many servings of vegetables at lunch as non-participants and School Breakfast Program participants eat twice as many servings of fruit at breakfast as non-participants. USDA nutrition assistance programs provide over \$8 billion in support for fruit and vegetable consumption annually by supporting consumer purchases in the marketplace through the Food Stamp Program; purchasing and distributing these foods directly to schools, food banks, and other institutions; and through nutrition education and promotion. I will provide some additional information for the record.

[The information follows:]

To maximize the results of this investment in increasing consumption for children and others, the Department is taking action to motivate all consumers to eat more of these healthful foods. We are expanding the Department of Defense fresh produce program to distribute fresh fruits and vegetables to schools, enhancing the variety and availability of fruits and vegetables in the school meals, as well as expanding the Food Distribution Program on Indian Reservations fresh produce initiative.

The Department has recently published *Fruit and Vegetables Galore*, a guide developed as part of Team Nutrition that helps schools offer and encourage consumption of a variety of fruits and vegetables. In addition, the Department is expanding dissemination of the EAT SMART. PLAY HARD.[™] (ESPH) materials that promote vegetable and fruit consumption. One theme of ESPH—Grab Quick and Easy Snacks—promotes fruits and vegetables as snacks.

More broadly, we continue to pursue our partnership with the National Cancer Institute (NCI) and the Centers for Disease Control and Prevention (CDC) in the expanded national 5-A-Day for Better Health program. The 5-A-Day campaign's goal is to increase consumption of fruits and vegetables to 5 to 9 servings every day, and inform consumers of the health benefits gained from eating fruits and vegetables.

Regarding the WIC Program, the WIC food package currently plays a key role in contributing to fruit and vegetable consumption by providing 100 percent fruit and vegetable juices to program participants. In addition, WIC nutrition education emphasizes the relationship between nutrition and health, and fruits and vegetables are promoted as part of a complete diet. Both the Dietary Guidelines and the Food Guide Pyramid are foundation nutrition education materials used by WIC to emphasize the importance of fruit and vegetable consumption. Also, many WIC State agencies have adopted the National Cancer Institute Campaign, Five A Day, to promote the intake of fruits and vegetables. WIC's nutrition education approach is designed to teach participants and caregivers about the important role nutrition plays in health promotion and disease prevention as well as overcoming specific risk conditions.

Finally, a contract was awarded in September 2003, to the Institute of Medicine (IOM), through the Food and Nutrition Board to review the WIC food packages in a 22-month study. This study will use current scientific information to review the nutritional requirements and assess the supplemental nutrition needs of the population served by WIC. IOM is currently scheduled to provide the Department with a final report in February 2005. Assuming the report is received on schedule, USDA expects to publish a Notice of Proposed Rulemaking for public comment in December 2005, and a final rule in December 2006.

The WIC Farmers' Market Nutrition Program (FMNP) provides WIC participants with coupons that can be exchanged at authorized farmers' markets for fresh fruits and vegetables. The FMNP is currently in operation at 44 sites—36 States, the District of Columbia, Guam, Puerto Rico and 5 Indian Tribal Organizations. During fiscal year 2002, just over 2.1 million participants were served. The FMNP educates WIC participants on selecting, storing, and preparing fresh fruits and vegetables and how to make fruits and vegetables part of healthy meals.

TRAINING OF DHS EMPLOYEES

Question. As the Department of Homeland Security (DHS) was being organized, a significant part of USDA's funding for import inspections was placed within DHS. There remains significant concern that DHS will not place a high enough priority on invasive pest and disease detection at the border and that inspectors that are cross trained in other types of import inspections will not be sufficiently vigilant to prevent importation of pest on imported produce.

The agriculture industry, and in particular fresh fruit and vegetable growers, have been very vocal that it is not acceptable for Customs agents to be cross-trained to detect pests and diseases in imported products. That capability is a specialized skill. Given the enormous increases in fresh fruit and vegetable imports over the last 5 years, it is very unwise to reduce the Federal Government's capability to detect invasive species.

Costs of eradication and elimination are higher than taking preventive measures, if pests enter the United States the Federal Government will need to pay for increased pest and disease eradication, due to failures to interdict these threats at the border.

What is the U.S.D.A. doing to ensure that inspectors will have sufficient training and experience to detect and prevent entry of new pests on imported produce?

Answer. To facilitate the transfer of the agricultural inspection force, USDA and the Department of Homeland Security (DHS) signed a Memorandum of Agreement that specifies the functions and funding transferred to DHS and establishes mechanisms between the two agencies regarding the training of employees, use of employees, and other areas described in the Homeland Security Act of 2002. The Agreement is meant to emphasize the importance of continuing and enhancing the agricultural import and entry inspection functions.

As specified in the Agreement, USDA continues to train DHS inspectors who conduct agricultural inspections. DHS is maintaining an inspection force of agricultural

specialists, who must meet certain educational requirements and go through a 2-month training course in our import requirements and pest and disease identification, among other things, at APHIS' Professional Development Center in Frederick, Maryland. APHIS and DHS' Bureau of Customs and Border Protection (CBP) are also implementing a joint quality assurance program to ensure that the inspection process continues to function effectively. As part of this effort, APHIS will provide on-the-job training for both agricultural specialists and primary inspectors. APHIS also provides basic training in the agricultural inspection process for general CBP inspectors at CBP's training center in Atlanta.

SUDDEN OAK DEATH

Question. Sudden Oak Death (SOD) is a serious, often fatal disease of California native oaks, and has been found in two nurseries (Monrovia, Azusa and Specialty Plants, San Marcos) in Southern California. The discovery of this disease in the nursery trade, in warm, dry Southern California and many miles from the epicenter of the disease in the Bay Area has caused five states to quarantine California nursery products. Monrovia nursery is one of the largest nursery producers in the United States and ships plants throughout the United States and Canada as well as other foreign destinations. Current economic losses to Monrovia at this juncture are estimated at \$4.3 million. A general embargo on California nursery stock will cause the state incalculable economic damage.

What is the USDA doing to assess the extent of the disease both within California and within the United States and take action to contain the spread and prevent new areas from being affected by the disease?

Answer. To assess the extent of SOD, we are conducting "tracebacks" to determine the nursery or nurseries from which infected plant material originated, and "trace forwards" to determine where a particular nursery has sent infected plant material. Also, we are conducting a national survey of nurseries and forests. These activities will help us determine the extent of SOD migration within California and to other States. In addition, we plan to impose a Federal quarantine on the interstate movement of known and "associated" SOD hosts from all California nurseries. This quarantine will be based on sound science and a measured risk response. Associated hosts are plants which are not technically hosts, but are nevertheless susceptible to SOD. This action would preclude States from imposing their own quarantines, and would provide for the resumption of safe trade in California nursery plants—albeit under strict conditions. As a result, we would be able to prevent further SOD spread via shipments from California nurseries, while still allowing the interstate movement of healthy plants.

GLASSY-WINGED SHARPSHOOTER

Question. Other pests like the Vine Mealy bug and Glassy winged sharpshooter are impacting crops in California and elsewhere. What is U.S.D.A. doing to contain the spread of and eliminate these pests?

Answer. Since fiscal year 2000, we have led an extremely successful cooperative Glassy winged sharpshooter (GWSS) research and control program in California. This program includes nursery stock inspections, a Statewide survey, and site-specific urban treatments. These activities help us quickly detect, control, and mitigate the GWSS. Also, we develop strategies to reduce the pest problem in agricultural production areas. This approach supports Statewide activities to promote trade, and remove the pest from State commerce routes. In areas where 100 or more GWSS had been found in traps each week, the program now finds approximately five. This success demonstrates the benefits not only of rapid response to a pest introduction, but also of cooperating with stakeholders, universities, extension services, agricultural researchers, and growers.

In addition, we are continuing a successful pilot program throughout Kern County and conducting a similar program in infested areas of Riverside, Tulare, and Ventura Counties. In addition, we have expanded area-wide control activities into crucial production areas in Tulare County, Ventura County, and Coachella Valley in Riverside County. Our prompt implementation of these area-wide strategies has significantly reduced the incidence of GWSS in the new areas. This year, we continue to (1) develop management strategies and conduct area-wide treatments; (2) monitor the impact of GWSS control strategies on the environment; (3) mitigate Pierce's Disease spread in vineyards; (4) transfer control strategies to County Agriculture Departments; and (5) conduct regulatory activities through increased nursery stock inspections.

At this time, APHIS does not have a program to control the Vine Mealybug. Since this non-native pest has no natural predators, eradication is not likely. Currently, producers are working to contain its spread using sanitation and chemical control.

However, APHIS and the CDFA are continuing the highly successful California Mediterranean Fruit Fly (Medfly) Preventative Release Program. Since fiscal year 1996, only four Medflies have been detected in California. The most recent of these was a single adult found in late fiscal year 2002. This detection demonstrated the program's continued reduction of captured wild Medflies, while mitigating pesticide concerns. In fiscal year 2003, the program detected Mexican Fruit Flies (MFF) in San Diego County. This detection necessitated an emergency funds transfer, but we eradicated this infestation last September—less than a year after the pest was first detected in the area.

ENVIRONMENTAL IMPACT OF ON-FARM BURIAL OF DOWNER/DEAD CATTLE

Question. The new regulations issued by USDA to address BSE will help improve the safety of human food and animal feed and will help to keep export markets open. Two of the recently announced changes in regulations though may result in environmental issues for states with large dairy and cow-calf industries.

Cattle carcasses buried on farm land can have adverse impact on watersheds and pose other issues to the environment and ecosystems should wildlife or other animals access the buried cattle.

Because of the potential for creation of an environmental hazard, in Europe many countries have instituted regulations prohibiting the on-farm burial of dead and downer cattle. The collection and disposal of these animals is often subsidized by the government.

This issue has potential to have substantial environmental impact for states with large dairy and cow-calf industries. There is potential for substantial economic impact on farmers and others needing to dispose of these animals.

Has there been an evaluation of these impacts? If so what are the solutions and at what level of government do these solutions need to be addressed? Is there a research need to identify effective disposal options?

Answer. USDA has had an aggressive BSE surveillance plan in place since the 1990's, and scientific experts—including those at Harvard who conducted the risk assessment for BSE—agree that, even given the find in Washington State, the disease would be circulating at extremely low levels in the U.S. cattle population if at all. With such a low prevalence rate, we do not anticipate large numbers of affected animal carcasses needing disposal during the next 12 to 18 months. Our recently announced enhanced surveillance plan should instead allow us to further assure consumers, trading partners, and industry that the risk of BSE in the United States is very low.

With regard to concerns about cattle carcass disposal options, burying animals on the farm is not the only option for producers whose animals are non-ambulatory disabled. Other alternatives for disposal continue to be available to producers. These include rendering facilities, salvage slaughter facilities (i.e., not slaughtered for human consumption), and other animal disposal industries.

USDA welcomes additional research into carcass disposal options and will continue to make decisions based on the most current science available.

Question. Finally, is there a need to subsidize the collection and proper disposal of dead and downer animals, first to ensure inclusion in surveillance programs for disease, second to offset increases in costs associated with disposal of these animals and finally to ensure they do not create a hazard for other transmissible diseases? What is U.S.D.A. doing to assess and control this situation from becoming a potential hazard?

Answer. Scientific experts from Harvard conducted risk assessment for BSE and concluded that, even given the find in Washington State, the disease would be circulating at extremely low levels in the U.S. cattle population if at all. With such a low prevalence rate, we do not anticipate large numbers of affected animal carcasses needing disposal during the next 12 to 18 months. Our recently announced enhanced surveillance plan allows us to further assure consumers, trading partners, and industry that the risk of BSE in the United States is very low.

There are a number of options available to producers to dispose of animals that are non-ambulatory disabled. Options for disposal include burying animals on the farm, use of rendering facilities, salvage slaughter facilities (i.e., not slaughtered for human consumption), and other animal disposal industries.

USDA has included cost recovery options in the budget for its enhanced BSE surveillance program. Payment for certain services will help cover additional expenses incurred by producers and the industries participating in the surveillance program

and encourage participation. For example, costs for transporting an animal or carcass to the collection site from a farm or slaughter establishment may be reimbursed, or disposal expenses for “suspect” cattle that test non-negative or that cannot be rendered may also be covered. Other expenses may also be addressed in the program.

Question. The collection of these animals is important for tracking and surveillance for Mad Cow. Collection and inclusion of these animals in tracking and surveillance sampling is important.

Has consideration been given as to how to achieve inclusion of dead on the farm and downer cattle in the monitoring program?

Answer. Throughout the history of our surveillance program, USDA has worked to obtain samples from the targeted animal population, wherever these samples may be located. In order to obtain the samples, USDA-APHIS has worked with facilities other than federally inspected slaughter establishments as part of BSE surveillance efforts. These facilities included renderers, salvage slaughter facilities (i.e., not slaughtered for human consumption), and other animal disposal industries.

Under our new surveillance program, we will build on these efforts to ensure that we maintain access to our targeted surveillance population. We will also be reinforcing our educational and outreach efforts to producers, so they will know who to contact about testing dead or downer animals on the farm.

USDA-APHIS-Veterinary Services’ officials across the country will work closely with their State counterparts to build on existing relationships at these locations so that we can obtain the necessary samples.

Payment for services will help cover additional costs incurred by producers and the industries participating in our surveillance program. For example, costs for transporting an animal or carcass to the collection site from a farm or slaughter establishment may be reimbursed, or disposal expenses for “suspect” cattle that test non-negative or that cannot be rendered may also be covered.

NATIONAL ANIMAL IDENTIFICATION DATABASE

Question. The USDA announced the immediate implementation of a National Animal Identification program. The pilot for this system has been underway with USDA for more than a year and a half to ensure uniformity, consistency and efficiency across this national system.

Will this be a mandatory or voluntary system? If it is not mandatory could it satisfy requirements for international trade in beef and cattle?

Answer. At the present time, participation with a national animal identification program would be on a voluntary basis while the USDA moves forward with the beginning stages of implementation. As the USDA learns more during the implementation of the system, USDA would likely move into rule-making.

Implementing a national identification system that records animal movements will enable APHIS officials to complete the tracing of animals potentially exposed to a disease as timely as possible. Demonstrating our ability to contain and control the disease will provide the scientific data to document appropriate trade status issues. The animal tracking system will play a critical role in maintaining and/or restoring our export markets for U.S. livestock and animal products during and after an animal disease outbreak.

Question. What considerations for maintaining the privacy of this information in a national animal identification database are being made?

Answer. The USDA recognizes that producers are concerned about the confidentiality of the national system. USDA is not seeking marketing or production information, but only information that would help us track animals for disease purposes. We are examining all applicable laws and regulations, as well as the potential need for additional legislative authority, in our efforts to address this issue.

Question. In 2002 many states, including California, suffered outbreaks of low-pathogenic avian influenza. USDA indemnified poultry producers in each of the affected states, except for California. In Virginia, West Virginia and North Carolina, USDA provided over \$50 million for indemnification. Despite inclusion of Report language directing USDA to indemnify California, Nicolas Turkey Breeders in Sonoma, California remains the only poultry operator omitted from this program.

I would like to know what steps are you taking to rectify this situation?

Answer. In 2002, when positive cases of Low Pathogen Avian Influenza had been found in New York, New Jersey, Texas, Maine, Michigan, and California; State authorities had taken the responsibility of controlling and eliminating the disease with no assistance provided from Federal authorities. In the case of Virginia, West Virginia, and North Carolina, LPAI was spreading at a rate that State officials could not control. At the request of the State of Virginia the USDA stepped in to provide

assistance with depopulation, indemnities, cleaning and disinfection of premises; disposal of carcasses; epidemiology support; data management; and information dissemination. The California outbreak was relatively isolated and the State officials were able to control further spread. As a result, USDA does not intend to indemnify Nicolas Turkey Breeders for their turkey breeder flock.

QUESTIONS SUBMITTED BY SENATOR RICHARD J. DURBIN

SINGLE FOOD SAFETY AGENCY

Question. Currently, Federal oversight for food safety is fragmented with at least 12 different Federal agencies and 35 different laws governing food safety. There are also dozens of House and Senate subcommittees with food safety oversight. With overlapping jurisdictions and scattered responsibilities, Federal agencies often lack accountability on food safety-related issues and resources are not properly allocated to ensure the public health is protected. Our Federal food safety statutes also need to be modernized to more effectively ensure that food safety hazards are minimized.

President Bush and Secretary Ridge have both publicly discussed the concept of combining Federal food safety responsibilities into a single agency. In the past, USDA has stated its opposition for such a move.

Assuming USDA's position has not changed, what do you see as the disadvantages of combining the Federal food safety agencies into a single agency? Are there any advantages?

Answer. Over the years, there has been much discussion about consolidating all food safety, inspection, and labeling functions into one agency in an effort to increase the effectiveness of the food safety system. In 2002, the White House established a Policy Coordinating Committee (PCC), led by the Domestic Policy Council and the National Economic Council, to look into the single food agency issue. The PCC concluded that the goals of the Administration are better advanced through enhanced interagency coordination rather than through an effort to create a single food agency.

USDA routinely communicates and coordinates with other government entities to ensure a safe and secure food supply. With authority over meat, poultry, and egg products, USDA's FSIS plays an integral role in ensuring the safety of America's food supply. As a partner in the U.S. food safety effort, FSIS strives to maintain a strong working relationship with its sister public health agencies. Cooperation, communication, and coordination are absolutely essential to effectively address public health issues.

The present statutory framework recognizes distinctions associated with the relative risks and hazards of foods and the food safety and food security issues that bear on public health. USDA's mission is to provide leadership on food, agriculture, and natural resources based on sound public policy, the best available science, and efficient management. Within USDA, the nearly 10,000 employees of the FSIS dedicate their careers and lives to protecting public health. USDA inspectors are in plants every day enforcing our nation's food safety laws. The statutes that are administered are clear and demand unwavering attention to ensuring that consumers continue to enjoy the safest and most abundant food supply in the world. It is this focused attention to food safety, food security, and public health that is best supported by the current organizational placement of the USDA food safety mission.

FSIS bases its policy decision on science, so the single food agency discussion boils down to one

Question. will there be a measurable benefit to public health? In other words, would such an effort save lives and reduce foodborne illness rates? As with any new food safety and security effort, we must make sure that we maintain and continue improving on any progress that has been made to improve public health. It is important to make sure that any disruption to the current food safety system effectively improves food safety and public health. USDA looks forward to working with Congress to examine these issues and to continue to keep the nation's food supply safe and secure and strengthen public health.

Question. We have recently witnessed the consolidation and creation of the Department of Homeland Security. Do you believe the creation of DHS could serve as a model for the creation of a single food safety agency?

Answer. The outcome of the policy discussion concerning a single food safety agency may be addressed in answering one key

Question. Will there be a measurable benefit to public health? We must assure that any disruption to the current food safety system effectively improves food safety and public health. Additionally, the costs associated with any major overhaul to

the U.S. food safety system must be considered. It is important to determine what the financial and human costs associated with a single food safety agency might be and to determine if this cost will best leverage funding for food safety.

Question. Secretary Veneman, I believe you have been noted as saying that the statutes governing meat inspection “pre-date the Model T” and have implied that these statutes need to be modernized. I agree with you. Please identify what efforts you have made in the past year to accomplish this goal.

Answer. During the past year, we have taken a hard look at our statutory authorities, and have held meetings with consumer and industry groups to ensure that we received the input of a variety of sources. Our efforts culminated in the development of “Enhancing Public Health: Strategies for the Future,” the Food Safety and Inspection Service’s (FSIS) 2003 Vision Paper, which was published in July 2003. In outlining the Department’s food safety vision, steps have been identified that must be taken before consideration of changes to our statutory authorities.

SOYBEAN RUST

Question. I am very concerned about the risk of importing Asian soybean rust into the continental United States. This could be a potentially devastating situation to our soybean crop and impose heavy economic burden on American farmers and consumers. I noticed this particular disease was not mentioned in your statement regarding APHIS’ plan to deal with intentional and unintentional disease.

I understand various pathways of entry for rust spores have been suggested which range from natural wind current to human or maritime transport. I am particularly concerned about the movement of soybeans and soybean meal through import channels. Soybean and soybean material produced in soybean rust-infected areas have the potential to carry viable spores when they are transported. I understand the potential viability of soybean rust spores can be eliminated if the soybean material is processed, heat-treated and handled properly.

I, along with a number of my colleagues, wrote your office (a month ago) stating our concern on allowing imports from diseased areas until APHIS completes its risk assessment and has a plan in place to ensure we do not inadvertently import this devastating fungus. I would appreciate a response to these concerns. In addition, I would like to hear what the agency is doing to prevent the importation of soybean rust.

Answer. Our response to your concerns about this disease was sent on March 25, 2004. As we indicated in the letter, APHIS officials are looking closely at our country’s importation of soybean seed, meal, and grain. Our analysis to date has shown that clean soybean seed and soybean meal—which is a heat-treated, processed product—pose only minimal, if any, risk of introducing this disease.

APHIS officials conducted site visits to soybean grain elevators in New Orleans on January 7, 2004, and to grain elevators and processing facilities in Brazil from February 10–12, 2004, to examine how the storage, loading, and shipping of export-quality soybeans are handled in the two countries. APHIS officials have determined that soybean leaf debris associated with the “foreign material” found in soybean grain shipments could present a potential pathway for the introduction of soybean rust. However, foreign material in soybean grain shipments typically amounts to less than 2 percent of the shipment. Moreover, as it is normal commercial practice to harvest soybeans after the plants have been defoliated, leaf debris should compose only a very minute part, if any, of the foreign material. Therefore, the foreign material found in soybean grain is an unlikely pathway for the introduction of soybean rust.

APHIS has developed a strategic plan to minimize the impact of the introduction and establishment of soybean rust in the United States. The strategic plan describes our four-pronged approach to the disease, focusing on protection, detection, response, and recovery. We developed the plan in cooperation with our State cooperators, other USDA agencies, and industry representatives.

Our protection efforts focus on preventing the human-assisted entry of soybean rust through the collection of off-shore pest information, a pathway pest risk assessment currently underway, and commodity entry standards. In this regard, Customs and Border Protection officials are inspecting imported shipments of soybeans to make sure that they meet our entry standards and notifying APHIS of these incoming shipments.

We are currently conducting the risk assessment to evaluate the levels of risk involved with soybean imports and to develop mitigation measures to reduce any such risks. We have completed the first step in this process, a review of available scientific evidence on the risk of soybean rust’s entry, and posted the document on APHIS’ Web site. The collection of off-shore information from trading partners and

APHIS personnel overseas is helping us to understand possible reservoirs and routes for infection and will enhance our detection, response, and recovery efforts.

Our goal for the detection, response, and recovery aspects of the strategic plan is to ensure that a wide variety of stakeholders, including growers, crop consultants, State officials, extension agents, and many others can recognize the disease and know how to report possible introductions. We are monitoring sentinel soybean fields in eastern seaboard and southeastern States, the areas where we believe the disease would most likely enter the country, for the presence of soybean rust and have also begun training stakeholders in detection, identification, and disease management. We are also supporting the development of forecasting methods that would help predict where the disease would spread once it arrived in the United States.

APHIS has established a Soybean Rust Detection Assessment Team, a rapid response team composed of scientific experts and State and regulatory officials. Team members met in January 2004 to plan specific emergency actions that would be immediately activated in response to a detection of soybean rust. Most recently, USDA officials participated in a soybean rust conference that was cooperatively organized by USDA, five pesticide companies, and the American Soybean Association. The primary goal of the conference was to disseminate to soybean farmers the knowledge, information, and techniques they will need to manage this pathogen when it reaches in the continental United States.

CHILDHOOD OBESITY

Question. To address this issue, many schools have explored creative approaches to promote healthy eating, and some of those approaches have been successful.

These include efforts to: integrate nutrition education into the school curriculum; experiment with food packaging; and expose students to different fruits and vegetables.

Efforts in some states are promising, and a number of schools have reported increased vegetable consumption and student acceptance of other healthier food choices.

Unfortunately, such efforts remain limited and are often compromised by budget pressures. Recognizing this, on February 5, 2004, I sent a letter to your office, expressing my desire to work with you and your department to establish demonstration projects in several Illinois school districts to identify effective strategies to increase student acceptance of healthy foods.

My staff has been in contact with your office in efforts to obtain a response to this letter. I would like to know if it is going to be possible to establish these demonstration projects. What new programs does the USDA plan to initiate to combat this growing threat of childhood obesity?

Answer. I asked Undersecretary Bost to respond to your letter, which I understand he did on March 15. USDA's Team Nutrition administers a competitive grant program that assist States on initiatives that promote the nutritional health of the Nation's children. Team Nutrition has worked with the State of Illinois in the administration of the seven grants awarded to the State over the past 9 years totaling \$1.2 million. The Department is preparing to review new proposals for the fiscal year 2004 Team Nutrition grant program. These proposals could include mini-grants for funding school districts interested in developing innovative programs to promote healthy eating choices.

In addition, the Food and Nutrition Service has joined the working group you have launched to deal with childhood obesity; I understand they will begin to meet in the very near future to discuss the group's goals and potential opportunities to address this important issue.

USDA did receive funds in fiscal year 2004 to pursue a number of initiatives, and has proposed additional ones for fiscal year 2005 to address obesity and promote healthy weight. With this additional funding, the Department is developing new interventions in WIC to promote healthy eating for infants and children—efforts that will help our youngest participants develop healthy habits for the long term. USDA received \$14.9 million in its fiscal year 2004 appropriation to enhance WIC breastfeeding promotion through peer counseling. The use of peer counselors has proven effective in increasing initiation and duration of breastfeeding—the feeding practice best suited to giving most babies a healthy start. USDA also received \$4 million in fiscal year 2004 to initiate WIC Childhood Obesity Prevention Projects, which build on the success of the Fit WIC to work in partnership with States on innovative strategies to use WIC to prevent and reduce childhood obesity. Ongoing funding for these initiatives is critical to ensuring continuous improvement; and a \$5 million increase has been requested for each initiative in fiscal year 2005. In fis-

cal year 2004, \$2 million in WIC Special Project grant funding is being used to promote consumption of fruits and vegetables.

In addition, \$2.5 million was requested in fiscal year 2005 to expand the Eat Smart. Play Hard.? campaign and establish a cross-program nutrition framework to help ensure a comprehensive, integrated approach to nutrition education in all nutrition assistance programs.

The Department has efforts underway in other programs as well. USDA, as part of the Department's Strategic Goal 4: "Improve the Nation's Nutrition and Health," established a specific performance measure to reduce overweight and obesity among Americans. As a partner with the U.S. Department of Health and Human Services and other public and private sector stakeholders, USDA will take actions to encourage a reduction in overweight and obesity such that adult obesity will be not greater than 20 percent by 2010 (it is currently 30 percent), and child and adolescent overweight will be no greater than 8 percent (when last measured 15 percent of the Nation's children ages 6 to 19 years of age were overweight). The efforts underway in all the Federal nutrition assistance programs promote proper nutrition and healthy weight. However, to help ensure progress on this performance measure, the Department is reshaping nutrition education in the Food Stamp Program to target activities that promote healthy weight; exploring new ways to support healthy weight through the WIC Program; and promoting increased fruit and vegetable intake through partnership with other Federal agencies and the National 5-A-Day Program.

BOVINE SPONGIFORM ENCEPHALOPATHY (BSE)

Question. We still don't have a firm grasp of the prevalence of BSE in the nation's cattle herd. The USDA announcement on March 15th proposed an expansion of BSE testing to include over 200,000 cattle from the "high risk" group and 20,000 from clinically normal older cattle.

Sampling approximately half of the high-risk group of cattle provides meaningful statistics on the prevalence of BSE in the sub-population of cattle. However, 20,000 samples from an estimated population of 1 million older, clinically normal cows is not enough to validate disease prevalence for a population of that size.

There are millions of cattle, mostly aged dairy cows, that are older than the FDA ruminant feed restrictions of August 1997. Many of these cows received potentially contaminated meat and bone meal, much of it imported from the EU, well into 1998. It is this sub-population of cattle that must be tested for BSE as they are processed into the human food supply.

However, questions remain as to how the USDA can gain access to enough samples to meet the proposed number of cattle tested for BSE.

I have sent you two letters which have yet to be addressed. I would appreciate a response to these letters and specifically these questions:

You stated you did not know the ambulatory status of the Washington state Holstein cow that tested positive for BSE. I understand an investigation by the OIG has been opened. If it turns out the only animal that has tested positive for BSE in the United States was clinically normal and was found only through chance, then we must question the USDA's BSE surveillance program that focuses only on suspects, non-ambulatory and dead cattle.

Answer. Prior to the passage of FDA ruminant feed restrictions in 1997; USDA prohibited the import of ruminant-origin meat and bone meal from countries known to be affected by BSE beginning in 1989, and in 1997 we prohibited the importation of ruminant-origin meat and bone meal from all of Europe. This was done to minimize the likelihood of aged dairy cattle in the United States being exposed to potentially contaminated meat and bone meal. Even more importantly, the United States has traditionally been a net exporter of rendered protein products. Our records simply do not show that there were significant imports of meat and bone meal from Europe for incorporation into livestock feed even when our regulations permitted such products to be imported.

In addition, USDA has maintained an aggressive surveillance program since 1990. This surveillance has been targeted at the population where we are most likely to find the disease if it is present—adult animals that have some type of clinical signs that could be consistent with BSE. The index cow in Washington State fit in our targeted population, as she was not clinically normal. According to Agency records, when the index cow arrived at the plant, a Food Safety Inspection Service veterinarian conducted a clinical assessment and classified her as non-ambulatory disabled. The Department stands behind that assessment.

USDA continues to target its BSE surveillance efforts on cattle populations at the highest risk of having BSE. Specifically, surveillance has been targeted at cattle ex-

hibiting signs of neurologic disease; condemned at slaughter for neurologic reasons; testing negative for rabies and submitted to public health laboratories and teaching hospitals; and appearing non-ambulatory (including those exhibiting general weakness severe enough to make it difficult but not impossible to stand), also known as “downer cattle.” We also target cattle that die on the farm for unexplained reasons.

USDA’s testing regime for BSE will follow our prescribed plan regardless of whether the afflicted animal in Washington State was a downer cow. There is a very important distinction to be made between “ambulatory” cattle and “apparently healthy” cattle. An animal may be ambulatory but have other signs of disease that make it an appropriate animal to test. In addition, non-ambulatory cattle may be completely and entirely unable to walk, or intermittently so. It is not uncommon for a downer cow to be “down” then “up” several times over the course of the journey from farm to slaughter. Weak animals—either with a specific weakness, such as in their hind legs, or a general weakness—may be considered non-ambulatory for surveillance purposes because they cannot stand or walk completely normally. All evidence to date indicates that the animal in Washington State was selected appropriately for our targeted surveillance.

As we recently announced, we plan to test as many cattle in the targeted high-risk population as possible in a 12-month to 18-month period and then evaluate future actions based on the results of this effort. The plan also incorporates a small random sampling of apparently normal aged animals at slaughter.

The international standard setting organization—the World Organization for Animal Health—recognizes that focusing all BSE surveillance efforts on testing apparently healthy animals is the most inefficient and ineffective method of actually finding disease.

In addition, no matter what the prevalence of the disease in the United States, there is a series of firewalls in place that dramatically reduce any possible risk to consumers. These safeguards include the ban on all parts of animals from high-risk populations from the food supply, along with potentially infective tissues—specified risk materials—from all cattle over 30 months of age.

Question. If states are not allowed to do their own testing, then how does the USDA plan a “robust” expansion of its BSE testing from 20,000 in 2003 to over 200,000 during the next 12–18 months?

Answer. Throughout the history of our surveillance program, USDA has worked to obtain samples from the targeted animal population, wherever these samples may be located. In order to obtain the samples, USDA–APHIS has worked with facilities other than federally inspected slaughter establishments as part of BSE surveillance efforts. These facilities included renderers, salvage slaughter facilities (i.e., not slaughtered for human consumption), and other animal disposal industries.

Under our new surveillance program, we will build on these efforts to ensure that we maintain access to our targeted surveillance population. We will also be reinforcing our educational and outreach efforts to producers, so they will know who to contact about testing dead or downer animals on the farm.

USDA–APHIS–Veterinary Services’ officials across the country will work closely with their State counterparts to build on existing relationships at these locations so that we can obtain the necessary samples. Payment for services will help cover additional costs incurred by producers and the industries participating in our surveillance program. Historically, all BSE testing in the United States has been performed exclusively at the National Veterinary Services Laboratories (NVSL) in Ames, Iowa. Under the new surveillance program, USDA plans to use a network of State and Federal veterinary diagnostic laboratories to conduct BSE surveillance tests. Confirmatory BSE testing will still be conducted at NVSL.

Question. If state veterinary diagnostic laboratories or private companies meet or exceed the USDA standards for BSE test quality control and sample chain of custody, then why should states and private companies not be allowed to test animals for BSE within their states?

Answer. USDA’s targeted surveillance program is designed to identify the presence of BSE in the U.S. cattle population if it exists. Under our current surveillance plan, using APHIS’ National Veterinary Services Laboratories and participating Animal Health Network laboratories, we can assure trading partners of the program’s scientific legitimacy. We may not be able to make the same case to the international community if industry dictates the parameters of the testing program. Further, the use of a rapid test would imply a consumer safety aspect that is not scientifically warranted. Also, because USDA will be restricting BSE testing to public laboratories, we can ensure that our testing remains transparent but does not cause undue public concern if a rapid test produces a false positive reaction.

Question. Given the limited access to suspect and non-ambulatory cattle, how many cows have been tested for BSE since January 1st of 2004?

Answer. Between January 1, 2004 and March 31, 2004, approximately 5,500 cattle were tested for BSE. USDA anticipates the number of cattle tested per month to increase substantially once the enhanced surveillance plan is fully implemented on June 1, 2004.

Question. Since there are no incentives for producers to submit non-ambulatory or sick animals for BSE testing, how can the USDA expect to test over 200,000 of these “high risk” animals during the next 12 to 18 months?

Answer. Throughout the history of our surveillance program, USDA has worked to obtain samples from the targeted animal population, wherever these samples may be located. In order to obtain the samples, USDA-APHIS has worked with facilities other than federally inspected slaughter establishments as part of BSE surveillance efforts. These facilities included renderers, salvage slaughter facilities (i.e., not slaughtered for human consumption), and other animal disposal industries.

Under our new surveillance program, we will build on these efforts to ensure that we maintain access to our targeted surveillance population. We will also be reinforcing our educational and outreach efforts to producers, so they will know who to contact about testing dead or downer animals on the farm.

USDA-APHIS-Veterinary Services’ officials across the country will work closely with their State counterparts to build on existing relationships at these locations so that we can obtain the necessary samples.

Payment for services will help cover additional costs incurred by producers and the industries participating in our surveillance program. For example, costs for transporting an animal or carcass to the collection site from a farm or slaughter establishment may be reimbursed, or disposal expenses for “suspect” cattle that test non-negative or that cannot be rendered may also be covered. Other expenses may also be addressed in the program.

Question. How will the \$70 million earmarked for expanded BSE surveillance be distributed among costs for tests, laboratory expansion, certification and manpower needs, sample collection and shipping, education, communications and incentives for collection of samples?

Answer. We estimate that the full cost of the enhanced surveillance program will be approximately \$76.4 million. However, USDA was able to offset some of these costs by directing funds from previous Commodity Credit Corporation transfers towards this 12- to 18-month effort.

Of the total need identified, USDA anticipates spending the funds as follows:

(In thousands of dollars)

Program Component	Cost
Personnel and Benefits (Includes investigators, laboratory inspectors and manager, pathologists, program analysts, sample collectors in the field, staff veterinarians, etc.)	9,078
Travel (includes trips for meetings, training sessions, outreach)	1,445
Transportation (Includes shipment of samples for testing and the transportation of animals, animal parts, carcasses, etc. for sampling and/or disposal)	19,013
Rent, Communication, Utilities (Includes offsite collection/storage facilities)	400
Other Services (Includes agreements with contract labs, laboratory training set-up, costs associated with carcass/offal storage until test results confirmed, disposal of non-negative and certain other carcasses, database costs, printing, and indirect costs, etc.)	36,994
Supplies and Materials (Includes shipping supplies—cooler box, centrifuge tubes, etc.; test kits)	4,400
Equipment (Includes robotics and other equipment for cooperating labs, additional equipment for NVSL and Center for Vet Biologics)	5,059
Total	76,389

QUESTIONS SUBMITTED BY SENATOR TIM JOHNSON

COUNTRY OF ORIGIN LABELING

Question. I have the February 10th response from Bill Hawks, Under Secretary for Marketing and Regulatory Programs, to my December 2003 letter. I ask you, Secretary Veneman, for a more substantial response to my initial question. How are you interpreting the 2-year delay on COOL, and will the delay apply to the rule-making process?

Answer. The Omnibus Bill delayed the implementation of mandatory COOL for all covered commodities except wild and farm-raised fish and shellfish until September 30, 2006. Accordingly, USDA is precluded by law from immediately implementing a mandatory COOL program for all commodities. Currently, we are review-

ing the comments received on the proposed regulations and will continue to implement COOL as mandated by the 2002 Farm Bill and the Omnibus Bill.

Question. Secretary Veneman, with respect to the feasibility of country of origin labeling, have you and your department reviewed the GAO report that Senator Daschle and I requested?

Answer. Yes, my staff and I have reviewed the report.

Question. Has the United States Department of Agriculture reviewed the multiple assertions on the part of GAO that deem country of origin labeling to be entirely feasible and much more cost effective than your department originally contended?

Answer. Yes, we have reviewed the GAO assertions. The GAO report recognizes that the existing Federal, State, and foreign country programs that were suggested for use as models in implementing mandatory COOL will not be particularly useful for meat, fish, and shellfish due to the law's unique definitions of a U.S. product. The preliminary recordkeeping burden estimate that AMS published in conjunction with the voluntary country of origin program, which served as the basis for GAO's report, was \$1.9 billion. While the report questions the assumptions used by AMS in formulating this estimate, it also recognizes that this estimate did not include the costs of segregating and storing foods and for labeling products.

DEVELOPING THE ANIMAL IDENTIFICATION PROGRAM

Question. How do you intend to develop the animal identification program, and what parties will you include in the process? Will producers and scientists be adequately represented and consulted?

Answer. Implementation of a national animal identification system will begin through cooperative agreements to assist state and other entities to develop the capacity to interface with the national repositories. Federal funds would not be earmarked for hardware such as identification tags or electronic readers. Cooperators would decide to develop the interface and solicit producer and non-producer participation into the system. USDA expects that the funding level would start at the highest levels in Phases I and II as cooperators and species are added but then decline into a steady state maintenance level over time. USDA does not envision the Federal funding being used for hardware purchases in the long term, except for maintenance and additional development of the national allocators and repositories. USDA also expects that competition among vendors for adoption of their technologies by producers would result in private technology vendors also making investments in the system infrastructure to position their technologies.

A major factor contributing to the success of this program will be state participation and communication with and educating producers and other stakeholders as to the operation of the program and their responsibilities. Some states have started activities that mirror, to various degrees, the identification of premises and animals. Many of these activities are supported by USDA funds. Cooperative agreements would support the interface of these systems with the National Animal Identification System. Some agreements with early cooperators would be established early in Phase I. USDA recommends that additional agreements with a broad range of cooperators be established later in Phase I and into Phase II.

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

BSE TESTING

Question. Secretary Veneman, a rapid, live test will be instrumental in reestablishing our trading opportunities in key markets. How much money would the department need to develop this test, and have you in fact initiated the process?

Answer. The Agricultural Research Service is conducting research to develop live animal tests for transmissible spongiform encephalopathies. ARS has successfully developed such a test for scrapie in sheep and has contributed to such a test for CWD in farmed deer using non-brain tissues accessible in live animals. Unlike the sheep third eyelid and the deer tonsil tests, cow material does not contain prions

at concentrations that can be detected with current technologies. Using current funding, ARS is enhancing the sensitivity of current tests to look for prions in blood where they may be present at very low levels. ARS is also developing novel proteomic approaches to prion detection. This research will be enhanced by an additional \$1 million included in the President's fiscal year 2005 budget which will support the studies to determine the genetic susceptibility of cattle to BSE. Such information will be helpful in identifying what peripheral tissues might be used to detect prions and/or what alternative genetic markers might be indicative of a cow being infected with BSE-causing prions.

ENERGY BALANCE OF ETHANOL

Question. Dr. Collins, the United States Department of Agriculture has conducted extensive analysis on estimating the net energy balance of corn ethanol. Technological advances in ethanol conversion and increased efficiency in farm production have produced demonstrated improvements and a positive net energy balance.

At a time of increasing prices for some inputs and the continued expansion of ethanol plants and capacity throughout the country, could you please summarize the USDA's latest conclusions as to the positive net energy balance of ethanol?

Answer. Although it takes energy to produce ethanol, repeated USDA research shows a positive net energy balance of corn ethanol. The energy in ethanol exceeds the amount of energy used to produce it, and this energy balance has improved over time.

Technological innovations in corn production and ethanol conversion are important factors in this improvement. Corn yields have improved, and ethanol plants are rapidly adopting innovations which substantially reduce the energy required to convert corn into ethanol. Our most recent estimate of the energy ratio is 1.67, up from 1.22 in 1995. This indicates that the energy content of ethanol is 67 percent greater than the energy used to grow, harvest, and transport corn, and to produce and distribute the ethanol. USDA will be presenting our most recent study at the Corn Utilization Conference, June 7-9, 2004 in Indianapolis, Indiana.

Question. Dr. Collins, the Reformulated Gasoline Program (RFG) is a key contributor toward mitigating ozone problems in some of America's largest metropolitan areas. The principal oxygenate used in the RFG Program, MTBE, is linked to underground water contamination and several states have taken action to phase-out and then ban the use of MTBE as an oxygenate.

Dr. Collins, as the Congress works to pass a renewable fuel standard, can you please summarize for the Committee the latest benefits of using ethanol as an oxygenate under the existing RFG Program?

Answer. Ethanol contains 35 percent oxygen, and adding oxygen to fuel results in more complete fuel combustion, thus reducing harmful tailpipe emissions. Ethanol also displaces the use of toxic gasoline components such as benzene, a carcinogen. Ethanol is non-toxic, water soluble, and quickly biodegradable.

According to the National Research Council, blending ethanol in gasoline reduces carbon monoxide tailpipe emissions. Additionally, RFG, including ethanol-blended fuels, reduce tailpipe emissions of volatile organic compounds, which readily form ozone in the atmosphere. Thus, the use of ethanol can play an important role in smog reduction.

Importantly, where smog is of most concern, gasoline blended with ethanol must meet the same evaporative emission standard as gasoline without ethanol. This ensures that these ethanol blends provide further emissions reductions that limit ozone formation.

Ethanol is produced from grains and other biomass in much the same way as beverage alcohol. MTBE, on the other hand, is a toxic additive produced from natural gas and methanol. Exposure to ethanol vapors coming from ethanol-blended gasoline is very unlikely to have any adverse health consequences. Because ethanol is naturally present in blood and the body rapidly eliminates ethanol, exposure to ethanol vapors is unlikely to be a health hazard.

STANDARD REINSURANCE AGREEMENT

Question. With respect to the Standard Reinsurance Agreement, my office has heard substantial complaints regarding the Risk Management Agency's proposed draft.

Where are you in the process of reviewing these complaints, and how do you propose to change the SRA to ensure it is friendlier to producers and agents alike?

Answer. RMA reviewed comments from insurance companies and interested parties to revise the first draft. On Tuesday, March 30, RMA announced the release of the second SRA proposal. RMA believes that the second draft demonstrates re-

sponsiveness to concerns raised by companies and interested parties in the first round of negotiations.

QUESTIONS SUBMITTED BY SENATOR MARY L. LANDRIEU

NATIONAL FINANCE CENTER—E-PAYROLL INITIATIVE

Question. What, if any, action do you plan to take with respect to this proposal?

Answer. USDA has worked with the Office of Personnel Management (OPM) to review and respond to the State of Louisiana's "e-Government/e-Payroll Project Initiative." OPM's e-Government Initiatives Office took the lead in working with the Payroll Advisory Council, the Office of Management and Budget (OMB), the various Federal councils, and others involved in the e-Payroll initiative to respond to the proposal. On April 19, 2004, OPM wrote the Honorable Don J. Hutchinson, Secretary of Louisiana's Department of Economic Development, to share with him the results of this review. A copy of this memorandum is attached.

[The information follows:]

OFFICE OF PERSONNEL MANAGEMENT,
Washington, DC, April 19, 2004.

Hon. DON I. HUTCHINSON,
Secretary, Department of Economic Development, Baton Rouge, LA.

DEAR SECRETARY HUTCHINSON: Thank you again for the opportunity to review your "e-Government/e-Payroll Project Initiative" proposal. As a part of the evaluation process, you permitted our Payroll Advisory Council (PAC) the opportunity to review the proposal and provide comments. In February 2004, members of the PAC (that includes representatives from the Office Personnel Management, the Office of Management and Budget, 6-Payroll Providers, and Federal Councils) reviewed the proposal, and I would like to share the results with you.

In general, the PAC determined that the proposal was very well thought out and contains valuable ideas. However, it does not appear to meet the needs of the Federal Government at this time and is not in alignment with the strategic goals of the e-Payroll initiative. For example, while it discusses including the Department of Agriculture's National Finance Center (NFC) in some loosely defined development activities, it merely mentions NFC's partnership with the Department of Interior, National Business Center (NBC). Additionally, the proposal is unclear in regard to considerations for the employees at the NBC and NFC who will be affected by the proposal. The proposal also indicates that the State of Louisiana and private concerns will provide \$200 million for the advancement of the facility. Not stated in the proposal is what, if any, obligations the Federal Government would have to reimburse that amount. It is also not evident how the proposed corporation will interact with OPM, other authority agencies; or customers. An established process for collaboration with Federal authority agencies and customers is extremely critical since competing needs could place significant demands on the provider. The PAC was also extremely concerned with how the proposed corporation would address key national security concerns, especially those of the Intelligence community. Additionally, the PAC was also unclear as to how the proposal complied with the principles of fair and open competition, considering that thee-Payroll Providers operate out of several different States.

The proposal indicates that software development is one of the first priorities of the corporation. The PAC construed this to mean that the State does not have a viable product readily available to the Federal Government. Today, the e-Payroll Providers have independent systems; replacement of these four systems is targeted for fiscal year 2007. To achieve replacement in fiscal year 2007, e-Payroll and the Providers are exploring options today by conducting a feasibility study to assess commercial off-the-shelf (COTS) and Government off-the-shelf (GOTS) products. Upon completion of this study, it is planned to test these applications under a structured demonstration lab. Should the State of Louisiana have a product available in the next several months, it could be considered for inclusion in the demonstration lab.

Again, thank you for the opportunity to review the proposal. I would welcome any information that you might provide regarding the availability of software the State of Louisiana might have for inclusion in the upcoming demonstration lab.

Sincerely,

NORMAN ENGER,
Director, e-Government Initiatives Office.

Question. Since the activities of the NFC are outside the normal scope of business of the U.S. Department of Agriculture, in the event the Department cannot support this cost-effective approach to meeting the PMA, are you considering the possibility of the transition of the NFC to a structure or “ownership” that will facilitate this proposal?

Answer. As part of the e-Payroll initiative, USDA/NFC in conjunction with the Department of the Interior’s National Business Center (NBC), its e-Payroll business partner, submitted to OPM in August 2004, a proposal to combine the Government-wide, cross-servicing business lines of NFC and NBC into an organization characterized as:

- Commercial-like, Federal corporate entity
- Providing a wide range of services targeted at supporting the President’s e-Government Agenda
- Operational flexibilities defined; i.e., human resource and finance

This proposal is under review by OPM and OMB.

Question. What specific actions can you take from here to make sure the Louisiana proposal receives the full attention of the Department of Agriculture?

Answer. OPM’s e-Government Initiatives Office has taken the lead in working with the Payroll Advisory Council, the Office of Management and Budget (OMB), the various Federal councils, and others involved in the e-Payroll initiative to respond to the proposal.

Question. If Congress were to direct you, or suggest that you, your Department and the Department of Interior have authority to move out on a proposal like Louisiana’s, would you support such legislative authority?

Answer. We would work with OPM and OMB in support of any direction provided and work with them to implement this direction in line with the goals and objectives of the President’s Management Agenda to further delivery of cost-effective services to Federal employees and agencies.

Question. Is specific legislation necessary before you, your Department and the Department of the Interior proceed with some type of public/private partnership initiative like that proposed by the State of Louisiana?

Answer. We believe that specific legislation would be necessary to charter and authorize the new entity as well as provide the necessary structure, human resource, and financial flexibilities necessary for the organization to be successful. OPM has identified the need for legislation as a primary critical path item if the merged proposal proceeds.

NATIONAL FINANCE CENTER—THRIFT SAVINGS PLAN

Question. Ms. Secretary, as you are aware, the Federal Retirement Thrift Investment Board (FRTIB) Chairman, Andrew Saul, in his February 20, 2004 letter to you, said the Board is “giving notice of termination of software maintenance services and mainframe operations by NFC” for the Thrift Savings Plan. It is estimated that this action could result in the loss of as many as 35 to 40, if not more, of the highest paying jobs at NFC, and may lead to a subsequent decision by the “Thrift” Board to terminate the NFC’s “case management” of the TSP which involves another 400 jobs at the NFC. It is my understanding that according to some preliminary information received thus far from the “Thrift” Board and the NFC, the actions by the “Thrift” Board may not be warranted or justified at this point.

Has your office considered what, if anything, can be done to reverse this action by the Federal Retirement Thrift Investment Board?

Answer. The decision to purchase service from NFC is under FRTIB’s control. USDA believes strongly that continued use of NFC is still a cost-effective, sound business decision. We have taken steps to improve communication between USDA/NFC and FRTIB in an effort to rebuild the strategic partnership and retain the business. However, we do not know all of the factors influencing the Board’s decision, and therefore do not know if our actions will influence the outcome.

Question. What have your offices, specifically in DC, done in reply to the February 20th letter?

Answer. Tom Dorr, Senior Advisor to the Secretary, was appointed to represent USDA and to meet personally with senior FRTIB officials and to help clarify and resolve the issues. Mr. Dorr, as well as other executives of OCFO, has been in continuing contact with FRTIB and NFC since his assignment.

Question. I am concerned that changing the operations of critical elements of the Thrift Savings Plan operations and functions from the National Finance Center to “possible entities” in Washington, D.C. may cause even more customer problems and be less cost effective.

Please provide for the record any and all cost comparison studies or analyses the Department of Agriculture, the Thrift Board, or any other entities have done regarding “outsourcing,” moving,” or “changing” any and all TSP activities versus maintaining them at the National Finance Center.

Answer. FRTIB has had several studies conducted over the years.

Hewitt Associates prepared an analysis, Defined Contribution Outsourcing Feasibility Study, for FRTIB in November 1992. Continued service from NFC was the top ranked alternative under consideration. The Hewitt Associates experts concluded that keeping the TSP recordkeeping function at NFC with the existing software and management structure best met FRTIB’s and TSP participant needs at that time.

Logicon 4GT prepared a system review and recommendation report for FRTIB in 1995. NFC’s services were again rated favorably. According to the consultants in 1995, the benefits that TSP participants received relative to the costs paid at NFC were excellent. TSP participants were paying less than one-half of the private sector cost. The industry standard for comparing mutual/retirement fund administrative expense ratios between competitors is percent of assets—typically referred to as basis points. (One percent equals 100 basis points.) At the time of the Logicon review, NFC’s basis points were 7.7 of the 12 total TSP basis points.

NFC’s TSP costs are still low when compared to comparable efforts in industry. In his opening statement at the March 1, 2004, Senate Committee on Governmental Affairs, Senator Fitzgerald referenced the recent expense ratio of TSP and comparable private sector funds. In 2003, the expense ratio of the average TSP fund was 11 basis points. Per Lipper Services, comparable index funds in the private sector have an average expense ratio of 63 basis points. Between 1994 and 2003 when TSP’s basis points dropped from 12 to 11, NFC’s share of the basis points decreased from 7.7 to only 4.4, a decrease of 43 percent. Without the increased cost efficiencies of NFC, total TSP administrative costs would have been significantly higher than 11 points in 2003.

On March 4, 2004, FRTIB issued a multi-year contract to a private vendor for a parallel call center. This will result in the eventual movement of 50 percent of the call center workload from NFC in New Orleans to the vendor located in the Washington, D.C., metropolitan area. NFC paired with its e-Payroll partner, Department of the Interior’s National Business Center in Denver, to compete but lost the bid.

Question. Also, please provide for the record, or to the Subcommittee staff and our offices all relevant correspondences, notices, and memos between the Federal Retirement Thrift Investment Board and any offices in USDA (in Washington or at the National Finance Center) from January 1999 to today, relating to TSP management and operations with respect to this issue.

Answer. The information has been provided to the Subcommittee staff.

NATIONAL FINANCE CENTER—DATA MIRRORING

Question. The fiscal year 2005 USDA budget request provides \$12,850,000 in additional funding for the “acquisition of disaster recovery and continuity of operations technology of the National Finance Center’s data.” This additional funding may be necessary to complete the effort begun in fiscal year 2003 to fund a back-up, or data mirroring, center for the NFC. In fiscal year 2003, \$12 million was appropriated for this center, subject to reporting requirements by Congress.

As it appears that the Budget justification for fiscal year 2005 submitted to the Subcommittee by the Department only provides a four-sentence explanation with no budget table breakout, please provide for the record details and a specific breakout of what the \$12.85 million request in fiscal year 2005 includes.

Please provide for the record what has been obligated and or spent to date from the funds appropriated in fiscal year 2003 and for what purposes. In addition, please provide any relevant details.

Answer. NFC delivers critical service to the entire Federal community. Its highest impact business lines are Thrift Savings Plan recordkeeping for 3.1 million participants and payroll/personnel support to 122 Federal agencies. Disruption in either of these services due to a disaster would have wide, significant repercussions across the nation. NFC has undertaken a multi-year initiative with appropriated funds to address short-term vulnerabilities and as well as to begin longer-term actions required to implement a more secure remote alternate data center at another location.

The initial \$12 million was to be used on immediate improvements to NFC’s security and recovery infrastructure and to begin the actions required to establish the remote computing facilities. The immediate improvements were estimated at \$3.6 million—\$0.8 million for implementation of enhancements to network security and technical solutions to known network vulnerabilities and \$2.8 million for interim implementation of high availability mirroring through expansion of the current com-

mercial recovery center contract. The remaining \$8.4 million was to begin implementation of the alternate computing facility. Details on the projects follow.

- Implementation of enhancements to network security and technical solutions to known network vulnerabilities: Estimated \$800,000
 - Access control—no expenditure of appropriation required; will be achieved through the upgrade of the operating system on May 29, 2004
 - Logging and monitoring—\$26,977 expended for Blue Lance logging and monitoring software; installed and fully operational; \$52,000 anticipated for intrusion detection enhancements and installation/configuration of Tripwire (in the procurement process)
 - Vulnerability management—\$284,000 anticipated for vulnerability scanning and management software (in the procurement process)
 - Remote access—\$157,689 expended, \$157,787 obligated for Citrix hardware and software
 - Encryption—\$26,468 expended for Cisco encryption equipment; installation in progress
 - Authentication—\$95,000 anticipated; smart cards, technical support, and server to support two-factor authentication (estimated \$75,000; in the procurement process); Sygate Security Portal for remote connection policy enforcement (estimated \$20,000; in the procurement process)
- Implementation of mirroring to provide high availability and recovery of payroll/personnel data in NFC's reporting center within 24 hours of a declared disaster: Estimated \$2.8 million
 - Mirroring solution for payroll/personnel data in NFC's reporting center—NFC has received the proposals from vendors and is now in the process of evaluating them.
 - Network equipment upgrade at the recovery backup site to support mirroring solution—\$60,000 anticipated; in the procurement process

NFC initially estimated a one-time investment of approximately \$34.1 million to establish a Federally controlled alternate site within 350 miles of New Orleans that included collocation of business resumption capability. Final plans depended upon on the availability of facilities for lease or sublease in the targeted area that have already been outfitted for data center operations and the availability of funding. If NFC were able to secure space on an existing Federal facility that already meets Department of Homeland Security physical security standards, it could reduce costs below those shown in the original estimates. NFC is currently pursuing site location and business continuity options that would enable establishment of an alternate computing facilities environment that manages the risks associated with discontinued service. Final cost estimates are pending receipt of the responses from the Federal community. However, the remaining \$8.4 million of the fiscal year 2003 appropriation and the \$12.85 million proposed for fiscal year 2005 are expected to fund much of this critical investment.

- This one-time capital investment will address the following critical objectives:
- Undertake actions to reduce enterprise risk and support data mirroring capability. NFC is currently awaiting responses from prospective Federal sources to its statement of requirements seeking excess computing facility space.
 - Buy and install hardware and software needed to support the effort, set up a new tape library system, and design and implement point-in-time remote backup capability.
 - Evaluate emerging backup and recovery options and their associated costs.

The details of the initial \$34.1 million capital investment estimates are below. These were included in our September 2003 report to Congress. We will update this budget once we receive feedback from the prospective Federal site sources.

ONE-TIME CAPITAL INVESTMENT REQUIREMENT/SERVICEBASE COST

Requirement/Service	Base Cost
Alternate Data Center:	
Mainframe hardware/software	\$2,650,000
Distributed servers hardware/software	2,775,000
Storage	10,550,000
Tape	3,450,000
Firewalls/Virtual Private Network	675,000
Telecommunications/LAN equipment	2,000,000
Build-out cost/furniture for 16,000 sq. ft. data center space (including 11 employee workstations)	6,444,000
Design/engineering/project management contractual services	2,854,000

ONE-TIME CAPITAL INVESTMENT REQUIREMENT/SERVICEBASE COST—Continued

Requirement/Service	Base Cost
Subtotal	31,398,000
Collocation of Business Resumption Capability:	
Build-out cost for 52,000 sq. ft. office space	1,352,000
Furniture/workstations for 300 employees	1,200,000
Design/engineering/project management contractual services	135,000
Subtotal	2,687,000
Total	34,085,000

Question. As of today, what specific sites are under consideration for this data mirroring center?

Answer. We are preparing for solicitation from Federal sources. No specific sites are under consideration at this time.

Question. The fiscal year 2003 Continuing Appropriations Conference Report section of the Agriculture Appropriations Bill, 108–10, Pages 551–552, included report language directing the Secretary of Agriculture “to submit a feasibility study to the Committee on Appropriations on the need for remote mirroring backup technology of the National Finance Center’s data. This study should include a breakdown of the costs and time frame associated with acquiring such technology, and should designate an appropriate physical location for the site. . . .”

This “feasibility study” did not make any specific recommendations but it did provide a timeline for specific site determination that included a “competitive site selection for a secondary backup data center” starting in fiscal year 2004. Has this process begun?

Answer. Site specifications are complete. The next step is solicitation from Federal agencies, which will occur shortly.

Question. What is the current timeline and plan for this site selection process?

Answer. We anticipate sending the solicitation package to three Federal agencies and getting responses by the end of June 2004.

Question. The “feasibility” report essentially claims as the key reason for site selection and criteria for that selection the elimination of the “NFC’s extreme vulnerability to the hurricanes common to the Gulf Coast.” In fact, the report continually sites this reason as a critical factor.

Please provide for the record the number of times the NFC has been completely shut down because of hurricane events over the last 20 years. Also, provide for the record the number of times, over the same time period that the Department of the Interior’s National Business Center, General Service Administrations comparable data center and the Department of Defense pay and personnel functions have been shut down for weather related reasons as well as any other factors. This should also include the Office of Personnel Management operations in Washington, D.C.

Answer. Over the past 20 years, NFC was shut down on two occasions due to weather for a total down time of approximately 15 hours. On a third occasion, operations were limited due to weather conditions associated with a hurricane. Each of these occurrences took place since 1998. Regarding other agencies and Departments of interest to the Committee, we learned that the Department of the Interior’s National Business Center reports no complete building shutdowns. We have been unable to obtain up-to-date information from the other agencies identified.

QUESTIONS SUBMITTED BY SENATOR ROBERT C. BYRD

HUMANE SLAUGHTER OPERATIONS

Question. In fiscal year 2003, \$5 million was provided to the Food Safety and Inspection Service to increase, by 50 full time equivalents, resources dedicated to enforcement of the Humane Methods of Slaughter Act (HMSA). The President’s request for fiscal year 2005 includes \$5 million to continue this purpose.

Please describe how the \$5 million appropriated in fiscal year 2003 was allocated, and how the \$5 million proposed for fiscal year 2005 will be allocated.

Answer. The fiscal year 2003 Appropriations conference agreement provided \$5 million over 2 years for at least 50 FTE’s to enforce the HMSA. In 2003, FSIS directed the District Veterinary Medical Specialists (DVMSs) to evaluate the time

spent conducting humane handling verifications. The DVMSs determined that FSIS inspectors and veterinarians would spend an estimated 130,000 hours conducting ante-mortem and humane handling inspections, which translates to more than 50 FTEs. Based on the survey data, USDA believes that the requirements are being met as evidenced by the increased hours of humane slaughter activities. At the time the funding was provided, FSIS was developing Humane Activities Tracking (HAT) system to allow the agency to more accurately capture the time spent on humane handling and slaughter enforcement activities by FSIS inspection personnel.

In fiscal year 2005, the Administration has requested \$5 million for FSIS to continue the work funded only for fiscal years 2003 and 2004. This includes staffing and benefit costs directly associated with humane handling and slaughter enforcement activities.

Question. Please explain why you believe the manner you have taken to meet the additional 50 full time equivalent requirement will provide more effective HMSA enforcement than by using the appropriation to hire 50 individual inspectors dedicated solely to HMSA enforcement.

Answer. USDA considers humane handling and slaughter a top priority, and FSIS veterinarians and inspectors are required to enforce humane handling and slaughter regulations at all of the more than 900 federally inspected establishments. FSIS continues to improve training and education efforts to ensure that all field personnel understand their authority, obligation and accountability to rigorously enforce the Humane Methods of Slaughter Act (HMSA). The fiscal year 2003 Appropriations conference agreement provided \$5 million over 2 years for at least 50 full time equivalents (FTEs) to enforce the HMSA. FSIS secured at least 50 FTEs dedicated to HMSA enforcement during Calendar Year 2003. Based on the DVMS survey data, USDA believes that the HMSA requirements are being met as evidenced by the increased hours of humane slaughter activities across all federally inspected establishments. Because of the importance of this top priority to the entire field workforce, in fiscal year 2005, the Administration has requested \$5 million for FSIS to continue the work funded in fiscal year 2003 and 2004.

Question. Critics of current HMSA enforcement suggest that unless FSIS personnel are always present at animal handling and slaughter sites, there is no way to know if HMSA violations occur. Further, it has been suggested that plant employees use communication methods to warn handling and slaughter employees when FSIS personnel are approaching their work stations and, only then, is stricter compliance with HMSA requirements pursued by plant employees.

Would you please respond to these criticisms?

Answer. Humane handling activities and food safety systems are both under ongoing regulatory activities as part of FSIS inspection personnel's everyday responsibilities. FSIS employees use a variety of methods to determine compliance with the HMSA and do not rely upon a single mode of evaluation. Some of these methods include standing in establishments where they cannot be observed, listening to unusual livestock vocalizations, viewing any changes in carcasses (e.g., bruising), communicating with plant employees to ask how they handle certain situations, and conducting off hours inspections (e.g., observing humane handling during off-loading at a plant that receives animals during the evening hours. The Veterinary Medical Officer (VMO) is authorized administrative overtime to come back for unscheduled observation during the evening).

The DVMSs routinely work with the VMOs on the importance of utilizing different approaches to verifying humane handling requirements. DVMSs work with FSIS inspection personnel to emphasize the importance of, and methods of, observing humane handling in locations where inspection personnel are not readily identified. If there is not a location to verify animal handling without being observed, the VMO is instructed to stand in a location to listen for vocalization by the livestock, or excessive yelling by plant employees. Both are indicators that plant employees may be using excessive force to move the animals.

Question. How many plants under the jurisdiction of HMSA have the capability to allow FSIS personnel to observe undetected plant animal handling slaughter operations?

Answer. Most of the approximately 300 largest livestock operations have safe areas with minimal visibility where FSIS personnel can and do observe plant animal handling and slaughter operations without being observed by plant employees. In addition, DVMSs and VMOs are authorized to conduct off hours inspections to observe humane handling during off-loading at a plant that receives animals during the evening hours. However, continuous visibility is the most effective method to observe HMSA compliance in small and very small operations. VMOs are trained to listen for changes in an animal's behavior and to look for indicators while observing carcasses. The need to be able to make this type of an assessment is part of the

information provided by the DVMSs and is included in the new employee training for newly hired veterinarians.

Question. What is USDA doing to increase this capability?

Answer. FSIS inspection personnel have a continuous, on-going, daily presence in all livestock slaughter operations. The fact that FSIS personnel are constantly present and observing animal handling and slaughter procedures for compliance with the HMSA keeps the industry aware of the regulatory presence. DVMSs work with FSIS inspection personnel to emphasize the importance of, and methods of, observing humane handling in locations where inspection personnel are not readily identified. It is also addressed in the new training developed for newly hired veterinarians, and is addressed by the mentors provided to assist newly hired FSIS veterinarians. In addition, DVMSs and VMOs are authorized to conduct off hours inspections to observe humane handling during off-loading at a plant that receives animals during the evening hours.

Question. Would USDA support a requirement to require such a capability?

Answer. USDA has a continuous regulatory presence through its FSIS inspection personnel in all livestock slaughter operations under official inspection. FSIS conducts humane handling and slaughter verification using a complete array of inspection procedures and professional judgment to verify compliance with the HMSA. Requiring FSIS personnel to observe undetected plant animal handling slaughter operations would likely be a burden on small and very small plants.

Question. Would USDA support a requirement for, as an option, the installation of a closed-circuit television monitor to allow FSIS personnel to make these observations from a remote location? If not, why?

Answer. As the law requires, FSIS inspection personnel, including veterinarians, are in all federally inspected slaughter plants every day and every minute that they are in operation. An establishment may not slaughter without the presence of inspection personnel. Inspection personnel conduct humane slaughter verification procedures at these establishments on a daily basis. These procedures include observation of the establishment's stunning methods.

Cost must also be considered as the installation of a closed-circuit television monitor could place a burden on small and very small plants. If USDA were to bear the cost for such a system, substantial funding would be needed. In addition, maintenance costs would likely be problematic due to the potential difficulty in maintaining such a system in a high humidity environment.

USDA does not believe that the addition of cameras would improve the observation capability of trained inspectors. FSIS veterinarians are technically trained to observe subtle signs indicative of humane handling and slaughter methods, which may not be identifiable under video surveillance. For example, ensuring animals are either dead or at the level of surgical anesthesia is critical when evaluating stunning effectiveness. This requires hands-on evaluation of the animal. If these very subtle signs are missed, animals can return to consciousness within a few seconds. The presence of FSIS inspectors in a plant is much more integral to enforcing the HMSA. All in-plant FSIS personnel are expected to enforce this Act and are held accountable for taking corrective and/or enforcement actions if it is violated.

Question. Please provide information regarding the fiscal year 2005 cost of integrating the Humane Animal Tracking System within the FAIM architecture.

Answer. FSIS upgraded its electronic Animal Disposition Reporting System (eADRS) with the incorporation of HAT in February 2004. HAT will allow the agency to more accurately capture the time spent on humane handling and slaughter enforcement activities by FSIS inspection personnel. Fiscal year 2005 costs will be covered within base funding.

Question. Please provide information regarding the number of FSIS personnel, in fiscal year 2003, who may have received agency reprimands, or similar actions, for taking any HMSA regulatory action against a plant operation which was later found to be inappropriate or unnecessary.

Answer. All in-plant FSIS personnel are expected to enforce the HMSA and are held accountable for taking corrective and/or enforcement actions if it is violated. In fiscal year 2003, FSIS employees did not take any HMSA regulatory actions that were later found to be inappropriate or unnecessary. In fact, certificates of recognition have been provided to FSIS personnel for acting responsibly in certain HMSA enforcement situations.

Question. Conversely, please provide information regarding recommendations by FSIS personnel to take an HMSA regulatory action against a plant operation which was subsequently rejected by an FSIS supervisor.

Answer. USDA is not aware of any recommendations by FSIS personnel to take an HMSA regulatory action against a plant operation which was subsequently rejected by an FSIS supervisor. Because FSIS trains all in-plant Veterinary Medical

Officers (VMOs) and slaughter line inspectors about humane handling responsibilities, the agency is confident in their ability to properly enforce the HMSA.

Question. On pages 29 and 30 of GAO report 04-247, dated January 30, 2004, on the subject of the Humane Methods of Slaughter Act, six specific recommendations are listed for you to further strengthen HMSA regulatory actions.

Please describe steps you have taken to carry out each of these recommendations.

Answer. USDA places a very high priority on ensuring that animals produced for food are treated in a humane manner and has taken swift action in instances where establishments have been found in violation of the Humane Methods of Slaughter Act (HMSA). FSIS has already incorporated many of the recommendations made by GAO that will improve the quality and consistency of our enforcement efforts. Below is FSIS' action plan in regards to the recommendations.

GAO Recommendation

To provide more quantifiable and informative data on violations of the HMSA, GAO recommends that the Secretary of Agriculture direct FSIS to supplement the narrative found in noncompliance reports with more specific codes that classify the types and causes of humane handling and slaughter violations.

USDA Response

Noncompliance reports are stored electronically in the Performance Based Inspection System (PBIS). FSIS will determine whether it is feasible and appropriate to modify the PBIS to incorporate additional humane handling violation codes. The current database format contains detailed narratives from FSIS Noncompliance Records (NRs). These narratives contain a wealth of information beyond what is provided in a simple classification code and provide the basis for a thorough analysis.

In addition, DVMSs are now using procedures and tracking tools to continually monitor regional trends and anomalies in establishment compliance. These procedures and tracking tools are currently separate from PBIS. All noncompliance reports are now being sent to the District Office where they are reviewed and analyzed by the DVMS.

GAO Recommendation

To ensure that district officials use uniform and consistent criteria when taking enforcement actions, GAO recommends that the Secretary of Agriculture direct FSIS to establish additional clear, specific, and consistent criteria for District Offices to use when considering whether to take enforcement actions because of repetitive violations.

USDA Response

FSIS is developing guidance for inspection personnel which will (1) provide clear, specific, and consistent criteria for the District Offices when taking enforcement actions because of repetitive violations, (2) require the clear documentation of the basis for the decision regarding enforcement actions of repetitive HMSA violations and (3) provide criteria for determining when inspection personnel would issue an NR and when immediate suspension is warranted. FSIS expects to issue a Notice to inspection personnel this summer.

In addition, FSIS Directive 5000.1, "Enforcement of Regulatory Requirements in Establishments Subject to HACCP Systems Regulations" issued on May 21, 2003, and the Food Safety Regulatory Essentials courses provide guidance and direction to inspection personnel to ensure consistent use of enforcement actions. These materials emphasize a thought process rather than fixed criteria for initiating enforcement action. They pose a series of questions for inspection personnel to consider when determining whether a second violation is an isolated incident or a trend of noncompliance is developing.

GAO Recommendation

To ensure that district officials use uniform and consistent criteria when taking enforcement actions, GAO recommends that the Secretary of Agriculture direct FSIS to require that District Offices and inspectors clearly document the basis for their decisions regarding enforcement actions that are based on repetitive violations.

USDA Response

FSIS is developing guidance for inspection personnel which will (1) provide clear, specific, and consistent criteria for the District Offices when taking enforcement actions because of repetitive HMSA violations, (2) require the clear documentation of the basis for the decision regarding enforcement actions of repetitive violations and (3) criteria for determining when inspection personnel would issue an NR and when

immediate suspension is warranted. FSIS expects to issue a Notice to inspection personnel this summer.

FSIS is using the Administrative Enforcement Report (AER) process to ensure that the proper case support files and documents are in place when an enforcement action is taken. A key component of this case file is documentation generated by the FSIS in-plant employees. Properly documented NRs and memos of pertinent plant meetings, conversations, and other documentation are vital, and are important parts of the AER reporting process.

GAO Recommendation

To ensure that FSIS can make well-informed estimates about the resources it needs to enforce the HMSA, GAO recommends that the Secretary of Agriculture direct FSIS to develop a mechanism for identifying the level of effort that inspectors currently devote to monitoring humane handling and slaughter activities.

USDA Response

FSIS has developed a new computer database, Humane Activities Tracking, to provide detailed and current data related to time spent on specific humane handling and slaughter verification activities by inspectors. HAT is one component of the Agency's updated electronic Animal Disposition Reporting System (eADRS) and e-gov initiative. eADRS will replace the current use of FSIS paper forms to report information about animals presented for slaughter. FSIS will utilize information and data from the new tool to determine the adequacy of its resources for enforcing humane handling and slaughter requirements at the individual plants.

GAO Recommendation

To ensure that FSIS can make well-informed estimates about the resources it needs to enforce the HMSA, GAO recommends that the Secretary of Agriculture direct FSIS to develop criteria for determining the level of inspection resources that are appropriate on the basis of plant size, configuration, or history of compliance.

USDA Response

FSIS will use HAT and eADRS to document the number of animals slaughtered each day and the amount of time spent monitoring various aspects of humane handling and slaughter requirements. Information maintained in the eADRS will be regularly examined by FSIS managers to assist in inspection resource planning.

GAO Recommendation

To ensure that FSIS can make well-informed estimates about the resources it needs to enforce the HMSA, GAO recommends that the Secretary of Agriculture direct FSIS to periodically assess whether that level is sufficient to effectively enforce the Act.

USDA Response

FSIS will use eADRS and HAT to document the number of animals slaughtered each day and the amount of time spent monitoring various aspects of humane handling and slaughter requirements. Information maintained in the eADRS and HAT will be regularly examined by FSIS managers to assist in inspection resource planning, and to determine if staffing levels are adequate. Additionally, FSIS will periodically assess whether the staffing level is sufficient to effectively enforce the Act.

Question. With funds provided by this Committee in fiscal year 2001, USDA established 17 District Veterinary Medical Specialist (DVMS) positions dedicated solely to HMSA activities.

Please describe the activities of these DVMS personnel in fiscal year 2003, how they intend to carry out their responsibilities in fiscal year 2004, and how they will carry out their responsibilities in fiscal year 2005, and in particular, describe, if any, activities that are not related to HMSA enforcement including the percentage of time spent on non-HMSA enforcement. Specifically, what percentage of their time is spent in plants subject to HMSA jurisdiction?

Answer. USDA considers humane handling and slaughter a high priority and is committed to ensuring compliance with the HMSA. In fiscal year 2003, each DVMS attended training and then conducted assessments of each livestock facility within their district. The DVMSs provided leadership for humane handling and slaughter activities by conducting on-site training for field personnel during their visits. They disseminated new information to field personnel and coordinated humane handling and slaughter non-compliance actions for their District.

The DVMSs also participated in monthly conference calls and in working groups to assist the agency in humane handling strategies. The DVMSs have developed the Humane Interactive Knowledge Exchange (HIKE) tool, which provides humane han-

dling and slaughter scenarios to help improve the uniform understanding of humane enforcement throughout the field. The DVMSs participated in the development of the Humane Activities Tracking system and have developed tools to analyze humane handling data within their District to ensure that Frontline Supervisors are informed of any data trends. The DVMSs developed and utilized established protocols for following up on humane handling violations. The efforts and recommendations made by the DVMSs have improved the consistency of humane handling enforcement among all Districts.

In fiscal year 2004, DVMSs continue strengthening the humane handling and slaughter enforcement and education of FSIS inspection personnel. Thus far, in fiscal year 2004, each DVMS continues to conduct on-site training with field personnel and coordinate humane handling and slaughter non-compliance actions for their District. The DVMSs are utilizing HAT to document and capture the time spent by veterinarians and other FSIS inspection personnel conducting humane handling and slaughter activities. The DVMSs have provided expert advice for the development of new Directives and Notices used to inform inspection personnel of the requirements, verification activities, and enforcement actions for ensuring that the handling and slaughter of livestock is humane. The DVMSs have also surveyed field employees on their knowledge of and training needs for humane handling and slaughter verification, so that the agency can determine what additional needs it may have in these areas. The DVMSs continue developing the HIKE scenarios to help improve the uniform understanding of humane enforcement throughout the field. The DVMSs also distributed up-to-date information to industry and FSIS personnel about new FSIS policies and provided FSIS field employees with information on industry's Humane Good Management Practices and auditing systems so that they may encourage industry to not only follow FSIS regulations, but to also adopt a systems approach to continually improve livestock handling practices. In fiscal year 2004, the DVMSs also began a strategic planning process to continually improve their service to the field.

The DVMSs will continue to build on the activities carried out in 2004, expand their ability to analyze trends, improve the tracking of the time spent by FSIS personnel on humane handling and slaughter activities, and continually improve the effectiveness of FSIS' humane handling and slaughter verification activities. All DVMSs focus on humane handling and slaughter verification and will continue to do so.

During 2004, DVMSs spent approximately 75 percent of their time conducting in-plant assessments at plants subject to HMSA jurisdiction.

Question. To what extent do DVMS personnel visit locations in Districts other than their own?

Answer. DVMS personnel visit other Districts on an as needed basis. Each FSIS District Manager evaluates the needs of the District in order to effectively utilize DVMSs and ensure that needs are fully met. DVMSs have also crossed District lines when the Agency must follow-up on specific concerns that have been brought to the Agency's attention.

Question. Will USDA support assigning additional FSIS personnel to assist DVMS's in order to increase the frequency of plant visits?

Answer. Currently, the DVMSs enable the Agency to fully ensure enforcement of the HMSA. However, as the need arises, FSIS will adjust accordingly. For example, to ensure adequate humane handling verification in Puerto Rico, FSIS trained a veterinarian in the DVMS methodology to assist in this remote location.

PASTURE-RAISED BEEF PROJECT

Question. The February 2004, edition of Agriculture Research Solving—Problems for the Growing World, published by the Agricultural Research Service, contained a story entitled Grass Fed Cattle Follow the Appalachian Trail. It is a story about a project that I have been proud to secure funds for over the course of the past few years. It is doing important research regarding pasture-raised beef.

Now that Mad Cow Disease has reared its ugly head here in the United States, the markets for pasture-raised beef, naturally grown without hormones or antibiotics, will continue to grow. That is causing hope for Appalachia's family farmers who are participating in this program. The goal of the project is to reduce foreign imports of beef by increasing the supply of healthy, grass-raised beef from Appalachia. This sounds like a wise use of the taxpayers dollars that will directly benefit the family farmers of West Virginia.

With the Department highlighting the benefits of this project, can you then explain to me why this Administration, and the President, sent up a budget in Feb-

ruary, the very month of the publication of this magazine, that would cut this program by 81 percent, from \$1,625,024 to \$301,312?

Answer. We fully recognize the accomplishments of this project and its potential benefits to the family farmers of West Virginia. This project is part of the \$169.4 million in unrequested projects appropriated to ARS between fiscal years 2001 through 2004. These unrequested projects were proposed for termination in the fiscal year 2005 President's budget to redirect these resources towards the need to implement higher National priority initiatives, such as obesity research, food safety, emerging animal and plant diseases, controlling invasive species in plants and animals, and other research initiatives critical to advancing this Nation's food and agriculture economy. Setting priorities requires that these kinds of choices be made.

FUNDING FOR FOOD SAFETY/ANIMAL HEALTH INSPECTIONS AND RESEARCH

Question. In the fiscal year 2002 Supplemental Appropriations Bill, the Congress provided the President with resources to increase surveillance, inspections, and research to reduce the likelihood that diseases, such as Mad Cow Disease, would threaten American consumers. That bill included \$5 million for animal health research, \$13 million for food safety inspections (notably for imported products), and \$39 million for enhanced animal health inspection and surveillance programs. In several instances, these funds were specifically directed for Mad Cow Disease-related activities.

However, when given the opportunity to make those funds available, the President refused to designate those needs as an emergency. As a result, you were deprived of significant resources to fight problems like Mad Cow Disease. I don't mean to imply that the use of those funds in fiscal year 2002 would have prevented the recent incident in Washington State, but it would have contributed toward greater surveillance and a better understanding of how to identify and control problems like Mad Cow disease.

On January 6, 2004, I wrote President Bush a letter of admonishment pointing out that he let slip through his fingers resources which could have assisted him, and you, and the American people, be better prepared to meet the challenges that the introduction of a disease, such as Mad Cow Disease, would pose to this country.

However, I note that the President's fiscal year 2005 budget request includes increases for what he is calling a Food and Agriculture Defense Initiative to carry out some of these same activities that he rejected 3 years earlier. It appears that the President is more properly trying to play catch up in areas that Congress tried to initiate before the public's attention was more brought to focus on these problems and the President began to feel the political heat. Even if the full Food and Agriculture Defense Initiative is funded in the fiscal year 2005 appropriations bill, those resources still will not be available until next fiscal year. Instead of immediate action, the President is proposing additional delay.

Secretary Veneman, when the President was faced with the choice of using or rejecting those supplemental funds in 2002, did you make the case to President Bush that those resources should be utilized? If you didn't think those funds were needed in 2002, why do you think they are needed in 2005?

Answer. Each year, the Department submits a budget request based on program area needs at the time, and the Administration developed a funding request that it thought was appropriate in view of fiscal realities. The additional funds Congress added above the request were deemed not necessary given the timeframe related to the supplemental.

FSIS, in conjunction with other Federal agencies, has conducted vulnerability assessments along the farm-to-table continuum for domestic and imported products in order to protect against intentional or unintentional contamination of the food supply. Based, in part, on the vulnerability assessments, USDA, the Department of Health and Human Services and the Department of Homeland Security are working together to create a comprehensive food and agricultural policy, known as the food and agriculture defense initiative. The Department's fiscal year 2005 budget request includes funding to support FSIS' components of the food and agriculture defense initiative—biosurveillance, the Food Emergency Response Network, data systems to support the Food Emergency Response Network, enhancing FSIS laboratory capabilities, and follow-up biosecurity training for front-line staff.

QUESTIONS SUBMITTED BY SENATOR DANIEL K. INOUE

BROWN TREE SNAKE

Question. We understand that USDA–APHIS participated in a cross-cut budget process for invasive species funding with other departments and agencies and that brown tree snake was selected to be one of the ten issues to be focused on for enhanced effort.

What level of new funding has been provided in the fiscal year 2005 budget request to address the urgent needs of Wildlife Services Operations and Wildlife Services Methods Development efforts dealing with the brown tree snake on Guam and in the U.S.-affiliated Pacific?

Answer. In the fiscal year 2005 budget request, APHIS had to address areas that posed the highest levels of risk and potential losses to American agriculture, such as enhancing efforts to prevent the introduction of foreign animal diseases and foreign plant pests from entering the United States; we could not address all identified needs and as such the fiscal year 2005 budget request does not include additional funding to address brown tree snakes on Guam.

PRECLEARANCE INSPECTIONS IN HAWAII

Question. While fiscal year 2005 budget request seems to include funding for direct and interline preclearance inspections in Hawaii, the specifics are not clear.

Please provide details on the funds requested for fiscal year 2005 for direct and interline preclearance inspections in Hawaii, and provide a comparison for funds appropriated for fiscal year 2004.

Answer. APHIS conducts pre-departure, agricultural inspections of passengers and cargo traveling from Hawaii and Puerto Rico to the mainland United States. To assist Hawaii, we also conduct inspections of passengers traveling from outlying Hawaiian Islands to the mainland. Prior to fiscal year 2003, Hawaii funded this service through a reimbursable agreement for \$3 million. In fiscal year 2003, Congress provided \$2 million for the interline inspection program, and Hawaii paid the remaining \$1 million. Congress provided additional funding for the interline program in fiscal year 2004, bringing the total available for the program to \$2.771 million. APHIS is not requesting funds for Hawaii interline inspections in fiscal year 2005 and will rely on a reimbursable agreement with Hawaii to conduct the program.

COQUI FROG

Question. The coqui frog is an alien invasive pest with no natural enemies in Hawaii and is now established in many areas throughout the State of Hawaii. Their presence and population levels are disruptive to the export of potted flowers and foliage and to the peace and quite of many communities in the State.

Has APHIS made any estimates of the funds needed to control the coqui frog in Hawaii? Has APHIS included any funds in its fiscal year 2005 budget request to control coqui frog populations in Hawaii?

Answer. APHIS Wildlife Services (WS) estimates it would take \$1.85 million annually to enhance management and methods development efforts for the control of Caribbean tree frogs in Hawaii. In the fiscal year 2005 budget request, APHIS had to address areas that posed the highest levels of risk and potential losses to American agriculture, such as enhancing efforts to prevent the introduction of foreign animal diseases and foreign plant pests from entering the United States; we could not address all identified needs and as such the fiscal year 2005 budget request does not include additional funding to control coqui frogs in Hawaii.

SUBCOMMITTEE RECESS

Senator BENNETT. On that happy note, the subcommittee is recessed.

[Whereupon, at 3:01 p.m., Thursday, March 25, the subcommittee was recessed, to reconvene to subject to the call of the Chair.]