# AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 2007

**THURSDAY, MARCH 30, 2006**

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

The subcommittee met at 10 a.m., in room SD–192, Dirksen Senate Office Building, Hon. Robert F. Bennett (chairman) presiding.

Present: Senators Bennett and Kohl.

## DEPARTMENT OF AGRICULTURE

**STATEMENTS OF:**

**KEITH COLLINS, CHIEF ECONOMIST**

**J.B. PENN, UNDER SECRETARY, FARM AND FOREIGN AGRICULTURAL SERVICES**

**MARK REY, UNDER SECRETARY, NATURAL RESOURCES AND ENVIRONMENT**

**ERIC M. BOST, UNDER SECRETARY, FOOD, NUTRITION, AND CONSUMER SERVICES**

**RICHARD RAYMOND, M.D., UNDER SECRETARY, FOOD SAFETY**

**CHARLES LAMBERT, ACTING UNDER SECRETARY, MARKETING AND REGULATORY PROGRAMS**

### OPENING STATEMENT OF SENATOR ROBERT F. BENNETT

Senator BENNETT. The subcommittee will come to order.

This is the subcommittee's third and final hearing on the administration's budget request for fiscal 2007 for the Department of Agriculture.

And today, we have the following witnesses: Dr. Keith Collins, who is the Chief Economist at USDA; Dr. J.B. Penn, the Under Secretary for Farm and Foreign Agricultural Services; Mr. Mark Rey, the Under Secretary for Natural Resources and Environment; Mr. Eric Bost, the Under Secretary for Food, Nutrition, and Consumer Services; Dr. Richard Raymond, Under Secretary for Food Safety; and Dr. Charles Lambert, Acting Under Secretary for Marketing and Regulatory Programs.

And if Dr. Lambert nods off during the hearing, we will understand and forgive him. He has just gotten off an airplane from Japan. We want to ask you, Dr. Lambert, about what you found when you got over there with the activities.

They are accompanied by Mr. Dennis Kaplan, of the Office of Budget and Program Analysis. And we thank you all for being here this morning.

We are going to focus on the budget for the mission areas that each of you is responsible for, but not limited to those areas, if you have additional information to share with us. This is production, agriculture, trade, conservation, nutrition, food safety, animal and plant health, and marketing—a wide portfolio represented by this group of half dozen under secretaries at the table.

Unfortunately, the Under Secretaries for Rural Development and Research, Education, and Economics could not join us this morning. But we will receive information from them later. The mission areas of the under secretaries before us demonstrate the breadth of the programs offered by USDA.

Now the combined fiscal year 2007 discretionary budget request for the agencies under the jurisdiction of this group of under secretaries is $11.1 billion. And to compare where we are, discretionary funding provided in fiscal 2006 for these mission areas was approximately $11.3 billion. So there has been a cut. A real cut, not a Washington cut.

A Washington cut is where you spend more than you did last year, but less than somebody thought you should. A real cut is where you spend less than you did last year, and there is a real cut of $200 million. And that represents a 2 percent decrease from fiscal 2006 levels.

Now you drill down below that top number, and the fiscal 2007 budget request for Under Secretary Rey is 21 percent below fiscal 2006. For Secretary Raymond, it is 9 percent below fiscal 2006. For Secretary Bost, it is 2 percent on the overall number below 2006. Secretary Penn, 2 percent above 2006. And Acting Secretary Lambert is 11 percent above fiscal 2006.

So while the 2 percent number is enough to get our attention as a whole, you get into the specifics, and you get even closer attention that has to be paid. And I am sure we will discuss that.

Now some will say that the message from this is that it is better to be an acting under secretary than an under secretary.

But I think that is coincidence.

Now, before I turn to Senator Kohl for his remarks, I would like to specifically mention the efforts of the Farm Service Agency, Natural Resources Conservation Service, and the Food and Nutrition Service in the wake of Hurricane Katrina.

The employees of these agencies rescued and fed people in the immediate aftermath, and they are currently helping the region recover from this terrible disaster. And we would be remiss if we did not formally acknowledge their work and the leadership that you gentlemen provided to them in that time of great national distress.

Now, members who are not here are free to submit questions for the record. Senator Kohl and I may have some questions for the record, in addition to the round of questioning.

But again, gentlemen, we welcome you here and thank you for your service.

Senator Kohl.

Senator KOHL. I join Chairman Bennett this morning in welcoming members of this panel who represent nearly all of the agencies within USDA. Your presence shows the diverse missions of the USDA, and this panel is an excellent representative of the many priorities that we must balance—farm support, nutrition, mar-

keting, foreign aid, food safety, conservation. All of those mission areas are represented here today.

American farmers are no strangers to adversity, harsh weather, or unpredictable markets. And the past year or so has led them to again face hard times. Storms have hammered the Gulf State coast. Drought has gripped much of the Nation. Wildfires have raged across prairie lands. Energy costs have cut profit margins, and foreign markets for certain products have been closed.

Around the world, drought continues to devastate Africa. Millions of Americans were displaced because of the hurricanes and are still trying to find their way. Another case of mad cow disease and the impending arrival of avian flu remind us just how at risk we really are.

It is not fortunate, therefore, that the President's budget calls for cuts in nearly all of these areas. It proposes significant cuts to support programs for dairy and other producers. It imposes new fees for farmers and rural families seeking credit. It eliminates many ongoing conservation and research projects. It eliminates a small, but important elderly feeding program. It proposes food safety user fees that have been rejected time and again.

On the other side of the coin, technology and market conditions are giving U.S. producers an important role in helping this Nation move closer to energy independence. However, our central challenge is to help guide these changes so that they benefit everyone and not just a few.

Mr. Chairman, I look forward to working with you to develop an appropriations bill to help support all of USDA's constituencies in what we all know is going to be a challenging year.

Thank you.

Senator BENNETT. Thank you very much.

Let us go in the order in which I introduced the witnesses, which means, Dr. Collins, that we start with you.

STATEMENT OF KEITH COLLINS

Mr. COLLINS. Thank you very much, Mr. Chairman, Mr. Kohl. Thanks for the opportunity to begin this hearing with some brief comments on the general economic environment for U.S. agriculture, which I hope will provide a backdrop for your deliberations on the USDA's budget.

Over the past 2 years, U.S. agriculture has experienced solid growth in both domestic and export demand. We have had record-high cattle, broiler, and milk prices; record-high net farm income in 2004; near record-high again in 2005; and record-high net wealth.

Such accomplishments in agriculture occur only periodically. And when they occur, they provide the opportunity for savings and wealth creation that enables many farmers to maintain their operations during less prosperous times.

Large harvests last fall, adverse weather, higher energy prices, the continued loss of Asian beef markets, the global spread of avian influenza are some of the challenges the farm economy must surmount in 2006. And facing these and other challenges, I would like to highlight several key developments.

First, global and U.S. farm product demand generally remains favorable. The United States and world economies show strong growth, despite this morning's reduced GDP estimate for the fourth quarter, we are looking for an improvement in 2006. U.S. agricultural exports are forecast to be a record-high $64.5 billion, and U.S. food and industrial product demand is expanding.

Second, most world commodity markets are moving toward better supply and demand balance. The record-high crops of 2004 raised global stock levels and reduced market prices. But this year, we have generally lower world production, higher consumption, and as a result, stocks of major commodities are likely to decline, but they will still remain above the levels of 2 years ago.

A notable exception is soybeans, where with very large South American harvests in prospect we once again will add to our already large supplies.

The U.S. market is showing more of an imbalance than the world market as we face a second consecutive year of higher corn, soybeans, and cotton stocks. Last fall's large harvests are more than offsetting increased corn demand for ethanol and strong soybean and cotton exports to China.

Wheat and rice look a little more robust as poor weather is reducing the 2006 global wheat production prospects, and rice has the tightest global market in over 3 decades. All of this for this year means a mixed picture for U.S. crop prices compared to the across-the-board declines we saw last year.

A third observation is that U.S. livestock and poultry production is now rising fairly rapidly. Meat and poultry production is expected to be up 3 percent this year, led by a 5 percent increase in beef production. As U.S. cattle numbers are increasing, we expect more live cattle imports from Canada.

The large increase in meat supplies is reducing cattle, hog, and broiler prices. With progress in opening foreign beef markets, we expect higher beef exports in 2006, although they will remain well below the pre-BSE levels. Pork continues to benefit with another record-high export year in prospect.

And for poultry, as a result of avian influenza, we have been reducing our export forecast. But at this point, we still expect exports to be slightly above a year ago. Leg quarters, in fact, have become quite a bargain. Prices ranged from 40 to 50 cents a pound late last fall. Last week, they were selling for under 20 cents a pound, which should attract foreign buyer interest.

Milk production is expected to increase a hefty 3 percent for the second year in a row this year, and that will lead to lower prices, Milk Income Loss Contract payments, and a modest increase in price support purchases for nonfat dry milk.

This year's return to trend in many markets means somewhat lower farm cash receipts. Also, Government payments are expected to be down by $4.5 billion because of lower disaster, tobacco, and marketing loan payments.

Higher interest rates and energy costs are expected to increase farm production expenditures again in 2006. Thus, we have lower revenues and higher costs, that suggests the U.S. farm income in 2006 will drop from the unusually high levels of the last few years to the long-term average level.

PREPARED STATEMENT

Meanwhile, farm land values are expected to keep rising, net worth for farmers is expected to set another record high, and the farm debt-to-asset ratio is expected to drop to the lowest level in over 4 decades.

While the coming year will present more of a financial challenge for many producers, a strong balance sheet, average cash flows, and the resiliency in managerial capacities of America's farmers should help them meet this year's challenges.

Thank you, Mr. Chairman.

[The statement follows:]

PREPARED STATEMENT OF KEITH COLLINS

Mr. Chairman and Members of the Subcommittee thank you for the opportunity to discuss the general economic situation in U.S. agriculture as background for the Subcommittee's review of the Department of Agriculture's (USDA) fiscal year 2007 budget submission. I will review the major factors affecting agricultural markets in the coming year and their implications for financial conditions in U.S. agriculture.

U.S. agriculture experienced an extremely strong recovery following the economic slowdown at the start of this decade. With solid growth in domestic and export demand, large crop harvests, and record-high cattle, broiler and milk prices, net farm income reached a record high in 2004. In 2005, net farm income reached the second highest level on record despite a large increase in crop stocks which reduced crop prices; multiple hurricanes that shut down the central marketing infrastructure of the country; sharply higher energy prices that raised production, marketing and processing costs; continued loss of Asian beef markets; and the emergence of global Avian Influenza (AI) concerns. Adverse factors were partially offset by continued strong global demand for food, the ability of the agricultural system to rebound from shocks, a substantial increase in government support spending and continued strong livestock and livestock product markets.

In the year ahead, global economic growth and food demand is expected to remain strong, but markets for major crops will face lower prices from higher stock levels built up from the large production levels the past 2 years. In addition, expansion of livestock and livestock product production following several years of profitable returns will likely reduce market prices somewhat. Higher interest rates and energy costs and continued disruption of markets due to animal diseases and weather are also likely to be factors affecting economic performance. Together, these factors suggest that net cash farm income will drop in 2006. Even with the contraction and more financial stress for some farming operations, the overall farm economy is expected to perform at long-term average levels with farm household income remaining strong and farm net worth continuing to increase.

*Global Economic Growth and Farm Product Demand*

The U.S. economy grew at 3.5 percent in 2005, down from 2004's 4.2 percent but well above 2003's 2.7 percent. For 2006, U.S. Gross Domestic Product (GDP) growth is expected to be slightly less than last year. The decline in the rate of growth in 2006 from last year is expected to be due to slower growth in consumption, housing, and tight energy markets. Increased tightness in labor markets is likely also to be a factor. As the unemployment rate continues to decline, the lack of unemployed labor resources tends to slow real productivity and output growth.

Foreign economic growth retreated in 2005 from 2004's strong growth rate of 4.0 percent, with most areas slowing, particularly Western Europe. This year, Western Europe is expected to have the strongest growth since 2000, and growth prospects appear good in Canada, Japan, East Asia and Mexico—all important markets for U.S. agriculture. Foreign economic growth is expected to rise to 3.4 percent in 2006, up from 2005's 3.2 percent, which would be the second strongest rate of foreign economic growth since 2000.

With the U.S. economy expected to have another year of steady growth, consumption expenditures on food remain positive, although the rate of growth is likely to decline to near 3.5 percent from the unusually high 5 percent levels in 2004 and 2005. Average growth was less than 2.5 percent during the slowdown in 2001 and 2002. This year, slower growth in consumer spending on food is likely, as consumers face heavier debt loads, higher energy costs, and are less likely to use household assets to finance consumption. Consumer spending, which accounts for two-thirds

of GDP, increased only 1.4 percent in the last quarter of 2005, sharply below the third-quarter, but a rebound is expected in the first quarter of 2006.

*U.S. Agricultural Trade*

Turning to foreign demand for U.S. agricultural products, our latest quarterly forecast for farm exports in fiscal year 2006, released in February, is a record-high $64.5 billion, up $2 billion from 2005's record and unchanged from our last quarterly forecast. Stronger horticultural product, cotton, and beef exports are expected to show the greatest gains, while oilseeds and their products, the largest decline compared with fiscal year 2005. The increase in forecast beef exports assumes that the current suspension in Japanese imports is a temporary divergence from the earlier Japanese policy decision to resume imports. We have no information as to when imports will resume, but for the purposes of making a forecast, we simply assume Japan resumes imports of U.S. beef during the second quarter of 2006.

U.S. agricultural imports are forecast at $63.5 billion, up $2 billion from our last forecast, and $5.8 billion more than in fiscal year 2005. Much of the increase from last year and from our last forecast is due to increased imports of coffee, cocoa, sugar, wine, beer, and fruits. The agricultural trade surplus for fiscal year 2006 is forecast at $1 billion, down from $3 billion in our last forecast and $4.7 billion in fiscal year 2005.

While the agricultural export-weighted value of the dollar appreciated in the second half of 2005, at the start of 2006, it was still over 10 percent below the start of the 2003 level. The current period of strong foreign economic growth and continued effects of the decline in the value of the dollar from several years ago should show up in higher U.S. agricultural exports in the future and a modestly improving trade balance. However, the strong consumption growth in the United States and the consumer desire for horticultural products suggest the trade balance in the future will be much smaller than in the past. USDA's long-run projections issued in February forecast U.S. agricultural exports rising to nearly $73 billion by fiscal year 2010 and imports of $70.5 billion, leaving a trade surplus of a little over $2 billion. By 2015, projected exports equal projected imports.

*Crops: Supply, Demand, and Price*

The 2004/2005 marketing year began with relatively tight crop supplies, but global production of grains, oilseeds and cotton reached record-highs. As a result, stock levels increased, market prices declined, and farm program costs rose. In 2005/2006, global production was near-record high for most major crops, except for oilseeds production which set another record-high. Global total use this year is expected to be about the same as last year for rice and higher than last year for wheat, coarse grains, oilseeds, and cotton. With generally lower production and rising consumption, global stocks of most major commodities will decline this year but remain above the level of 2 years ago. In the United States, supplies for feed grains, cotton, rice and soybeans are at record highs this year, although not for wheat. Unlike the world market where major crop stocks are expected to decline, the large 2005-crop U.S. production levels are expected to cause an increase in corn, soybean, and cotton stocks this year, while wheat remains about the same and rice declines.

World grain (wheat and coarse grain) consumption this year is expected to exceed last year's record high and slightly exceed reduced world production. This will lead to a drawdown in world grain stocks, with world stocks as a percent of total use not excessive. The picture for oilseeds is quite different. Global oilseed production is forecast to be record high for the 10 consecutive year. And, in the coming year, this increase in production is expected to exceed the increase in consumption, resulting in higher global stocks. For soybeans, global stocks as a percent of use is forecast to exceed the high set in 1986.

For the United States, the 2003/2004 grain and oilseed markets, which featured strong demand and tight supplies, was a major contributor to the record high farm income of the past 2 calendar years. The current market prospects have changed as a result of 2 consecutive years of large production and increasing stock levels.

The U.S. soybean situation reflects the world situation, with U.S. stocks expected to be excessive, rising nearly 400 percent above the level of 2 years ago. This jump reflects our bumper harvest this past fall and strong competition from Brazil. For example, Brazil had record high soybean exports during the October-December 2005 quarter, and a rebound in Brazilian production from last year's drought is expected to boost Brazil's soybean production this spring to 58.5 million tons, up from 53 million last year. Still, U.S. soybean prices this winter have been strong in the face of this prospective stock buildup, reflecting perhaps a risk premium, purchases by index funds, or other factors. For the year as a whole, the average price received for soybeans is expected to average $5.50 per bushel compared with $5.74 last mar-

keting year. If the Southern Hemisphere crop and the increase in U.S. stocks materialize as expected, soybean prices will likely drop in the second half of the year and into 2006/2007.

For 2006/2007, last year's record-high soybean yields, pressure to rotate to more soybeans from corn, and high energy costs may cause some shifting of corn to soybeans. We expect an increase in soybean planted area of nearly 2 million acres to 74 million. The increase in planted area, combined with trend yields, would result in production levels near expected demand; consequently, carryover levels would remain about the same. With continued heavy stocks and large expected supplies in South America, weaker prices are expected for soybeans.

The U.S. corn market in 2005/2006 is expected to see another year of increasing carryover with ending stocks 150 percent above 2 years ago. Corn prices have rebounded from the extraordinary lows following the hurricanes when the transportation network was impaired and are expected to average $1.90 per bushel this year, down from $2.06 last year. As of the end of February, the average corn loan deficiency payment rate made so far on 9.75 billion bushels of corn (88 percent of the 2005 crop), was $0.44 per bushel, up sharply from $0.27 averaged on the 2004 crop. In addition, producers received marketing loan gains averaging $0.42 per bushel on 569 million bushels of corn.

Another important influence on this year's and future corn and other crop markets is biofuels. While biodiesel production has increased from less than a half million gallons in 1999 to over 70 million in 2005, it remains relatively small, equivalent to 3 percent of soybean oil production. That is about where ethanol production was relative to corn production in 1983. Ethanol production this marketing year is expected to account for 14 percent of U.S. corn production. The USDA baseline, released on February 10, 2006, projects ethanol production will account for 22 percent of corn use by 2010 and drive corn prices to $2.60 per bushel.

In 2004, ethanol accounted for about 2 percent of motor gasoline use in the United States on a btu basis. Under the Department of Energy's baseline projections for motor gasoline and ethanol use to 2010, gasoline use is expected to grow 1.2 percent per year, and ethanol use at over 15 percent per year. Consequently, ethanol is expected to account for over one-quarter of the increase in motor gasoline use through 2010.

For 2006/2007, with soybean area expected to expand, high corn stocks, and high energy prices, corn planted area is forecast to decline 1.3 million acres to 80.5 million. Less acreage and stronger ethanol use is expected to reduce carryover and raise corn prices $0.25 per bushel, or 13 percent, over the 2005/2006 expected average farm price.

The 2005/2006 wheat market is in good overall balance, with carryover stocks forecast to be nearly the same as last year and the year before. Farm prices are forecast to average $3.40 per bushel, the same as in each of the past 2 marketing years. After much of the 2005-crop had been marketed, wheat prices started to rise reflecting reduced 2006-crop prospects due to deteriorating weather conditions in the United States and abroad and a currently tight situation for hard red winter wheat. The last week of February saw the nearby Kansas City wheat futures price reach a 40-month high.

For 2006/2007, wheat acreage, which has been trending down and is now 30 million acres less than 25 years ago, is expected to increase by less than 1 million acres to 58 million due to more winter wheat planted last fall. Fall seedings were up reflecting the better price prospects than other crops and good planting weather in the Corn Belt. Yield prospects for the 2006 crop are clouded by the intense drought in the South in areas west of the Mississippi River. Winter wheat in Texas was rated 89 percent poor or very poor as the end of February and the quality of the wheat crop is also reported to be down sharply in Oklahoma. Wheat yield problems are also expected in the Former Soviet Union, an important grain producer, where planted acreage of winter grains are down and a very harsh winter is likely to result in above average winterkill. These poor starting conditions suggest global wheat production will be down again in 2006/2007. If at this point we use trend yields, U.S. wheat production would be near expected demand and wheat 2006/2007 carryover levels and average farm price would remain about the same as this year.

U.S. cotton production reached an all-time high in 2005/2006, and stocks are expected to rise for the second year in a row to 7 million bales, double the level 2 years ago. The increase is expected despite a forecast of record-high exports of 16.4 million bales, up 2 million from last season. About half of U.S. cotton exports are expected to go to China where domestic use is rising rapidly and production is down from last season. U.S. cotton mill use continues to trend down as textile mill activity continues to move offshore. Mill use this year is forecast at 5.9 million bales, compared with 6.7 million last season. Even with stocks increasing, farm prices of cot-

ton have been running above year-ago levels as the world stock situation is tightening.

For 2006/2007, lower production is expected to support prices as a third consecutive record-high crop is unlikely. With the prospect of continued strong exports, ending stocks will likely decline to more average levels in 2006/2007.

Despite a near-record crop, a sharp increase in exports is moving the U.S. rice market into balance with only a slight rise in stocks expected this year compared with 2 years ago. Rice ending stocks are forecast at 26.5 million cwt., down from carry-in stocks of 37.7 million cwt. Medium grain stocks at 5.25 million cwt are the tightest on record (since 1982/1983–first year of supply and use statistics for rice by class). The global rice market is the major factor contributing to strong exports and steady U.S. farm prices, as global ending stocks are expected to be the lowest since 1982/1983, with the stocks-to-use ratio the lowest since 1974/1975. U.S. average farm-level rice prices are forecast at $7.80 per cwt. this season compared with $7.33 last season.

For 2006/2007, a rebound from last fall's reduced yields would raise rice production, but with production costs rising, producers are expected to reduce plantings causing production to decline for the second year in a row. As in 2005/06, total use is expected to outpace production leading to another decline in carryover stocks and higher rice farm prices in 2006/2007.

Under the 2002 Farm Bill, lower prices for major crops trigger increases in counter-cyclical payments and marketing assistance loan benefits, thus increasing farm program costs. Based on current market price projections, counter-cyclical payments could reach $5.2 billion for the 2005/2006 crops, up from about $4.3 billion for the 2004/2005 crops and $0.5 billion for the 2003/2004 crops. Marketing assistance loan benefits (loan deficiency payments, marketing loan gains and certificate exchange gains) are projected to increase from less than $1 billion for the 2003/2004 crops to $5.5 billion for the 2004/05 crops to about $6.1 billion for the 2005/2006 crops. In addition, program crop producers receive nearly $5.3 billion annually in direct payments.

The 2005/2006 sugar market has been very different from other crops this year as hurricane-reduced production has driven prices up substantially. Since this market is heavily regulated by USDA, the Department has substantially increased import quotas to meet this year's demand and help relieve market tightness. In the current marketing year, sugar imports are forecast to reach 3.1 million tons, up from 2.1 million tons last year and 1.8 million tons 2 years ago.

Fruits, vegetables, nursery and greenhouse products continue to provide good news for U.S. agriculture. They are expected to generate $49 billion in sales in 2006, similar to 2005, and account for 21 percent of farm cash receipts. Sales of these products are now about equal to the value of sales of program crops. U.S. horticultural exports are forecast at $16.3 billion and imports at $28.2 billion, indicating a continuing widening of the sector's traditional trade deficit.

*Livestock & Livestock Products: Production, Demand and Price*

Turning to livestock and poultry markets, U.S. meat exports continue to be heavily influenced by animal diseases. Although we expect rising beef exports in 2006 as trade with Japan eventually resumes, beef exports are still expected to be only about 40 percent of the level of 2003. Our current forecast assumes shipments to Japan resume in the second quarter and does not include any exports to South Korea. We expect the Korean market to open soon and at that time we will incorporate exports to South Korea into our forecasts. With continuing limitations on beef exports, pork exports are forecast to be 4 percent higher than 2005's record high. Lower broiler prices this year would normally help increase exports. However, in January, the forecast of the rate of growth in poultry exports was lowered to a 4 percent increase, half the rate of our prior estimate and down from last year's 9 percent increase, due to reduced consumption in some countries due to AI concerns. In recent weeks, AI has been found in Europe and other areas, suggesting USDA's poultry export forecast could go lower in the months ahead.

While animal disease issues are surrounding meat and poultry export prospects, U.S. production of meat and poultry is expected to be record-high in 2006, leading to record-high U.S. per capita meat and poultry consumption. With a 3 percent increase in U.S. meat and poultry production in 2006, a mixed export picture, and some slowing in the growth of overall consumer expenditures, lower live animal, meat and poultry prices are expected in 2006.

Even though several countries continued to block imports of U.S. beef, U.S. livestock markets were very strong in 2005. The index of prices received for meat animals was an all-time high, 4 percent above 2004 and 17 percent above 2003. Although U.S. cattle numbers increased for the first time in 9 years in 2005, cattle

slaughter continued to drop. For 2006, the situation will change. First, the U.S. cattle inventory on January 1, 2006 was up 2 percent over last year, indicating that producers are now moving well into the expansion phase of the cattle cycle. Second, live cattle imports from Canada will be up in 2005. Third, higher carcass weights are expected. And lastly, drought conditions in Texas and Oklahoma are causing some producers to market additional animals and to place cattle in feedlots sooner. Consequently, cattle slaughter and beef production are expected to increase a strong 5 percent in 2006. Despite the increase in output, choice fed cattle prices are expected to decline only about 2 percent to about $85 per cwt., and retail beef prices are expected to be down about 3–4 percent.

Despite sustained profitability in hog production, hog producers have been cautious about expanding the past few years. Still, with back-to-back years of good returns, we expect hog slaughter and pork production to be up about 3 percent in 2006 following a modest increase of 0.8 percent in 2005. Hog prices are expected be average $44 per cwt. in 2005, down about 13 percent from last year, but still stronger than during the 1998 to 2003 period.

Broiler production is expected to again be record high in 2006. A nearly 4 percent increase in production in 2005 was driven by record-high broiler prices in 2004 and low feed prices. Although broiler prices fell about 5 percent in 2005, they remained fairly strong and with favorable feed costs, broiler production is expected to be about 2 percent higher in 2006. Wholesale broiler prices are expected to average 67 cents per pound, down from 70.8 cents last year. However, this forecast was made prior to the finding of AI in Europe and the current acceleration in its spread. As AI has become more widespread, world poultry trade has slowed, which is now adversely affecting U.S. poultry exports and broiler prices. In late February, prices of leg quarters, the principal U.S. broiler export product, had fallen to the low 20-cents-per-pound range, after reaching the high 40-cents-per-pound range in late fall.

Milk, like meat and poultry, is coming off 2 years of strong prices. Widespread forage problems and reduced rBST are largely behind producers now, and following record and near record milk prices in 2004 and 2005, milk production is accelerating. U.S. milk production in January 2006 was up an extremely strong 5 percent over January 2005. In 2004, milk production was flat; in 2005, it rose 3.3 percent; and in 2006, it is forecast to be up nearly 3 percent despite declining prices. Increased milk production this year is expected to exceed the trend growth in dairy product demand, consequently, the all-milk price is forecast to average $13.45 per cwt. in 2006, down 10 percent from 2005. Payments were triggered under the newly reauthorized Milk Income Loss Contract Program beginning in December 2005, following essentially no payments from the second quarter of 2004 through the third quarter of 2005. The payment rate for March will be $0.41 per cwt. the highest rate since March 2004. Cheese prices have recently declined to near support levels and price support purchases of nonfat dry milk and cheese are likely during 2006. There were no purchases of dairy products under the milk price support program in 2005.

*Farm Income and Government Payments*

In 2004, net farm cash income reached nearly $86 billion, up from the previous record of $72 billion in 2003. Declining crop prices and increasing production expenses caused net cash farm income to decline to $83 billion in 2005. In 2006, the farm economy is pulling back from the strong crop prices and production levels in 2003 and 2004 and the record livestock and milk prices of 2004 and 2005. With higher crop stocks, reduced crop prices, and a modest decline in livestock sector receipts, the value of 2006 farm marketings is expected to decline about $7 billion from the last year's near record $239 billion, with two-thirds of the decline in crops. With further increases in production expenses and lower government payments, net cash farm income is forecast to fall to $65 billion in 2006, or about equal to the previous 10-year average.

In 2005, government payments to producers were a record high $23 billion, up from $13 billion in 2004. In 2005, increased marketing loan costs aggravated by the marketing system disruption caused by the hurricanes, increased counter-cyclical payments, ad hoc disaster assistance, and tobacco program buyout payments all contributed to higher government payments. Payments to farmers are expected to decline by $4.5 billion in 2006 due to lower ad hoc disaster payments, marketing assistance loan outlays, and tobacco buyout payments.

Cash production expenses are expected to rise 4 percent in 2006 following increases of 6 percent in 2005 and 5 percent in 2004. Energy-related input (fertilizer, lime, fuels, oils, and electricity) and interest expenses increased by $6.5 billion in 2005 and are expected to rise by over $4 billion or 10 percent in 2006. For 2006, the Department of Energy projects that diesel and natural gas will cost another 5 percent more on top of the increases of around 35 percent that these fuels saw in

2005. Corn, a heavy user of energy for fertilizer, irrigation and grain drying, can be used to illustrate the impact of higher energy costs on crop returns. For 2006, energy is expected to add about 5 cents to national average corn operating costs compared with a year ago and 23 cents more than 2 years ago. These rising costs will reduce farm income and have some effect on crop acreage and production in 2006. This forecast increase in energy expenses assumes producers will not alter their production methods to reduce energy use and lower costs, and of course, many will do so.

Net farm income is expected to decline for all major types of crop and livestock farms and in all production regions. Farm household income is also expected to decline for the first time in 7 years, but at over $80,300, would still be 20 percent higher than in 2003 and well above the average of all U.S. households.

Despite the drop in income and the increase in interest rates, we project that farm real estate values will rise 6.5 percent in 2006, down slightly from the 7 percent gain in 2005. Another land value increase would continue the recent strong improvement in the farm sector balance sheet. The ratio of real estate value to net cash farm income, a concept similar to a price-to-earnings ratio, is forecast to spike up in 2006 to the highest level since the early 1980s. If that ratio were to stay high over the next few years, it would suggest the increase in farmland values may not be sustainable. For the last 3 years in a row, farm net worth has gone up by an average of nearly $95 billion per year, which is more than the increase in farm income each year and much more than the $6 billion annual increase in farm debt. That is expected to be true again in 2006. Farm net worth, or equity is now a record high at $1.4 trillion and the debt-to-asset ratio at the end of 2006 is forecast at 13.1 percent, the lowest in 45 years.

A return to average national farm income, lower enterprise and regional farm income, lower cash margins, and an increase in farm debt do not indicate an impending financial crisis in U.S. agriculture. Yet, they do suggest there is likely to be greater financial stress for an increasing number of producers. That stress is likely to show up in tighter credit standards, delayed loan repayments and loan extensions, and more demand for USDA credit guarantees. The coming year will present more of a financial challenge for U.S. agriculture than in recent years. In addition, agriculture will have to contend with questions over the effect of rising interest rates on the durability of the U.S. economic recovery, the value of the dollar, issues raised by the Federal budget deficit, trade negotiations, bird flu, BSE, oil prices, and terrorism. Producers will likely need to draw more on their resiliency and managerial capabilities in 2006 than during in the past couple of years of abnormally high farm income.

That completes my comments and thank you.

## Farm Economic Indicators

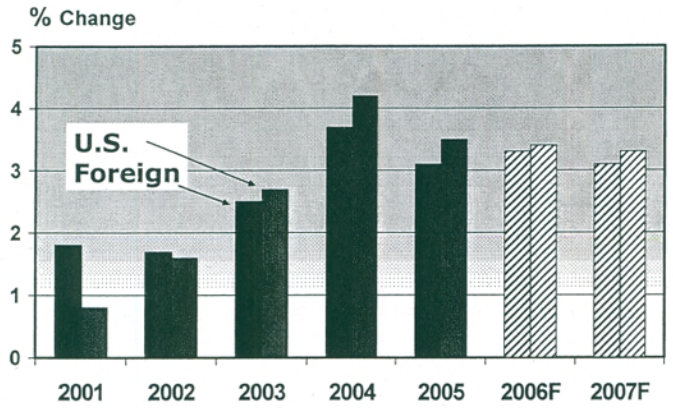
| Commodity Prices 1/ | Unit | 1999/00 | 2000/01 | 2001/02 | 2002/03 | 2003/04 | 2004/05 | 2005/06F |
|---|---|---|---|---|---|---|---|---|
| Wheat | $/bu | 2.48 | 2.62 | 2.78 | 3.56 | 3.40 | 3.40 | 3.40 |
| Corn | $/bu | 1.82 | 1.85 | 1.97 | 2.32 | 2.42 | 2.06 | 1.90 |
| Soybeans | $/bu | 4.63 | 4.54 | 4.38 | 5.53 | 7.34 | 5.74 | 5.50 |
| Rice | $/cwt | 5.93 | 5.61 | 4.25 | 4.49 | 8.08 | 7.33 | 7.80 |
| Cotton | cents/lb | 45.00 | 49.8 | 29.8 | 44.5 | 61.8 | 41.6 | 46.9 2/ |
| | | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006F |
| Hogs | $/cwt | 44.70 | 45.81 | 34.92 | 39.45 | 52.51 | 50.05 | 42-45 |
| Steers | $/cwt | 69.65 | 72.71 | 67.04 | 84.69 | 84.75 | 87.28 | 83-88 |
| Broilers | cents/lb | 56.2 | 59.1 | 55.6 | 62.0 | 74.1 | 70.8 | 65-69 |
| Milk | $/cwt | 12.40 | 15.04 | 12.18 | 12.55 | 16.05 | 15.15 | 13.10-13.80 |
| Gasoline | $/gallon | 1.53 | 1.47 | 1.39 | 1.60 | 1.89 | 2.31 | 2.50 |
| Diesel | $/gallon | 1.49 | 1.40 | 1.32 | 1.50 | 1.81 | 2.41 | 2.51 |
| Natural gas (wlhd) | $/K cu. ft. | 3.70 | 4.01 | 2.95 | 4.89 | 5.50 | 7.45 | 7.93 |
| Electricity | $/kwh | 8.24 | 8.62 | 8.45 | 8.70 | 8.97 | 9.45 | 9.65 |
| Ag. Trade (Bil. $) | FY99 | FY00 | FY01 | FY02 | FY03 | FY04 | FY05 | FY06F |
| Total exports | 49.1 | 50.7 | 52.7 | 53.3 | 56.2 | 62.4 | 62.4 | 64.5 |
| Asia | 18.5 | 19.7 | 20.1 | 19.4 | 21.6 | 24.3 | 22.5 | 22.6 |
| Canada | 7.0 | 7.5 | 8.0 | 8.6 | 9.1 | 9.5 | 10.4 | 11.0 |
| Mexico | 5.7 | 6.3 | 7.3 | 7.1 | 7.7 | 8.4 | 9.2 | 9.8 |
| Total imports | 37.3 | 38.9 | 39.0 | 41.0 | 45.7 | 52.7 | 57.7 | 63.5 |
| Farm Income (Bil. $) | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006F |
| Cash receipts | 187.6 | 192.0 | 200.1 | 195.0 | 216.6 | 241.2 | 239.0 | 231.7 |
| Gov't payments | 21.5 | 22.9 | 20.7 | 11.2 | 17.2 | 13.3 | 23.0 | 18.5 |
| Gross cash income | 224.0 | 228.6 | 235.6 | 221.0 | 249.5 | 271.7 | 279.5 | 268.2 |
| Cash expenses | 166.6 | 172.1 | 176.0 | 171.6 | 177.9 | 186.2 | 196.7 | 203.5 |
| Net cash income | 57.5 | 56.5 | 59.5 | 49.5 | 71.6 | 85.5 | 82.8 | 64.8 |

F=forecast.

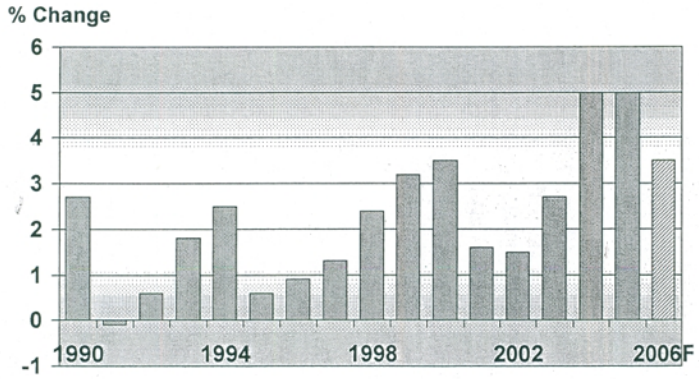
1/ Agricultural commodity price forecasts are from USDA, World Agricultural Supply and Demand Estimates report, February 2006. Crop prices are the midpoint of the forecast range. Energy prices are from Energy Information Administration, Short Term Energy Outlook, February 7, 2006.

2/ August through December 2005 average.

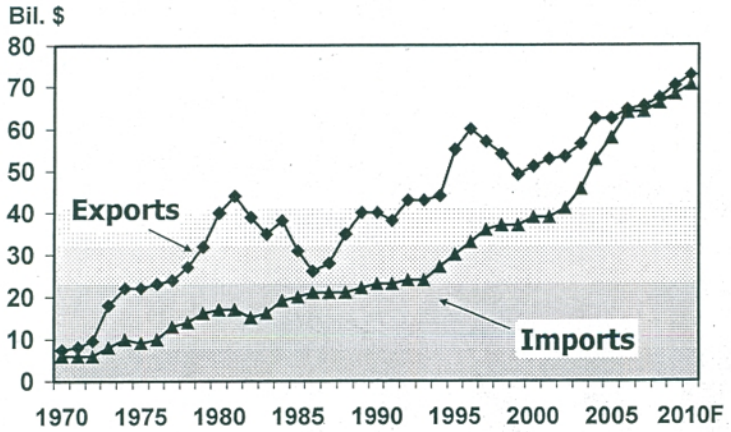
## U.S. & Foreign GDP Growth



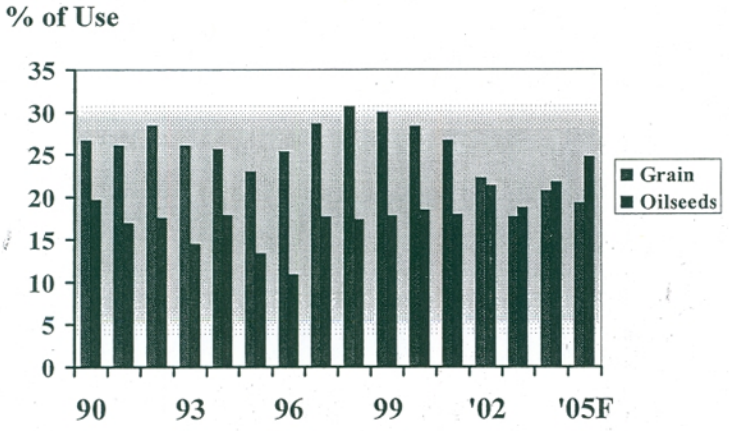

## Real Consumption Spending on Food



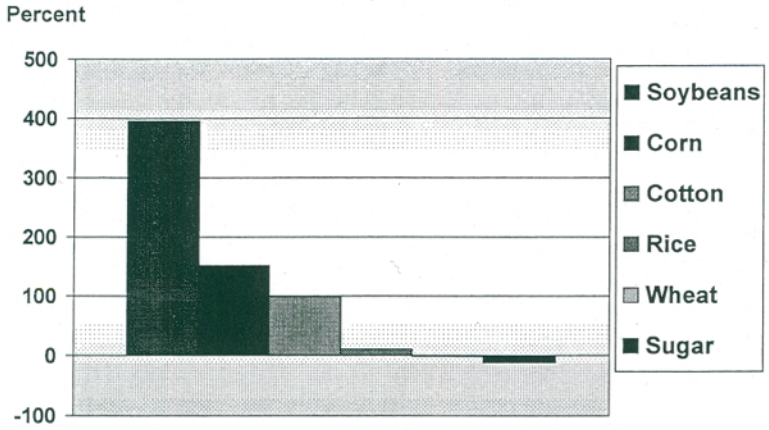
## U.S. Agricultural Trade



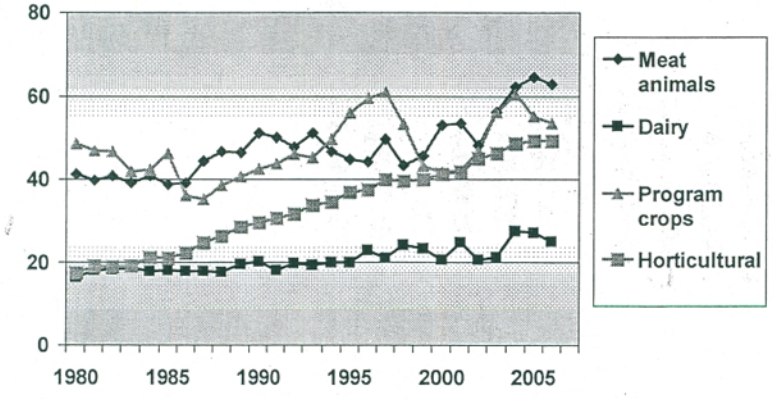

## World Grain and Oilseed Stocks



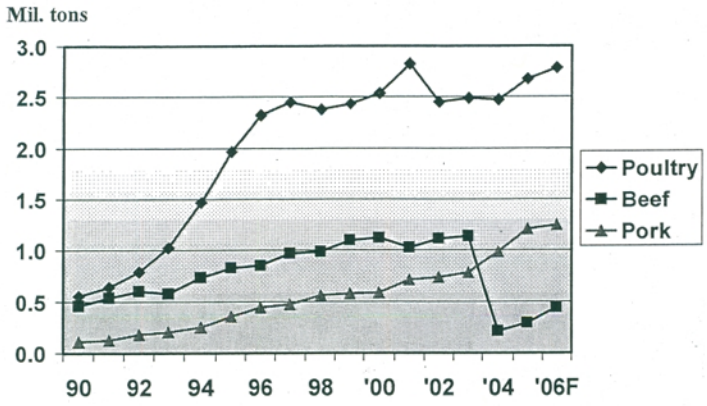
## U.S. Crop Carryover Stocks
*Forecast 2005/06F v. 2003/04*



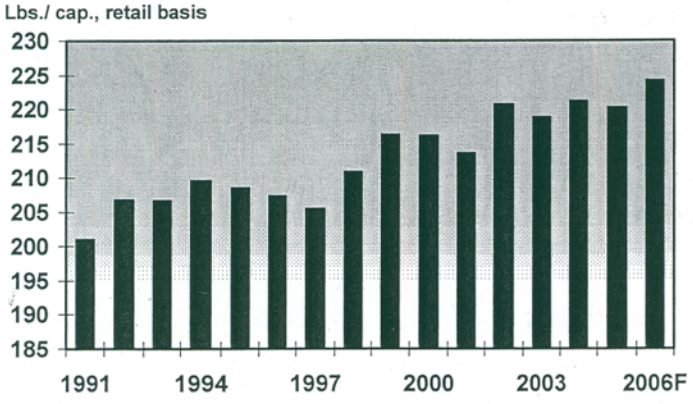

## Cash Receipts

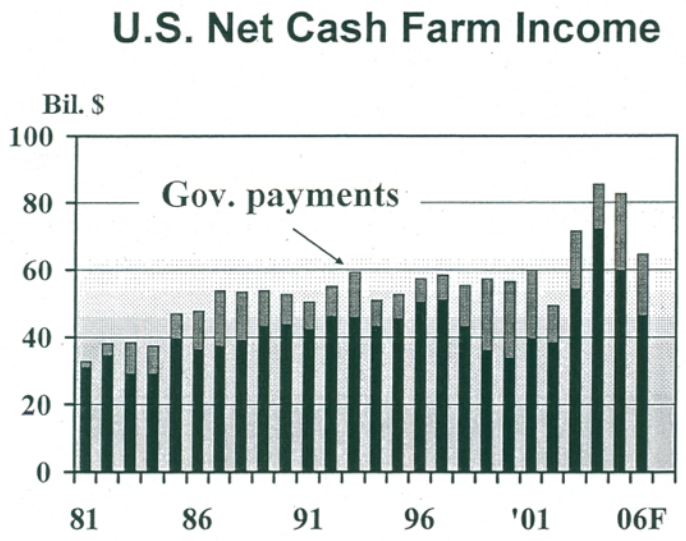


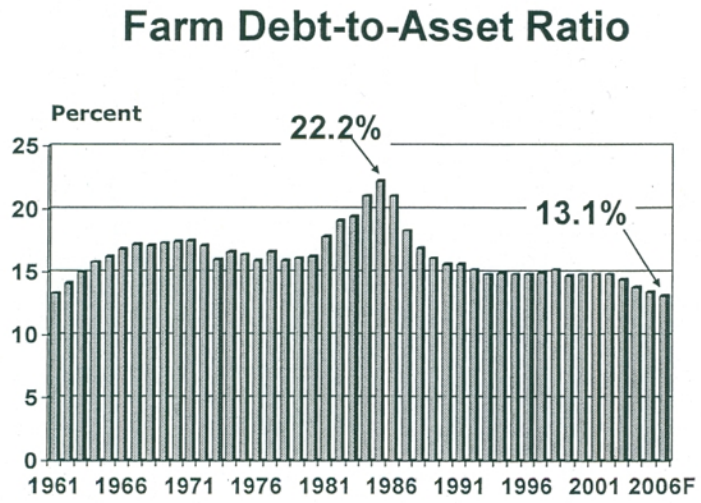
## Meat & Poultry Exports




## Retail Meat Consumption






Senator BENNETT. Thank you very much.
Dr. Penn.

STATEMENT OF J.B. PENN

Mr. PENN. Thank you, Mr. Chairman.

I am pleased to be here with you and Senator Kohl again this year and to present the budget and program proposals for the Farm and Foreign Agricultural Services mission area. As you will recall, this mission area is comprised of the Farm Service Agency, the Risk Management Agency, and the Foreign Agricultural Service.

The budgets we are discussing today provide the resources needed to ensure our continued ability to implement our programs effectively. Although the budget is constrained by the need to reduce the Federal deficit, it meets our priorities and ensures our continued efforts on behalf of America's farmers and ranchers.

I would like to discuss the three agencies and their budgets individually, beginning first with the Farm Service Agency (FSA). FSA is the lead agency, as you know, for delivering farm assistance, and the budget places a priority on maintaining and enhancing our ability to provide efficient, responsive services to all producers.

Recently, FSA has faced a series of program implementation challenges that have required the full commitment of agency resources. Last year and this year, several new disaster programs have been implemented. We have had the tobacco buyout program while continuing administration of the 2002 Farm Bill programs.

The 2007 budget is designed to ensure the agency's continued delivery of its services. The budget provides a total program level for FSA salaries and expenses of nearly $1.4 billion, a net increase of $86 million above 2006. Now this requested level will support a ceiling of about 5,250 Federal staff-years and 9,400 non-Federal staff-years, and temporary staffing will remain at the 2006 levels.

FSA also provides a variety of direct loans and loan guarantees to farm families who would otherwise be unable to obtain the credit they need to continue their operations. And by statute, a substantial portion of the direct loan funds are reserved each year for assistance to beginning, limited resource, and socially disadvantaged farmers and ranchers.

The 2007 budget includes funding for about $930 million in direct loans and $2.5 billion in loan guarantees. This level of funding is consistent with the actual program use in 2005, and we believe these proposed loan levels will be sufficient to meet the demand in 2007.

Turning to the Risk Management Agency (RMA), the Federal Crop Insurance Program is another part of the strong safety net that is available to our Nation's agricultural producers. Last year the crop insurance program provided about $45 billion in protection on over 246 million acres out of the total crop land base of about 325 million acres.

We project that for last year, the total indemnity payments will be about $3.3 billion. And despite all of the droughts and freezes and floods and hurricanes, that is about the same level of indemnities that we had in 2004. Our current projection shows that for the coming year, we will insure about $49 billion worth of product.

For salaries and expenses of RMA, the budget provides $81 million in discretionary spending. That is an increase of $4.5 million

from the 2006 level, and this net increase includes additional funding for information technology (IT) and increased staff-years to improve our monitoring of the financial health of the insurance companies.

The budget also includes a proposal to implement a participation fee to fund IT modernization and maintenance costs. The fee would be assessed on the insurance companies that participate in the program and that benefit from the subsidies paid by the Federal Government.

Finally, let me turn to the Foreign Agricultural Service (FAS) and our international activities. I am pleased to report that we have made considerable progress in trade expansion activities this past year, but challenges remain.

FAS has been very actively involved in supporting all of the trade negotiations, including the comprehensive World Trade Organization (WTO) negotiations, but also the several bilateral and regional free trade negotiations. It has been very actively involved in reopening the markets closed because of bovine spongiform encephalopathy (BSE) and other animal and plant diseases. And the agency continues to work to expand foreign sales and, at the same time, provide foreign food aid.

The proposed budget provides a program level of $162 million for 2007. That is an increase of $11 million above 2006. This funding is proposed to meet higher overseas operating costs in the agency's overseas posts, including increased payments to the Department of State for administrative services that are provided in the embassies in which our personnel are posted.

Funding is also included for FAS's contribution to the Capital Security Cost Sharing Program operated by the State Department. The budget also includes a small increase for trade capacity building. This initiative assists developing countries in adopting policies that meet WTO standards and to adopt regulatory systems that are transparent and science based and modeled after ours.

The budget also includes a projected program level of $1.3 billion for the Public Law 480 program, and the budget proposes that all of the Public Law 480 funding will be through Title II donations. This reflects our recent experience in which an increasing share of the foreign food assistance has been directed to emergency situations, where such aid is critical to preventing famine and saving lives.

For the McGovern-Dole Food for Education Program, the budget continues funding at the 2006 level.

So, in conclusion, Mr. Chairman, our 2007 budget and program proposals provide the resources we need to continue the important work that these agencies do on behalf of America's farmers and ranchers.

PREPARED STATEMENTS

We certainly appreciate the support for our mission area that we have received from this committee in past years, and we look forward to working with you in the future.

Thank you.

[The statements follow:]

PREPARED STATEMENT OF J.B. PENN

Mr. Chairman and Members of the Committee, I am pleased to appear before you this morning to present the 2007 budget and program proposals for the Farm and Foreign Agriculture Services (FFAS) mission area of the Department of Agriculture (USDA). The FFAS mission area is comprised of three agencies: the Farm Service Agency, Risk Management Agency, and Foreign Agricultural Service.

Statements by the Administrators of the FFAS agencies, which provide details on their budget and program proposals for 2007, have already been submitted to the Committee. My statement will summarize those proposals, after which I will be pleased to respond to any questions you may have.

Mr. Chairman, the FFAS mission area and the programs it carries out are critical for meeting three of the Department's strategic objectives: enhancing the international competitiveness of American agriculture in order to increase export opportunities; enhancing the competitiveness and sustainability of the rural and farm economies; and protecting and enhancing the Nation's natural resource base and environment. By providing the diverse array of programs offered by our agencies—price and income support, farm credit assistance, conservation and environment incentives, risk management tools, and trade expansion and export promotion programs—we are in the forefront of efforts to accomplish the Department's mission of service to American agriculture.

The 2007 President's budget provides the resources needed to ensure continuation of these diverse activities. Although the budget does include proposals for savings in both discretionary and mandatory programs, as part of government-wide efforts to reduce the deficit, it meets our priorities and ensures our continued efforts on behalf of America's agricultural producers.

FARM SERVICE AGENCY

The Farm Service Agency (FSA) is the lead agency for delivering farm assistance. It is the agency that the majority of farmers and ranchers interact with most frequently. Producers rely on FSA to access farm programs such as direct and countercyclical payments, commodity marketing assistance loans, loan deficiency payments, farm ownership and operating loans, disaster assistance, and certain conservation programs, such as the Conservation Reserve Program (CRP). Because FSA is the prime delivery agency for most of the major farm assistance programs, the budget places a priority on maintaining and enhancing FSA's ability to provide efficient, responsive services to our producers.

*Farm Program Delivery*

FSA has faced a series of program implementation challenges that have required the full commitment of agency resources. Last year, FSA implemented the Emergency Hurricane Supplemental Appropriations Act of 2005, which included more than a dozen programs and $2.9 billion for farmers and ranchers who were affected by drought and other weather-related problems in 2003 and 2004. FSA also implemented an emergency relief program, supported with $600 million of section 32 funds, for Florida's citrus, nursery, and vegetable growers who were affected by three hurricanes in 2004.

In addition, FSA was required to implement the tobacco buy-out program during 2005, with very little lead time to prepare. Under the program, transition payments of about $950 million per year are being made to tobacco quota holders and producers, ending all elements of the Federal tobacco price support program effective with the 2005 crop.

Although the emergency supplemental provided some funds to cover administrative costs of delivering disaster assistance, they were not sufficient to meet those costs fully. As a result, FSA had to cut expenses aggressively in all but the most essential areas and was forced to divert IT resources away from planned modernization to provide the resources needed to implement these new programs. In 2006, FSA is again meeting the challenge of delivering disaster assistance to producers affected by hurricanes in the Gulf Coast states.

In the fall of 2005, FSA reduced permanent staffing through the use of buy-out authority to adjust staffing due to workload changes resulting from elimination of the tobacco program and other changes. Although the demands on FSA's resources have tightened and workload and staffing needs have shifted, the FSA office structure has remained stable for several years. FSA now has hundreds of county offices with three or fewer employees that are increasingly expensive to maintain and are hard pressed to provide effective customer service. As you know, the agency terminated its "FSA Tomorrow" plan to close and consolidate county offices, but the need to streamline operations and office structure continues. FSA has asked its State Ex-

ecutive Directors to conduct independent, local-level reviews of the offices and operations in their states. This ongoing effort will follow the guidelines established in the 2006 Agriculture Appropriations Act with respect to public meetings, Congressional notification, and communications with affected producers. This will ensure the most appropriate adjustments are made, consistent with local needs and within the constraints of available resources.

The 2007 budget is designed to ensure the agency's diverse efforts can move forward. It provides a total program level for FSA salaries and expenses of nearly $1.4 billion, a net increase of $86 million above 2006. The requested level will support a ceiling of about 5,250 Federal staff years and 9,425 non-Federal staff years. Staff levels have been reallocated among FSA's program activities to reflect the decreased workload associated with the tobacco program and other areas. Permanent Federal staff years will be reduced by 65 and permanent full time non-Federal county staff years will be reduced by 24, while temporary staff years will remain at 2006 levels.

FSA is taking other actions designed to improve their services on behalf of America's producers. Among the most important of these are information technology (IT) improvements, including the adoption of web-based applications that allow farmers to sign up for programs, as well as receive payments, on line. This reduces the paperwork burden significantly and provides for more timely receipt of payments.

Critical to the success of this endeavor is the need to replace farm program delivery software now running on FSA's remaining legacy computer system which is obsolete and incapable of meeting future needs. In order to complete the transition to the modern web-based technology system, the budget proposes $14 million for a multi-year investment in streamlining farm program delivery processes and software to allow retirement of the legacy system.

*Commodity Credit Corporation*

Domestic farm commodity price and income support programs are financed through the Commodity Credit Corporation (CCC), a Government corporation for which FSA provides operating personnel. CCC also provides funding for conservation programs, including the CRP and certain programs administered by the Natural Resources Conservation Service. In addition, CCC funds most of the export programs administered by the Foreign Agricultural Service.

In 2005, CCC outlays were relatively high at $20.2 billion due to recent large crops that have contributed to growing supplies and weakened prices. CCC outlays are now projected to reach $21.3 billion in 2006 and $20.2 billion in 2007 under current law, which reflects the recent enactment of the Agricultural Reconciliation Act of 2005.

In light of the continuing high levels of CCC outlays and the continuing budget deficit, the President's budget again includes a number of proposals to reduce the level of farm spending consistent with the government-wide goal of reducing the Federal deficit. These proposals are designed to work within the existing structure of the 2002 Farm Bill and achieve savings over the next 10 years. The proposals, which are spread across the entire agricultural sector, include reducing commodity payments across the board by 5 percent; tightening payment limits; lowering dairy program costs; and reinstituting a 1.2 percent marketing assessment on sugar processors as well as a 3 cent per hundredweight assessment on milk marketings.

These proposals are expected to save $1.1 billion in 2007 and $7.7 billion over 10 years. The majority of the savings is achieved through the across-the-board reduction in program payments.

*Conservation Programs*

The 2002 Farm Bill provided for significant growth in the Department's conservation programs. The CRP, which is funded by CCC and administered by FSA, is the Department's largest conservation/environmental program. The Farm Bill extended CRP enrollment authority through 2007 and increased the enrollment cap by 2.8 million acres to a total of 39.2 million acres.

As of January, CRP enrollment totaled 35.9 million acres. The 2007 budget assumes general signups will be held this year and next to enroll about 2.5 million and 4.9 million acres, respectively. In addition, a major effort is underway beginning this year to re-enroll or extend a large number of CRP contracts that will begin expiring over the 2007–2010 period.

Our current baseline assumptions are that CRP acreage will increase gradually to 39.2 million acres by 2008 and remain at that level through 2016.

FARM LOAN PROGRAMS

FSA plays a critical role for our Nation's agricultural producers by providing a variety of direct loans and loan guarantees to farm families who would otherwise

be unable to obtain the credit they need to continue their farming operations. By law, a substantial portion of the direct loan funds are reserved each year for assistance to beginning, limited resource, and socially disadvantaged farmers and ranchers. For 2007, 70 percent of direct farm ownership loans are reserved for beginning farmers and 20 percent are reserved for socially disadvantaged borrowers, who may also be beginning farmers.

The 2007 budget includes funding for about $930 million in direct loans and $2.5 billion in guarantees. This level of funding is consistent with actual program use in 2005, and we believe these proposed loan levels will be sufficient to meet demand in 2007.

The 2007 budget provides funding of $4 million for the Indian Land Acquisition program, double the amount provided in 2006. For the Boll Weevil Eradication loan program, the budget requests $59 million, a reduction of $41 million from 2006. This reduction is due to the successful completion of eradication efforts in several areas. The amount requested is expected to fully fund those eradication programs operating in 2007.

For emergency disaster loans, no additional funding is requested. As of January, about $175 million is available for use in 2006, and sufficient funding is expected to carry forward into 2007 to assist producers whose farming operations have been damaged by natural disasters.

RISK MANAGEMENT AGENCY

The Federal crop insurance program represents one of the strongest safety net programs available to our Nation(s agricultural producers. It provides risk management tools that are compatible with international trade commitments, creates products and services that are market driven, harnesses the strengths of both the public and private sectors, and reflects the diversity of the agricultural sector.

In 2005, the crop insurance program provided about $45 billion in protection on over 246 million acres. Our current projection is that indemnity payments to producers on their 2005 crops will be about $3.3 billion, which is about the same level as in 2004. Our current projection for 2007 shows a moderate increase in the value of protection to more than $49 billion. This projection is based on the Department(s latest estimates of planted acreage and expected changes in market prices for the major agricultural crops, and assumes that producer participation remains essentially the same as it was in 2005.

The 2007 budget requests an appropriation of "such sums as are necessary" as mandatory spending for all costs associated with the program, except for Federal salaries and expenses. This level of funding will provide the necessary resources to meet program expenses at whatever level of coverage producers choose to purchase.

The Risk Management Agency (RMA) is making significant progress in preempting fraud, waste, and abuse through the expanded use of data mining. RMA has preempted million of dollars' worth of improper payments and continues to identify ways to reduce program abuse. RMA continues to use data mining to identify anomalous producer, adjuster, and agent program results and, with the assistance of FSA offices, conducts growing season spot checks to ensure that new claims for losses are legitimate. These spot checks based on data mining have resulted in a significant reduction in anomalous claims for certain situations.

Despite the successes of the crop insurance program, more can be done to improve its effectiveness. One of the overarching goals of the crop insurance program has been the reduction or elimination of ad hoc disaster assistance. However, in recent years Congress has passed four disaster bills covering 6 crop years and costing the government about $10 billion. Therefore, the budget includes a proposal to link the purchase of crop insurance to participation in farm programs, such as the direct and counter-cyclical payment programs. This proposal would require farm program participants to purchase crop insurance protection for 50 percent, or higher, of their expected market value or lose their farm program benefits. This level of coverage is nearly double the amount of protection currently provided at the catastrophic level.

Additionally, participants in the Federal crop insurance program would contribute to the President's deficit reduction program. The budget includes several proposals that would reduce subsidies paid to producers and approved insurance providers. In total, these changes are expected to save about $140 million annually beginning in 2008.

*Salaries and Expenses*

For salaries and expenses of RMA, $81 million in discretionary spending is proposed, an increase of $4.5 million from the 2006 level of about $77 million. This net increase includes additional funding for IT, increased staff years to improve monitoring of the insurance companies, and pay costs.

The budget also includes a proposal to implement a participation fee to fund IT modernization and maintenance costs. The fee, of about one-half cent per dollar of premium, would be assessed on the insurance companies that participate in the program and benefit from the subsidies paid by the Federal Government. The fee will be collected beginning in 2008 and will initially supplement the annual appropriation to provide for modernization of the IT system. After modernization is completed, the fee would be shifted to maintenance and would at that point reduce the discretionary appropriation required by RMA.

RMA has an aging IT system; the last major overhaul occurred about 12 years ago. At that time, the crop insurance program offered seven plans of insurance covering roughly 50 crops and providing about $14 billion in protection. In 2005, protection was offered through more than 20 plans of insurance covering 370 crops, plus livestock and aquaculture, and providing over $44 billion in protection.

Several major changes also have occurred over the years in the way producers protect their operations from losses. In 1994, there were no plans of insurance that offered protection against changes in market prices. Today, over 50 percent of the covered acreage has revenue protection and nearly 62 percent of the premium collected is for revenue based protection. In addition, the Agricultural Risk Protection Act (ARPA) of 2000 authorized the development of insurance products to protect livestock. RMA has implemented several new livestock price protection products. Because livestock production occurs year-round, these products must be priced and sold in a different manner than traditional crop insurance. The advent of new types of insurance, not contemplated when the IT system was designed, has placed tremendous strain on an aging system.

ARPA also instituted new data reconciliation, data mining, and other anti-fraud, waste, and abuse activities that require the data to be used in a variety of new ways. The current IT system was not designed to handle these types of data operations. Consequently, the data must be stored in multiple databases which increases data storage costs and processing times, and increases the risk of data errors.

Finally, I would note that the budget for RMA includes a request for 15 additional staff years. This increase will provide RMA with the additional resources necessary to improve oversight and internal controls of the insurance providers. In 2002, American Growers', the Nation's largest crop insurance company, failed. RMA, in concert with the Nebraska Department of Insurance, did a tremendous job of ensuring that both the producers' and the Government's interests were protected, indemnities paid, and policies transferred to other insurance providers. The additional staffing will help to ensure that a similar failure does not occur in the future.

FOREIGN AGRICULTURAL SERVICE

I would now like to turn to the international programs and activities of the FFAS mission area. One of the goals that Secretary Johanns has established for the Department is to enhance the international competitiveness of American agriculture in order to provide increased export opportunities for our farmers and ranchers. The FFAS mission area is a primary contributor to that goal through activities that expand and maintain opportunities for U.S. agricultural exports; enhance the global sanitary and phytosanitary system to facilitate agricultural trade; and support international economic development and trade capacity building.

We made noteworthy progress in our export expansion activities during the past year. During fiscal year 2005, the value of U.S. agricultural exports was once again at a record level, and we are presently on course to set another record—$64.5 billion—during fiscal year 2006.

One of our highest priorities this past year was working to achieve an agreement on reform of agricultural trading practices in the Doha Round of multilateral trade negotiations. Last fall, the United States tabled an ambitious proposal to advance the negotiations that we believe provides the basis for their successful conclusion. Although the ambition of our proposal has not been matched by others, Members of the World Trade Organization (WTO) have agreed to reach agreement on the modalities (i.e., reduction formulas and methodologies) for a final agreement by the end of April, and we are working diligently to achieve that goal. We have a tremendous opportunity to achieve significant reforms in this Round, and we are committed to achieving a successful outcome that will provide new and meaningful opportunities for export growth in future years.

Regional and bilateral trade agreements are another, very important avenue for opening new markets. Just last month, the President announced that South Korea and the United States intend to negotiate a bilateral free trade agreement that will offer significant opportunities for increased sales of U.S. food and agricultural products in what is already our sixth largest overseas market. In addition, we have re-

cently completed free trade negotiations with Peru, Colombia, and Oman and are continuing negotiations with an array of other countries that are expected to provide new opportunities for U.S. agricultural sales.

One of our other very important priorities during the past year has been our efforts to recover access to overseas markets for U.S. beef that were closed following the discovery of bovine spongiform encephalopathy (BSE) in the United States in 2003. Despite our recent setback with Japan in this regard, we have made significant progress. To date, we have regained at least partial access to 28 markets (not including Japan). Restarting shipments to Japan is now of paramount importance. We are confident the steps Secretary Johanns has directed be implemented in response to recent developments in Japan lay the groundwork for resumption of sales there. The Department has provided a full report on this matter to Japan, and we will continue to engage our Japanese counterparts to achieve our objective of resuming sales in near future.

*Salaries and Expenses*

The Foreign Agricultural Service (FAS) is the lead agency for the Department's international activities and is in the forefront of our efforts to expand and preserve overseas markets. Through its network of 77 overseas offices and its headquarters staff here in Washington, FAS carries out a wide variety of activities that contribute to the objective of providing increased export opportunities for our agricultural products.

During the past year, FAS has continued to review its activities and operations in order to ensure that it is structured appropriately to address priority issues that will characterize global agriculture in the 21st century. As a result of the agency's review, FAS has increased its focus on inherently governmental functions such as trade negotiations, enforcement of trade agreements, and strategic management of country relationships. In response to the increased importance of sanitary and phytosanitary issues for trade, FAS has stepped up its monitoring and enforcement activities and increased its efforts through international standard-setting bodies to support the development of science-based regulatory systems. It also has increased its emphasis on trade capacity building activities that facilitate achievement of the U.S. trade agenda.

With trade of such critical importance to the future health and vitality of American agriculture, it is imperative that FAS have the resources needed to continue to represent and advocate for American agriculture on a global basis and to open new markets overseas. The budget provides a program level of $162 million for FAS in 2007, an increase of $11 million above 2006. This includes funding to meet higher overseas operating costs at the agency's overseas posts, including increased payments to the Department of State for administrative services provided at overseas posts.

Funding is also included for FAS' contribution to the Capital Security Cost Sharing Program. Under that program, agencies with an overseas presence in U.S. diplomatic facilities are contributing a proportionate share of the construction of new, safe U.S. diplomatic facilities over a 14-year period.

The budget also includes funding to support a new Trade Capacity Building initiative that supports U.S. trade policy objectives. By assisting developing countries to adopt policies that meet WTO standards and regulatory systems that are transparent and science-based, we will improve access for U.S. products to their markets. At the same time, by enhancing their ability to benefit from trade, we encourage them to become more forthcoming and supportive in market access negotiations. As their ability to participate in and benefit from global trade is improved, they will become better markets for U.S. agricultural exports.

*International Food Assistance*

The United States continues to provide leadership in global efforts to provide humanitarian relief and promote economic development through foreign food assistance. Emergency needs for food assistance remain at high levels, particularly in sub-Saharan Africa. To help meet those needs, the supplemental appropriations package submitted by the President on February 16th includes a request for $350 million to support additional Public Law 480 Title II food donations. This funding will be used to respond to humanitarian food aid needs in the Darfur region of Sudan, including for refugees in neighboring Chad; other regions of Sudan; and other areas facing critical food situations, including those in East and Central Africa.

For 2007, the budget continues our support for these efforts by providing an overall program level of nearly $1.6 billion for U.S. foreign food assistance activities.

For the Public Law 480 program, the budget includes a projected program level of $1.3 billion. This includes $1.2 billion of appropriated funding requested in the

budget, plus projected reimbursements from the Maritime Administration for prior year cargo preference related expenses. The budget proposes that all funding for Public Law 480 will be provided through Title II donations in 2007 and, therefore, includes no new funding for additional Title I concessional credit or grant programs.

This proposal reflects the experience of recent years in which an increasing share of U.S. foreign food assistance has been directed to emergency situations in which food aid is critical to preventing famine and saving lives. At the same time, demand for food assistance provided through concessional credit has declined significantly. This year, only two government-to-government agreements are expected to be signed.

The budget also proposes that the Administrator of the Agency for International Development have the authority in emergency situations to use up to 25 percent of Title II funding to purchase commodities in locations closer to where they are needed. This authority is intended to expedite the response to emergencies overseas by allowing food aid commodities to be purchased more quickly and closer to their final destination, while increasing the total amount of commodities that can be procured to meet those emergencies. It is important to emphasize that U.S. commodities will continue to play the primary role in U.S. foreign food aid purchases and will be the first choice for meeting global needs. Furthermore, with this authority commodities would be purchased from developing countries that are eligible for official development assistance and not from developed countries, such as the European Union.

For the McGovern-Dole International Food for Education and Child Nutrition Program, the budget continues funding at the 2006 level. With the conclusion of 2005 programming, this program and its predecessor, the Global Food for Education Initiative, will have provided assistance to more than 10 million children, mothers, and infants throughout the world. Particularly noteworthy, this assistance has helped establish sustainable programs in four countries—Kyrgystan, Lebanon, Moldova, and Vietnam—where parents and local governments have assumed responsibility for continuing the feeding programs, allowing United States support to be ended.

The budget also includes an estimated program level of $161 million for the CCC-funded Food for Progress program, which supports the adoption of free enterprise reforms in the agricultural economies of developing countries.

*Export Promotion and Market Development Programs*

FAS administers the Department's export promotion and market development programs that play an important role in our efforts to enhance the international competitiveness of American agriculture.

The CCC export credit guarantee programs provide payment guarantees for the commercial financing of U.S. agricultural exports. The guarantees facilitate exports to buyers in countries where credit is necessary to maintain or increase U.S. sales. For 2007, the budget projects a program level of nearly $3.2 billion for CCC export credit guarantees.

For the Department's market development programs, including the Market Access Program and Foreign Market Development Program, the budget includes funding of $148 million. This level reflects a proposal to limit the Market Access Program to $100 million in 2007, which is intended to achieve savings in mandatory spending and contribute to government-wide deficit reduction efforts.

The budget also includes $35 million for the Dairy Export Incentive Program and $28 million for the Export Enhancement Program.

*Trade Adjustment Assistance*

For the Trade Adjustment Assistance (TAA) for Farmers Program, the budget includes $90 million, as authorized by the Trade Act of 2002. The program provides assistance to producers of raw agricultural commodities, who have suffered lower prices due to import competition, and to fishermen who compete with imported aquaculture products. In order to qualify for assistance, the price received by producers of a specified commodity during the most recent marketing year must be less than 80 percent of the national average price during the previous 5 marketing years. In addition, a determination must be made that increases in imports of like or competitive products "contributed importantly" to the decline in prices.

During 2005, 14 petitions for TAA were approved, including 9 that were recertified for a second year of assistance. Commodities that were approved for assistance included Pacific salmon, shrimp, lychees, California black olives, Idaho potatoes, and Concord juice grapes. Total program costs for 2005 were approximately $21 million.

The deadline for submission of petitions for 2006 TAA closed on January 31. To date, TAA petitions have been certified for producers of Florida avocados and Indiana snapdragons. Additional petitions are under review, and decisions on their eligibility should be announced in the near future.

That concludes my statement, Mr. Chairman. I would be pleased to answer any questions that you and other Members of the Committee may have.

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PREPARED STATEMENT OF TERESA C. LASSETER, ADMINISTRATOR, FARM SERVICE AGENCY

Mr. Chairman and Members of the Subcommittee, I appreciate the opportunity to appear before you for the first time as Administrator of the Farm Service Agency (FSA). I have taken the helm at a challenging moment for FSA—a moment when the agency is at a crossroads. As things currently stand, we are faced with a choice between delivering programs to the best of our ability using current methods, or modernizing the agency in terms of structure and technology to respond more quickly to new legislation, provide better access to our programs and data for our customers and business partners, and more efficiently implement a 2007 Farm Bill. Our fiscal year 2007 budget request provides a fiscally responsible approach which addresses these agency priorities while also doing our part to restrain discretionary spending to help reduce the deficit. Before I begin discussing the details of the budget, I would like to comment on how we arrived at our current position, provide a status of some of our current initiatives and challenges, and solicit your support and partnership for approval of this budget request.

*Office Structure*

As competition and accountability for limited resources continue to increase, we want to ensure we are still providing our customers with the efficient, accurate and timely service they deserve. Quite frankly, FSA as presently structured must change in order to best serve our customers. There have been numerous program changes over the past few years as well as improvements in technology that have shifted our workload. Also, reductions in the number of employees in the past 3 years require that we adjust our present structure. As you know, we set aside our FSA tomorrow plan and stopped all actions on county office restructuring and office closures under that plan. Many of our State Executive Directors, however, are experiencing extreme difficulty in providing services due to the increased number of offices that have two or fewer employees in them, and the increasing number of managers who are responsible for more than one county and must divide their time between two or more offices.

At present we have 36 offices that have no permanent employees in them, 144 offices with only one employee, 372 offices with 2 employees, and 266 offices that share a manager. Providing a full range of services to our customers full-time is impossible in these offices. We must reorganize, modernize and streamline this agency from the bottom up. We must reinvent FSA on a technological platform that feels more like 2006 than 1980. Having set aside the national FSA Tomorrow plan, and in accordance with your guidance, we have asked our State offices for a full review of their technology, training, staffing and facilities. We know that we need widespread technology upgrades. We know that we need to provide our people with better training. We know that absent our ability to hire more employees, temporaries and contractors, we need technology to streamline our operations to increase productivity.

FSA's State Executive Directors (SEDs) will conduct independent, local-level reviews of the efficiency and effectiveness of the FSA office structure in each State. SEDs and State committees will form review committees to identify what the optimum network of FSA facilities, staffing, training, and technology should be in each State within existing budgetary resources and staffing ceilings. Furthermore, SEDs will also explore potential joint-effort opportunities with the Natural Resources Conservation Service and other Department of Agriculture agencies.

As recommendations are received from each State, FSA's Deputy Administrator for Field Operations will review and validate the proposed changes. After the recommendations are shared with the affected Congressional delegations, the agency will hold public hearings and coordinate communications efforts with area farmers, ranchers, and stakeholders.

We will faithfully follow your instructions as outlined in Public Law 109–97. If State offices recommend that any of our offices be closed or consolidated, we will hold public hearings within 30 days and notify Congress of all impending changes within 120 days.

*Administrative Budget Trends*

Congress has provided an increase in the appropriations for our Salaries and Expenses (S&E) account each year, and we appreciate the support of the Committee reflected in those numbers. At the same time, however, operational costs such as

pay costs, information technology infrastructure and legacy systems, rents, and utilities have been increasing at a faster pace. The President's Budgets have taken this reality into account in the requested levels. However, for the past 3 years the enacted appropriations for S&E together with the FSA component of the Common Computing Environment account have averaged about 3.8 percent below the budget request. In addition, during fiscal year 2005, FSA implemented the newly enacted Tobacco Buyout Program under the American Jobs Creation Act of 2004 and disaster programs for 2003, 2004, and 2005 crop losses as directed by the Military Construction Appropriation and Emergency Hurricane Supplemental Appropriations Act, 2005. It is estimated that these programs cost the Agency a minimum of $26 million to administer.

These effective reductions in the agency resource level have been addressed through aggressive cost-cutting measures. For example, FSA reduced discretionary non-information technology (IT) expenses such as travel, equipment and supplies by 39.5 percent from fiscal year 2003 levels. FSA also deferred and realigned investment funding intended for modernization of IT systems in order to fund uncontrollable increases in non-discretionary IT and non-IT expenses. FSA successfully carried out its new programs at the expense of its modernization progress. In addition, Federal and non-Federal permanent staffing ceilings were reduced by 5 percent and 3 percent from fiscal year 2003 to fiscal year 2005.

Mr. Chairman, we in FSA have always considered ourselves a "can-do" agency. That is why in recent years we have told an optimistic story even while facing resource challenges. And that is why it is difficult to come before you sounding a less optimistic note today. The time has passed, however, when we can promise to do more with less. The time has come when we must make some difficult choices. This brings me back to the crossroads I mentioned earlier: do we direct our resources to maintaining the status quo as nearly as possible to focus on near-term program delivery? Or do we make the investments needed for future program delivery, which would divert resources from current activities? Even with your support for the President's budget, we must work with our stakeholders on an acceptable office consolidation plan to ensure we are providing our customers with the quality service they are entitled to.

Our restructuring plan is not limited to our county offices but will involve a comprehensive review of the organization and operations at all levels of the agency, including State and national offices. We need to wisely invest in our employees, technology and equipment. With the 2007 requested level for both our Salaries and Expenses and the Common Computing Environment accounts, we can achieve this by providing critical training to our employees, upgrading computer systems, networks and software, and modernizing local office equipment. With over 45 percent of FSA offices staffed with three or fewer people, IT modernization has become significantly more important.

*Employee Buyout Program*

During first quarter of fiscal year 2006, we conducted two employee buyout programs, commonly known as the Voluntary Separation Incentive Program (VSIP) or "buyouts" and the Voluntary Early Retirement Authority (VERA) or "early outs". A total of 424 Federal and non-Federal employees were separated from FSA with buyout payments of up to $25,000. Several factors influenced our decision to request VSIP and VERA authority, including legislative changes ending the tobacco program, a transfer of the bulk of the administrative activity FSA previously performed for the Natural Resources Conservation Service (NRCS) on the Environmental Quality Incentives Program back to NRCS in fiscal year 2005, and shifts in program participation in certain States causing workload decreases in those States and a resulting staffing imbalance. As a result, reductions to staffing levels could be absorbed at the affected locations, without severely impacting their ability to deliver ongoing programs. The buyouts resulted in a 3-percent reduction in FSA permanent staffing levels. Through the use of buyout/early out authority we were able to more efficiently align ourselves within existing resources and begin to right-size in an employee friendly manner without the need for a reduction-in-force. In partnership with stakeholders, implementation of a comprehensive agency-wide restructuring plan will enable us to address our remaining workforce right-sizing challenges.

*Disaster Assistance*

The past 2 years have presented producers with tremendous challenges from Mother Nature, with record rainfall in parts of the country, a pervasive drought in the West, and the worst hurricane season in decades. The Emergency Supplemental Appropriations to Address Hurricanes in the Gulf of Mexico and Pandemic Influenza Act, 2006 (Public Law 109–148) included $404 million for the Emergency Forestry

Conservation Reserve Program, which will provide assistance for farmers and ranchers who have suffered forestry damage directly related to hurricanes Katrina, Ophelia, Rita, Dennis and Wilma. FSA anticipates publishing the rule and issuing software by late winter, and holding a 2006 signup in the spring. In addition, $199.8 million was designated for the Emergency Conservation Program (ECP). The language of the Supplemental Appropriations Bill provides for assistance with restoration of activities such as oyster operations not normally covered by ECP. Therefore, new regulations are required to make certain that new practices are developed that achieve the goals of the program while ensuring program integrity. We expect ECP regulations to be published soon, with signups anticipated in early spring.

In addition, Secretary Johanns authorized $250 million for crop disaster, livestock, dairy, tree and aquaculture assistance. These funds are authorized under Section 32 of the Agricultural Act of August 24, 1935, which allows the Secretary to restore producers' purchasing power. These funds will be distributed by way of five new programs: the Tree Indemnity Program (TIP), the Livestock Indemnity Program (LIP), the Feed Indemnity Program (FIP), the Hurricane Indemnity Program (HIP), and an Aquaculture Block Grant program. The Secretary announced these programs on January 26, 2006. For TIP, LIP, FIP, and HIP, interim final regulations are in final clearance, and signups will begin in late June. For the Aquaculture Program, memorandums of understanding will be sent to the States in early March.

Prior to the President's signing of the Emergency Supplemental Appropriations Bill, FSA made more than $30 million in Emergency Conservation Program assistance available to agricultural producers suffering damage from Hurricane Katrina. In addition, USDA's Commodity Credit Corporation implemented immediate changes to its Marketing Assistance Loan Program to allow producers to obtain loans for on-farm grain storage on the ground in addition to grain bins and other normally approved structures.

*Tobacco Transition Program*

FSA has expeditiously implemented the provisions of the "The Fair and Equitable Tobacco Reform Act," otherwise know as the "tobacco buyout" program which was part of the American Jobs Creation Act of 2004, signed by the President on October 22, 2004. The Act terminated the tobacco quota and price support program of more than 65 years, which had restricted production and kept domestically produced tobacco prices high. The program allows producers and quota owners to sign up for 10 years of transition payments to ease the economic adjustment process.

As of December 20, 2005, the Commodity Credit Corporation (CCC) had approved 382,972 quota holder contracts valued at $6.6 billion, and 181,696 producer contracts valued at $2.9 billion. CCC disbursed fiscal year 2005 payments to 563,770 contracts holders, valued at $945.9 million.

On October 17, 2005, CCC implemented the successor-in-interest provision of the Tobacco Transition Payment Program or TTPP. The successor-in-interest program allows contract holders to transfer their remaining contract rights in full to a third party in return for a lump-sum payment. As of December 2, 2005, 89,885 quota holder and producer contracts valued at $1.5 billion were sold to lump-sum providers. There are over 60 financial institutions participating in the successor-in-interest program.

As of February 28, 2006, approximately $934.6 million had been disbursed for fiscal year 2006 TTPP payments. County offices will continue to disburse payments through March. Contracts requiring a correction for over- or under-payments have been delayed. The correction software is complex and deployment is targeted for late April.

## BUDGET REQUESTS

Turning now to the specifics of the 2007 Budget, I would like to highlight our proposals for the commodity and conservation programs funded by the Commodity Credit Corporation (CCC); the farm loan programs of the Agricultural Credit Insurance Fund; our other appropriated programs; and administrative support.

## COMMODITY CREDIT CORPORATION

Domestic farm commodity price and income support programs are administered by FSA and financed through the CCC, a government corporation for which FSA provides operating personnel. Commodity support operations for corn, barley, oats, grain sorghum, wheat and wheat products, soybeans, minor oilseed crops, upland cotton and extra long staple cotton, rice, milk and milk products, honey, peanuts,

pulse crops, sugar, wool and mohair are facilitated primarily through loans, payment programs, and purchase programs.

The 2002 Farm Bill authorizes CCC to transfer funds to various agencies for authorized programs in fiscal years 2002 through 2007. It is anticipated that in fiscal year 2006, $1.797 billion will be transferred to other agencies.

The CCC is also the source of funding for the Conservation Reserve Program administered by FSA, as well as many of the conservation programs administered by the Natural Resources Conservation Service. In addition, CCC funds many of the export programs administered by the Foreign Agricultural Service.

*Program Outlays*

The fiscal year 2007 budget estimates largely reflect supply and demand assumptions for the 2006 crop, based on November 2005 data. CCC net expenditures for fiscal year 2007 under current law are estimated at $20.2 billion, down about $1.1 billion from $21.3 billion in fiscal year 2006. If the President's proposals for farm program savings are enacted, CCC outlays would decline by an additional $1.1 billion in fiscal year 2007.

This net decrease in projected expenditures is attributable to decreases for crop, tree and livestock disaster payments, tobacco payments, loan deficiency payments, and the Noninsured Assistance Program, partially offset by an increase in countercyclical payments.

*Reimbursement for Realized Losses*

CCC is authorized to replenish its borrowing authority, as needed, through annual appropriations up to the amount of realized losses recorded in CCC's financial statements at the end of the preceding fiscal year. For fiscal year 2005 losses, CCC was reimbursed $25.4 billion in fiscal year 2006.

*Conservation Reserve Program*

The Conservation Reserve Program (CRP), administered by FSA, is currently USDA's largest conservation/environmental program. For 20 years it has cost-effectively assisted farm owners and operators in conserving and improving soil, water, air, and wildlife resources by converting highly erodible and other environmentally sensitive acreage, normally devoted to the production of agricultural commodities, to a long-term resource-conserving cover. CRP participants enroll acreage for 10 to 15 years in exchange for annual rental payments as well as cost-share assistance and technical assistance to install approved conservation practices.

The 2002 Farm Bill increased authorized enrollment under this program from 36.4 million acres to 39.2 million acres. Under the fiscal year 2005 continuous and Farmable Wetlands Program (FWP) signups, a combined total of 387,000 acres was enrolled. We issued incentive payments totaling approximately $76 million in fiscal year 2005 under continuous signup, Conservation Reserve Enhancement Program (CREP), and FWP under the incentives program that began in May 2000 to boost continuous signup participation. As of January 2006, total CRP enrollment is 35.9 million acres, nearly 92 percent of the 39.2 million acres authorized under the Farm Bill.

The CREP is also a major initiative under CRP that seeks to address recognized environmental issues of States, Tribes, and the Nation. CREP is a voluntary program implemented through Memoranda of Agreement with partners, such as States, Federal agencies, and private groups. FSA currently has 34 CREP agreements with 27 States with over 2 million acres reserved for enrollment. The program is very popular with environmental and wildlife groups, in addition to States and private landowners. More than 772,000 acres are currently enrolled in CREP nationwide. Most recently, in July 2005, FSA launched a new CREP project in Indiana.

No general signup was held in fiscal year 2005. However, the fiscal year 2007 budget assumes general signups in fiscal years 2006 and 2007 to enroll approximately 2.5 million acres and 4.9 million acres, respectively. In fiscal years 2006 and 2007, we anticipate enrolling 410,000 acres and 774,000 acres under continuous signup and the CREP. About 40,000 acres are estimated to be enrolled in the FWP in fiscal year 2006 and 40,000 acres in fiscal year 2007. Additionally, the fiscal year 2007 budget assumes early re-enrollments and extensions of fiscal year 2007–2010 expiring contracts. Overall, CRP enrollment is assumed to gradually increase from 35 million acres at the end of fiscal year 2005 to 39.2 million acres by fiscal year 2008, and to remain at 39.2 million acres through fiscal year 2016, maintaining a reserve sufficient to provide for continuous signup and CREP.

FARM LOAN PROGRAMS

The loan programs funded through the Agricultural Credit Insurance Fund provide a variety of loans and loan guarantees to farm families who would otherwise be unable to obtain the credit they need to continue their farming operations.

The fiscal year 2007 Budget proposes a total program level of about $3.5 billion. Of this total, approximately $1 billion is requested for direct loans and nearly $2.5 billion for guaranteed loans offered in cooperation with private lenders. These levels should be sufficient to provide adequate funding throughout the year. While the total request is below the amounts provided by Congress in fiscal year 2005 and 2006, it is nearly $500 million above the amount actually obligated in fiscal year 2005.

For direct farm ownership loans we are requesting a loan level of $223 million. The proposed program level would enable FSA to extend credit to about 1,921 small and beginning farmers to purchase or maintain a family farm. In accordance with legislative authorities, FSA has established annual county-by-county participation targets for members of socially disadvantaged groups based on demographic data. Also, 70 percent of direct farm ownership loans are reserved for beginning farmers, and historically about 35 percent are made at reduced interest rates to limited resource borrowers, who may also be beginning farmers. Recently, however, the reduced-rate provisions have not been utilized since regular interest rates are lower than the reduced rates provided by law. For direct farm operating loans we are requesting a program level of $644 million to provide approximately 14,525 loans to family farmers.

For guaranteed farm ownership loans in fiscal year 2007, we are requesting a loan level of $1.2 billion. This program level will provide about 4,600 farmers the opportunity to acquire their own farm or to preserve an existing one. One critical use of guaranteed farm ownership loans is to allow real estate equity to be used to restructure short-term debt into more favorable long-term rates. For guaranteed farm operating loans we propose a fiscal year 2007 program level of approximately $1.3 billion to assist nearly 7,800 producers in financing their farming operations. This program enables private lenders to extend credit to farm customers who otherwise would not qualify for commercial loans and ultimately be forced to seek direct loans from FSA.

In addition, our budget proposes program levels of $4 million for Indian tribe land acquisition loans and $60 million for boll weevil eradication loans. For emergency disaster loans, our budget does not request any new appropriation; anticipated carryover funding will support a program level of approximately $70 million, which should provide sufficient credit to producers whose farming operations are damaged by natural disasters.

The 2007 budget request reflects the Administration's proposed increase in the fees producers pay to secure guaranteed farm ownership or guaranteed unsubsidized farm operating loans. This change will bring the fees for these loans more in line with the fees charged to secure other types of guaranteed loans. This proposal will be implemented through the rulemaking process and is expected to save about $30 million annually.

OTHER APPROPRIATED PROGRAMS

*State Mediation Grants*

State Mediation Grants assist States in developing programs to deal with disputes involving a variety of agricultural issues including distressed farm loans, wetland determinations, conservation compliance, program payment eligibility, and others. Operated primarily by State universities or departments of agriculture, the program provides neutral mediators to assist producers—primarily small farmers—in resolving disputes before they culminate in litigation or bankruptcy. States with mediation programs certified by FSA may request grants of up to 70 percent of the cost of operating their programs.

For fiscal year 2006, grants have been issued to 32 States. Two additional States are expected to become certified during the fiscal year. For fiscal year 2007, we anticipate that the requested $4.2 million will provide grants to 34 States and seed funding for 2 new States.

*Emergency Conservation Program*

Since it is impossible to predict natural disasters, it is difficult to forecast an appropriate funding level for the Emergency Conservation Program, and in recent years the program has been funded through supplemental appropriations. During fiscal year 2005 Congress provided $150 million for the program to assist producers in repairing damage caused by natural disasters. For fiscal year 2006, as I men-

tioned earlier, the program received supplemental funding of $199.8 million specifically for hurricane damage to the Gulf States. On March 3, $63 million of the $199.8 million was allocated. The eligible States have requested a total of $374 million. Nationwide, as of March 3, $20.6 million is pending allocation to 28 States, and $4.8 million has already been allocated, for recovery from various disasters utilizing funds carried forward from fiscal year 2005 together with recoveries of unused prior allocations. As of March 3, $5.1 million is available for allocation nationwide. The fiscal year 2007 Budget proposal does not include funding for this program.

*Dairy Indemnity Program*

The Dairy Indemnity Program (DIP) compensates dairy farmers and manufacturers who, through no fault of their own, suffer income losses on milk or milk products removed from commercial markets due to residues of certain chemicals or other toxic substances. Payees are required to reimburse the Government if they recover their losses through other sources, such as litigation. As of March 1 we have paid fiscal year 2006 DIP claims totaling $44,000 in 3 States.

The fiscal year 2007 appropriation request of $100,000, together with unobligated carryover funds expected to be available at the end of fiscal year 2006, would cover a higher than normal, but not catastrophic, level of claims. Extended through 2007 by the 2002 Farm Bill, DIP is a potentially important element in the financial safety net for dairy producers in the event of a serious contamination incident.

*Grassroots Source Water Protection Program*

The Grassroots Source Water Protection Program (GSWPP) is a joint project by the Farm Service Agency and the nonprofit National Rural Water Association (NRWA) designed to help prevent surface and ground water pollution through voluntary practices installed by producers at the local level. With the fiscal year 2006 appropriations of $3.7 million, the NRWA is hiring a rural source water technician in each of the 36 participating States to work with FSA State and county directors as well as State conservation specialists to develop water protection plans within priority watersheds.

Legislative authority for the GSWPP will expire September 30, 2007. The budget requests no funding for this program.

ADMINISTRATIVE SUPPORT

The costs of administering all FSA activities are funded by a consolidated Salaries and Expenses account. The account comprises direct appropriations, transfers from loan programs under credit reform procedures, user fees, and advances and reimbursements from various sources.

The fiscal year 2007 Budget requests $1.41 billion from appropriated sources including credit reform transfers, for a net increase of about $86 million over the fiscal year 2006 level. The request reflects increases in pay-related costs to sustain essential program delivery and increases in information technology investments. The request would fund IT operational expenses, technical analysis and design documentation of the Modernize and Innovate the Delivery of Agricultural Systems (MIDAS) program, and development and enhancements necessary to support legacy IT systems and maintain current IT operations during the transition to Web-based systems. It would also shift to the S&E account certain costs previously included in the Common Computing Environment (CCE) account, such as the Universal Telecommunications Network and enterprise licensing. These increases are offset by decreases in both Federal and non-Federal county office staff years and operating expenses.

As I have already noted, FSA has taken aggressive action over the past 3 years to reduce discretionary administrative expenditures and live within available funding. In conjunction with this effort, the employee buyout/early out program I mentioned earlier yielded a reduction of 143 Federal and 281 non-Federal staff-years for fiscal year 2006. The fiscal year 2007 request reflects a total of 5,253 Federal staff-years and 9,425 non-Federal staff-years, representing decreases of 65 and 24 staff-years, respectively, from the fiscal year 2006 levels. Temporary non-Federal county staff-years will remain at the fiscal year 2006 level of 650.

I would like to emphasize the importance of the support of FSA's modernization effort that is provided through the Department's CCE account. Funding made available to FSA under this account will provide needed telecommunications improvements and permit us to continue implementation of GIS, which is so crucial to rapid and accurate program delivery. If this source of funding were not available, the additional costs would have to be covered by FSA's S&E account.

Mr. Chairman, this concludes my statement. I will be happy to answer your questions and those of the other Subcommittee Members.

PREPARED STATEMENT OF A. ELLEN TERPSTRA, ADMINISTRATOR, FOREIGN AGRICULTURAL SERVICE

Mr. Chairman, Members of the Subcommittee, I appreciate the opportunity to review the work of the Foreign Agricultural Service (FAS) and to present the President's budget request for FAS programs for fiscal year 2007.

INTRODUCTION

FAS is a small agency with a big mission: working to expand and maintain international export opportunities for U.S. agricultural, fish and forestry products; supporting international economic development through trade capacity building and sustainable development practices; and supporting the adoption and application of science-based Sanitary and Phytosanitary (SPS) regulations to facilitate agricultural trade. In addition to our Washington-based staff, the Agency maintains a network of overseas offices that provide critical market and policy intelligence to support our strategic goals, respond quickly in cases of market disruption, and represent U.S. agriculture in consultations with foreign governments.

To meet new international challenges, FAS has refined the three functions essential to our mission—market access, intelligence, and analysis; trade development; and agricultural development for national security. While the first two functions represent the historic activities of the Agency, the third reflects new tasks that we have identified as essential to support U.S. agriculture and broader U.S. Government policy goals.

In addition, we have developed a new strategic focus for the Agency. We are placing a greater priority on inherently governmental functions such as trade negotiations, enforcement of trade agreements, and strategic management of country relationships. We have increased our emphasis on SPS issues by stepping up our monitoring and enforcement activities and increasing efforts to work through international standard-setting bodies to support the development of science-based regulatory systems. We are placing greater emphasis on trade capacity building activities that are in line with the President's trade agenda, and we are shifting from implementing individual development activities to coordinating USDA international activities.

*Market Access, Intelligence, and Analysis*

Our core objective continues to be the expansion and maintenance of overseas market opportunities for U.S. agriculture. If we are to help U.S. food and agricultural exporters build on three consecutive years of record export sales, expanding market opportunities will be vital for America's food and agricultural sector. We all recognize the United States is a mature market, while around the world we see emerging markets with rapidly growing middle classes.

Our primary tool to expand access is the negotiation of new bilateral, regional, and multilateral trade agreements that lower tariffs and reduce trade impediments. FAS provides the critical analysis and policy advice to ensure U.S. agriculture achieves substantial benefits in these negotiations.

Over the past several years, maintaining existing market access has grown in importance. We monitor foreign compliance with trade agreements, analyze trade issues, and coordinate with other trade and regulatory agencies to develop effective strategies to avoid or reverse trade-disruptive actions. We also use the extensive expertise within USDA to pursue solutions to difficult technical issues that restrict trade, such as those related to bovine spongiform encephalopathy (BSE) and biotechnology or those that create barriers to trade, such as sanitary and phytosanitary or food safety regulations. We have increased our efforts to ensure that more trading partners use science-based regulatory systems and follow international guidelines in order to reduce the number of technical problems and non-science based policies that hinder trade. We also work with the Office of the U.S. Trade Representative to ensure trade agreements are enforced through formal dispute mechanisms, when necessary.

*Trade Development*

Our trade development function includes price/credit risk mitigation and market development programs that support U.S. firms and industries in their efforts to build and maintain overseas markets for U.S. agricultural products. The price/credit risk mitigation programs include the GSM–102 Export Credit Guarantee Program, the Supplier Credit Guarantee Program and the Facility Guarantee Program.

FAS administers two major market development programs—the Foreign Market Development (Cooperator) and Market Access Programs. These are carried out chiefly in cooperation with non-profit agricultural trade associations and private firms.

Several smaller programs—Technical Assistance for Specialty Crops (TASC) and the Quality Samples Program (QSP)—also provide financial and technical support to U.S. exporters.

*Agricultural Development for National Security*

President Bush's National Security Strategy recognizes international economic development, along with defense and diplomacy, as one of the three pillars of U.S. foreign and national security policy. The Strategy recognizes that the lack of economic development, particularly in fragile and strategic countries and regions, results in economic and political instability, which can pose a national security threat to the United States. For most developing countries, a productive and sustainable agricultural sector and open markets are the key elements for economic growth.

FAS deploys USDA's unique resources and expertise in agricultural development activities to promote market- and science-based policies and institutions, and sustainable agricultural systems. One way that USDA helps developing countries increase trade and integrate their agricultural sectors in the global economy is to improve regulatory frameworks. Promoting productivity-enhancing technologies that will help increase food security is also a priority. In addition, we support agricultural reconstruction in post-conflict or post-disaster countries or regions such as in Afghanistan.

MAJOR ACTIVITIES AND GOALS

In 2005, FAS was a key contributor to the bold U.S. agriculture proposal that has been credited with providing new impetus to the Doha Development Agenda of the World Trade Organization (WTO) negotiations. While much work needs to be done to bring the negotiations to a successful conclusion, we believe that the Hong Kong Ministerial Declaration laid a solid foundation for the final phase of the negotiations. Later this week, Secretary Johanns will participate in a Ministerial meeting in London. Ministers will be working to narrow differences in order to meet the April target for defining modalities.

In preparation for and follow-up to the Hong Kong Ministerial, FAS actively worked to convince developing countries, particularly cotton-producing African countries, of the benefits of trade to their economic growth. In addition, FAS conducted several technical assistance programs to help improve those countries' ability to trade. These efforts played a key role in helping move the Doha trade talks forward.

Last year saw Congressional ratification of the Central America-Dominican Republic-United States Free Trade Agreement. FAS worked in tandem with the Office of the United States Trade Representative (USTR) on the development, analysis and negotiation needed to bring the agreement to completion. When implemented, it will provide U.S. exporters improved access to 40 million consumers with growing incomes.

In 2005, we worked to recover trade lost as a result of the finding of BSE in the United States when 51 markets closed their borders to our products. I am pleased to report that we have regained at least partial access to 26 (not including Japan) of these markets for beef and beef products, representing 45 percent of our 2003 export value. Momentum in reopening export markets for U.S. beef gained considerably since Japan announced on December 12, 2005, that it was resuming imports of U.S. beef. Hong Kong, Korea, Taiwan, and Singapore all agreed to open to boneless beef. In addition, Mexico announced the lifting of its import ban on U.S. bone-in beef. These openings represented market access gains of 82 percent of our 2003 export value for beef and beef products (includes Japan). Unfortunately, as you know, Japan ($1.4 billion market) has since closed its market due to the finding of vertebral column in a few boxes of a U.S. veal shipment, reducing our regained market access to $2.5 billion. We continue to work on regaining Japanese confidence in U.S. beef and our ability to meet Japan's import requirements.

We successfully defended U.S. export market access in a number of countries. In the European Union (EU), our intervention delayed the implementation of debarking requirements for wood packaging materials. This ensured continued smooth trade in U.S. exports packed in or on wood packaging materials. That trade is valued at nearly $80 billion annually. With the help of our industry partners, we were able to preserve $300 million in corn gluten feed exports to the EU.

Through our monitoring and enforcement of the WTO Sanitary and Phytosanitary Agreement, we reviewed over 600 foreign SPS regulations and took direct action against 40 that were inconsistent with U.S. regulations or did not comply with the WTO Agreement. Our successes with India and China are particularly noteworthy. As a result of our efforts, India relaxed import requirements that could have blocked U.S. shipments of almonds, pulses, and horticultural products. Almond shipments, the top U.S. agricultural export to India, increased from $95 million to $118 million,

and U.S. sales of pulses grew from $500,000 to over $3 million in 1 year. Our actions caused China to change its import regulations on meat, wine, spirits and fresh fruit. U.S. exports of these products grew from $142 million to $252 million.

FAS has worked aggressively to recover, maintain and expand markets for U.S. farm products that have been produced with agricultural biotechnology. A high priority is assisting other countries in their efforts to develop, safely regulate, and begin using this important tool to reduce hunger and alleviate poverty. For example, for the past 2 years, the United States has aggressively pursued a WTO case against the EU's moratorium on agricultural biotechnology, which has cost U.S. producers of corn and related products, hundreds of millions of dollars each year. In addition, FAS leads U.S. efforts to work with like-minded countries to assure that international rules and regulations for agricultural biotechnology are science-based and implemented in transparent and predictable ways.

As in the case of the EU's biotechnology moratorium, when we are unable to resolve problems bilaterally, we have used the WTO dispute settlement mechanism to advance our trade objectives. In 2005, we were successful in cases with Japan on fire blight in apples and with Mexico on rice and high-fructose corn syrup.

Just as we look to the WTO to enforce our complaints against trading partners, we must also live up to WTO decisions that raise questions about U.S. programs. After the WTO decision in the Brazil cotton case, we were able to revise our export credit guarantee programs to comply with the deadline imposed by the WTO. Officials of several developing countries have complimented the United States on our efforts to bring our export credit guarantee programs in line with the WTO decision. Of course, we also recognize the important role that the Congress has played in working with the Administration to address these critical issues. We appreciate that Congress recently approved legislation including repeal of the Continued Dumping and Subsidy Offset Act—the Byrd Amendment—and the Step 2 cotton program. Both programs were ruled inconsistent with our WTO obligations. This action demonstrates that the United States intends to live up to our WTO commitments.

In the area of trade development, we launched several e-gov initiatives to improve electronic access to key programs to meet requirements of the President's Management Agenda. We launched a new electronic registration system for the export credit guarantee programs that allows U.S. exporters to quickly register sales via the Internet. We are implementing a streamlined, integrated process to manage grant applications.

Our projects to promote agricultural development took us to many countries. We participated in post-conflict reconstruction efforts in Afghanistan by sending 26 USDA advisors to nine provinces to assist with livestock management, irrigation methods, and rudimentary food safety procedures. We expanded trade capacity building and technical assistance efforts in Armenia, Algeria, Malawi and Yemen. We worked with African countries to help them develop the institutional capacity to expand their exports and to regulate imports according to principles of sound science. We placed pest risk assessment advisors in the trade hubs sponsored by the U.S. Agency for International Development, and we are training 200 people from 35 countries on a wide variety of sanitary and phytosanitary issues. We hosted an Avian Influenza Conference last summer for the Asian Pacific Economic Cooperation (APEC) forum that was attended by more than 100 officials from the 21 APEC economies.

Under the Cochran Fellowship Program, we provided short-term training for nearly 500 participants from 81 countries. Cochran participants meet with U.S. agribusiness, attend policy and food safety seminars, and receive technical training related to market development and trade capacity building. Under the Borlaug Fellows program, launched in 2004, 120 researchers, policymakers and university staff received short-term scientific training and research opportunities at U.S. colleges and universities.

Our food aid programs have helped millions of hungry people around the world. For example, under the McGovern-Dole International Food for Education and Child Nutrition Program, a record 3.4 million children and mothers benefited from our 2005 programming efforts.

In 2006, our goals include bringing the multilateral trade talks to a successful conclusion, working to complete the outstanding bilateral free trade agreements with the United Arab Emirates, Peru, Panama and Thailand, launching new negotiations with Korea, and monitoring existing agreements. We also will continue our efforts to ensure that more trade partners use science-based regulatory systems and follow international guidelines, particularly regarding BSE and products from agricultural biotechnology. Our trade capacity activities will be used to support all these efforts. We will continue the process to realign our overseas staff to meet the changing world trading environment, focusing on Asia.

BUDGET REQUEST

Mr. Chairman, our fiscal year 2007 budget proposes a funding level of $162.5 million for FAS and 974 staff years, an increase of $11.0 million above the fiscal year 2006 level. The budget has been developed to ensure the agency's continued ability to conduct its full array of activities and provide services to U.S. agriculture.

The budget proposes an increase of $7.4 million to meet higher operating costs at FAS overseas offices. The FAS network of 77 overseas offices covering over 130 countries is vulnerable to macro-economic events and developments that are beyond the agency's control but which must be met if FAS' overseas presence is to be maintained. Specifically, these increases include:

—$3.4 million for wage and price increases to meet higher operating costs at overseas offices. Declines in the value of the U.S. dollar, coupled with overseas inflation and rising wage rates, have led to sharply higher operating costs that must be accommodated in order to maintain our current overseas presence.

—$1.1 million for increased payments to Department of State (DOS) for International Cooperative Administrative Support Services (ICASS). The DOS provides overseas administrative support for foreign affairs agencies through the ICASS system. FAS has no administrative staff overseas, and thus relies entirely on DOS/ICASS for this support.

—$2.9 million for the Capital Security Cost Share program assessment. In fiscal year 2005, DOS implemented a program through which all agencies with an overseas presence in U.S. diplomatic facilities pay a proportionate share for accelerated construction of new secure, safe, and functional diplomatic facilities. These costs are allocated annually based on the number of authorized personnel positions. This plan is designed to generate a total of $17.5 billion to fund 150 new facilities over a 14-year period. The FAS assessment will increase annually in roughly $3 million increments until fiscal year 2009 to total annual assessed level of $12 million. This level is assumed to remain constant at that point for the ensuing 9 years.

The budget also requests $1.5 million in support of the President's trade policy agenda for Trade Capacity Building. One of the challenges we face is obtaining the dedicated funding that can be used throughout the Department in support of this initiative. Through technical assistance, training, and related activities, this initiative will support U.S. trade policy objectives on a proactive basis by assisting developing countries to adopt scientifically sound health and safety standards that will enable U.S. exporters to take advantage of negotiated market access. It will also strengthen their ability to participate in, and benefit from, the global trading arena and, thereby, enhance opportunities for U.S. agricultural exports. Successful Free Trade Agreement (FTA) implementation requires that market access issues based on SPS problems be resolved, otherwise the benefits of the FTA are not realized by either side. In this regard, FAS works closely with USDA agencies, such as APHIS and FSIS, and the Food and Drug Administration. Obtaining a dedicated source of funding will lay the foundation for more effective resolution of ongoing and emergent SPS market access issues without recourse to time-consuming and costly dispute resolution procedures.

Finally, the budget includes an increase of $2.1 million to cover higher personnel compensation costs associated with the anticipated fiscal year 2007 pay raise. Without sufficient funding, absorption of these costs in fiscal year 2007 would primarily come from reductions in agency personnel levels that will significantly affect FAS efforts to address market access for U.S. food and agricultural exports.

EXPORT PROGRAMS

Mr. Chairman, the fiscal year 2007 budget proposes approximately $4 billion for programs administered by FAS designed to promote U.S. agricultural exports, develop long-term markets overseas, and foster economic growth in developing countries.

*Export Credit Guarantee Programs*

The budget includes a projected overall program level of $3.2 billion for export credit guarantees in fiscal year 2007. Under these programs, the Commodity Credit Corporation (CCC) provides payment guarantees for the commercial financing of U.S. agricultural exports. Last year, we announced changes to these programs to comply with the WTO cotton decision in a dispute with Brazil. We implemented a risk-based fee structure for the GSM–102 and Supplier Credit Guarantee Programs. Fee rates are now based on the country risk that CCC is undertaking, as well as the repayment term and repayment frequency under the guarantee. We also suspended operation of the GSM–103 program, effective July 1, 2005, in response to

a WTO dispute panel decision. In addition, USDA proposed legislative changes to the cotton and export credit programs. Congress passed legislation to repeal the Step 2 Program and the repeal will take effect on August 1, 2006.

As in previous years, the budget estimates reflect actual levels of sales expected to be registered under the programs and include:

—$2.5 billion for the GSM–102 program;
—$602 million for Supplier Credit guarantees; and
—$30 million for Facility Financing guarantees.

The fiscal year 2005, the GSM–102 program provided credit guarantees which facilitated sales of approximately $2.2 billion of U.S. agricultural exports to 8 countries and 6 regions. In fiscal year 2005, the Supplier Credit Guarantee Program (SCGP) registered approximately $455 million in credit guarantees which facilitated sales of over $700 million to 9 countries and 8 regions. USDA has also undertaken a top-to-bottom review of the Supplier Credit Guarantee Program. Most recently, USDA announced an Advanced Notice of Proposed Rulemaking on the SCGP and invited suggestions on changes that would improve program operations and efficiency. Several factors are behind the effort to improve program operations. As the SCGP has grown, defaults have also increased. Although CCC has improved its claims recovery process, further changes may be necessary. The comment period closed in late February and USDA is reviewing the comments.

*Market Development Programs*

Funded by CCC, FAS administers a number of programs to promote the development, maintenance, and expansion of commercial export markets for U.S. agricultural commodities and products. For fiscal year 2007, the CCC estimates include a total of $148 million for the market development programs, $100 million below the fiscal year 2006 level and includes:

—$100 million for the Market Access Program;
—$34.5 million for the Foreign Market Development (Cooperator) Program;
—$10 million for the Emerging Markets Program;
—$2.5 million for the Quality Samples Program; and
—$2 million for the Technical Assistance for Specialty Crops Program.

The lower program level for these activities reflects a proposal to limit funding for the Market Access Program to $100 million in fiscal year 2007, which is intended to achieve savings in mandatory spending and contribute to government-wide deficit reduction efforts.

*International Food Assistance*

The United States continues to play a leading role in providing international food aid. In this regard, the fiscal year 2007 budget includes an overall program level for U.S. foreign food assistance of $1.6 billion consisting of:

—$1.3 billion for Public Law 480 which is expected to provide approximately 2.2 million metric tons of commodity assistance. The budget proposes that all Public Law 480 food assistance be provided through the Title II donations program in fiscal year 2007, which is administered by the U.S. Agency for International Development. In recent years, there has been significant decline in demand for food assistance provided through concessional credit financing, accordingly, no funding is requested for Title I credit sales and grants. The budget includes an appropriation request of $1.2 billion for Public Law 480 Title II, an increase of $80 million over the 2006 enacted level, and proposes a new provision that will allow up to 25 percent of the funding to be used to purchase commodities locally in emergency situations thereby saving more lives.
—$161 million for the CCC-funded Food for Progress Program. Funding at that level is expected to support 300,000 metric tons of commodity assistance.
—$103 million for the McGovern-Dole International Food for Education and Child Nutrition Program. This comprises $99 million in appropriations and an estimated $4 million in reimbursements from the Maritime Administration. Funding at this program level will assist an estimated 2.5 million women and children through the donation of nearly 80,000 metric tons of commodities.

*Export Subsidy Programs*

FAS administers two export subsidy programs through which payments are made to exporters of U.S. agricultural commodities to enable them to be price competitive in overseas markets where competitor countries are subsidizing sales. These include:

—$28 million for the Export Enhancement Program (EEP). World supply and demand conditions have limited EEP programming in recent years and therefore, the budget assumes a limited program level for 2007. However, the 2002 Farm Bill does include a maximum annual EEP program level of $478 million which

could be utilized should market conditions warrant reactivation of the awarding of bonuses.

—$35 million for the Dairy Export Incentive Program (DEIP), $33 million above the fiscal year 2006 estimate of $2 million. This estimate reflects the level of subsidy expected to be required to facilitate export sales consistent with projected United States and world market conditions. The actual level of bonuses awarded may change during the programming year as market conditions warrant.

*Trade Adjustment Assistance for Farmers*

Authorized by the Trade Act of 2002, the Trade Adjustment Assistance Program for Farmers authorizes USDA to make payments of up to $90 million annually to members of eligible producer groups when the current year's price of an eligible agricultural commodity is less than 80 percent of the national average price for the 5 marketing years preceding the most recent marketing year, and the Secretary determines that imports have contributed importantly to the decline in price.

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

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PREPARED STATEMENT OF ELDON GOULD, ADMINISTRATOR, RISK MANAGEMENT AGENCY

Mr. Chairman and members of the Subcommittee, I am pleased to present the fiscal year 2007 budget for the Risk Management Agency (RMA). Although this budget was developed by my predecessor, I have been fully briefed on the funding issues facing RMA and I support the funding level requested in this budget submission.

One of my principle goals is to make the crop insurance program more efficient so farmers can be less reliant on ad hoc disaster payments. When I accepted this position, Secretary Johanns charged me with administering the crop insurance program in a timely and farmer-friendly manner. I take this charge very seriously; cooperation and unity between the Government and our reinsured partners are necessary to meet our common goals of providing effective insurance products, processing timely and accurate claims when losses occur and identifying and eliminating waste, fraud and abuse in the program to the greatest extinct possible. In addition, effective outreach to our stakeholders and customers is necessary to identify attributes of the program that are working well and the aspects that need to be changed to improve efficiency and effectiveness. Administration of the crop insurance program requires all interested parties working together to identify viable insurance products and solutions that meet farmer/rancher needs of the agricultural community. Moreover, if the program is to continue to be successful, the checks and balances necessary to guard against the risks of fraud, waste and abuse need strengthening.

The Federal Crop Insurance Corporation continues to improve the economic stability of agriculture through a sound system of crop insurance, in paying out approximately $3.3 billion in losses in fiscal year 2005. Overall, the program provided farmers with more than $44 billion in protection on about 246 million acres with a participation rate of about 80 percent (principal crops). In order to maintain and go beyond our current participation rate, while at the same time reducing the expectation of ad hoc disaster payments when bad weather or natural disasters strike, a strategy that compels the purchase of crop insurance must be implemented.

The 2007 budget supports more than $49 billion in protection on approximately 286 million acres through about 1.2 million policies. The appropriations required for this level of risk protection is $4.2 billion, which includes program administration, product evaluation and program oversight, as well as premium subsidies, administrative expenses reimbursements, and payments for excess losses estimated above the mandated loss ratio of 1.075. The funding level proposed for the Federal Crop Insurance Corporation (FCIC) Fund is $4.1 billion and for the Administrative and Operating Expenses, $80.8 million.

FCIC FUND

The fiscal year 2007 budget proposes that "such sums as may be necessary" be appropriated to the FCIC Fund. This ensures the program is fully funded to meet the contractual obligation to pay claims, to reimburse for expenses incurred in delivering insurance to farmers and ranchers, and to provide premium subsidies to make crop insurance affordable. Of the total funding requested for the FCIC budget, 66 percent is for premium subsidies. This level of subsidy is necessary to maintain par-

ticipation in the program and to encourage producers to purchase higher levels of coverage.

To make the crop insurance program more efficient and to reduce the reliance on ad hoc disaster payments, the 2007 budget includes a proposal to encourage producers to purchase more adequate crop insurance coverage by linking direct payments or any other Federal payment for crops to the purchase of crop insurance. This change will ensure farmer's revenue loss would not be greater than 50 percent. Other changes include making catastrophic coverage more equitable in its treatment of both large and small farms, restructuring premium rates to better reflect historical losses, and reductions in delivery costs. Essentially, the majority of producers will have crop insurance and the minimum coverage level will be sufficient to support the producers when losses occur. The estimated savings to the program is $140 million beginning in 2008. This proposal will be submitted along with the other mandatory proposals for farm programs that support the President's Budget.

The FCIC budget estimates are $2.7 billion for premium subsidy, $940.3 million for delivery expenses, $379.8 million for estimated excess losses, and $74.5 million for Agricultural Risk Protection Act of 2000 (ARPA) initiatives. With the exception of ARPA initiatives, these estimates are based on program indicators derived from USDA's latest projections of planted acreage and expected market prices.

ADMINISTRATIVE AND OPERATING EXPENSES (A&O)

RMA's fiscal year 2007 request of $80.8 million for Administrative and Operating Expenses represents a base of $76.3 million, which includes $3.6 million for data mining, and an increase of about $4.5 million from fiscal year 2006. The increase includes funding for an increase in Compliance staffing, $1.3 million; improving monitoring of the insurance companies, $1.0 million; pay costs, $1.2 million; and information technology costs of $1.0 million.

The 2007 budget requests $1.3 million to support an increase of 15 staff years. This will raise RMA's employment ceiling from 553 to 568. The 15 staff years will support the increased workload for the Compliance function to provide the staffing to address outstanding OIG and GAO recommendations to improve oversight and internal controls over insurance providers. In response to several OIG audit reports, RMA needs to improve the process of auditing insurance providers to detect and correct vulnerabilities to proactively prevent improper payment of indemnities. The additional staffing will provide the necessary oversight to ensure taxpayers' funds are expended as intended.

Also included in the 2007 budget is $1.0 million to expand the monitoring and evaluation of reinsured companies. RMA is requesting funds to establish a process of monitoring, evaluating, and auditing, on an annual basis, the performance of the product delivery system. These funds will be used to support insurance company expense audits, performance management audits and reinsurance portfolio evaluations to ensure effective internal and management controls are in place and operating for each reinsured company's business operations.

An increase of $1.2 million is requested for pay costs. These funds are necessary to maintain required staffing to carry out RMA's mission and mandated requirements.

Lastly, an increase of $1.0 million is requested for immediate IT requirements that will support patch-work enhancements to the existing IT system. If RMA is to continue to pay out billions of dollars in indemnity payments, it is prudent and necessary to have a current and reliable operating system to deliver the crop insurance program. To effectively manage a $4 billion crop insurance program, a modernized IT system is necessary to replace RMA's core IT operating system that is over 12 years old.

In light of that, an additional legislative proposal in the 2007 budget is being offered to require the reinsured companies to share in the cost to develop and maintain a new IT system. The companies would be assessed a fee based on one-half cent per dollar of premium sold. The fee is estimated to generate an amount not to exceed $15 million annually. After the IT system has been developed, the assessment would be shifted to maintenance and would be expected to reduce the annual appropriation of the salaries and expenses account of the agency.

PROGRAM MANAGEMENT

The following is an update on accomplishments and events in 2005 regarding key initiatives, activities and products:

—FCIC Board Activities
—Reinsurance
—Hurricane Crop Losses

—Pilot Programs
—Product Development
—Education and Outreach Program
—Agricultural Management Assistance
—Program Integrity

The FCIC Board of Directors consists of 10 members. The Board receives, reviews, and approves policies and plans of insurance and other related materials for reinsurance, risk subsidy, and administrative and operating subsidy. During 2005, the Board considered 62 action items during eight board meetings. The actions included 6 expert reviews, 23 program revisions and modifications, 10 new program submissions, and 23 corporate administrative items.

*Reinsurance*

Currently, there are 16 approved insurance providers. Recent entrants into the crop insurance program include: Austin Mutual Insurance Company and its managing general agent (MGA), Crop USA; Westfield Insurance Company and its MGA, John Deere Risk Protection, Inc., and Stonington Insurance Company and its MGA, Agro National, LLC. The new Standard Reinsurance Agreement has been put in place, effective beginning the 2005 crop year.

During 2005, RMA published a proposed rule for premium reduction plans (PRP). The PRP authorizes a company to pass confirmable cost savings to insured in the form of premium reductions. After a 60-day comment period, an interim final rule was published. Currently, nine insurance providers are eligible to offer a premium reduction plan for the 2006 reinsurance year. However, due to a provision in the 2006 appropriations act, the PRP will not be available for the 2007 reinsurance year which begins July 1, 2006.

*Hurricane Crop Losses*

Like other Federal agencies, RMA had a role in responding to victims of last years' hurricanes. When Wilma, Katrina and Rita hit the southeast and Gulf Coast areas, RMA's delivery system was available to respond to the crop losses ensuring the timely disbursement of payments. In addition, the Agency put in place emergency loss procedures to help producers who were subject to cancellation or termination dates for indebtedness or unpaid premium. This change allowed producers who might have become ineligible for the 2006 crop year to have additional time to either make payment of the premium due or execute a payment agreement with the approved insurance provider. This primarily impacted about 1,500 crop insurance policies that earned premium mostly on nursery, wheat, sugarcane, and oat crops. An estimated 500–600 insured producers were impacted. The following are the current 2005 loss estimates of the hurricanes:

| Hurricane | States Impacted | Liability | Estimated Losses |
|---|---|---|---|
| Wilma | Florida | $1,196,400,000 | $194,000,000 |
| Katrina | Alabama, Florida, Mississippi, Louisiana | 525,710,000 | 129,709,000 |
| Rita | Arkansas, Louisiana, Texas | 130,183,00 | 15,447,000 |
| Total | | 1,852,293,000 | 339,156,000 |

*Pilot Programs*

RMA has 26 active pilot programs in various phases of development. The pilot programs for crop year 2005 are Adjusted Gross Revenue (AGR) and AGR-Lite, apple pilot quality option, avocado actual production history, avocado revenue, avocado/mango trees, cabbage, cherries, citrus (dollar), coverage enhancement option, cultivated clams, cultivated wild rice, Florida fruit trees, forage seed, fresh market beans, the Income Protection plan of insurance, mint, mustard, onion, pilot stage removal option, processing chile peppers, processing cucumbers, rangeland, raspberry/blackberry, strawberries, sweet potatoes, and winter squash/pumpkins. After about three to five years of experience, pilot program evaluations are performed to determine whether the plans of insurance should be converted to permanent programs and offered in counties where the crop is routinely grown. During 2005, RMA completed evaluations on eight pilot programs including: cherries, chile peppers, California citrus, processing cucumbers, strawberries, winter squash, AGR and avocado revenue. After consideration by the FCIC Board, winter squash and processed cucumbers were terminated; cherries, chile peppers, and California citrus were continued as pilots until the 2006 crop year; and strawberries extended through the 2008 crop year. Consideration of the evaluations of AGR and avocado revenue pilots will come before the Board in the 2006 fiscal year.

*Product Development*

In January 2006, the FCIC Board approved two new pilots, pasture range and forage programs set to begin for the 2007 crop year. These are group-risk programs, one using a temperature adjusted normalized difference vegetative index and the other a rainfall index program. The programs will be piloted in different States and areas with sales beginning this fall. In addition, RMA plans to seek expert review of a third proposal this spring in an attempt to create viable products for commodities representing over 550 million acres.

*Education and Outreach Program*

A total of $4.4 million was distributed for education and outreach projects with State departments of agriculture, universities and non-profit organizations. As a result, crop insurance education was provided to producers in Connecticut, Delaware, Maine, Pennsylvania, Rhode Island, Maryland, Massachusetts, Nevada, New Hampshire, New Jersey, New York, Utah, Vermont, West Virginia and Wyoming. These educational projects will promote risk management education opportunities by informing agribusiness leaders about new trends in risk management and by delivering risk management training to producers with an added emphasis on reaching small farmers.

Similar to last year, RMA awarded 40 commodity partnership agreements at a cost of $5.5 million. These agreements will provide outreach to specialty crop producers to broaden their risk management education. In addition, RMA also directs education and outreach efforts toward women, small, and limited resource farmers, and ranchers. In 2005, 63 outreach projects were funded at a cost of $7 million. RMA continues to partner with community-based organizations such as 1862, 1890, and 1994 land grant colleges, universities, as well as, with Hispanic serving institutions to provide technical assistance and risk management education on managing farming risks.

*Agricultural Management Assistance*

In 2005, RMA provided $4.1 million in financial assistance to producers purchasing spring buy-up crop insurance policies in 15 targeted States. The primary goal of the program is to encourage producers to purchase higher levels of coverage, and to provide an incentive for new producers to enter the program. In 2005, RMA paid up to 15 percent of producers' out-of-pocket premium costs to encourage increased participation.

*Program Integrity*

RMA, the Farm Service Agency (FSA), and the reinsured companies continue to improve program compliance and integrity through: (l) data reconciliation and matching of disaster program payments; (2) evaluating and amending procedures for referring potential crop insurance errors or abuse between FSA and RMA; and (3) creating anti-fraud distance learning training packages as required by Agricultural Risk Protection Act of 2000. Compliance managers have increased efforts to integrate new data mining projects to improve program results and are exploring ways to expedite processing of sanctions requests.

The efforts of FSA and the results from the data mining and analysis tools have greatly improved the referral activity to and from RMA. As a result, from the period of January to December, 2004, an estimated $71 million reduction in program costs has been identified by preventing or deferring unsubstantiated claims.

Currently, to manage the referral activity and the responsibilities of data reconciliation RMA has dealt with the added workload by increasing emphasis on data management and computer based resources. But the workload continues to create a challenge for Compliance to accomplish current activities along with new requirements mandated by ARPA without the benefit of additional resources. Therefore, the fiscal year 2007 budget includes 15 additional staff years for Compliance to strengthen the front-end reviews of approved insurance providers and to address outstanding recommendations to improve oversight and internal controls over insurance providers.

CONCLUSION

RMA is faced with many challenges to make the crop insurance program more efficient and effective. But along with these challenges come opportunities to provide more meaningful insurance products and tools, ensure a first-rate delivery system and the opportunity to verify and validate that the program is solvent and administered with integrity. I look forward to working with our stakeholders to make this program even better than it is today. However, the improvements require the re-

sources requested in the 2007 budget along with passage of the proposed legislations.

Mr. Chairman, this concludes my statement. I will be pleased to answer any questions.

Senator BENNETT. Thank you, sir.

Mr. Rey.

STATEMENT OF MARK REY

Mr. REY. Thank you, Mr. Chairman and Senator Kohl.

I am pleased to appear before you today to present the fiscal year 2007 budget and program proposals for the Natural Resources Conservation Service (NRCS).

Overall, for fiscal year 2007, the President's budget recommends a record $4 billion in mandatory funding to expand participation in Farm Bill conservation programs throughout the department. Proposals in the 2007 budget will produce savings in both the mandatory and discretionary accounts. These savings will enable the administration to target funding based on resource needs and program results.

The 2007 budget request for the Natural Resources Conservation Service provides $2.8 billion in total funding, with $788.6 million in discretionary funding and $2 billion in mandatory funding, including $1 billion for the Environmental Quality Incentives Program.

Also, on the mandatory side, the budget request includes an increase of $153 million for the Wetlands Reserve Program to enroll an additional 250,000 acres in fiscal year 2007. This represents a total investment of $402 million for the Wetlands Reserve Program and will bring the total acreage enrolled in the program to more than 2.2 million acres.

The Wetlands Reserve Program is the principal supporting program for the President's Wetlands Initiative to restore, protect, and enhance 3 million acres of wetlands over a 5-year period that began in June 2004. The Wetlands Reserve Program contributes roughly one third of all of the acres included in the President's initiative.

The appropriations request includes $634.3 million for the Conservation Technical Assistance Program, the base conservation program that enables NRCS to successfully implement Farm Bill conservation programs. In past testimony, the department has discussed the excellent score NRCS received in the measure of customer satisfaction for conservation assistance.

Today, I am pleased to announce that we are releasing a new report from the American Customer Satisfaction Index, conducted by the University of Michigan, that gives NRCS an overall score of 76 out of 100 for administering the Conservation Security Program (CSP). This score for CSP is considerably higher than the 2005 national average of 71 for other Federal Government programs.

We are very proud of the results of this survey, as it highlights our commitment to quality customer service. In addition, we have continued to make strides in streamlining our operations as well. We are striving to keep the administration of conservation programs as efficient and as lean as possible.

This year alone, we have streamlined program forms to make them more consistent among like programs, such as the easement

programs. We have consolidated program manuals where possible. We have established a process for rapid watershed assessments to provide initial estimates of where conservation investments can best address resource concerns, and we have instituted programmatic reforms, such as a pilot sign-up process for conservation planning and technical assistance.

We are also preparing for the future with a new strategic plan that charts the agency's future over the next 10 to 20 years. The plan introduced a new mission statement—"helping people help the land."

This mission and the accompanying vision statement affirm the agency's commitment to assist private land owners and solidify the essential connection between working agricultural lands and sustaining a healthy environment.

PREPARED STATEMENTS

In summary, I believe that the administration's fiscal year 2007 budget request reflects sound policy and provides solid support for the vital mission of voluntary conservation on private lands.

Thank you very much.

[The statements follow:]

PREPARED STATEMENT OF MARK REY

Mr. Chairman and members of the Subcommittee, I am pleased to appear before you today to present the fiscal year 2007 budget and program proposals for the Natural Resources Conservation Service (NRCS) of the Department of Agriculture (USDA). I am grateful to the Chairman and members of this Subcommittee for the ongoing support of private lands voluntary conservation and the protection of soil, water, and other natural resources.

Farmers, ranchers, and other private landowners across America play a vital role in conserving our Nation's soil, water, air, and wildlife resources, while producing abundant food and fiber. More than 70 years of "helping people help the land" gives NRCS a firm foundation to meet the challenge of balancing production agriculture with resource conservation. For fiscal year 2007, the President's Budget meets that challenge by recommending a record $4 billion in mandatory funding to expand participation in Farm Bill conservation programs.

PRESIDENT'S FISCAL YEAR 2007 BUDGET

The President's fiscal year 2007 budget request for NRCS provides resources for the ongoing mission of NRCS, while ensuring that new challenges faced by landowners can be addressed.

Because of the overriding need to reduce the deficit, NRCS, like every Federal agency, will share in the responsibility of controlling Federal spending. There are proposals in the fiscal year 2007 Budget that will produce savings in both the mandatory and discretionary accounts. These savings will enable the Administration to target funding based on need and program results.

With that said, the President's fiscal year 2007 budget request for NRCS recognizes the vital role that natural resource conservation plays in securing America's national security. Without productive soil, clean water and air, and farmers and ranchers who can make a living off the land, the United States would not be the strong Nation it is today.

The fiscal year 2007 budget request for NRCS provides $2.8 billion in total funding, with $788.6 million in discretionary funding, and $2 billion in mandatory funding, including $1 billion for the Environmental Quality Incentives Program.

Also on the mandatory side, the Budget request includes an increase of $153 million for the Wetlands Reserve Program (WRP) to enroll and additional 250,000 acres. This represents an investment of $402 million for WRP, and will bring the total acreage enrolled in the program to more than 2.2 million acres.

WRP is the principal supporter of the President's Wetlands Initiative to restore, protect, and enhance 3 million acres of wetlands over a 5 year period that will begin

in June 2004. WRP also contributes roughly one-third of all the acres toward the goals of the President's Wetlands Initiative.

The appropriation request includes $634.3 million for the Conservation Technical Assistance (CTA) Program, which is the base program that supports the Department's conservation efforts with State and local entities, and the basic conservation planning and decision support needed to successfully implement Farm Bill conservation programs.

BUILDING STRONG ACCOUNTABILITY MEASURES

In the current budget environment, it is more important than ever to continue working diligently on accountability and results measurement for the funds provided by Congress. Mr. Chairman, I am proud of the great strides NRCS has made in the past year on this effort as well as on making NRCS information more accessible to farmers, ranchers, and the general public. NRCS has taken bold steps to address all the challenges identified as a result of the Office of Management and Budget's Program Assessment Rating Tool (PART) scores for various conservation programs. PART reviews have been completed for 12 NRCS programs. The Agency has used these assessments to develop long-term outcome based performance measures and to become even more results oriented.

Meeting the President's Management Agenda is critical to all of us at USDA. Linking program requirements and program allocations to performance and accountability measures helps both the Administration and Congress make the most informed budget decisions.

CONSERVATION SECURITY PROGRAM (CSP) CUSTOMER SERVICE RESULTS SURVEY

Mr. Chairman, in past testimony before this Subcommittee, I have discussed the excellent score NRCS received in a measure of customer satisfaction for conservation assistance. I am proud to report that according to the American Customer Satisfaction Index (ACSI) conducted by the University of Michigan, NRCS received an overall score of 76 out of 100 for administering CSP. This voluntary program supports ongoing stewardship of private agricultural land by providing payments for maintaining and enhancing natural resources.

NRCS' score for CSP is considerably higher than the 2005 national average of 71 for the Federal Government and right on track with earlier scores for the Environmental Quality Incentives Program (75) and the Wildlife Habitat Incentives Program (77) from surveys conducted in 2004.

The four drivers of satisfaction that were measured for CSP include its Self-Assessment Workbook, the one-on-one personal interview with NRCS, the contract review and award process, and NRCS staff. This is the first customer satisfaction survey for this new program.

STREAMLINING FOR CONSERVATION GAINS

NRCS continues to make strides in streamlining operations. In this process, the Agency is striving to keep the administration of conservation programs as lean as possible. We are doing that by:

—Streamlining the payment process;
—Building our eGovernment infrastructure, including eForms, and the programs Web site;
—Reducing required paperwork for customers through a common computer database in USDA Service Centers;
—Streamlining program forms that are used, trying to be more consistent between like programs such as the easement programs, and consolidating program manuals when possible;
—Costing and revising program allocation formulas to distribute funds to States on resource-based methodology;
—Working on an automated application ranking tool;
—Establishing a process for rapid watershed assessments to provide initial estimates of where conservation investments can best address resource concerns;
—Continuing to place programmatic and technical information available on the Agency's Web site to give our employees and customers access to the latest, high-quality information; and
—Instituting programmatic reforms such as a pilot sign-up process for conservation planning technical assistance.

ACCELERATING CONSERVATION IMPLEMENTATION

Accelerating conservation implementation is essential. Wise management of resources is critical. We need to get the 5 to 10-year contracts the Agency has signed with farmers completed, get the conservation on ground, and at the same time, aware of the realities of farm economics. Conservation is a wise investment in the future of our country's healthy soil, clean water, and abundant wildlife; but practicing good conservation also makes good economic sense.

STRATEGIC PLANNING FOR THE FUTURE

I am proud of the accomplishments NRCS achieved in 2005. An effort that particularly stands out is one undertaken to chart the future by completing a new strategic plan. The strategic planning process incorporated internal and external assessments of natural resources, human capital, civil rights, and other issues. The information collected through this assessment served as the foundation to formulate the new strategic plan. This plan will be a comprehensive roadmap to guide the Agency over the next 10 to 20 years.

The plan introduced a new mission statement, "helping people help the land." This mission, and an accompanying vision statement, articulates the Agency's role to assist private landowners and solidify the essential connection between retaining a viable agricultural presence on the landscape and sustaining a healthy environment.

CONCLUSION

Mr. Chairman, in summary, we are planning for the future under an atmosphere of increasingly austere budgets and economic uncertainties along with a multitude of other unknowns on the domestic and international fronts. I believe that the Administration's fiscal year 2007 Budget request reflects sound policy, and will provide stability to the vital mission of voluntary conservation on private lands. The Budget request reflects sound business management practices and the best way to work for the future and utilize valuable conservation dollars efficiently and wisely.

I thank members of the Subcommittee for the opportunity to appear, and would be happy to respond to any questions that Members might have.

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PREPARED STATEMENT OF BRUCE I. KNIGHT, CHIEF, NATURAL RESOURCES CONSERVATION SERVICE

Thank you for the opportunity to appear before you today to discuss our fiscal year 2007 budget request for the Natural Resources Conservation Service (NRCS).

As we look ahead to fiscal year 2007, and the contents of the Administration's budget request, I want to take a moment to reflect upon the successes that NRCS has faced in the past year and what we are doing to move the Agency forward. It has been a productive year for NRCS, our partners, and landowners across America. We have assisted landowners to treat over 42 million acres of conservation and develop over 4,400 Comprehensive Nutrient Management Plans (CNMP). This brings the total CNMPs applied with NRCS support since 2002 to more than 14,000. In addition, last year NRCS and our partners:

—Served nearly 3.8 million customers around the country;
—Completed or updated soil survey mapping on 31.2 million acres, of which, 1.8 million acres were on Native American or Native Alaskan lands;
—Conducted a comprehensive study of technical assistance, reaffirming the intrinsic value of scientifically based tools and activities including developing conservation plans and encouraging a knowledge-based approach to conservation;
—Committed to over 49,000 Environmental Quality Incentives Program (EQIP) contracts for multi-year conservation obligations;
—Enrolled over 3,300 Wildlife Habitat Incentives Program (WHIP) contracts;
—Expanded the Conservation Security Program nationwide to recognize outstanding land stewards and enable them to do more;
—Helped land managers create, restore, or enhance more than 284,000 acres of wetlands primarily through WRP;
—Facilitated nearly 1 million hours of Earth Team volunteer service; and
—Registered over 2,500 Technical Service Providers to assist in conservation planning and implementation efforts, obligating $52.7 million in fiscal year 2005. This provided the equivalent of 520 staff years to attain additional conservation achievements.

As we look ahead to this year and beyond, we will direct our efforts toward ensuring that all of the potential conservation gains are fully realized. What I mean by

that is NRCS will be focusing on fine-tuning our business tools and solidifying the progress we have made in working with farmers and ranchers across America to implement conservation programs. We want to make sure everything works smoothly—for our employees and our customers. We want our decisions and processes to be transparent. We want to be even more efficient, effective and focused on meeting our customers' needs.

HELPING PEOPLE HELP THE LAND

For over 70 years, NRCS has been committed to locally led, voluntary cooperative conservation. Last year, one of our district conservationists from Iowa suggested that we describe our mission as "helping people help the land." The phrase is succinct and it effectively describes what we do, so our Agency has adopted "helping people help the land" as our new mission statement.

NEW STRATEGIC PLAN

In fiscal year 2005, NRCS initiated an aggressive strategic planning process to develop a roadmap to guide the Agency over the next 10 to 20 years. This new NRCS Strategic Plan refines and builds on the goals and successes of past plans; and directly supports the new U.S. Department of Agriculture (USDA) Strategic Plan. The NRCS plan was developed around three foundations:

—Agency customers;

—Agency business lines and associated products and services; and

—Priority and newly emerging natural resource conservation issues.

The new plan emphasizes three overarching strategies—cooperative conservation, the watershed approach, and market-based approaches to conservation. These complementary strategies will be used effectively to assist private landowners manage their lands and resources to achieve national natural resource goals and objectives.

The plan includes six mission goals oriented toward existing and emerging natural resource challenges. Three are Foundation Goals which reflect long-standing conservation priorities and include: high quality, productive soils; clean and abundant water; and healthy plant and animal communities. Also, new in this plan are three Venture Goals that reflect emerging areas of natural resource interest, posing challenges for niche definition and capacity building. The Venture Goals include: clean air, an adequate energy supply, and working farm and ranch land preservation.

Even though the agency's new strategic plan has not yet been implemented, there are things that we are doing already to make this plan operational. We have integrated the concepts of business lines and new Agency goals in our fiscal year 2006 business planning process. Our Strategic Human Capital Plan has adopted the strategic plan as a framework, ensuring that succession planning aligns with the Agency's long-term goals and objectives. We are emphasizing cooperative conservation and market-based and watershed approaches in our programs, such as in the Cooperative Conservation Partnership Initiative and Conservation Innovation Grants that offer competitive grants to a broad and diverse array of potential customers.

HUMAN CAPITAL STRATEGIC PLAN

NRCS is in the process of developing a Human Capital Strategic Plan to help us focus on the future workforce of our Agency. Over the next 5 years, more than half of Federal employees are eligible to retire. This pool of potential retirees includes highly skilled key personnel such as our engineers, hydrologists, soil scientists, and agronomists, just to name a few. Because of the importance of these disciplines to our organization, it is vital that we have a strategy in place to fill-in behind these employees and provide the high level of expertise that our customers have come to expect. We will develop this plan to address the potential loss of so many employees and to compete for talent in a shrinking pool of candidates; primarily due to generational changes in employment trends, and shifts in academia from agriculture related disciplines to more ecology and ecological related degrees. We need a strategy that will continue to make NRCS the "employer of choice" for highly skilled individuals interested in serving in voluntary conservation.

EMPHASIS ON ENERGY

One of the issues facing many farmers today is the high cost of fuel, fertilizer and other energy-related inputs. In early December 2005, Secretary Johanns announced the USDA Energy Strategy, which is a concerted effort to look at both reducing demand for oil and natural gas and increasing supply through bio-fuels.

To assist in this effort, NRCS has developed the three-click Energy Estimator Tool, which helps farmers and ranchers determine how much they could save by switching from conventional tillage to no-till or another reduced tillage system.

I am pleased to announce that we recently released a Nitrogen Estimator Tool. Farmers can use this tool to better estimate how much nitrogen they are applying on the ground in order to better manage and minimize the amount of fertilizer applied. A large part of fertilizer costs relate to energy; this tool can help result in a net savings for farmers and ranchers that apply the technology.

Beyond these two tools, the Agency is also working on an Irrigation Estimator Tool to help show water savings garnered by switching to less intensive water conservation practices.

The Agency is working on an enhancement that would help farmers figure out how much they could save through improved irrigation systems. A second enhancement will enable producers to predict their savings by switching from fossil fuel fertilizer to animal manure.

WEB BASED SOIL SURVEY

One of the fundamental building blocks of conservation is knowledge. We know that farmers, ranchers, contractors, and homeowners need sound data about the land where they live. In continued efforts to make conservation data as transparent and available as possible, we launched a Web Soil Survey to make soils data available upon demand through the internet. Soil survey maps and related information are available online for more than 95 percent of the Nation's counties.

As we move forward in fiscal year 2006, there is some innovative technology that can help farmers and ranchers realize even bigger gains in their conservation efforts. We look forward to building upon the technology foundation achieved this year to implement even more voluntary conservation on America's private lands.

DISCRETIONARY FUNDING

The President's fiscal year 2007 budget request for NRCS reflects our ever-changing environment by providing resources for the ongoing mission of NRCS and ensuring that new opportunities are realized.

CONSERVATION OPERATIONS

The President's fiscal year 2007 budget request for Conservation Operations (CO) proposes a funding level of $745 million, which includes $634.3 million for Conservation Technical Assistance (CTA), $89.3 million for Soil Surveys, $10.6 million for Snow Surveys, and $10.7 million for the 26 Plant Materials Centers. As in past requests, the Budget does not fund continuation of fiscal year 2006 congressional earmarks.

Mr. Chairman, while for years we have stated that CO is the heart of everything our Agency does, we need to do a better job describing the program's scope and effect. The Office of Management and Budget's Program Assessment Rating Tool (PART) process has been an important step in developing meaningful, quantifiable long-term performance measures. This review has helped the Agency streamline the program and focus on national priorities in fiscal year 2005 including, development of CNMPs that will help landowners meet regulatory challenges; reduction of nonpoint source pollution (nutrient, sediments, pesticides, or excess salinity); reduction of emissions, such as particulate matter, that contribute to air quality impairment; reduction of soil erosion from agricultural lands; and promotion of at-risk species habitat conservation.

Mr. Chairman, I am pleased to report that in fiscal year 2005, NRCS developed and implemented the first comprehensive CTA Program policy that improves transparency and clarifies the program's mission in an era of increased accountability. This year, NRCS revised the allocation process for the CTA Program to ensure that dollars go where the needs are greatest. This new methodology will provide a more transparent allocation that addresses resource issues. The new allocation formula also aligns with the new CTA policy and national priorities, and integrates program performance measures that were developed in the PART process.

In addition, this year we had 9 States participate in NRCS' first conservation planning sign-up. This is a pilot initiative that emphasizes the importance of conservation planning to help producers be better prepared to apply for conservation programs and to comply with Federal, State, tribal and local governmental regulations. The sign-up enabled landowners to plan more realistically to implement practices and apply for conservation programs in a more comprehensive approach.

All of these improvements will ensure that the most pressing conservation needs on America's private lands are addressed and will help NRCS meet its strategic planning objectives and improve accountability.

WATERSHED AND FLOOD PREVENTION OPERATIONS

Through the Watershed Protection and Flood Prevention Operations program that NRCS administers, our employees work in partnership with local leaders to improve the overall function and health of the Nation's watersheds. Each project developed under this program has a specific purpose and benefit; most address a primary purpose of flood control, while other project benefits include upland conservation practices that address a variety of natural resources needs such as water quality improvement, soil erosion control, animal waste management, irrigation, water management, water supply development, and recreation enhancement. However, the Administration proposes to terminate funding for WFPO in fiscal year 2007 for several reasons.

First, the decrease in funding in the WFPO will enable the Administration to focus limited resources to other higher priority conservation programs. It is expected that those high-priority watershed projects not yet completed will continue to receive strong local support from project sponsors, and that progress on them will continue to be made.

In 2004, the Administration compared the benefits and costs of three Federal flood damage reduction programs operated by NRCS, the Corps of Engineers, and the Federal Emergency Management Agency. The analysis found that of the three programs, the WFPO program provided the least net flood damage reduction benefits.

Mr. Chairman, I would also note that the amount of funding earmarked by Congress for this program nearly equaled the amount appropriated. This seriously hampers the Department's ability to effectively manage the program, and does not permit the Agency to prioritize projects based upon merit and local need.

WATERSHED SURVEYS AND PLANNING

The Watershed Surveys and Planning authorities are directed toward assessment of natural resource issues and development of watershed plans to conserve and utilize natural resources, solve local natural resource and related economic problems, avoid and mitigate hazards related to flooding, and provide for advanced planning for local resource development. This includes Floodplain Management Studies, Cooperative River Basin Studies, Flood Insurance Studies, Watershed Inventory and Analysis, and other types of studies, as well as Public Law 566 Watershed Plans.

With the elimination of Watershed and Flood Prevention Operations (WFPO), continuation of this planning component is no longer necessary. The fiscal year 2007 budget proposes to redirect this program's resources to other higher priority programs. It is expected that local sponsoring organizations, as well as State and local governments, will assume a more active role in identifying water resource problems and their solutions.

WATERSHED REHABILITATION

The Watershed Rehabilitation program addresses the problem of aging dams, especially those with a high risk for loss of life and property. Fifty-six dams have rehabilitation plans authorized and implementation of the plans is underway.

NRCS currently has 107 dams that have rehabilitation plans authorized, and the projects are completed or implementation of the plans is underway. This number adds to the 728 rehabilitation assessment reports already completed.

The Administration requests $15.3 million to address critical dams with the greatest potential for damage to life and property.

RESOURCE CONSERVATION AND DEVELOPMENT PROGRAM

The purpose of the Resource Conservation and Development (RC&D) Program is to encourage and improve the capabilities of State, local units of government, and local nonprofit organizations in rural areas to plan, develop, and carry out programs for resource conservation and economic development. The program provides technical assistance to local communities to develop strategic plans that address their locally identified natural resource and economic development concerns. The budget proposes to reduce funding by $25 million and consolidate the number of RC&D coordinators from 375 to about 150. The current number of authorized RC&D Areas nationwide will be maintained at the current 375. The responsibilities and duties

of the RC&D Coordinator position would be modified to provide more coordination and oversight duties instead of hands-on, day-to-day activities.

The reduction in funding for the RC&D Program will require that it be more focused on multi-county/parish planning, intergovernmental relations, serving as the Federal Government Representative on any Federal contracts with the RC&D Councils, and coordinating USDA assistance available toward implementation of RC&D Area Plans. The overall proposed budget for RC&D in fiscal year 2007 is $25.9 million.

## FARM BILL AUTHORIZED PROGRAMS

### WETLANDS RESERVE PROGRAM

The Wetlands Reserve Program (WRP) is a voluntary program in which landowners are paid to retire cropland from agricultural production if those lands are restored to wetlands and protected, in most cases, with a long-term or permanent easement. Landowners receive fair market value for the land and are provided with cost-share assistance to cover the restoration expenses. The 2002 Farm Bill increased the program enrollment cap to 2,275,000 acres. WRP also is the principle USDA program to help meet the President's Wetland Initiative goal to create, restore and enhance 3 million acres of wetlands by 2009.

The President's 2007 budget proposes $402 million for the WRP, an increase of $153 million over the 2006 level. This will allow an annual enrollment of 250,000 acres; an increase of 100,000 acres, and will bring total cumulative enrollment to 2,225,700 acres.

### ENVIRONMENTAL QUALITY INCENTIVES PROGRAM

The purpose of the Environmental Quality Incentives Program (EQIP) is to provide flexible technical and financial assistance to landowners that face serious natural resource challenges that impact soil, water, and related natural resources, including grazing lands, wetlands, and wildlife habitat management.

In fiscal year 2005, EQIP funding was almost $1 billion. Over 49,000 contracts were written to assist landowners in treating an estimated 18.1 million acres.

Mr. Chairman, in addition, NRCS assumed all contracting and administration responsibilities for EQIP (including payments to participants) were previously made through the Farm Service Agency. All functions were carried out through a Web-based contracting software program called "ProTracts." This streamlining of procedures eliminated duplication of effort and resulted in real-time data.

Technical Service Providers (TSPs) were used to a greater extent last year and have more than doubled since fiscal year 2003. NRCS obligated over $52 million in EQIP for TSPs to complement the conservation planning activities carried out under this program.

NRCS offered approximately $20 million in Conservation Innovation Grants (CIG) to stimulate the development and adoption of new innovative conservation approaches while leveraging Federal investment. This program was authorized under EQIP in the 2002 Farm Bill and allows competitive grants to be awarded to eligible entities, including State and local agencies, non-governmental organizations, tribes or individuals to accelerate technology transfer and to develop promising new technologies to address some of our Nation's most pressing natural resource concerns.

The President's budget proposes a level of $1 billion for EQIP, about the same level as in 2006.

### GRASSLAND RESERVE PROGRAM

The 2002 Farm Bill authorized the Grassland Reserve Program (GRP) to assist landowners in restoring and protecting grassland by enrolling up to 2 million acres under easement or long-term rental agreements. The 2002 Farm Bill authorized $254 million for implementation of this program during fiscal year 2003 through fiscal year 2007. No additional funding was requested in the President's budget for GRP in fiscal year 2007 as the program reached its statutory funding limit in fiscal year 2005.

### CONSERVATION SECURITY PROGRAM

The Conservation Security Program (CSP), as authorized by the 2002 Farm Bill, is a voluntary program that provides financial and technical assistance for the conservation, protection, and improvement of natural resources on tribal and private working lands. The program provides payments for producers who practice good stewardship on their agricultural lands and incentives for those who want to do more.

In 2005, CSP was implemented in 220 watersheds nationwide, including Puerto Rico, and resulted in about 12,000 eligible applications covering more than 9 million acres of privately owned land. In fiscal year 2004, NRCS initiated the program in 18 watersheds within 22 States. In the 2-year period since, NRCS has rewarded nearly 14,800 stewards on 10.9 million acres of working agricultural land.

Through the CSP enhancement provisions and the application of intensive management measures, producers are achieving even greater environmental performance and additional benefits for society. Several new conservation activities will allow producers to further enhance their operation and the natural resources. For example, the energy component of CSP is rewarding farmers and ranchers for converting to renewable energy fuels such as soy bio-diesel and ethanol. Because CSP enhancements go beyond the minimum requirements, innovative producers are pushing conservation technology to produce even greater conservation benefits.

Recently, the Secretary announced the fiscal year 2006 sign-up for CSP which runs through March 31, 2006, in 60 watersheds across all 50 States, the Caribbean, and Guam. The fiscal year 2006 announcement marks the third CSP sign-up.

The President's fiscal year 2007 budget requests $342.2 million in program funding an increase of $83 million to continue expanding the program and rewarding excellent conservation stewards.

WILDLIFE HABITAT INCENTIVES PROGRAM

The Wildlife Habitat Incentives Program (WHIP) is a voluntary program that provides cost-sharing for landowners to apply an array of wildlife practices to develop habitats that will support upland wildlife, wetland wildlife, threatened and endangered species, fisheries, and other types of wildlife. The budget proposes a funding level for WHIP of $55 million, with the additional $10 million supporting the improvement and restoration of streams and rivers for migratory fish species. NRCS will prioritize WHIP resources to deliver community-driven, small dam and river barrier removal projects in coastal States to enhance populations of key migratory fish species.

FARM AND RANCH LANDS PROTECTION PROGRAM

Through the Farm and Ranch Lands Protection Program (FRPP), the Federal Government establishes partnerships with State, local or tribal government entities or nonprofit organizations to share the costs of acquiring conservation easements or other interests to limit conversion of agricultural lands to non-agricultural uses. FRPP acquires perpetual conservation easements on a voluntary basis on lands with prime, unique, or other productive soil that presents the most social, economic, and environmental benefits. FRPP provides matching funds of no more than 50 percent of the purchase price for the acquired easements. The budget proposes a level of $50 million for FRPP in fiscal year 2007.

EMERGENCY RESPONSE TO HURRICANE KATRINA

In addition Mr. Chairman, the NRCS helped communities across the Gulf Coast region recover from the devastation caused by the 2005 hurricanes through the Emergency Watershed Protection (EWP) Program. The purpose of the EWP program is to undertake emergency measures, including the purchase of floodplain easements, for runoff retardation and soil erosion prevention to safeguard lives and property from natural disasters. The typical process for delivery of this program starts with the local sponsor requesting assistance for a disaster recovery effort. NRCS then conducts a damage assessment to identify if the project is eligible and develops an estimated cost. Typical work under this program consists of debris removal from clogged streams caused by flooding; installing conservation measures, like reseeding native grasses to prevent soil erosion on hillsides after a fire; or replanting and reshaping streambanks due to erosion caused by flooding. At the request of communities across the Gulf Coast region recovering from Hurricanes Katrina and Rita, NRCS completed nearly $23 million in recovery work under the EWP Program immediately following the damage. In addition, the fiscal year 2006 Supplemental Appropriations provided $300 million for EWP hurricane recovery efforts.

As part of USDA's hurricane relief efforts, NRCS assisted hurricane-impacted States by providing maps used by first responders to assess ground conditions during the search and rescue of survivors. Current satellite and airborne imagery is used to locate possible dangers, such as fires, and the safest route to rescue survivors. Soil survey data layers are used to locate the best areas for animal debris disposal and burial that will not endanger water sources. NRCS continues to work with other USDA agencies, the Federal Emergency Management Agency (FEMA),

and State emergency agencies to assist with post-disaster cleanup and restoration projects in Louisiana, Florida, Mississippi, Texas, and Alabama.

The President recently made a request for $10 million of additional funding under WFPO for the EWP Program for the purchase of easements on floodplain lands in disaster areas affected by Hurricane Katrina and other hurricanes of the 2005 season. Under the EWP Floodplain Easement Program, a landowner voluntarily sells a permanent conservation easement to NRCS and, in return for a payment for the agricultural value of the parcel, foregoes future cropping and development on the land. NRCS restores the natural features and characteristics of the floodplain to generate public benefits, such as increased flood protection and reduced need for future public disaster assistance.

CONCLUSION

As we look ahead, it is clear that the challenges before us will require the dedication of all available resources—the skills and expertise of the NRCS staff, the contributions of volunteers, and continued collaboration with partners and TSPs.

I am proud of the work and the conservation ethic our people exhibit day in and day out as they go about the job of getting conservation on the ground. Through Cooperative Conservation, we have achieved a great deal of success. We are sharply focusing our efforts and will work together with our partners to consolidate our gains this coming year. I look forward to working with you, as we move ahead in this endeavor.

This concludes my statement. I will be glad to answer any questions that Members of the Subcommittee might have.

Senator BENNETT.

Thank you.

Mr. Bost.

STATEMENT OF ERIC M. BOST

Mr. BOST. Mr. Chairman and Senator Kohl, I thank you for the opportunity to present the administration's fiscal year 2007 budget for Food, Nutrition, and Consumer Services.

However, before I do that, there are a couple of accomplishments I would like to note that I think are very important. We continue to ensure programmatic success to all of those that are eligible and in need of benefits. Most recently, 26 million people are participating in our Food Stamp Program, 29 million children are participating in our National School Lunch Program every day, and we are serving approximately 8 million children, women, and infants in our WIC Program.

In addition to that, last year we released "My Pyramid," and we are up to 1.5 billion hits to that site. In addition, we released "Pyramid For Children," and we are over 500 million hits.

The Chairman made reference to this, but I also want to note the outstanding work done by the FNS staff and our partners; APHSA, America's Second Harvest, and FRAC in terms of addressing the needs of those persons in our Gulf that were affected by the hurricanes.

As a result of FNS's efforts, we provided over $900 million in food stamp benefits to over 1.9 million affected households. We also provided over 22 million pounds of baby food, formula, meats, and pasta products to persons in need. We were on the ground and operating 1 day after the hurricane hit, and it is something that we are very proud of.

In terms of the fiscal year budget for 2007, we are requesting funds in the amount of $57 billion. This will allow us to meet the needs of approximately 25.9 million persons in our Food Stamp Program, monthly participation in our WIC Program in the amount

of 8.22 million persons, serve 30.9 million children in our National School Lunch Program, and serve 10.3 million students in our School Breakfast Program.

If our estimates in terms of program participation or costs are too low, we continue to request $3 billion in contingency funds for the Food Stamp Program, and for the first time, are requesting $300 million for our Child Nutrition Programs.

When you put together a budget, you are not able to do all of the things you might want to do. As a result, we had to make some tough choices and decisions. That is why we are requesting the ability to phase out the Commodity Supplemental Food Program (CSFP) program for a couple of reasons.

First and foremost, CSFP is only operating in limited areas in 32 States, 2 Indian reservations, and the District of Columbia. We believe that we can serve these affected persons in other nutrition assistance programs.

The other thing that I would say that we also believe is very important is the fact that the error rate in the Food Stamp Program is at 5.88, which is the lowest that it has ever been in the history of the Food Stamp Program. It is something we are also very, very proud of.

With that in mind, we are requesting additional resources to be able to maintain that level of efficiency in our program.

This budget also requests $675 million to continue in our efforts to move Americans toward a healthier lifestyle. Approximately 62 percent of all Americans in this country are overweight. Thirty percent of us are obese. Twenty-two percent of all adolescents are overweight. We have seen a doubling in the rate of Type 2 diabetes among children.

PREPARED STATEMENTS

According to the numbers at the Centers for Disease Control and Prevention (CDC), we spend approximately $123 billion in health-related costs because we eat too much and exercise too little.

I am really pleased to be able to present this budget request and am more than happy to answer any questions that you may have.

[The statements follow:]

PREPARED STATEMENT OF ERIC M. BOST

Thank you, Mr. Chairman, and members of the subcommittee for this opportunity to present the Administration's fiscal year 2007 budget request for USDA's Food, Nutrition, and Consumer Services (FNCS).

I am here today to discuss with you the President's budget request which demonstrates the Administration's steadfast commitment to our Nation's nutrition assistance programs. These programs ensure a nutrition safety net for the Nation's children, elderly and low-income households and, in conjunction with the Center for Nutrition Policy and Promotion, inform all Americans about the importance of good nutrition and physical activity. I am proud of our accomplishments and honored to work for a President who provides clear and continued support for these programs that protect our children and low-income households from hunger, and help to prevent the health risks associated with poor nutrition and physical inactivity for all our citizens.

Our Federal nutrition assistance programs are there to meet the needs of Americans, not just in their everyday life, but also in times of disaster. I am so proud of my staff's efforts in the aftermath of the recent hurricanes. When the victims of Hurricanes Katrina, Rita and Wilma needed our programs, we responded immediately. Cutting through red tape, simplifying requirements, trucking and airlifting food, expediting services, working around the clock, our staff worked side by side

with State and local staff and volunteers to help the evacuees get the food they needed. We even negotiated with other States to borrow eligibility workers to help meet high program demand within disaster States. Over $900 million in Food Stamp benefits were provided to over 1.9 million affected households. For situations where food stamps could not meet the needs, we worked in cooperation with the Agricultural Marketing Service, made commodity purchases; sped up planned deliveries already in the pipeline; and diverted product from other parts of the country to move commodities where they were most needed. In total, we provided over 22 million pounds of baby food, formula, meats, pasta products, fruits and vegetables for congregate feeding and also for distribution to households for home consumption.

I am proud to report to you today that the Federal nutrition assistance programs staff, at every level, succeeded in providing a timely and robust nutrition response to these devastating storms. This response underscores the value and high level of performance of these programs and the people at the Federal, State and local level who make them work across the country, every day. These programs truly operated as a safety net in the days and months immediately following these disasters. The President's budget is committed to keep these vital programs strong.

Mr. Chairman, this budget, more than any other I have presented to you, reflects the fundamental challenge of this Administration: ensuring that the needs of all eligible persons seeking to participate in our programs are met while at the same time protecting the interests of current and future generations who must accept the consequence, both economic and social, of the unsustainable levels of deficit spending and Federal debt. Not all of our existing programs are funded in this request, but we have been very careful to make certain to provide access to nutrition assistance programs for all eligible populations we serve.

We have made tough choices and developed a budget request that makes every dollar produce maximum benefit for the vulnerable populations served by our programs and for the Nation as a whole. This is the first budget request I have presented to you that includes an overall decrease in resources requested. That decrease, however, in no way represents a wavering in the Administration's demonstrated, consistent support for the Nation's nutrition safety net. Funds requested within the budget fully support our best estimates of demand for program services and cost for the major nutrition assistance programs in fiscal year 2007.

—This includes a monthly average participation of 25.9 million persons in the Food Stamp Program. This represents a decrease of approximately 1 million from fiscal year 2006, the first projected decrease in participation in 5 years. This reduction results, in large part, from sustained strong economic performance and the transition of Gulf Coast disaster participants to self-sufficiency.

—Participation in the WIC program is expected to rise slightly in fiscal year 2007 from 8.17 million participants a month to 8.22 million.

—In the School Meals Programs, daily meal service to our youth will reach 30.9 million students in the National School Lunch Program and 10.3 million students in the School Breakfast Program.

Three principle objectives guide our administration of these programs, (1) to ensure that low-income people have access to food by ensuring sufficient funding for the major nutrition assistance programs; (2) to promote healthful diets and active lifestyles by making nutrition education an integral part of the nutrition assistance programs; and (3) to manage prudently and efficiently so that every dollar invested has maximum benefit for those truly in need. The President's budget request for fiscal year 2007, like all prior requests submitted by this Administration, reflects these prime objectives.

ENSURING LOW INCOME PERSONS HAVE ACCESS TO FOOD

At its most basic level, ensuring program access must begin with making certain that sufficient resources are available so all who are eligible and in need can have ready access to benefits. The President's fiscal year 2007 budget requests funds to support anticipated participation in the Food Stamp Program, the Child Nutrition Programs and the WIC Program. The Administration's strong commitment to adequately fund these critical programs acknowledges the inherent difficulties in anticipating future demand for program services, and provides for contingency funding should program costs exceed our estimates. Should our estimates of program participation or costs prove too low, we have continued to protect program access for all eligible persons, a key objective of the President and myself, through properly funded contingency reserves. In the Food Stamp Program we have continued the funding for the contingency reserve of $3 billion. These funds are especially important as the program transitions out of a period of growth and begins to reflect the benefits of strong economic performance the Nation has been enjoying. In the WIC Program,

approximately $125 million remains available to ensure that the essential food, nutrition education, and health care referral services remain available to all who need them.

For the first time, the President has proposed a contingency reserve for the Child Nutrition Programs. The reserve, proposed at $300 million, will ensure that sufficient resources are available to fully fund the mandatory entitlement payments to our State and local partners who make certain that nutritious, appealing meals are available to all our children in schools and many childcare settings.

PROMOTING HEALTHFUL DIETS AND ACTIVE LIFESTYLES

Our programs provide nutrition assistance, including both access to healthy food and nutrition education and promotion to support and encourage a healthy lifestyle. With this nutrition mission in mind, and the Center for Nutrition Policy and Promotion's (CNPP) focus on the broader population, we play a critical role in the integrated Federal response to the growing public health threat posed by overweight and obesity which affects well over half of adult Americans.

The Federal nutrition assistance programs play a critical role in combating this epidemic by providing not just access to healthful food, but also promoting better health through nutrition education and promotion of physical activity. These FNS program services, along with the work of the CNPP to improve the diets of all Americans, are a key component of the President's HealthierUS Initiative. I believe the American public is served well by USDA's contributions to addressing the critical nutrition- and health-related issues facing us today. This budget request provides approximately $675 million in resources tied specifically to improving the diets, nutrition knowledge and behavior and promoting the importance of physical activity among the people we serve.

The CNPP continues to have an integral role in the development and promotion of updated dietary guidance and nutrition education. The Dietary Guidelines for Americans (Guidelines), published jointly every 5 years by the USDA and the U.S. Department of Human Services (HHS), is the cornerstone of Federal nutrition policy, allowing the Federal Government to speak with one voice. This request features an increase of $2 million to support the efforts of the CNPP to maintain and enhance the extremely well-received food guidance system, MyPyramid.gov, which is one of the most frequently visited of all Federal websites for the public. In addition, base funding will allow CNPP to begin preparations for the 2010 update to the Dietary Guidelines for Americans for which USDA is the lead Federal agency.

MANAGING PRUDENTLY AND EFFICIENTLY

With this budget request, we are asking the Nation to entrust us with over $57 billion of public resources. We are keenly aware of the immense responsibility this represents. To maintain the high level of public trust that we have earned as good stewards of the resources we manage, we will continue our ongoing commitment to program integrity as an essential part of our mission to help the vulnerable people these programs are intended to serve.

This is not a new commitment. As I noted earlier, in fiscal year 2004, the most recent year for which data is available, the Food Stamp Program achieved a record high payment accuracy rate of 94.1 percent, up 0.7 percent points from the fiscal year 2003 level of 93.4 percent. Our budget request included an increase of $4 million in the Nutrition Program Administration account focused on sustaining the momentum we have achieved to improve the Food Stamp payment accuracy and overall program integrity.

We have proposed elimination of restrictive language that prohibits the use of funds appropriated in the program accounts for the purpose of studies and evaluations. This proviso has limited our capacity to support and assess program innovations, many of which are initiated by our State and local partners. Lifting this restriction will help us to document results more effectively, and contribute to better program management.

We also continue to develop strategies to improve the accuracy of eligibility determinations in our school meals programs—an issue of mutual concern to all those that care about these programs. The Federal administrative resources provided for in this budget will allow us to advance our close work with our State and local program partners on both of these essential integrity initiatives—continuing both our successes in the Food Stamp Program and our intensified efforts in school meals.

In the remainder of my remarks, I'd like to discuss in greater detail a few of the key proposals contained in the President's fiscal year 2007 request.

FOOD STAMP PROGRAM

The Food Stamp Program is fully funded in the President's budget at $37.9 billion. This will support an anticipated average monthly participation of 25.9 million persons, about 1 million persons lower than expected in fiscal year 2006. This displays a key strength of the Food Stamp Program: its ability to respond dynamically to the changing levels of need within American society. We responded to the hurricanes in the Gulf Coast this past fall, providing benefits to 1.9 million affected households. Elsewhere, the program is now responding to the strength of the economy, and is no longer growing as it did in recent years.

Should our estimate of fiscal year 2007 program participation or cost prove to be too low, the program continues to be protected by a contingency reserve, proposed at $3 billion in new budget authority for fiscal year 2007. As an alternative to the contingency reserve, the President's request offers a proposal of indefinite authority. This form of appropriation would eliminate the need for an annual contingency reserve appropriation, while at the same time guaranteeing that sufficient funds will be available to meet the entitlement components of the program.

We continue to aggressively promote the message that Food Stamps Make America Stronger, in the sense that the program puts healthy food on the tables of low-income families and has a positive effect on local economies. The President's budget features proposals targeted at ensuring those in need can access benefits without sacrificing their retirement savings, making certain that all persons in need face the same program eligibility requirements regardless of where they live, and improving the ease and accuracy of the certification process so each household receives the proper benefit level. Given tough budget constraints, the food stamp proposals focus on those who are most needy.

The President's budget proposes to expand and make mandatory the exclusion, first made a State option for 401(k) and Keogh accounts in the 2002 Farm Bill, of the value of tax-preferred retirement accounts from the asset test. This exclusion strengthens retirement security policy and enables low-income people to get nutrition assistance without depleting their retirement savings. It also simplifies food stamp resource policy and makes it more equitable because under current law some retirement accounts are excluded and some are included. This proposal supports the President's Ownership Society Initiative, by increasing the ability of low-income people to save for retirement. It is expected, when fully implemented, to add approximately 100,000 persons to the program and to increase benefits by $592 million over 5 years. The majority of the new participants will be workers and their families, most with children. On average, each new household will get $122 in benefits each month.

While we seek to encourage all who are eligible and in need to participate in the program, we feel strongly we must also ensure that access to the program is administered in an equitable manner across all States. For this reason we have once again included a proposal to eliminate categorical food stamp eligibility for Temporary Assistance for Needy Families (TANF) participants who receive only services and not cash benefits. The people affected by this proposal have income or assets that exceed the program's regular limits. When fully implemented in fiscal year 2008, this change is estimated to affect approximately 300,000 individuals and save $658 million over 5 years. The President's proposal restores equity among participants and ensures that food stamp benefits go to individuals with the most need while retaining categorical eligibility for the much larger number of recipients who receive cash assistance through TANF, Supplemental Security Income and General Assistance.

Also included in the budget request is a proposal to add the Food Stamp Program to the list of programs for which States may access the National Directory of New Hires. Access to this national repository of employment and unemployment insurance data will enhance States' ability to quickly and accurately make eligibility and benefit level determinations, improving program integrity. This proposal is expected to produce a net savings of $1 million annually beginning in fiscal year 2008.

Finally, the budget request reflects our continued commitment in two important areas. First the President's request includes a proposal to exclude special military pay received by members of the armed forces deployed in combat zones when determining Food Stamp Program eligibility and benefit amounts for their families back home. This proposal has been provided for in appropriations law in previous years, where it is requested again. Second, the Administration remains committed to working with Congress on a name change for the program. The President's request continues the process that began in 2006 to gather information related to a proposed name change for Congressional consideration.

CHILD NUTRITION PROGRAMS

A base increase of $685 million is requested to fully fund the Child Nutrition Programs including our three largest programs serving children, the National School Lunch Program, the School Breakfast Program, and Child and Adult Care Food Program. This increase will support the continuing growth in meal service in these programs with more than 9 billion appealing, nutritious meals provided to all of our children in schools and many childcare settings. Since fiscal year 2000, average daily participation in the National School Lunch Program has climbed from 27.2 million to an estimated 30.9 million in fiscal year 2007. In the School Breakfast Program, 10.3 million children will be served each day in fiscal year 2007, up from 7.8 million in fiscal year 2000.

Should this increase not prove sufficient to fully cover program costs, the budget request proposes an additional increase of $300 million to, for the first time, fund a contingency reserve for the Child Nutrition Programs. This reserve will serve to ensure access to these important services to all children and make certain that funds are available to meet our mandatory obligations to our State and local partners in the administration of the Child Nutrition Programs.

Improving both the nutrition of children and their awareness of the role that healthy food choices and physical activity play in promoting overall well being are core goals of these programs. The Food and Nutrition Service is reviewing the new Dietary Guidelines, as well as the Dietary Reference Intakes, and working to incorporate their recommendations into our nutrient standards and meal patterns. Additional resources requested under the Nutrition Program Administration for Cross-Program Nutrition Education will help us to incorporate family-based approaches to nutrition education into the Child Nutrition Programs and to leverage those messages and materials to improve nutrition education and promote smart food choices and physical activity across all of the nutrition assistance programs. We also are continuing efforts to promote healthy behaviors through support for implementation of local school-based wellness programs required by the Child Nutrition and WIC Reauthorization Act of 2004.

WIC

In fiscal year 2007, the President's budget request of $5.2 billion anticipates supporting critical services to a monthly average participation of 8.2 million women, infants and children through the Special Supplemental Nutrition Program for Women, Infants and Children (WIC). While this request is a small decrease from the enacted fiscal year 2006 level, in combination with available prior-year resources it will support a slight increase from anticipated fiscal year 2006 participation levels. The $125 million contingency reserve appropriated in fiscal year 2003 and replenished in fiscal year 2005, remains available to the program should participation or food costs exceed our projections. We currently do not anticipate the need to access the contingency reserve in either fiscal year 2006 or fiscal year 2007.

In all of the Federal nutrition assistance programs, the Administration is committed to ensuring that benefits are targeted to those most in need. WIC applicants can currently receive adjunctive or automatic eligibility for benefits based on their participation in other means-tested programs such as the Food Stamp Program and Medicaid. However, in some States, individuals with incomes higher than those established for participation for WIC are eligible for Medicaid. Included in the budget request is a proposal to limit adjunctive eligibility based on participation in Medicaid to those individuals whose incomes are below 250 percent of Federal poverty guidelines.

The budget also reflects the Administration's dual commitment to both support the WIC Program and to control discretionary spending growth. We are committed to working with our State partners to manage program costs to ensure future access to this critical program for all who are eligible and seek its services. The President's budget contains a two-part proposal that will allow us to reduce Federal expenditures on Nutrition Services and Administration (NSA) with the participation of the States. WIC is currently one of the few Federal programs that do not require matching funds for administration funds. The President's budget proposes a 20 percent State matching on NSA funds that would take effect in fiscal year 2008. The 1-year delay in implementation is essential so that the States can incorporate this new requirement into their fiscal plans. As a transitional step, we are renewing our proposal to cap the level of NSA funding at 25 percent of the total level grants to States in fiscal year 2007. We will also continue our long successful partnership with the States in containing food package cost growth through sharing of best practices and providing technical assistance in the implementation of food cost containment strategies.

COMMODITY SUPPLEMENTAL FOOD PROGRAM (CSFP)

The President's fiscal year 2007 budget request does not fund CSFP. We face difficult challenges and decisions with regard to discretionary budget resources and have chosen to not request funding for this program for several reasons. First, CSFP is not available in all States. It currently operates in limited areas of 32 States, two Indian reservations, and the District of Columbia. Second, its benefits, to a great extent, overlap those available through other nutrition assistance programs. Finally, we believe our limited resources are best focused on those programs that are universally available to serve these needy populations. The priority of the Administration is to ensure the continued integrity of the national nutrition assistance safety net, including the Food Stamp Program and WIC. However, we want to acknowledge our CSFP partners at the State and local level who have worked on behalf of this program.

USDA will work closely with CSFP State agencies to ensure that any negative effects on program participants are minimized, and that they are transitioned as rapidly as possible to other nutrition assistance programs for which they are eligible. The budget request includes funds to support the transition of CSFP participants to nationally available FNS nutrition assistance programs such as WIC and FSP. The budget requests $2 million to provide outreach and to assist individuals to enroll in the Food Stamp Program. Elderly participants who are not already receiving food stamp benefits will be eligible to receive a transitional benefit worth $20 per month ending in the first month following enrollment in the Food Stamp Program under normal program rules, or 6 months, whichever occurs first. CSFP women, infants, and children participants who are eligible for WIC benefits will be referred to that program. Commodities obtained under agriculture support programs will be redistributed for use in other nutrition assistance programs, such as TEFAP.

THE EMERGENCY FOOD ASSISTANCE PROGRAM (TEFAP)

TEFAP plays a critical supporting role for the Nation's food banks. This support takes the form of both commodities for distribution and administrative funding for States' commodity storage and distribution costs. Much of this funding flows from the States to faith-based organizations, a cornerstone of the food bank community. The President's budget requests the fully authorized level of $140 million to support the purchase of commodities for TEFAP. Additional food resources become available through the donation of surplus commodities from USDA's market support activities. State and local administrative costs, which support the food bank community, are funded at $49.5 million in the President's request.

NUTRITION PROGRAMS ADMINISTRATION

We are requesting $160.4 million in our Nutrition Programs Administration account, which reflects an increase of $18.6 million in our Federal administrative funding. This account supports Federal management and oversight of a portfolio of program resources totaling $57 billion, almost 60 percent of the USDA budget.

A key component of this year's request is a $4 million increase to support additional program integrity and accountability efforts in the Food Stamp Program. These resources would support up to 40 additional staff dedicated to continuing our strong record of results in improving payment accuracy and improving our ability to provide oversight and technical assistance to our State partners. While I am very proud of our accomplishments in program integrity, maintaining those gains and achieving further improvement in payment accuracy is a daunting challenge. This request represents a small investment that will pay big dividends in our continuing efforts to make certain we get the right benefits to the right people.

The budget also requests an increase of $2 million to support the efforts of the Center for Nutrition Policy and Promotion. These resources will continue the Center's work on MyPyramid and will support up to an additional 4 staff years dedicated to this initiative.

Also included in the President's request is $6 million to support important program assessment and evaluation activities examining program integrity issues and ways to improve the delivery of benefits and services with the Food Stamp Program.

Other increases contained in the budget request include the $3 million for Cross-Program Nutrition Education efforts, $3.5 million to support FNCS' participation in the OMB's government-wide initiative to modernize and better integrate financial management systems, and $2.8 million to support base pay cost increases.

The increases requested within this budget are essential to ensuring that FNCS can continue to successfully execute its basic program administration, oversight and fiscal stewardship duties. We understand the difficult budgetary circumstances the

Federal Government now faces and support and have participated in the tough choices that must be made. However, it is essential that FNCS address the serious challenge posed by both the accumulated effect of over a decade of staffing reductions and the loss of critical skills and experience inherent in the impending retirement of close to 30 percent of its workforce over the next 5 years.

I have begun that process by improving the management of human capital planning processes, strengthening services provided to employees, and implementing programs designed to improve the efficiency, diversity, and competency of the work force. With just nominal increases for basic program administration in most years, FNCS has reduced its Federal staffing levels significantly over time. We have compensated for these changes by working smarter—re-examining our processes, building strong partnerships with the State and local entities which administer our programs, and taking advantage of technological innovations. We are extremely proud of what we have accomplished and continue to seek new ways to meet the challenges before us. However our ability to continue to reliably meet these challenges will be in question if staffing levels continue to decline.

Mr. Chairman, I appreciate the opportunity to present to you this budget and what it means for the millions of Americans that count on us for nutrition assistance. I would be happy to answer any questions you may have.

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PREPARED STATEMENT OF ERIC J. HENTGES, EXECUTIVE DIRECTOR, CENTER FOR NUTRITION POLICY AND PROMOTION

Thank you, Mr. Chairman, and members of the Subcommittee, for allowing me this opportunity to present testimony in support of the Administration's budget for fiscal year 2007.

With the Nation facing significant public health issues related to the quality of the American diet, I believe that the outcome-based efforts of the Center for Nutrition Policy and Promotion are key to promoting more healthful eating behaviors and lifestyles across the Nation. Working from its mission to improve the health of Americans by developing and promoting dietary guidance that links scientific research to the nutrition needs of consumers, the Center for Nutrition Policy and Promotion has a critical role in how USDA meets its strategic goal to improve the Nation's nutrition and health.

TRENDS CONTINUE TO SHOW NEED FOR REVISED NUTRITION GUIDANCE AND EDUCATIONAL TOOLS

Recent studies of America's dietary and physical activity behaviors reveal disturbing trends. First, a combination of poor diet and sedentary lifestyle not only undermines quality of life and productivity, but it also contributes to the preventable causes of deaths each year in the United States.

Second, specific diseases and conditions, such as cardiovascular disease, hypertension, overweight and obesity, and osteoporosis, are clearly linked to a poor diet. Recent statistics are staggering: 65 percent of adults (ages 20 to 74) are overweight, with 31 percent among this group classified as obese. Children and adolescents have not escaped this unhealthy outcome: among 6- to 19-year-olds, 16 percent (over 9 million) are overweight—triple what the proportion was in 1980. Another 15 percent are at risk of becoming overweight. With statistics showing an increase in overweight and obesity and estimates indicating that obesity-attributable medical expenditures in the United States reached $75 billion in 2003, the health of Americans is a serious concern that must be addressed.

Third, the lack of physical activity has been associated with a number of conditions, including diabetes, overweight and obesity, cardiovascular disease, and certain cancers. Supporting evidence indicates less than half (46 percent) of the U.S. population meets the recommended level of physical activity. USDA's involvement is critical in helping to stem and eventually reverse some of these disturbing trends.

DIETARY GUIDELINES FOR AMERICANS ESTABLISH FEDERAL NUTRITION POLICY

In conjunction with the Department of Health and Human Services, USDA released the sixth edition of the Dietary Guidelines for Americans on January 12, 2005. This science-based blueprint for promoting good nutrition and health encourages Americans to "(1) Make smart choices from every food group, (2) Find your balance between food and physical activity, and (3) Get the most nutrition out of your calories."

The Guidelines, the basis for Federal nutrition policy, provide advice for healthy Americans, ages 2 years and older, about food choices that promote health and pre-

vent disease. These Guidelines not only form Federal nutrition policy, but they also set standards for the nutrition assistance programs, guide nutrition research and education efforts, and are the basis for USDA nutrition promotion activities.

As the lead Federal agency in administration of the 2010 Guidelines, USDA's Center for Nutrition Policy and Promotion has already begun laying the foundations—planning the management strategies that USDA will use to lead in interagency coordination and putting into place an evidence-based system. An evidence-based system will provide a framework or protocol for comprehensive analysis and synthesis of scientific literature, ranking its strengths according to established criteria. In developing nutrition guidance, this system will enable government decision makers to make the best policy supported by the strongest scientific evidence available, giving both the Executive and Legislative branches of government along with the scientific community and the general public a continued confidence in nutrition policies, guidelines and recommendations that are being developed and promoted.

MYPYRAMID SERVES AS PREMIER TEACHING TOOL

MyPyramid, based on the 2005 Dietary Guidelines for Americans, supports two pillars of the President's HealthierUS Initiative: to "Eat a Nutritious Diet" and to "Be Physically Active Every Day." MyPyramid is an individualized, interactive tool to help Americans build the Guidelines into their daily lives. Included in the MyPyramid webpage are the MyPyramid Plan and MyPyramid Tracker. MyPyramid Plan helps consumers find the types and amounts of food they should eat to meet nutrient requirements. MyPyramid Tracker, which has nearly 1 million registered users to date, is for consumers who want a detailed assessment and analysis of their current eating and physical activity behaviors; and it provides guidance on how to improve those behaviors. Since its launch in April 2005, MyPyramid.gov has received over 1.5 billion hits.

USDA also launched MyPyramid for Kids, a child-friendly version of MyPyramid targeted to schoolchildren. This tool is designed to encourage children to make smart food choices each day. An interactive learning computer game; lesson plans for educators; colorful posters and flyers; and other resources are available to help children make those choices. To reach an even broader audience, Spanish language versions of MyPyramid (MiPirámide) and MyPyramid for Kids (MiPirámide para Ninos) have been developed. These materials have been distributed to tens of thousands of schools across America and are also available online.

The President's budget requests an increase of $1.98 million for CNPP. These funds will support maintenance and enhancements to MyPyramid, improvements in customer support and outreach capabilities. This budget will help USDA determine whether the use of the Dietary Guidelines and MyPyramid by the American public, teachers, students, and health professionals ultimately improves the American diet.

Planned activities directly related to MyPyramid include the procurement of ongoing web hosting and maintenance of MyPyramid.gov and MyPyramid Tracker, which assist the public in monitoring and developing individualized healthy eating plans. In addition, this funding will provide for the maintenance and upgrading of related hardware and software; increased operational costs realized from spikes in the usage of the website; developmental costs associated with improvements to MyPyramid Tracker; and acquisition of new food and nutrient composition data bases and integration of the Healthy Eating Index into MyPyramid Tracker.

With this budget, CNPP will procure the development and implementation of a continual evaluation plan for MyPyramid to ascertain its usefulness by the American consumer. Additionally, CNPP plans to enhance the MyPyramid.gov website with interactive capabilities to encourage behavior change that promotes healthful diets across a broad spectrum of American society. This would include a meal planning feature which is currently missing, a recipe file feature, and a shopping list feature all of which have been requested by the public and the professional nutrition community.

With thousands of emails, written correspondence, telephone inquiries and hotline calls that have resulted from the overwhelming success of the Dietary Guidelines for Americans and MyPyramid.gov, CNPP also intends to use appropriated resources toward four additional staff years devoted exclusively to assisting the public in the areas of information dissemination and improvement of the CNPP, Dietary Guidelines and MyPyramid websites. These additional staff years would allow CNPP to provide customer support in timely manner; enhance the outreach and promotion of MyPyramid.gov; and support USDA's Nutrition.gov website and USDA's on-line "Ask the Expert."

With your support, we look forward to continuing to build, enhance, and better promote personalized and individualized nutrition guidance tools—such as

MyPyramid.gov—reaching millions of Americans daily. Your support will also help us improve customer support and outreach as well as set the foundation for future development of scientific nutrition policy, which is vital to addressing the growing problems of overweight and obesity and the related health challenges in America.

I thank the Committee for the opportunity to present this written testimony.

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PREPARED STATEMENT OF ROBERTO SALAZAR, ADMINISTRATOR, FOOD AND NUTRITION SERVICE

Thank you, Mr. Chairman, and members of the Subcommittee for allowing me this opportunity to present testimony in support of the fiscal year 2007 budget request for the Food and Nutrition Service (FNS).

FNS is the agency charged with administering the fifteen Federal nutrition assistance programs which create the Nation's nutrition safety net and providing Federal leadership in America's ongoing struggle against hunger and poor nutrition. Our stated mission is to increase food security, reduce hunger and improve health outcomes in partnership with cooperating organizations by providing children and low-income people access to nutritious food and nutrition education in a manner that inspires public confidence and supports American agriculture. The budget request clearly demonstrates the President's continuing commitment to this mission and our programs as well as strengthens the Federal nutrition assistance safety net in a time of competing priorities and limited resources. Balancing program access, good nutrition, and program integrity, this budget makes tough choices to meet our key commitments:

—To ensure that low-income people have access to food by ensuring sufficient funding for the major nutrition assistance programs.

—To promote healthful diets and active lifestyles by making nutrition education an integral part of nutrition assistance programs.

—To manage prudently and efficiently so that every dollar invested has the maximum positive benefit for those truly in need.

A request of $57 billion in new budget authority is contained within the fiscal year 2007 budget to fulfill this mission through the FNS nutrition assistance programs. These critical programs touch the lives of more than 1 in 5 Americans over the course of a year. Programs funded within this budget request include the National School Lunch Program (NSLP), which will provide nutritious school lunches to 30.9 million children each school day, the WIC Program, which will assist with the nutrition and health care needs of 8.2 million at risk pregnant and postpartum women, infants and children each month, and the Food Stamp Program (FSP), which will ensure access to a nutritious diet each month for an estimated 25.9 million people. The remaining programs include the School Breakfast Program (SBP), the Summer Food Service Program (SFSP), the Child and Adult Care Food Program (CACFP), The Emergency Food Assistance Program (TEFAP), the Food Distribution Program on Indian Reservations (FDPIR) and the Farmers' Market Programs.

We are proposing, with this budget request, the elimination of the Commodity Supplemental Food Program (CSFP). The priority of the Administration, as reflected in the President's budget request, is to ensure the continued integrity of the national nutrition assistance safety net. CSFP is only available in limited areas. It operates in parts of 32 States, two Indian Tribal Organizations, and the District of Columbia. Its benefits and target populations to a great extent, overlap with two of the largest nationwide Federal nutrition assistance programs—Food Stamps and WIC. FNS seeks to serve the children and low-income households of this Nation. We believe the President's budget request, allows us to focus scarce resources on addressing the diverse ways which hunger and nutrition-related problems present themselves through the core programs of the nutrition safety net.

The resources we are here to discuss represent an investment in the health, self-sufficiency, and productivity of Americans who, at times, find themselves in need of nutrition assistance. Under Secretary Bost, in his testimony, has outlined the three critical challenges which the Food, Nutrition and Consumer Services team has focused on under his leadership: promoting access and awareness of the Federal nutrition assistance programs; addressing the growing epidemic of obesity; and, improving the integrity with which our programs are administered. In addition to these fundamental priorities specific to our mission, the President's Management Agenda provides an ambitious agenda for management improvement across the Federal Government as a whole. I would like to report on our efforts to address three specific items under this agenda: reducing improper payments and enhancing the efficiency of program delivery, building partnerships with faith and community-

based organizations, and systematically planning for the human capital challenges facing all of the Federal service.

THE CHALLENGE OF IMPROPER PAYMENTS

Good financial management is at the center of the President's Management Agenda. As with any Federal program, the nutrition assistance programs require sustained attention to program integrity. We cannot sustain these programs over the long term without continued public trust in our ability to manage them effectively. Program integrity is as fundamental to our mission as program access or healthy eating. Our efforts to minimize improper program payments focus on (1) working closely with States to improve food stamp payment accuracy; (2) implementing policy changes and new oversight efforts to improve school meals certification; and (3) improving management of CACFP providers and vendors in WIC. We have identified these 4 programs as ones susceptible to improper payments and will continue to enhance the efficiency and accuracy with which these programs are delivered.

I am happy to report that in fiscal year 2004, the most recent year for which data is available, we have achieved a record level of food stamp payment accuracy with a combined payment accuracy rate of 94.12 percent. This is the sixth consecutive year of improvement, making it the lowest rate in the history of the program. With this budget request, we will continue our efforts with our State partners toward continued improvement in the payment accuracy rate. We will continue efforts to address the issue of proper certification in the school meals programs in a way that improves the accuracy of this process without limiting access of eligible children. Analytical work has begun to better assess the accuracy of eligibility determinations in the CACFP.

FAITH-BASED AND COMMUNITY ORGANIZATIONS OUTREACH

Faith-based and community organizations have long played an important role in raising community awareness about program services, assisting individuals who apply for benefits, and delivering benefits. President Bush has made working with these organizations an Administration priority, and we intend to continue our outreach efforts in fiscal year 2007. The partnership of faith-based and community organizations and FNS programs, including TEFAP, WIC, CACFP and NSLP is long-established. Significant numbers of faith-based schools participate in the NSLP and many child care providers and sponsors are faith-based and community organizations. In addition, the majority of food pantries and soup kitchens that actually deliver TEFAP benefits are faith-based and community organizations. Across the country, faith-based organizations have found over the years that they can participate in these programs without compromising their mission or values. They are valued partners in an effort to combat hunger in America. I am happy to report we have provided eight grant awards of approximately $2 million to community and faith-based organizations to test innovative food stamp outreach strategies to reach underserved, eligible individuals and families.

HUMAN CAPITAL MANAGEMENT

We currently estimate that up to 80 percent of our senior leaders are eligible to retire within five years, as is nearly 30 percent of our total workforce. FNS must address this serious challenge by improving the management of the agency's human capital, strengthening services provided to employees, and implementing programs designed to improve the efficiency, diversity, and competency of the work force. With just nominal increases for basic program administration in most years, the FNS has reduced its Federal staffing levels significantly over time.

We have now reached a critical point within our agency staffing levels; we simply must have the ability to develop the resources necessary to continue to assure appropriate access to the agency programs while maintaining stellar integrity outcomes. While we have compensated in the past by building strong partnerships with the State and local entities which administer our programs and taking advantage of technological innovations, the President's budget proposes the addition of 40 staff years to perform fundamental program integrity activities for the Food Stamp Program.

It is also important that we have the ability to conduct research on our programs and we ask that we not be prohibited from doing so. We are extremely proud of what we have accomplished. In order to continue to achieve improvements in program integrity and program access; I believe full funding of the Nutrition Program Administration (NPA) request in this budget is vital.

Now, I would like to review some of the components of our request under each program area.

FOOD STAMP PROGRAM

The President's budget requests $37.9 billion for the Food Stamp account including the Food Stamp Program and its associated nutrition assistance programs. These resources will serve an estimated 25.9 million people each month participating in the Food Stamp Program alone. Included in this request is the continuation of the $3 billion contingency reserve provided for the program in fiscal year 2006. While we anticipate improvement in the general economy, the turning point of participation continues to be challenging to predict.

To better meet this challenge, we have proposed, as an alternative to the traditional contingency reserve, indefinite funding authority for program benefits and payments to States and other non-Federal entities. These contingency resources are important to not only ensuring the availability of basic program benefits, but also to ensuring that adequate funds are available in the event of disasters. The Food Stamp Program is designed to respond, not only to the economy but also to disaster-related food assistance needs. Our recent experience with the Gulf Coast disasters made this very clear when over $900 million in food stamp benefits have been issued to date to over 1.9 million households affected by Hurricanes Katrina, Rita and Wilma in the fall of 2005. In addition, we have made a concerted effort to encourage working families, senior citizens and legal immigrants to apply for benefits.

The President's budget request contains three legislative proposals for the Food Stamp Program. These proposals work together to strengthen the national framework of the Food Stamp Program by setting national standards that better target benefits to low-income persons. They support the priorities of access and nutrition assistance for those in need while ensuring integrity in the program.

The budget proposes to exclude the value of tax-preferred retirement accounts from the Food Stamp certification asset test. This exclusion strengthens retirement security policy and enables low-income people to get nutrition assistance without depleting their retirement savings. It also simplifies food stamp resource policy and makes it more equitable because under current law, some retirement accounts are excluded while others are not. This proposal is consistent with the President's Ownership Society Initiative, by increasing the ability of low-income people to save for retirement.

Our budget once again proposes to eliminate categorical Food Stamp eligibility for Temporary Assistance for Needy Families (TANF) participants who receive only non-cash TANF services. Fully implemented in fiscal year 2008, this change is estimated to affect approximately 300,000 individuals and save $658 million over five years. We believe this proposal ensures that food stamp benefits will go to the individuals with the most need and retains categorical eligibility for the large number of recipients who receive cash assistance through TANF, Supplemental Security Income and General Assistance.

Also included in the budget is a proposal to add the Food Stamp Program to the list of programs for which States may access the National Directory of New Hires. Access to this national repository of employment and unemployment insurance data will enhance States' ability to quickly and accurately make eligibility and benefit level determinations, supporting continued program integrity. The budget also requests a continuation of a policy included in last year's appropriations act to exclude special military pay received by members of the armed forces serving in combat zones when determining food stamp benefits for their families back home.

Finally, the Administration remains committed to proposing a name change for the program to Congress. We will continue the process that began in 2006 to gather information related to a proposed name change for Congressional consideration.

CHILD NUTRITION PROGRAMS

The budget requests $13.6 billion for the Child Nutrition Programs, which provide millions of nutritious meals to children in schools and in childcare settings every day. This level of funding will support an increase in daily NSLP participation from the current 30.2 million children to approximately 30.9 million children. Requested increases in these programs reflect rising school enrollment, increases in payment rates to cover inflation, and proportionately higher levels of meal service among children in the free and reduced price categories. To ensure that Child Nutrition Programs respond to unforeseen increases in participation, the request provides $300 million in contingency funding. This contingency reserve would make supplemental funding requests unnecessary at times of budgetary shortfalls. Similar to the Food Stamp Program, such a shortfall could result from larger than anticipated program participation growth, responses to natural disasters or other national emergencies.

We are continuing to implement program changes and new activities resulting from the 2004 reauthorization of these programs including the Fruit and Vegetable Program. We are also continuing our efforts to promote healthy behaviors by supporting the implementation of local wellness policies. We created the HealthierUS Schools Challenge to encourage communities to improve the foods offered at school and other aspects of a healthy school nutrition environment and to recognize schools that made improvements.

FNS is continuing to integrate the 2005 Dietary Guidelines for Americans recommendations into the school meal programs. By law, school meals are required to be consistent with the Guidelines. Meals in the NSLP must provide one third of the Recommended Dietary Allowances (RDAs), while meals in the School Breakfast Program must provide one fourth of the RDAs. An FNS workgroup is reviewing the new Guidelines as well as the Dietary Reference Intakes (DRIs) nutrient standards to identify potential changes in the meal patterns within the existing meal reimbursement structure.

The workgroup will make recommendations based on its review. USDA will publish a proposed rule with changes to the meal patterns and actively seek public comment. Federal, State and local staff will work together to implement the new requirements, plan improved recipes and menus, modify contracts to obtain the needed ingredients or modified products, and train staff who prepare and serve the food.

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

The President's budget request includes $5.2 billion for the WIC Program. This request will provide food, nutrition education, and a link to health care to a monthly average of 8.2 million needy women, infants and children during fiscal year 2007, including former CSFP participants.

The budget contains a two-part proposal that reflects our commitment to both support core activities of the WIC Program and reduce Federal discretionary spending. We are proposing to cap the level of Nutrition Services and Administration (NSA) funding to no more than 25 percent of the total WIC State grant amount for fiscal year 2007. We continue to believe the reduction in NSA funding will not have a significant impact on the delivery of core WIC services. States will be encouraged to work with Federal program staff to seek efficiencies in the delivery of the program to ensure that the reduction in NSA funding does not impact core services.

Looking forward to fiscal year 2008, the budget proposes to replace this NSA cap with a 20 percent State match requirement. WIC is currently one of the few Federal programs that do not require State matching funds for administrative purposes. The proposal is not effective until fiscal year 2008 so that States are provided adequate notification to allow their legislatures to appropriate funds.

The President's budget request contains a proposal which limits automatic (adjunctive) eligibility based on participation in Medicaid to those individuals whose incomes are below 250 percent of Federal poverty guidelines. In the WIC Program, applicants can currently receive automatic (adjunctive) eligibility for benefits based on their participation in other means-tested programs such as the FSP and Medicaid. However, in some States, Medicaid permits participation of individuals with incomes higher than those established for eligibility for WIC (185 percent of the Federal poverty level). This proposal will better target WIC benefits to those most in need and, if enacted, the proposal will affect six States (Missouri, Maryland, Minnesota, Vermont, New Hampshire and Rhode Island).

The $125 million contingency fund provided in the fiscal year 2003 appropriation and replenished in fiscal year 2005, continues to be available to the program. We currently do not anticipate using the reserve in either fiscal year 2006 or 2007, as available resources in fiscal year 2006 and the President's budget request will fully meet our projected program need for those 2 years.

FNS is continuing its efforts to review and consider revisions to the WIC food package. In September 2003, FNS contracted with the National Academies of Sciences' Institute of Medicine (IOM) to independently review the WIC food packages. The IOM recommendations on the WIC Food Packages were published in a final report in April, 2005. FNS has used these recommendations along with comments received on the public notice soliciting comments on food package changes to develop a proposed rule to update the WIC food packages. This proposed rule is in clearance and is expected to be published in the Summer of 2006.

The President's budget also requests the continuation of the moratorium on the authorization of new WIC-only stores. The current moratorium was put in place through the fiscal year 2006 appropriations bill and will expire at the end of this year. We believe it is important to continue this moratorium due to the uncertainty

that States encountered concerning the status of our regulations implementing new management controls on WIC vendor authorizations. This uncertainty arose as a consequence of a law suit filed by the National Women, Infants, and Children Grocers Association and the subsequent Temporary Restraining Order (TRO) issued by the Federal District Court. Although the law suit was resolved in favor of the government, States, particularly those covered by the TRO, were delayed several months in moving ahead with the implementation of new requirements. Therefore, to give States reasonable opportunity to put into place approved plans effecting these new cost control requirements, we believe continuation of the moratorium is prudent.

COMMODITY SUPPLEMENTAL FOOD PROGRAM (CSFP)

CSFP serves elderly persons and at risk low-income pregnant and post-partum and breastfeeding women, infants and children up to age six. The budget does not request funding for this program which is not available nationwide and duplicates two of the Nations' largest Federal nutrition assistance programs—Food Stamps and WIC. This program operates in selected areas in just 32 States, the District of Columbia, and two Indian Tribal Organizations. The populations served by CSFP are eligible to receive similar benefits through other Federal nutrition assistance programs that offer them flexibility to meet their individual needs. The Administration has proposed this change to better target limited resources to those major programs that are available nationwide, promoting equity and effectiveness.

The President's budget does include a request for funds to support the transition of CSFP participants to nationally available FNS nutrition assistance programs such as WIC and FSP. USDA will work closely with CSFP State agencies to ensure that any negative effects on program participants are minimized. We plan to implement a transition strategy to encourage those women, infants and children that are eligible for WIC to apply for that program, and to encourage elderly CSFP recipients to apply for the Food Stamp Program.

The budget request includes $2 million to provide outreach and to assist individuals enrolling in the FSP. Elderly participants who are leaving the CSFP upon the termination of its funding and who are not already receiving FSP benefits will be eligible to receive a transitional benefit of $20 per month. This transition benefit will end in the first month following enrollment in the FSP under normal program rules, or in 6 months, whichever occurs first. CSFP women, infants, and children participants who are eligible for WIC benefits will be referred to that program. Commodities obtained under agriculture support programs that would be used to support CSFP will be donated for use in other nutrition assistance programs, such as TEFAP.

THE EMERGENCY FOOD ASSISTANCE PROGRAM (TEFAP)

As provided for in the Farm Bill, the budget requests $140 million for commodities in this important program. Our request for States' storage and distribution costs, critical support for the Nation's food banks, is $50 million. The Food and Nutrition Service is committed to ensuring the continuing flow of resources to the food bank community including directly purchased commodities, administrative funding, and surplus commodities from USDA market support activities. Much of this funding is provided, at the local level, to faith-based organizations. Surplus commodity donations significantly increase the amount of commodities available to the food bank community from Federal sources.

SENIORS' FARMERS MARKET NUTRITION PROGRAM (SFMNP)

The President's budget request includes two provisions that improve the value of the SFMNP benefits. The first provision prohibits farmers selling eligible foods under the SFMNP from charging sales tax on fresh fruits and vegetables that are purchased using SFMNP checks or coupons, or that are provided to eligible recipients through community supported agriculture. The second provision ensures that the value of benefits provided to eligible recipients is not considered as income in the process of determining eligibility for any other Federal or State programs, such as food stamps, TANF, energy assistance, and housing assistance. It would also ensure that the value of the SFMNP benefit would not be considered as income in calculating the recipients' Federal or State tax obligations. These proposals are consistent with the way benefits are treated in all other Federal nutrition assistance programs.

NUTRITION PROGRAMS ADMINISTRATION (NPA)

We are requesting $160.4 million in this account, an increase of $18.6 million over our fiscal year 2006 level. This increase will partially offset personnel-related costs of the FNS workforce in fiscal year 2007. Our request for Federal administrative resources is needed to sustain the program management and support activities of our employees nationwide. The NPA account supports both FNS' administration of the nutrition assistance programs and CNPP's nutrition policy development and promotion activities targeted at the general population. Specific requests for this account include $2 million to support continuing work on MyPyramid; $4 million to support initiatives to improve program integrity within the Food Stamp Program and $3 million to improve the coordination of nutrition education efforts across all of the our programs.

Our request for $6 million to fund critical research and evaluation activities examining program integrity issues and ways to improve the delivery of program services is essential to the management of our programs, as is the $3.5 million request to fund FNS' participation in Office of Management and Budget's initiative to modernize and better integrate financial management system across the government. I firmly believe we need this increase in NPA funding in order to maintain accountability for our $57 billion portfolio and to assist States to effectively manage the programs and provide access to all eligible people.

Thank you for the opportunity to present this written testimony.

Senator BENNETT. Thank you very much.

In spite of how much we eat, we still have surpluses that Dr. Collins talks about. That is why we need to export.

Yes, sir. Dr. Raymond.

STATEMENT OF RICHARD RAYMOND

Dr. RAYMOND. Thank you, Mr. Chairman and Senator Kohl.

I am pleased to appear before you today to discuss the status of the Food Safety and Inspection Service (FSIS) programs and the fiscal year 2007 budget request for food safety within the U.S. Department of Agriculture.

As we begin another new year at USDA, I would like to point out that this one marks the 100th anniversary of the passage of the Federal Meat Inspection Act. We can look back over the past century with pride and certainly gain a greater appreciation for what USDA has done to protect our food supply and further public health protection.

Today, I will share with you some recent accomplishments, as well as our priorities to further protect the food supply, and will conclude with some highlights of our fiscal year 2007 budget request.

FSIS is accountable for ensuring safe meat, poultry, and egg products for 295 million people in this country and millions more around the world. In addition, we are accountable for ensuring compliance with the Humane Methods of Slaughter Act, so that all livestock used for human food are humanely handled and slaughtered.

There are indications that our risk-based Hazard Analysis and Critical Control Point, known as HACCP, system is working. We have seen dramatic declines in the prevalence of pathogens in the products that we regulate and the numbers of food-borne illnesses stemming from these pathogens.

Our regulatory sampling for E. coli O157:H7 and Listeria monocytogenes shows evidence of our successes. We have gone from a 0.86 prevalence rate for positive E. coli O157:H7 samples in cal-

endar year 2000 to only 0.17 percent prevalence rate for positives in the calendar year 2004. That is a four-fold drop.

During the same period, the prevalence rate for Listeria monocytogenes samples testing positive dropped from 1.45 percent in calendar year 2000 to only 0.55 percent in calendar year 2004, a three-fold drop.

Another success has been the break in the annual cycle of multi-million pound recalls and a dramatic decline in the number of recalls each year. We reached an all-time high of 113 recalls, totaling nearly 61 million pounds of product in 2002, and in 2004, we were down to only 48 recalls, totaling approximately 3 million pounds of product.

We have also seen the effect that the declining number of positive E. coli: O157:H7 and Listeria monocytogenes samples is having on food-borne illnesses caused by these two pathogens over an 8-year period of time. Illnesses caused by E. coli O157:H7 have decreased by 42 percent. That is less than 1 person per 100,000 population. And those illnesses caused by listeria have dropped by 40 percent.

I might add, these numbers do come from the CDC. These are not our numbers. I do feel that a picture is worth more than 1,000 words, and I have included graphs with our submitted written testimony with those numbers.

These successes would indicate that our risk-based approach is working and that we are protecting public health through a safer food supply. If we make the assumption, from the E. coli and Listeria data, that using product sampling trends can also be indicators for human illness trends, then we do have a glaring problem. That would be Salmonella.

According to our sampling data, the number of product samples positive for Salmonella has been on the rise in several poultry categories over the past 3 years, specifically in young chicken or broiler carcasses. The overall incidence of Salmonella infections also remains far greater than for other food-borne pathogens.

In 2004, according to data, again from the CDC, there were 14.7 cases of culture-proven Salmonella infections per 100,000 population in this country. This means 115 people are infected by Salmonella every day, or 42,000 every year. The CDC also says this is an underestimate by a factor of 38, which means that nearly 1.3 million people actually had Salmonella infections last year. In my view, that is way too high.

Salmonella infection rates are not declining like they are for the E. coli, Listeria, and Campylobacter bugs. In fact, they are rising for certain Salmonella serotypes. Last month, we announced an initiative to reduce Salmonella in meat and poultry products. This initiative will help FSIS be more proactive and will prevent illnesses.

It incorporates 11 steps, including increased product sampling and food safety assessments in plants where they are most needed, and our quarterly publication of nation-wide Salmonella data by class.

A $602,000 increase that we are requesting for our risk-based Salmonella approach in fiscal year 2007 would, among other things, allow us to do serotyping more quickly and to initiate more

food safety assessments at high-risk establishments before an outbreak occurs.

Our next priority for the year is the cornerstone strategy to further improve food safety, implementing a more robust risk-based inspection system. Our 100-year-old inspection system was based on visual examination for visible signs of disease. The future demands that we also be able to identify things that the human eye cannot see, things the nose cannot smell, and things the fingers cannot feel.

We need to be able to better anticipate and more quickly respond to food safety challenges before they negatively affect the public's health. The $2.6 million increase that we are seeking in the 2007 budget for risk-based inspection services will help FSIS reallocate its resources to focus more closely on food safety systems and prevent public health problems before they occur.

Finally, to further improve our food defense capabilities, we are asking for an increase of $15.8 million for food and agriculture defense. A major component of this request will be allocated for the enhancement of the Food Emergency Response Network, known as FERN, which is a joint laboratory partners project between FSIS, Department of Health and Human Services, FDA, and selected State public health laboratories.

We saw what happened to laboratory capacity and the U.S. Postal Service efficiency when just a few letters were sent containing anthrax to just a few persons. That same thing can happen again with one phone call to the Washington Post indicating that the meat supply has been contaminated intentionally.

That is why our $13 million request for FERN will provide 23 selected existing State or local laboratories with the necessary training, equipment, and supplies that they need so that surge capacity can be handled more quickly and closer to home.

From a public health standpoint, an investment in FERN is absolutely essential if we want to prevent or mitigate the loss of life and economic hardship if an intentional or an unintentional incident affecting the food supply or even a hoax were to happen.

We must also be prepared for the distinct possibility that one or all of our three FSIS laboratories could be intentionally incapacitated in an attack on our food supply.

Overall, in fiscal year 2007, FSIS is requesting an appropriation under current law of $862.9 million, a net increase of about $33.5 million from the enacted level for fiscal year 2006. This request supports the agency's basic mission, providing continuous or daily inspection in each U.S. meat, poultry, and egg products plant. The agency's permanent statutory obligation to provide continuous inspection is a labor-intensive mandate, therefore making its salary costs relatively inflexible.

An increase of $16 million for the FSIS inspection program is requested to provide for a 2.2 percent pay raise for FSIS employees as well as $1 million for salary increases in cooperating State inspection programs in fiscal year 2007 to assure that the agency is provided sufficient funds to maintain its programs.

PREPARED STATEMENT

Mr. Chairman, thank you again for providing me the opportunity to speak with the subcommittee and submit testimony regarding the steps that we are taking to continue our public health leadership role. Implementation of these budget initiatives is imperative so that we can continue to ensure the safety of the products that we regulate.

I look forward to working with you and the subcommittee to further improve our food safety program, and I would welcome any questions from the committee that you might have.

[The statement follows:]

PREPARED STATEMENT OF RICHARD RAYMOND

Mr. Chairman and Members of the Subcommittee, I am pleased to appear before you today to discuss the status of the Food Safety and Inspection Service's (FSIS) programs and the fiscal year 2007 budget request for food safety within the U.S. Department of Agriculture (USDA). I am Dr. Richard Raymond, Under Secretary for Food Safety. With me today is Dr. Barbara Masters, Administrator of FSIS.

USDA Secretary Mike Johanns and I share a passion for public health. I accepted this position last year because of the Secretary's commitment. I knew he would support and allow us to move forward to further enhance public health protection. The long history this Agency has of protecting public health was another aspect that drew me to this opportunity.

In fact, this year marks the 100th anniversary of the passage of the Federal Meat Inspection Act (FMIA), which ushered in a new era of food safety on a national level. Even prior to the passage of the FMIA, FSIS' predecessor agency, the Bureau of Animal Industry (BAI), carried out many important responsibilities to protect public health here and abroad. With an appropriation of $150,000 in 1884—the first year of its existence—the BAI focused on preventing diseased animals from being used as food. Then in 1891, the initial Meat Inspection Act of 1890 was amended to cover the inspection and certification of all live cattle and beef for export.

As you see, the USDA has a long and proud history in protecting public health through food safety. To give you an idea of how far we have come in protecting public health, let me share these two facts with you.

One hundred years ago in the United States, the life expectancy was 45 years. Now it is approximately 75 years. And 100 years ago in the United States, one in five coffins contained a child under 5 years old. Today that number in the United States is only one in 100 coffins.

These are amazing accomplishments that have had a profound effect on our society and everyone here. Clean water, proper sewage treatment, vaccines and antibiotics have all played an important role, but a safer food supply has also played a vital role in this amazing improvement.

This is truly a good story, but the journey is far from over. There is much more we need to do. Both Secretary Johanns and I want to push the envelope to improve food safety and public health. We all must strive to do better because of constantly evolving threats and challenges to food safety and our public health system. Having been in the medical profession for 27 years as a doctor in both rural and urban parts of Nebraska, and having spent the last 6 years prior to USDA in public health, I know that the public health environment constantly evolves and it is not always a nine-to-five job. Product recalls during off hours and the Agency's response in the aftermath of Hurricane Katrina are just a couple of examples of the many instances when FSIS personnel worked many hours beyond their regular tours of duty.

This is why I am truly proud and impressed by the dedicated professionals at FSIS, who often put in long hours when needed to ensure that our meat, poultry and egg products supply is the safest in the world. Their support and the Agency's successes in protecting the health and well being of millions of consumers worldwide would not have been possible without the resources you have so generously given to us. I will cover FSIS' successes in more detail, our priorities in the coming year, and conclude with a discussion of the fiscal year 2007 budget request.

*Accomplishments*

We are accountable for protecting the lives and well-being of 295 million people in this country and millions more around the world. There are indications that our

risk-based system to protect these consumers is working. We have seen dramatic declines in the prevalence of pathogens in the products we regulate and the numbers of foodborne illnesses stemming from these pathogens due to many actions by the Agency including the use of risk assessments, working with our partners along the farm-to-table continuum, and basing our policies on sound science.

*Regulatory Sampling*

One such success is apparent in our regulatory sampling for E. coli O157:H7 and Listeria monocytogenes.

Let's take a look at results from our microbiological surveillance testing program for E. coli O157:H7. We have gone from 59 positives in 7,010 samples for E. coli O157:H7 in CY 2001 to only 14 positives in 8,010 samples in CY 2004. Each year's prevalence rate is listed below.

—In CY 2001, our testing program yielded 59 positive results out of 7,010 samples for a rate of .84 percent;
—In CY 2002, there were 55 positive results from 7,025 samples for a rate of .78 percent;
—In CY 2003, there were 20 positives out of 6,584 samples for a rate of .3 percent; and
—In CY 2004, there were 14 positives out of 8,010 samples for a rate of .17 percent.

Our testing for Listeria monocytogenes (Lm) in all ready-to-eat (RTE) products shows similar progress. Compared to a decade ago before HACCP was implemented, we have made substantial progress in Lm control, as these statistics from our RTE sampling program indicate:

—In 1995, 3.02 percent tested positive;
—In 1996, 2.91 percent tested positive;
—In 1997, 2.25 percent tested positive;
—In 1998, 2.54 percent tested positive;
—In 1999, 1.91 percent tested positive;
—In 2000, 1.45 percent tested positive;
—In 2001, 1.32 percent tested positive;
—In 2002, 1.03 percent tested positive;
—In 2003, .76 percent tested positive; and
—In 2004, .55 percent tested positive.

*Recalls*

Another success has been the break in the annual cycle of multi-million pound recalls and a dramatic decline in the number of recalls each year. The number of recalls had been increasing since the mid 1990s, with at least one multi-million pound recall being conducted every year until 2002.

For example:

—In 1997, there were 27 recalls for a total of nearly 28 million pounds;
—Followed by 44 recalls of just over 44 million pounds in 1998;
—58 recalls in 1999 for 40 million pounds of product;
—76 recalls of almost 23 million pounds in 2000;
—87 recalls in 2001 for 33 million pounds; and
—Reaching an all-time high of 113 recalls in 2002, totaling nearly 61 million pounds.

After we implemented science-based policies for E. coli O157:H7, Listeria monocytogenes, and Salmonella, we saw a dramatic decline in recalls, culminating in a reduction of nearly 18 percent in the number of pathogen-related recalls, from 28 in 2003, to 23 in 2004.

*Foodborne Illnesses*

Another significant measure of how our science-based policies are making a major impact on public health is from the annual FoodNet preliminary report published by the Department of Health and Human Services' (DHHS) Centers for Disease Control and Prevention (CDC) every spring [the annual report is published later each year]. I will discuss FoodNet later, but according to the CDC, there have been significant declines from 1996 to 2004 in illnesses caused by E. coli O157:H7, Listeria monocytogenes, Campylobacter, and Yersinia. Compared to the 1996–98 baseline, illnesses caused by E. coli O157:H7 decreased by 42 percent; Listeria monocytogenes dropped by 40 percent; Campylobacter fell 31 percent; and Yersinia decreased by 45 percent.

This is just raw data. To put these figures into real human terms, in 2004, we saved at least an additional 21,815 people from suffering the debilitating effects of a foodborne illness. That is nearly the number of people who work inside the Pentagon on a daily basis.

Stated another way, in 2004, compared to the 1996–98 baseline, an additional 1,939 people did not miss work because of E. coli O157:H7. Five hundred thirty-five more people did not suffer from a high fever caused by Listeria monocytogenes. Nearly 17,250 consumers did not have severe abdominal cramps caused by Campylobacter. And approximately 2,100 people did not have to think, "What did I eat?" thanks to an illness caused by Yersinia.

Taken together, these human health results, declines in recalls, and decreasing numbers of pathogens in our sampling program indicate that our risk-based approach is working, and that we are protecting public health through a safer food supply. While this is good news, we still have areas of concern.

*Salmonella*

A specific concern is Salmonella. When FSIS reported its 2003 data, the Agency acknowledged concern that the percentage of positive Salmonella tests had increased slightly in all three poultry categories. While the 2004 data showed more mixed results, there was a continued increase for young chicken (or broiler) carcasses and that number rose again in 2005.

It is clear that the overall incidence of Salmonella infections remains far greater than our objective. In 2004 FoodNet data, there were 14.7 cases of culture-proven Salmonella infections per 100,000 people. This means 115 people are infected by Salmonella every day, or 42,000 every year. In my view, as someone with a medical background, that is way too high.

The CDC's 1999 estimate of Salmonella infections is even higher. They estimate about 1.4 million cases of infection each year, with about 16,000 hospitalizations, 580 deaths and $3.1 billion in health care costs.

The CDC's 2005 FoodNet report (of 2004 data) did not look any better. While it did report that Salmonella infections dropped 8 percent, only one of the five most common strains, which accounted for 56 percent of the reported Salmonella infections in 2004, declined significantly. That strain was Salmonella Typhimurium which declined 38 percent.

Salmonella Enteritidis and Salmonella Heidelberg neither increased nor decreased significantly. However, incidences of Salmonella Newport increased by an alarming 41 percent.

It is clear that we must do better if we are going to meet DHHS' Healthy People 2010 objective for Salmonella, which is 6.8 infections per 100,000 people. We have already met the DHHS' Healthy People 2010 objective of 1.0 cases of E. coli O157:H7 per 100,000 people. In 2004, the CDC reported 0.9 cases of E. coli O157:H7 infections per 100,000 people.

However, I do believe there is a way this year to combat Salmonella as I will explain later. I believe that we can leverage new technologies and cutting edge research, not only to reach the Healthy People 2010 objective, but to drive the numbers even lower.

*Cooperation and Collaboration with Other Agencies and Food Safety Partners*

Another significant accomplishment from 2005 has been unprecedented cooperation and collaboration with other Federal, State and local agencies and food safety partners.

For starters, Avian Influenza has received a significant amount of press recently. FSIS takes this animal health issue very seriously. We will require a multi-agency effort to address this issue, and we have embarked on such an approach. FSIS has a Memorandum of Understanding with the Animal and Plant Health Inspection Service (APHIS), in which FSIS agrees to promptly notify APHIS if FSIS inspection program personnel detect signs of foreign animal disease. FSIS is also participating in several interagency groups that include DHHS, as well as State and local government agencies.

In food defense, FSIS has been working very closely with DHHS' Food and Drug Administration (FDA), the Department of Homeland Security and the National Association of State Departments of Agriculture in developing guidelines and procedures for State and local first responders and Federal food regulatory agencies. This interagency response plan will facilitate cooperation with State and local emergency efforts when responding to incidents involving the food supply. We have already started testing these guidelines. We conducted an exercise through our district office in California with the California Department of Agriculture, the California Department of Health, Environmental Protection Agency, FDA, Federal Bureau of Investigation, CDC, and local and county health officials. We intend to hold more of these exercises with each FSIS district office and our partners so that we can make continuous improvements to the guidelines.

We also have been working closely with industry to help them develop voluntary comprehensive food defense activities for every establishment. We feel it is essential that all slaughter, processing, import and export establishments take steps to ensure the security of their operations. Earlier in 2005, we made available on FSIS' Web site an "Industry Self-Assessment Checklist for Food Defense" and model food defense activities that they can use to guide their actions to defend the safety of their product. In addition, we have our inspectors ready and trained to assist industry as they enhance the protections they already have in place. As of this date, FSIS inspection program personnel have conducted over 1.3 million evaluations of establishment food defense activities and have found less than 1,500 areas that needed to be addressed.

The model food defense activities were developed as a result of the vulnerability assessments that FSIS conducted for selected domestic and imported food products. These assessments allowed us to rank food products and potential contaminating agents in order of highest concern. Using this risk-based ranking, during periods of heightened awareness, FSIS' laboratories examine samples for threat agents posing the greatest risk as identified in FSIS' vulnerability assessments.

Although the findings from these vulnerability assessments are classified, FSIS has been training industry representatives in how to conduct the assessments. As a result, many companies are now conducting their own assessments and taking appropriate measures to defend their processing lines and distribution chains from intentional contamination.

Another example of collaboration is the Food Emergency Response Network (FERN). This joint FSIS–FDA effort of national, State, and local laboratories provides ongoing surveillance and monitoring of food and will promptly respond to an intentional contamination that targets the Nation's food supply. I will discuss FERN in more detail later when I go over our priorities for fiscal year 2007.

We are also working closely with the CDC and FDA to improve our ability to link foodborne illness estimates with different food vehicles. Data on foodborne illnesses due to specific pathogens also needs to be connected with data on the prevalence of different pathogens in specific foods.

The Foodborne Diseases Active Surveillance Network, or FoodNet which I mentioned before, is part of CDC's Emerging Infections Program, and it allows FSIS and our Federal, State, and local food safety partners to integrate foodborne illness data to determine the burden of foodborne disease, monitor foodborne disease trends, and determine the extent of foodborne diseases attributable to specific foods. Since 1995, FSIS has worked closely with the CDC, FDA, and State and local epidemiologists and public health laboratories in making FoodNet an essential public health tool.

FoodNet includes active surveillance of foodborne diseases, case-control studies to identify risk factors for acquiring foodborne illness, and surveys to assess medical and laboratory practices related to foodborne illness diagnosis. It provides estimates of foodborne illness and sources of specific diseases that are usually found in the United States and interprets these trends over time. Data are used to help analyze the effectiveness of our HACCP rule and other risk-based regulatory actions, as well as to develop public education initiatives.

*Consumer Safety Education*

Speaking of education, last year FSIS reached nearly 120 million citizens by developing and distributing brochures, technical papers, and booklets through the media, educators, the Agency's Web site, the Meat and Poultry Hotline, FSIS' virtual representative "Ask Karen," and the USDA Food Safety Mobile. As a medical doctor, I truly value the importance of effective and continuous food safety outreach to consumers. It is the key to any multi-pronged strategy to prevent people from getting sick and possibly dying.

In fiscal year 2005, our Meat and Poultry Hotline handled nearly 88,000 consumer calls on the safe storage, preparation, and handling of meat, poultry and egg products and over 130 media and information multiplier calls that included requests from newspapers, magazines and book authors along with live interviews with radio and television stations. From a public health standpoint, we still want to serve consumers even if an unexpected event affects the Washington, DC metropolitan area. No one should have to suffer through a foodborne illness after they have tried to contact our Hotline and have found it is down due to some unforeseen incident in the capital area. That is why in fiscal year 2006, we are expanding and upgrading the Hotline communication equipment to ensure uninterrupted service to the public in the case of an unexpected event.

Research has shown FSIS that the at-risk, under-served, and Spanish-speaking populations require education and messages geared to their needs. In fiscal year 2005, FSIS continued to develop education programs for elderly, immune-com-

promised, and other at-risk individuals, and assisted with revisions to the American Medical Association/CDC/FDA/FSIS Diagnosis and Management of Foodborne Illness: A Primer for Physicians. We also developed a brochure titled, What Transplant Recipients Should Know About Food Safety. This is just one in a series of publications that will be developed targeting other at-risk audiences.

In an unprecedented effort to reach those underserved, yet at-risk for foodborne illness, FSIS is cosponsoring a food safety conference entitled, "Reaching At-Risk Audiences and Today's Other Food Safety Challenges," with the FDA, CDC, and private sector organizations. The goals of this conference include sharing current surveillance and epidemiological data on foodborne illness; presenting strategies leading to enhanced food safety knowledge, skills, and abilities in the general population and among at-risk populations; and to communicate the latest science-based safe food handling principles and practices.

Also, FSIS produced a public service announcement (PSA) "Fight BAC!®" in Spanish and distributed more than 50,000 copies to a national network of physicians' offices. In addition to being able to view the PSA, patients had access to flyers describing listeriosis, a foodborne illness more common in the Hispanic population.

The USDA Food Safety Mobile that I mentioned earlier tours nationwide to support food safety education efforts and reach consumers where they live. In fiscal year 2005, the Mobile appeared at State and county fairs, food events, media events, schools, libraries, grocery stores, community events, parades, festivals, health and safety expos, trade shows, conventions, FSIS District Offices, and at FSIS events in conjunction with visits and presentations by USDA officials. Hundreds of thousands of educational items have been distributed and millions of consumers have been reached through media coverage of the Mobile. Since its launch in March 2003, the Food Safety Mobile has traveled more than 66,000 miles, appearing in 247 events in approximately 185 cities, in 48 States and the District of Columbia.

*Hurricane Katrina Response*

The Mobile was a vital component of our Hurricane Katrina response strategy. We deployed it in September 2005 to areas affected by Hurricane Katrina to provide firsthand food safety education and assistance to prevent any outbreaks of foodborne illness. I realized that food safety would not be one of the top priorities with many of the affected populace, given that they were displaced, grieving the loss of loved ones, or looking for missing family and friends. However, we were gravely concerned about the public health consequences of the hurricane's aftermath. With power outages and flooding of contaminated water, the potential for people consuming contaminated food was alarmingly high, which was why I ordered the Mobile to immediately abandon its previously scheduled course in the Northeast and head down to the Gulf Coast. I also directed FSIS to lease a second Food Safety Mobile to go to the affected areas.

During its two-and-one-half month tour of the Gulf States, the Food Safety Mobile reached nearly 41,000 total consumers and distributed food safety brochures, bleach, hand wipes and thermal bags. The second Mobile appeared at 18 events, reaching an additional 15,000 consumers.

In addition to our swift and aggressive consumer outreach, FSIS worked as rapidly as possible with industry to resume operations at meat, poultry and egg product establishments in the affected areas of the Gulf States. By September 5, 2005, FSIS had deployed approximately 30 additional inspection program personnel and compliance staff personnel to this area so these plants could quickly resume operations. These personnel also oversaw the appropriate disposal and decontamination procedures at the plants.

On September 20, 2005, FSIS began increased Salmonella testing of raw meat and poultry products in the affected areas of the Gulf Coast to provide microbial data to compare with nationwide data. FSIS also trained additional non-field staff to assist in conducting intensified verification tests in ready-to-eat establishments for Listeria monocytogenes, including collecting food-contact surface and environmental samples, to supplement product sampling and food safety assessments. These provided an additional layer of microbial testing and verification to ensure the safety of the ready-to-eat meat products.

*Building the Foundation of a More Robust Risk-Based Inspection System*

The successes from 2005 are varied and significant, ranging from reductions in pathogen prevalence to a quick and concerted response in the aftermath of Hurricane Katrina. The examples I just covered indicate that our food safety system works and is strong. However, I do not want to serve as just a caretaker of a good system.

Even though FSIS has accomplished a lot, people still get sick and die each year from consuming contaminated food. As a medical doctor, that simply does not set well with me. I did not accept this job last year to recall hamburger, ham, sausage or any other product on a routine basis. I want to focus our time and valuable resources on prevention, rather than on response. It is a common sense, cost-effective public health strategy that best serves the American consumer.

However, in order to move forward with this approach, we are going to need the help of everyone along the farm-to-fork continuum and Congress. I know with your support, we can further improve upon the food safety successes that we have already seen.

The cornerstone of our strategy is to move forward on implementing a more robust risk-based inspection system. Our current system, while strong, is not suited to the future realities of food safety and public health, and we will need the new capabilities offered by an enhanced risk-based system.

Our 100-year old inspection system was based on visual examination for visible signs of disease. The future demands that we be able to focus more on things that the human eye cannot see, things the nose cannot smell, and things the fingers cannot feel.

We will also need the ability to anticipate and quickly respond to food safety challenges before they negatively affect public health. This is vital, as is a system that will allow us to use our finite resources more effectively and efficiently to further improve food safety. As a public health agency, we must have the capability and capacity to be smarter and act more efficiently, quickly and flexibly.

This means a move away from a regulatory agency that protects public health by recalling dangerous product or withdrawing marks of inspection toward one that is focused on actively preventing foodborne illnesses from ever occurring. However, it is important to note that FSIS already uses a risk-based approach to food safety. Our goal is to further enhance and strengthen that system so that we are prepared for the food safety challenges in the next century. This is why we are requesting in the fiscal year 2007 budget an increase of $2.6 million to help us move toward our goal of a more robust risk-based inspection system.

To continue our progress toward a more robust risk-based inspection system, we need to be sure that we communicate openly and often with all of our food safety stakeholders. We will use a transparent and inclusive process to seek input on a wide range of issues related to creating a more robust risk-based inspection system.

We will proceed through a public process, gaining input from all of our stakeholders. At the last meeting of the National Advisory Committee on Meat and Poultry Inspection (NACMPI) in November, the Committee recommended a third-party approach to assist us in reaching out to, and gaining input from, our stakeholders. For this purpose, we are now in the process of selecting a third party. We have already established a NACMPI subcommittee to provide regular, ongoing guidance. It is important that we ensure everyone participates in this process.

In fiscal year 2007, we plan to advance risk-based inspection in processing establishments through team inspection. This approach will utilize Agency-developed measures, which gauge an establishment's inherent hazard; monitor how well establishments are controlling hazards and complying with regulatory requirements; and provide for risk-based verification testing for Listeria monocytogenes in ready-to-eat products and the environment, and for Salmonella and E. coli O157:H7 in raw products.

Effective implementation of team inspection in processing and risk-based verification testing will require not only workforce training for risk-based inspection, but also implementation support activities to ensure consistency of application after training.

As part of a comprehensive risk-based inspection system, we will develop risk-based verification strategies for meat and poultry in commerce that can be used by FSIS personnel. Such activities would complement inspection activities performed in-plant. This initiative in fiscal year 2007 covers the cost of testing the policies, methods, and information technology (IT) applications to determine which mix provides the best consumer protections within FSIS' regulatory authority.

Data obtained through surveys enable the Agency to base policies and regulations for inspection on a comprehensive understanding of the measures taken by establishments to reduce foodborne risks and the efficacy of such measures as processing technologies and pathogen reduction interventions. These surveys will be used to measure the potential impact of proposed regulatory changes, identify which segments of the industry may be achieving a regulatory standard, and identify improvements other establishments will need to make to achieve the standard.

*Risk-Based Salmonella Control*

Part of the $2.6 million request for risk-based inspection is for risk-based Salmonella control, which amounts to $602,000. Given the challenge we face with Salmonella that I mentioned earlier and the fact that there has been an increasing concern about outbreaks attributed to emerging and multi-drug resistant strains of Salmonella, it is imperative that we take a risk-based approach to investigating and controlling the incidence of Salmonella in meat, poultry and egg products.

Since the prevalence rate in broiler chickens seems to be a trouble spot, we are looking into revising the performance measure for Salmonella on this particular product. Since 1998, FSIS has used the prevalence of Salmonella on broiler chickens, which is a regulatory performance standard for the production of raw poultry carcasses (broilers), to measure the Agency's performance in achieving its goal of reducing foodborne illness.

However, FSIS has identified three weaknesses with the current measure. The first one is that the measure is scientifically unsound. The FSIS regulatory testing program that is the source of the data used in the current performance measure does not provide a true measure of prevalence of the pathogen.

The second weakness is that the current measure overlooks an important public health issue. The current measure is for generic Salmonella, including those that are not attributed to foodborne illness. Not all serotypes of Salmonella are equally dangerous for humans. There are many known serotypes of Salmonella found in broilers, some of which cause human illness with varying severity. In fact, the most common serotype is not a significant factor in human foodborne illness.

The third weakness is that the current testing program is not consistent with FSIS' goal of transitioning to a more risk-based inspection system. Plant process controls for Salmonella vary widely. Since 2003, aggregate percent positives in sample sets have increased each year from 11.5 percent in 2002, to 16.3 percent in 2005 while still remaining within regulatory performance standards. In order to improve program performance, FSIS is working to strengthen its verification testing program by making it more risk-based.

Recognizing these weaknesses, FSIS will develop a new performance measure that more accurately measures:

—Agency performance in achieving its goal of reducing foodborne illness; and

—Plant performance, including identification of those plants that are most likely to have Salmonella serotypes that cause human illness.

FSIS has analyzed data from approximately 7 years of regulatory testing for Salmonella in broilers. The Agency found strong evidence that plants that have consistently achieved a percent positive rate in sample sets at or below half the current regulatory performance standard are less likely to produce raw product that have the serotypes of Salmonella that are causes of human illness. Since these plants have been successful in controlling overall Salmonella to low levels, they would also have low levels of serotypes that are causes of human illness.

As a result, achievement of performance goals established under the new measure would provide a better indication of process control and relate more directly to the improved safety of broilers. Consequently, we are developing a new measure to replace the existing Salmonella performance measure that would demonstrate the potential for reduction in exposure of humans to the serotypes of Salmonella most commonly associated with human illness.

As we move forward on Salmonella, much can be learned from the success from our risk-based model dealing with E. coli O157:H7. In 2002, FSIS issued a Federal Register notice to manufacturers of raw ground beef to conduct reassessments of their HACCP plans. Our scientifically trained personnel conducted food safety assessments through the first-ever, comprehensive reviews of all-beef products. The reassessments and enhanced process control by plants, with assessments by FSIS and testing, led to reductions in E. coli O157:H7 percent positives in FSIS' verification testing program.

Using this model, we are planning to re-evaluate the broiler industry's process controls for serotypes of Salmonella that cause human illness. We will use food safety assessments as tools to reassess higher risk plants, which have the greatest potential to operate above the existing Salmonella performance standard. A food safety assessment is a systematic evaluation of a plant's scientific basis, design, validation and execution of its HACCP plan. In an example of how effective food safety assessments are, one broiler plant had a 30 percent positive Salmonella rate. After our enforcement, investigation, and analysis officers conducted the assessment, the plant has a two percent positive Salmonella rate and is holding steady. This is the kind of result we anticipate for Salmonella.

*Outreach to Small and Very Small Plants*

In order to move forward with a more robust risk-based inspection system, we need to have the support of industry. All plants need to fully embrace HACCP, and a critical sector of the industry we regulate are small and very small plants, which comprise the majority of the plants we oversee each day.

We realize that small and very small plants have unique needs when it comes to full-scale HACCP implementation and that they might not have as many resources as large plants do. Therefore, I made an absolute priority of increasing the communication between FSIS and the small and very small plants so that we can identify and respond to their needs faster and more efficiently with regard to full-scale implementation of their HACCP plans.

Since September 2005, we have held listening sessions for small and very small plant owners and operators in Montana, California and Pennsylvania. These sessions gave us a better understanding of what was causing gaps between a plant's performance and our expectations for them to operate under HACCP. As a result, we have taken several actions to remedy any misunderstanding and deliver what small and very small plants need to embrace HACCP effectively.

I do believe that education facilitates a greater understanding and helps close any performance gaps in implementation of HACCP plans. It also keeps FSIS from having to take enforcement action on establishments. I would be much happier with a solution that calls for increased education rather than for increased regulation; however, I have made the point to industry that we will do whatever it takes to ensure that a robust HACCP system is implemented and maintained in each and every plant, large or small. Public health is our responsibility and we will take regulatory action as necessary.

This is absolutely necessary to move forward because when a child eats a hamburger, that burger should be as safe as it possibly can be, regardless of the size of plant it comes from. If that child gets E. coli O157:H7 or Salmonella, then that child, the child's parents and the child's doctor do not care what size that plant was, or how much ground beef it produced.

*Workforce Training*

In addition to industry's complete embracing of HACCP, training FSIS' workforce is a key component to ensure a robust risk-based inspection system. I understand that it requires a large investment in FSIS employees to ensure they have the training and skills they need to be successful in a risk-based environment. However, it is an investment that I know will continue to provide food safety dividends well into the future. If they succeed, then the American consumer is better off as well.

Training enables inspection program personnel a wider range of opportunities to make a real difference in public health, and it also opens new avenues of career advancement to our employees. I also believe training improves job satisfaction, which leads to increased employee retention and recruitment.

One of the Agency's top priorities in recent years has been to aggressively address the training and education of its workforce. We truly appreciate the support you have provided for us to pursue this goal. The increased workforce capabilities made possible by the changes and improvements in FSIS training have led to measurable improvements in public health, as I mentioned before using the data from the CDC. The declines in pathogen contamination further demonstrate that your support for our investment in training is a critical component of our public health infrastructure.

*Public Health Communications Infrastructure*

Another critical building block for the foundation of a robust risk-based inspection system is to have a public health communications infrastructure that has the ability to collect, assess and respond to data in real-time. This is why we are requesting $1.9 million in fiscal year 2007 to enhance our communications infrastructure.

It is vital for our in-plant personnel to have this data in real-time in order to do their jobs properly and effectively. If they can do their jobs effectively, then FSIS will be able to react more rapidly in a crisis to better protect public health and ultimately save lives.

Enhancing effective field communication capabilities has been a major goal of FSIS. Yet, while these efforts are continuing, approximately 40 percent of FSIS' field inspection workforce remains without timely communication capabilities. Part of the $1.9 million request for the communications infrastructure would be $615 thousand dedicated specifically toward inspector communication enhancement. With a need for increases in food safety assessments, enforcement actions and increased readiness, timely communication is vital to more effectively protect consumers.

We need to continue the progress we have been making in replacing dial-up connections with high speed telecommunication lines for our field force. High-speed access enables us to receive real-time data and thus react more quickly to protect the public health. It is also an essential time-saving and cost-saving mechanism that makes management of the Agency's operations more efficient in the long run. We provided high speed telecommunication lines first to slaughter establishments with inspection personnel having bovine spongiform encephalopathy regulatory enforcement responsibilities. In fiscal year 2006, we are continuing this strategy of bringing broadband service to over 2,300 base plant locations.

In addition, the rapid pace of technological change in operating systems, application software and hardware, as well as the failure/repair rates for equipment, necessitates the replacement of computers every 3 years. The $1.3 million requested for computer replacements will enable FSIS to meet the demands of major operating system changes and eliminate the need for warranties extended beyond 3 years and expenditures not covered by the warranties. We need to ensure our compliance officers, supervisory and inspection program personnel, as well as State inspection personnel receive replacement computers. At present, this accounts for about 4,000 microcomputers in the field, and our goal is to replace 1,300 to 1,400 computers annually.

*Food Emergency Response Network*

To continue the advancements in food defense that I mentioned earlier, we are asking for an increase of $15.8 million for food and agriculture defense. A major component of this request would be allocated for the Food Emergency Response Network (FERN), which I also mentioned earlier.

Consumer safety and public health protection will be enhanced through FERN. This will be possible through achieving FERN's four primary objectives. The first objective is to help us and partnering agencies prevent, or at least mitigate the brunt of, any attacks on the food supply through surveillance testing. The second objective is to prepare for emergencies by strengthening laboratory capabilities through the development and validation of analytical methods, analyst training and proficiency testing. The third objective is to respond to threats, attacks and emergencies in the food supply by providing a communications network and the necessary laboratory surge capacity. And the final objective is to provide laboratory support for investigations of, and recovery from, terrorism-related events.

Being able to respond rapidly to a sudden surge in demand for testing is imperative, if we are going to restore consumer confidence in the safety of the Nation's food supply and to maintain U.S. economic stability in spite of the event. We only need to look back at the anthrax attacks in the autumn of 2001 to learn a valuable lesson. Only a few envelopes containing traces of anthrax were opened and only a few people died.

But what happened in this bioterrorism event was that all Americans became fearful of exposure to anthrax when they came in contact with any white, powdery substance. Demand for laboratory testing of these substances was nationwide, and most laboratories did not have the necessary resources to handle this surge, causing prolonged delay before people knew if they had been exposed or not, putting a great burden on the Nation's psyche.

When I worked in Nebraska's Department of Public Health, we had set up and maintained an effective laboratory testing system that could handle surge capacity within that State, whether it was for events stemming from intentional acts or Mother Nature. If we had not built such capacity, then only a few State laboratory technicians would have been inundated with West Nile virus testing when the virus hit Nebraska. We had an integrated system, so that when West Nile did become a public concern, we were able to call upon laboratory technicians from hospitals and universities to start testing for the virus. Having several hundred laboratory technicians test for West Nile as opposed to having only several do the job was certainly a much more sensible and effective public health strategy.

If something were to happen in the food and agriculture sector that would cause public alarm, then our current system simply would be inundated. FSIS has three regulatory sampling laboratories and they work great under normal conditions. However, we need the surge capacity to help us handle at least three potential likely scenarios. The first one would be a hoax—let's say someone or some organization claims they have contaminated the food supply, but have not. The second would be an actual attack on the food supply by an individual or group. The third would be an outbreak stemming from an act of Mother Nature. In all three cases, there would be mass public concern and significant economic consequences. In the last two cases, there could potentially be hundreds, perhaps thousands, of people getting sick and dying. The sad reality is that we do not at this time have a laboratory system effec-

tive enough to handle the surge capacity if one of these three scenarios were to happen today or tomorrow.

This is why FSIS' $13 million request for FERN will help provide participating laboratories with the necessary training, laboratory equipment and supplies so that we can handle surge capacity and achieve the other three objectives I mentioned earlier. From a public health standpoint, an investment in FERN is an absolute essential priority if we want to prevent, or mitigate, the loss of life and economic hardship if an intentional or unintentional incident affecting the food supply were to happen.

FISCAL YEAR 2007 BUDGET REQUEST

I appreciate having the opportunity to discuss a number of FSIS' accomplishments and priorities with you. Now, I would like to present an overview of the fiscal year 2007 budget request for FSIS.

Implementation of these budget initiatives is imperative to helping us attain FSIS' public health mission. In fiscal year 2007, FSIS is requesting an appropriation under current law of $862.9 million.

*Supporting FSIS' Basic Mission*

The FSIS budget request for fiscal year 2007 supports the Agency's basic mission of providing continuous food safety and inspection in each meat, poultry, and egg products establishment in the United States.

The Agency's permanent statutory obligation is to provide continuous inspection of meat, poultry, and egg products is a labor intensive mandate, thereby making its salary cost relatively inflexible. An increase of $16 million for the FSIS inspection program is requested to provide for the 2.2 percent pay raise for FSIS employees in fiscal year 2007 to assure that the Agency is provided sufficient funds to maintain programs. Failure to provide the full amount for pay and benefit costs jeopardizes the effectiveness of FSIS programs and weakens food safety.

We also seek an increase of $1.9 million for Agency efforts to support the President's Management Agenda in the area of IT. As I pointed out earlier, the Agency is seeking ways to have electronically stored information from all FSIS personnel integrated and available in real-time. This would allow inspectors ready access to information necessary to protect the public health.

As I mentioned several times, as someone with a medical background, I view the bottom line of preventing foodborne illness and saving lives very stringently. My focus is on prevention, and I believe the request for increases of $2.6 million for risk-based inspection and $15.8 million for food and agriculture defense will move us where we need to be to further enhance public health protection.

In order to facilitate cross-agency coordination of information, FSIS seeks an increase of $600,000 for International Food Safety in order to link to the International Trade Data System managed by the Department of Homeland Security's Customs and Border Protection.

*User Fees*

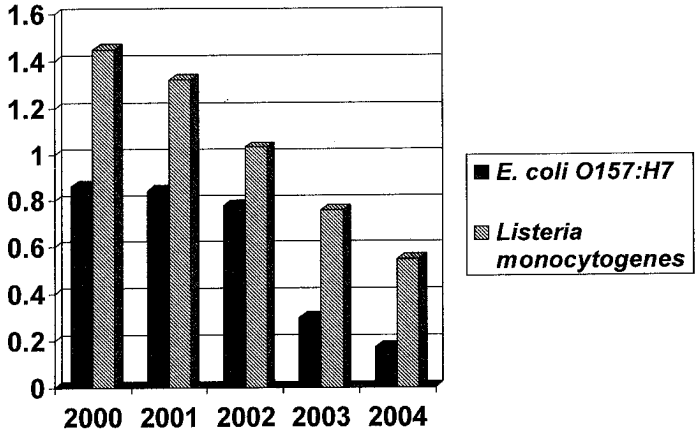
Inspection services for the cost of Federal meat, poultry and egg products during all approved shifts are now paid with Federal funds. Legislation will be re-submitted to Congress, which would provide USDA with the authority to collect fees for inspection services beyond one eight-hour shift per day, saving significant Federal costs by transferring these costs to the industries that directly benefit from services performed. New industry costs would be a small fraction of one cent per pound of production, but would allow FSIS to ensure a safe food supply. Of the $862.9 million requested in the fiscal year 2007 budget, $105 million is proposed to be derived from these user fees.

CLOSING

We will continue to engage the scientific community, public health experts, and all interested parties in an effort to identify science-based solutions to public health issues to ensure positive public health outcomes. It is our intention to pursue such a course of action this year in as transparent and inclusive a manner as is possible. The strategies I discussed today will help FSIS continue to pursue its goals and achieve its mission of reducing foodborne illness by protecting public health through food safety and security.

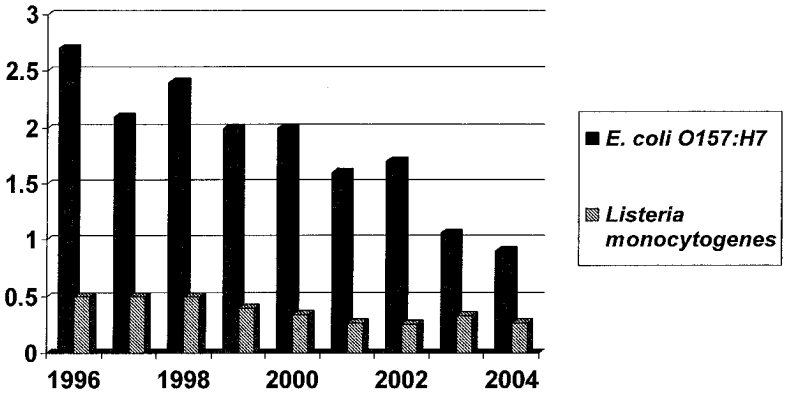
Mr. Chairman, thank you again for providing me with the opportunity to address with the Subcommittee and submit testimony regarding the steps that FSIS is taking to remain a world leader in public health. I look forward to working with you to improve our food safety system, ensuring that we continue to have the safest food supply in the world.

## Declines in Positive Regulatory Samples for *E. coli* O157:H7 and *Listeria Monocytogenes*




Percentage of Positive Regulatory Samples

## Decreases in Foodborne Illnesses Since 1996-98 Baseline




1996-2004 FoodNet Foodborne Illness Incidence Data
(Cases per 100,000 persons)

PREPARED STATEMENT OF DR. BARBARA J. MASTERS, ADMINISTRATOR, FOOD SAFETY AND INSPECTION SERVICE

Mr. Chairman and members of the Subcommittee, I am pleased to be here today as we discuss public health and the U.S. Department of Agriculture's (USDA) fiscal year 2007 budget request for the Food Safety and Inspection Service (FSIS).

This year marks the 100th anniversary of the passage of the Federal Meat Inspection Act (FMIA), which ushered in a new era of food safety on the national level. Although FSIS was established under its current name by the Secretary of Agriculture on June 17, 1981, our history dates back prior to 1906. Our mission is to ensure that meat, poultry, and egg products distributed in commerce for use as human food are safe, secure, wholesome, and accurately labeled. FSIS is charged not only with administering and enforcing the FMIA, but also the Poultry Products Inspection Act (PPIA), the Egg Products Inspection Act (EPIA), portions of the Agricultural Marketing Act, and the regulations that implement these laws.

At FSIS, we are committed to the idea that an effective food safety and food defense system must be rooted in science. To meet its goal of protecting public health, FSIS will continue to review policies and regulations in light of what the science demands. We will also work with interested parties to modernize and enhance our inspection and food safety and defense verification efforts. All of this is necessary if we are to fulfill our public health mandate and stay ahead of the evolving threats to America's food safety.

I am pleased to report that progress is being made in measurable and significant ways. An effective gauge of how our scientific policies are working is looking at how public health is positively impacted. Our efforts are clearly on the right track, as evidenced by the decline in foodborne illness over a recent 6-year span. For instance, the Centers for Disease Control and Prevention (CDC) last spring reported continued reductions in foodborne illnesses from 1996–1998 through 2004 stemming from E. coli O157:H7, Listeria monocytogenes, Campylobacter, and Yersinia. The report indicates that reductions in foodborne illness reported in 2003 were not an isolated event and that sustained progress is being made toward reducing illness from very dangerous foodborne pathogens.

While these reported declines in foodborne illness are dramatic, we believe more can—and will—be done. We will realize further progress in the food safety dynamic by implementing a more robust, risk-based inspection system.

The foundation of this system will be the ability to anticipate and quickly respond to food safety challenges before they have a negative impact on public health. While FSIS incorporates risk assessments in our approach to food safety, our goal is to further strengthen the system so that inspection program personnel may more effectively anticipate problems before they happen. A more robust, risk-based inspection system will ensure that our Agency's resources are used in the most effective and efficient way possible. We need a more robust system to help us meet future food safety challenges, some of which are either evolving or unknown today. An optimal risk-based inspection system is what FSIS is striving to achieve, and it will continue to guide our activities in fiscal year 2007.

Ensuring the safety of America's meat, poultry, and egg products requires a strong infrastructure. To accomplish this task, FSIS has dedicated public health servants stationed throughout the country and in laboratories, plants, and import houses everyday. In fiscal year 2005, the Agency had approximately 7,600 full-time personnel protecting the public health in 5,870 Federally-inspected establishments nationwide. FSIS inspection program personnel performed ante-mortem and post-mortem inspection procedures at 1,700 slaughter establishments to ensure public health requirements were met in the processing of 140 million head of livestock, 9.4 billion poultry carcasses, and about 4.3 billion pounds of liquid egg products. In fiscal year 2005, FSIS inspection program personnel also conducted over 8 million procedures to verify that establishments met food safety and wholesomeness requirements. In addition, during fiscal year 2005, approximately 4.3 billion pounds of meat and poultry and about 8.4 million pounds of egg products were presented for import inspection at U.S. ports and borders.

In an Agency the size of FSIS, with employees stationed all around the country, it quickly became apparent to me that effective communication was central to our mission. I have made improved communication a major priority, and we have greatly enhanced our communications tools including a redesigned, consumer-friendly Website; the debut of an Intranet for employees where they can access important and vital information; the launch of "all-employee" meetings via Web-cast; and more regular communications from the Administrator's office to the field. We continue to work on communications enhancements in order to ensure our entire workforce remains fully knowledgeable about the Agency's mission and goals.

Fulfilling our public health mandate to ensure a safe and wholesome food supply is a demanding responsibility and an exciting challenge. I would like to thank you for providing FSIS with the resources to protect meat, poultry, and egg products. For fiscal year 2006, FSIS received $837.7 million ($829.4 million after rescission), and these funds are helping to move the public health agenda forward. For instance, for fiscal year 2006, Congress approved $2.2 million in additional funds for frontline inspection. This funding is enabling us to hire additional supervisory consumer safety inspection personnel, thus freeing up time for Public Health Veterinarians to focus on more complex and demanding food safety projects such as conducting food safety assessments and focusing on the design of food safety systems. Further, the additional funding you have provided us in the area of food defense has helped the Agency in further developing our response to contamination of the food supply, whether intentional or accidental. I will provide additional information on both these subjects later in this document.

Today, I would like to share with you how we will further implement a more robust, risk-based inspection system, as well as some of our leading pathogen control efforts; our enhanced outreach to small and very small plants; our workforce training initiatives; our food defense activities; and our public health communications programs.

*FSIS' Six Priorities*

First, I want to reiterate that the Agency operates under six operational priorities, which I first shared with you 2 years ago. FSIS continues to hold itself accountable for improving public health. When we established these priorities, we outlined a series of actions to enable us to better understand, predict, and prevent contamination of meat and poultry products to improve health outcomes for American families. Since then, we have been building upon these priorities, all equally important, and continue to improve the Agency's infrastructure with a greater attention to risk so that we can continue improving our performance under the public health model. I should note that even though our priorities remain the same, we are constantly raising the bar so we can move forward to enhance public health protection. These priorities are building the infrastructure for further implementation of a more robust, risk-based inspection system.

*Continuing Evolution of Inspection and Enforcement: The Three Pillars*

The first major initiative I want to discuss today is the continuing evolution of inspection and enforcement. The evolution of inspection and enforcement is most closely aligned to our building a more robust, risk-based inspection system. (See Attachment.)

This process can best be described by an illustration we have often used at FSIS. Namely, a more robust, risk-based system is a major structure built on a strong foundation with three pillars providing support. The pillars, taken together, maintain the system's integrity. The three pillars are: industry, FSIS personnel, and consumers.

The Hazard Analysis and Critical Control Point (HACCP) system is the core of the industry pillar, and FSIS has a vital role in educating, as well as regulating industry's ability to achieve a positive outcome. Industry, for its part, is responsible for designing and implementing an effective food safety system. In this regard, we have been enhancing our outreach efforts, especially to small and very small plants, which I will describe later in this document.

The FSIS personnel pillar is necessary so that we can collect, assess, and respond to public health data. Our verification must be uniform and consistent, especially in areas of greatest risk. Under a more robust, risk-based inspection system, we must use science as our guiding principal. In other words, we follow the core functions of the public health model—assessment, policy development, and assurance. Thus, the type and intensity of inspection at each plant would be determined by an analytical process which allows our inspectors to foresee problems so they can focus their efforts at plants and in processes that pose a public health risk. But in order to reach this point, we must develop a new system that will allow us to collect, assess, and respond to public health data. This need is emphasized in our budget request.

The third pillar is one which represents consumers. Consumers—including all of us here today regardless of title—need to have confidence in a safe and well-defended food supply.

As we move towards a more robust, risk-based inspection system, our goal is to ensure that we receive input from all stakeholders (industry, employees, and consumers) along every step of the process. We need to ensure that all food safety part-

ners are aware of the expectations and goals and have had the opportunity to provide input in moving towards a more robust, risk-based inspection system.

*Risk-Based Pathogen Controls*

FSIS' Listeria monocytogenes verification sampling is a good example of how we have taken a more risk-based approach in processing plants. Under this initiative, FSIS tailors its verification activities to the interventions that plants choose to adopt and to the potential for Listeria monocytogenes growth in their products. In other words, FSIS conducts less sampling in those plants that have the best Listeria monocytogenes control programs and more sampling in plants that adopt less vigorous programs. Thus, plants have an incentive to do more to control Listeria monocytogenes.

Considering all the progress that has been made in reducing Listeria monocytogenes, E. coli O157:H7, Campylobacter, and other pathogens, FSIS believes that it is time to enhance the risk-based approach to investigating and controlling the incidence of Salmonella in meat, poultry, and egg products. Salmonella is the most frequently reported foodborne illness in the United States, causing culture proven cases of foodborne illness at a rate of 14.7 per 100,000 population. The Department of Health and Human Services' (DHHS) Healthy People 2010 calls for a rate of Salmonella infections of 6.8 per 100,000 population. We have a long way to go.

Salmonella includes over 2,300 serotypes, all of which are considered pathogenic in humans. Although most of the reported cases in the United States are associated with a relatively small number of serotypes—some of which are commonly found in raw meat and poultry products—there has been increasing concern about outbreaks attributed to relatively rare strains of Salmonella resistant to multiple antibiotics.

While the Agency responds quickly to positive findings of Salmonella linked to human illness at any establishment, our risk-based Salmonella approach for raw product would help us be proactive before human illness is associated with our regulated products rather than reactive. It is essential that FSIS proceeds with its new Salmonella performance measure because it more accurately reflects Agency performance in reducing foodborne illness and plant performance in reducing the pathogen in its processes. Our risk-based Salmonella approach would also provide us with an early warning capability for the high-risk Salmonella serotypes from meat, poultry, and egg products in particular geographic areas.

Our budget request would allow us to fully characterize isolates; initiate a Food Safety Assessment at a high-risk establishment before an outbreak occurs rather than as part of the investigation of why an outbreak has occurred; conduct more testing in areas where a cluster of serotypes is identified to determine if an unusual prevalence is occurring; and continually feed to CDC and State public health officials any data concerning patterns. We are requesting $602,000 for this risk-based Salmonella approach.

In many ways, our foundational work has already started. We held public meetings to work with our stakeholders to find ways to reduce food safety hazards. In August 2005, for example, we held a public meeting on Advances in Pre-Harvest Reduction of Salmonella in Poultry in Athens, Georgia. The meeting, with over 208 participants, focused on research and practical experiences aimed at reducing Salmonella at the poultry production level, or before poultry reaches Federally-inspected plants. Based on input from the meeting and other information available to us, we are developing compliance guideline materials for producers that address pre-harvest food safety and Salmonella control. We held a second public meeting on February 23 and 24, 2006, in Atlanta, Georgia, which outlined new approaches to in-plant controls for Salmonella. Approximately 150 attended the meeting, with close to 100 joining the meeting by phone or netcast; the netcast was available both days. This meeting discussed new FSIS actions for encouraging industry to control Salmonella. Both of these meetings served as important steps in our foundational work.

*Funding Progress*

As a more robust, risk-based inspection system is the Agency's number one priority, we are requesting $2.6 million for this risk-based effort in fiscal year 2007. I will go over in more detail the specific funding needs for these efforts later when I review our budget request. However, it is worth highlighting here the following ways in which the Agency will prepare for the further evolution of the risk-based system through the improvement of Agency support:

—$602,000 Salmonella risk-based inspection system approach described above.

—Advance risk-based inspection in processing establishments through reprogramming databases to better assess plant data to determine where to sample based on risks to public health.
—Development of risk-based verification strategies for meat, poultry, and egg products in commerce that can be used by FSIS personnel. We will collaborate with State, local, and public health officials at the retail level to determine strategies for enhanced consumer protections within our regulatory framework. These activities would complement inspection activities performed in-plant.
—Use of data to base policies and regulations for inspection on information obtained that defines measures taken by establishments to reduce foodborne risks and the efficacy of measures implemented to reduce risk, e.g., pathogen reduction interventions.
—Use of new technologies to increase the effectiveness of the risk-based inspections that inspectors perform including such things as rapid tests for residues and microbes.

*Training, Education, and Outreach*

The next priority I want to discuss is training, education, and outreach. Training is the foundation of our public health successes and a key element in our strategy to meet the Healthy People 2010 goals. All employees need to be equipped with the knowledge and technical expertise to operate within a public health framework, and the Agency has made great strides in achieving a well-trained workforce that is not only able to identify threats to the public health, but also to anticipate possible threats. We continue to have a need for training and are moving beyond the entry level and basic HACCP training provided to our workforce. As new employees join the Agency, they still require the basic training. With ongoing changes in policy, and as we move to a more robust, risk-based inspection system, new training and refresher training will be needed by all employees. Additionally, we are beginning to explore intermediate and advanced training opportunities for our employees. Based on new, innovative ways of reaching our employees, the Agency is using its existing budget to conduct this training.

It has been easier to reach our employees and provide them training with the implementation of our regional training system to deliver vital training courses closer to employees' worksites. This innovative program ensures that our workforce receives critical scientific training in a timely manner. Providing this training efficiently and effectively has been a key element in the on-going reductions of foodborne pathogens.

Due to improvements FSIS has made to its training program, 100 percent of those hired as entry-level employees, as well as those who are promoted into inspection and enforcement occupations, now receive mission-critical training within 1 year of entering Agency duty. Many of these employees will receive the training within the first 6 months of being hired, or sooner.

FSIS' Food Safety Regulatory Essentials (FSRE) training program has equipped inspection program personnel in verifying an establishment's HACCP system. Customized HACCP training is then provided, based on the types of products being produced at the establishments where inspectors are assigned. Approximately 1,400 FSIS employees received FSRE training in fiscal year 2005, and an additional 1,200 are slated to complete this customized job-training program this fiscal year. We continue to provide specialized training to our Public Health Veterinarians (PHVs), and this year, for the first time, this training will be required as a condition of employment, meaning that employees must successfully complete the curriculum in order to remain in our workforce. Since being launched in fiscal year 2004, over 230 PHVs have received the 9-week classes. We plan to hold eight PHV training classes this year, reaching nearly 200 people.

We are also partnering with other Federal agencies to leverage resources for training. FSIS PHVs are trained to identify signs and symptoms during antemortem and post-mortem inspection that could potentially signify the presence of a foreign animal disease or suspicious condition, and they learn the appropriate response and reporting procedures. Working closely with our sister agency, the Animal and Plant Health Inspection Service, we are developing a training module on this issue that is available anytime, anywhere through the Department's AgLearn system. The course is also currently available through CD–ROM.

In addition, we recognize that we employ individuals who must maintain their professional licenses. That is why we became a certified continuing education units outlet so that many of our courses can be utilized by the PHVs to obtain continuing education credit.

FSIS is also in the midst of a comprehensive, multi-year training and education effort designed to ensure that every FSIS employee fully understands their role in

preventing, or responding to, an attack on the food supply. Efforts began in fiscal year 2002 with food defense awareness training for supervisors. Since then, we have expanded with contracted anti-terrorism training that was provided to more than 5,000 field and headquarters employees. Food defense awareness training is also being conducted with local partners, such as State and local inspectors, in a cooperative effort with other Federal agencies (Food and Drug Administration, USDA/Food and Nutrition Service, and USDA/Agricultural Marketing Service).

With a regional approach to training, we have been able to deliver training faster and more efficiently to employees entering mission-critical occupations. Through e-learning techniques, we have been able to distribute training materials more rapidly to the workforce on vital issues such as bovine spongiform encephalopathy (BSE) policy. Through a policy of training as a condition of employment, we have also been able to ensure that all employees have the competencies to perform successfully. The regional approach also allows us to better leverage our resources so that our trainers can also provide outreach and education to small and very small plants, as well as in the course of interacting with their FSIS colleagues.

FSIS is exploring a wide range of methods to reach its geographically dispersed workforce with on-going training updates. The newest vehicle FSIS has used is netcast. Most recently, Export Verification training was provided to inspection program personnel via netcast at establishments that produce beef products for export under Export Verifications programs.

We know that for a more robust, risk-based inspection system to be successful then all plants must have well-designed, food-safety systems. To that end, we have been enhancing our outreach efforts, especially to small and very small plants, to ensure everyone is meeting the same requirements. We are significantly changing the dynamic of our workforce in order to improve our outreach efforts in this area. It is clear to us from our existing communication efforts that effective outreach can lead to important changes in food safety designs by industry. Small and very small plants are also part of the industry pillar that supports a more robust, risk-based inspection system, and any performance gaps that exist between them and the larger plants needs to be closed.

One method we know is succeeding in this area is our actions following Food Safety Assessments (FSA), which have remained consistent over the past 3 years. For example, out of 1,501 FSAs conducted in 2005, 912 of the establishments were found in compliance. We believe we have a vital role in educating and regulating industry to achieve this outcome, so we are assessing all aspects of our industry outreach. In 2005, we held outreach and listening sessions with small and very small plants in Montana and California. Early this year, we held two more in Pennsylvania. From these sessions, we are gathering critical feedback to ensure plants do not fall behind in HACCP implementation.

FSIS recognized, based on responses and comments from the outreach/listening sessions, the need to update its outreach strategy from one focused on initial development of a HACCP plan, to one that is geared towards the scientific basis of the HACCP plan. In other words, we need to shift from "execution" of HACCP plans to "design" of those plans. FSIS especially wants to continue to work with small and very small plant owners and operators so they can continue to enhance the design of their food safety systems.

Ultimately, making certain that the Nation's food supply is safe makes good business sense, as well as good public health. We realize plant owners and operators must have the necessary tools for success, so education through outreach is an important focus for us. Likewise, plant owners and operators must seek this education and these tools and follow them. If educational or training opportunities are repeatedly ignored then we have made it clear that public health is our responsibility and we will take regulatory action as necessary.

Most recently, the International HACCP Alliance hosted a strategy session attended by senior-level FSIS employees to discuss and discover the needs business owners, especially those of small and very small plants, have in relation to fully implementing HACCP. Both Dr. Raymond, Under Secretary for Food Safety, and I attended the meeting to show how important and valuable we view these sessions. The recommendations from this session are being included as part of an implementation plan by a group of senior-level FSIS employees. While the implementation plan is not yet finished, I can tell you that a uniform, consistent, and effective message regarding food safety regulations is a critical deliverable on the part of the Agency.

*Consumer Education Initiatives*

In the area of consumer education this year, the Food Safety Mobile played perhaps our most prominent role when it visited the Hurricane-ravaged Gulf Coast re-

gion. This eye-catching "food safety educator-on-wheels" brings important public health information to consumers and builds on our partnerships in grassroots communities across the country. Through the Food Safety Mobile, FSIS is sharing its food safety message with the public, especially culturally diverse and underserved populations and those with the highest risk from foodborne illnesses. In addition to dispensing important food safety tips in areas hit with power outages and water damage, the Food Safety Mobile distributed food safety brochures, bleach, hand wipes, and thermal bags. During its two-and-one half month tour of the Gulf States, the Food Safety Mobile reached nearly 41,000 total consumers face-to-face. In fact, the Food Safety Mobile was so successful that a second mobile was launched in October 2005, appearing at 18 events in 11 additional cities in Texas and Louisiana following Hurricane Rita. Food Safety Mobile II reached an additional 15,000 consumers affected by the hurricanes.

In another inter-agency collaborative effort to educate about the importance of food safety, FSIS is cosponsoring with the DHHS' Food and Drug Administration (FDA), CDC, and private sector organizations an international food safety education conference this September, focusing on reaching at-risk audiences. An unprecedented effort, the goals of the conference include sharing current surveillance and epidemiological data on foodborne illness; presenting strategies leading to enhanced food safety knowledge, skills, and abilities in the general population and among at-risk populations; and to communicate the latest science-based safe food handling principles and practices.

*Food Defense*

The third priority is our substantial effort to continue to improve our food defense capabilities. The Agency has accomplished much in the area of food defense, making a strong system even stronger. The name of the office which handles this important area was changed from the Office of Food Security and Emergency Preparedness to the Office of Food Defense and Emergency Response. This reflects the fact that we have restructured the office to focus on developing strategies to protect and defend the food supply from intentional contamination and to respond to both intentional acts of adulteration, as well as large scale food emergencies.

Last year, FSIS developed four model food defense plans, which are available on our website. These models are designed to assist Federal- and State-inspected meat, poultry, and egg products establishments, as well as import facilities, to develop their own defense measures to deter the threat of intentional contamination or similar attacks on the food supply. During 2005, the Agency held workshops on these plans in Dallas, TX; Oakland, CA; Chicago, IL; and Philadelphia, PA. In addition to webcasting the Oakland and Philadelphia workshops, FSIS also conducted four additional web casts to ensure that as many people as possible had the opportunity to participate. Two of these webcasts were targeted specifically to State officials, and the Agency also partnered with the University of Puerto Rico in holding an entire webcast in Spanish, which also drew participants from Latin America. In all, it is estimated that these workshops reached over 1,200 people.

The model food defense plans have been issued in the form of guidance documents and are voluntary. However, FSIS believes that every establishment should have a written plan that describes and documents controls to ensure that the premises are defended from potential threats.

FSIS continues to assess vulnerabilities in the food supply. The Strategic Partnership Program on Bioterrorism, a program including the Federal Bureau of Investigation, FDA, and Department of Homeland Security (DHS), along with FSIS and other USDA agencies, carries out joint vulnerability assessments on the food supply with industry and States, and we have been working in conjunction with the CDC, the FDA, epidemiologists, and public health laboratories in several States through the FoodNet and PulseNet programs. FSIS is also conducting an assessment of vulnerabilities of the food supply from illegally imported products.

The majority of the $15.8 million increase in our fiscal year 2007 food and agriculture defense budget request focuses on the Food Emergency Response Network (FERN). FERN is a joint FSIS–FDA effort of national, State, and local laboratories to provide ongoing surveillance and monitoring of food and to promptly respond to an intentional contamination that targets the Nation's food supply, or a foodborne illness outbreak brought about by Mother Nature. To date, $4 million in funding allocated in fiscal year 2005 and fiscal year 2006 has been used to build on the expertise of the Federal, State, and local laboratories that are now part of FERN, and these laboratories are currently conducting method development for testing and performing proficiency testing. FERN has also established five Regional Coordination Centers that serve as the primary points of contact for laboratories across the country.

This effort enables FSIS to utilize State and local laboratories in handling the numerous samples required to be tested in the event of an attack on the food supply, a natural outbreak, or even a hoax, involving a meat, poultry, or egg product. It is vital for the Agency to respond rapidly to such emergencies to not only protect the public's health, but also to ensure public confidence in the safety of the food supply and to prevent an economic collapse in the meat or poultry industries. The first line of this rapid response is the laboratories, which must be provided with training, methodology, and state-of-the-art laboratory equipment. Ultimately, our goal is to have 100 State and local laboratories actively testing the food supply for FERN, like the 18 FSIS-affiliated biological and eight FDA-affiliated chemical laboratories with which FERN now has cooperative agreements.

Another important example of inter-agency cooperation, and one that is designed to allow the FERN labs to test methods and proficiency, is a joint project between USDA's Food and Nutrition Service, Agricultural Marketing Service (AMS), and FSIS. Product samples will be taken from facilities in four States that provide ground beef to the National School Lunch Program. FSIS labs will test those samples for threat agents, in addition to the regular pathogen testing that is performed by AMS. Then, once that product has been sent to warehouses, it will then be retested for the same threat agents by non-FSIS labs in the FERN network that have a cooperative agreement with the FERN network. The project will be held later this year and is the first one to focus on FSIS-regulated products. Earlier projects held in November and December of 2004 tested FDA-regulated products.

*Risk Analysis*

Fourth, is our risk analysis priority—which includes risk assessment, risk management, and risk communication. This is an extremely important process, one that provides FSIS with a way to focus resources on hazards that pose the greatest risk to public health.

A good risk assessment needs good data in order to be effective. Therefore, we are conducting a series of nationwide baseline studies that will help determine the levels of various pathogenic microorganisms in raw meat and poultry. These baseline studies are designed to provide FSIS and the regulated industry with data concerning the prevalence and quantitative levels of selected foodborne pathogens and microorganisms that serve as indicators of process control.

The first baseline study, which began in August and will continue to December 2006, is for E. coli O157:H7 and indicator organisms in beef trim and subprimals. Data from this study will guide Agency decisions on performance standards and allocation of inspection resources. In September of last year, a contract was awarded to a third-party laboratory to perform the microbial analyses for future baseline studies on: young chicken carcasses, ground chicken, and swine carcasses. From this, a new baseline study for young chicken carcasses will be initiated within the next few months. The young chicken baseline will include prevalence and quantified levels for both Salmonella and Campylobacter. This scientific information will allow FSIS to make the decisions necessary to move to a more robust, risk-based inspection system.

Regarding BSE, USDA has contracted with Harvard University to update its risk assessment to ensure previous measures implemented through the interim final rules were appropriate. USDA is drafting a final rule based on the comments received on the interim final rule, the results of the updated Harvard Risk Assessment and results of the USDA enhanced surveillance program.

During the past year, FSIS assumed the Chair of the USDA Food Safety Risk Assessment Committee (FSRAC), whose purpose is to enhance communication and coordination among USDA agencies, to promote sound risk assessments in support of food safety policy, and regulatory decisions. FSIS also became the co-lead for the Interagency Risk Assessment Consortium to share information and coordinate food safety risk assessment approaches among 18 Federal agencies, including DHHS, the Department of Defense, and the Environmental Protection Agency.

*Management Controls and Efficiency*

Our fifth priority is management controls and efficiency, which is a priority we added as a mechanism to best achieve our operational goals and objectives within each program area. Every task undertaken by the Agency has an effect on public health. Because of this, we are requiring each program area to illustrate through documentation that they are meeting their established goals.

In order to ensure that proper management controls are implemented, FSIS' Office of Program Evaluation, Enforcement, and Review (OPEER) branch will audit all Agency program areas to measure the outcomes. In fiscal year 2005, the Agency began development of a two-phase management control audit protocol and agenda

to systematically verify and evaluate management controls. Phase 1 will verify the implementation of the management controls for each program area; Phase 2 will verify that each program is achieving its objectives, and that their controls are adequate and are achieving the program's desired results.

During fiscal year 2005, we developed and implemented management controls that established operational performance standards for verification of HACCP requirements, ante-mortem/post-mortem requirements, Food Safety Assessments, administrative enforcement actions, food defense verification, and recall procedures.

FSIS launched the AssuranceNet project team in fiscal year 2006. This team is developing a state-of-the-art management control reporting system that will tie into key Agency databases. The AssuranceNet team collects information on Agency management controls and the items the Agency needs in the way of a reporting tool. The team is working with Agency technical staff and outside contractors to develop the system according to industry standards and best practices. The AssuranceNet system will undergo extensive real world testing before it becomes fully available for use in June 2006.

An area of management efficiency which we at FSIS emphasize is human resources (HR) modernization and reform. In 2004, FSIS launched an initiative to reshape the HR system to better support our human capital and strategic plans and to facilitate every-day mission performance. The resulting internal work group has developed innovative HR practices that can be implemented under current law, as well as identifying innovations that require Federal legislation or regulatory changes. We stand committed to the belief that the Agency requires an alternative HR system that emphasizes pay-for-performance.

*Public Health Communications Infrastructure*

Our sixth priority is the public health communications infrastructure with the ability to collect, assess, and respond to data in real-time. Because this is also a foundation of a more robust, risk-based inspection system, we are constantly looking for ways to improve communication within the Agency, between the Agency and its stakeholders, as well as cross-Agency communications. FSIS is examining its data needs to make our field operations more effective. Having the same data from the border, the districts, and field and laboratory personnel at the same time is essential so that everyone can connect the dots and proactively respond to this wealth of information rather than just react after a problem surfaces. Proactively interpreting our data will better protect public health from the prospect of non-intentional or intentional contamination. By collecting, assessing, and responding to data in real time, lives can be saved.

A key part of this process is through the effective management of information technology (IT). Through an Enterprise Architecture Working Group, we have been working closely with the Office of Management and Budget (OMB) and others involved in the Federal-government wide e-Government efforts to develop IT systems that facilitate cross-Agency analysis and identification of duplicative investments, gaps and opportunities for collaboration within and across agencies.

Another way we are working to enhance cross-Agency communication in fiscal year 2007 is to create electronic linkages with the Department of Homeland Security's Customs and Border Protection's International Trade Data System in order to provide FSIS with a stronger ability to screen and verify the security of products imported into the United States in an efficient way. FSIS is also working with its Federal partners through the Federal Health Architecture initiative to build a system that all Federal agencies can communicate through to better protect imported products.

On the Agency level, FSIS is working to have electronically stored information from all FSIS personnel integrated and available in real-time, allowing managers and administrators to make management decisions more efficiently as events are unfolding and with greater access to information. This is necessary for our inspection program personnel to do their jobs properly and effectively and to react more rapidly in a crisis to better protect public health and save lives. An example of this was shown in a recent test of an updated version of our Consumer Complaint Monitoring System (CCMS). When implemented later this year, this new version of CCMS will include improved scientific tools to enable us to act more quickly to prevent further foodborne illness. In one scenario, as we were testing this new version of CCMS, we were able to find an E. coli O157:H7 outbreak 3 weeks faster than with our present technology. FSIS is partnering with States to integrate this system so that this real-time data could be accessed and shared by all to help prevent outbreaks and/or limit their scope. Other aspects would also include procuring PDA-type hardware and related software integrating into existing Agency computer and

communications equipment for inspection program personnel. It also includes keeping up with rapid changes in microcomputer technology.

We believe these efforts to improve upon the Agency's IT systems will greatly enhance the Agency's efforts to support the President's Management Agenda, and move us towards more efficient e-Government solutions to the challenges we face.

*InsideFSIS Debuts*

Other ways that we have improved our communications includes InsideFSIS, the Agency's employee intranet which was launched in June. With InsideFSIS, employees are able to gain instant access to important Agency information and may participate in netcasts, as was the case with a State of the Agency meeting held in September last year. We also have an extensive food handlers' education program that encompasses everything from bilingual pamphlets on using thermometers to our Food Safety Mobile.

I have already mentioned the prominent role the Food Safety Mobile played on the hurricane-ravaged Gulf Coast, but the Food Safety Mobile was not the only way the Agency played an important role in our strategy to respond to the hurricanes. Prior to both hurricanes' landfalls, FSIS issued videotaped consumer alerts with food safety tips following a power outage or flood that were satellite broadcast to media outlets in Alabama, Louisiana, Georgia, and Florida. In addition, the Agency's Meat and Poultry Hotline began 24-hour service to handle any food safety questions from consumers. Our outreach to American consumers continued into September, when FSIS recorded and distributed public service announcements offering food safety tips.

*Fiscal Year 2007 Budget Request*

I appreciate the opportunity to discuss FSIS' priorities with you. Now, I would like to present an overview of the fiscal year 2007 budget requests for FSIS. These budget initiatives are vital to helping us attain FSIS' public health mission, as outlined by our priorities. In fiscal year 2007, FSIS is requesting an appropriation of $862.9 million.

*Risk-Based System*

FSIS is seeking a total increase of $2.6 million for the improvement of Agency support for risk-based inspection and risk-based Salmonella control. We are requesting $1.9 million for Agency support of risk-based inspection. Finally, for our risk-based Salmonella approach, we are requesting $602,000.

*Food and Agriculture Defense Initiative*

The fiscal year 2007 budget also requests a total increase of $15.8 million for FSIS to support the Food and Agriculture Defense Initiative in partnership with other USDA agencies, the DHHS, and the Department of Homeland Security. Because food contamination and animal and plant diseases could have catastrophic effects on human health and the economy, the three Federal departments involved are working together on a comprehensive food and agriculture policy that will enrich the Government's ability to respond to the dangers of disease, pests, and poisons, whether natural or intentionally introduced. The total is broken down as follows:

Central to FSIS' food defense efforts is FERN, for which we are seeking an increase of $13 million. These funds are critical to help FSIS provide participating laboratories with the necessary training, laboratory equipment and supplies so that we can handle surge capacity, whether from events stemming from a hoax, intentional acts or mother nature. From a public health standpoint, an investment in FERN is an absolute essential priority if we want to prevent, or mitigate, the loss of life and economic hardship if an intentional or unintentional incident affecting the food supply were to happen.

We are also requesting $2.5 million for two data systems to support FERN—the electronic laboratory exchange network (eLEXNET), and a repository of analytical methods. The eLEXNET is a national, web-based, electronic data reporting system that allows analytical laboratories to rapidly report and exchange standardized data. This system is currently operational in nearly 100 food-testing, public health, and veterinary diagnostic laboratories across the country. The fiscal year 2007 budget request would make eLEXNET available to additional FERN and other analytical, food-testing laboratories. This will require eLEXNET system management, travel, on-site computer programming, and training.

Access to current, properly validated methods used for screening, confirmation, and forensic analysis is critical to all laboratories. For this reason, FSIS is working with FDA to develop a Web-based repository of analytical methods compatible to eLEXNET. Access to these methods will greatly enhance the ability of FERN and other laboratories to respond to emergencies, to use new methodologies and tech-

nologies, to enhance efficiency, and to trouble-shoot problems. The requested funding will be used to enhance the repository and to populate the repository with numerous methods that will be obtained from analytical laboratories.

*Communication*

In order to facilitate cross-Agency coordination of information, FSIS seeks an increase of $600,000 for International Food Safety in order to link to the Import Trade Data System managed by the Department of Homeland Security's Customs and Border Protection. Currently, FSIS relies on the importer of record to present shipments for reinspection, and the lack of network linkages among import data systems maintained by different agencies contributes to a prolonged, sometimes incomplete rendering of product dispositions and document certification for imported meat and poultry products at U.S. ports of entry.

We are also requesting funds for Agency efforts to support the President's Management Agenda in the area of IT. As I pointed out earlier, the Agency is seeking ways to have electronically stored information from all FSIS personnel integrated and available in real-time. This would allow inspectors ready access to information necessary to protect the public health. For inspector communication enhancements, such as the PDA-type hardware for inspectors mentioned earlier, we are seeking $615,000.

Our experience has shown that the originally postulated life cycle of 5 years for microcomputers delivered to the field inspection workforce is not practical, given the rapid pace of technological changes. To replace a 5-year lifecycle for computer hardware with a 3-year lifecycle, the Agency seeks $1,271,000. This accounts for the approximately 4,000 microcomputers in the field. Our goal is to replace 1,300 to 1,400 computers annually.

*Personnel Pay Increase*

An increase of $16 million for the FSIS inspection program is requested to provide for the 2.2 percent pay raise for FSIS employees in fiscal year 2007 to assure that the Agency is provided sufficient funds to maintain programs. Failure to provide the full amount for pay and benefit costs jeopardizes the effectiveness of FSIS programs and weakens food safety.

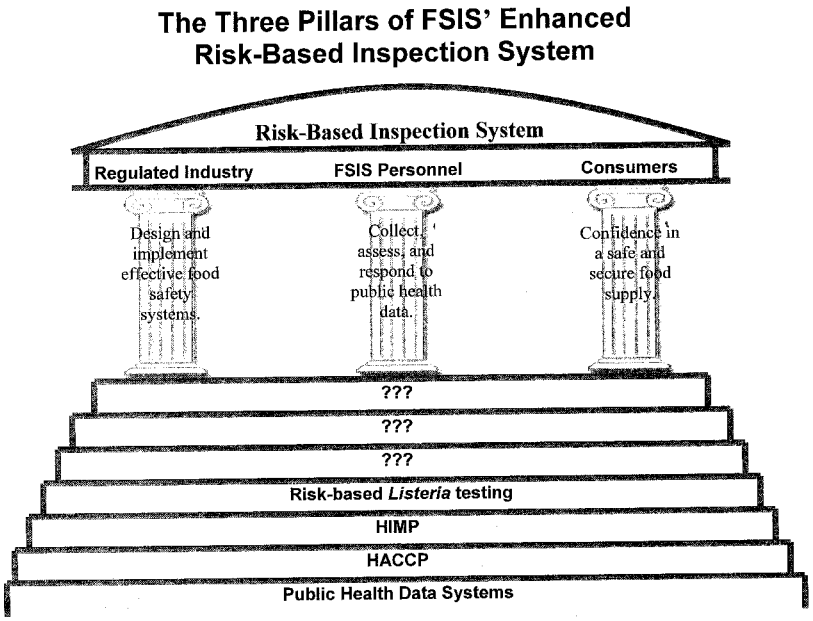
*User Fee Proposal*

Once again this year, our budget reproposes the implementation of a new user fee. As you know, inspection services for the cost of Federal meat, poultry, and egg products during all approved shifts are currently paid for with Federal funds, provided that the species or product is covered under our legislative authority. However, most plants run beyond one 8-hour shift per day. A fee for services beyond that would save significant Federal costs by transferring these costs to the industries that directly benefit from them. The proposed fiscal year 2007 savings are projected at $105.4 million to reflect collections of receipts for three quarters of the year.

*Closing*

As we mark the 100th anniversary of the passage of the FMIA, FSIS will continue to engage the scientific community, public health experts, and all interested parties in an effort to identify science-based solutions to public health issues to ensure positive public health outcomes. It is our intention to pursue such a course of action this year, as we have in the past, in as transparent and inclusive a manner as possible. The strategies I discussed today will help FSIS continue to pursue its goals and achieve its mission of reducing foodborne illness, and protecting public health through food safety and defense.

Mr. Chairman, thank you again for providing me with the opportunity to speak with the Subcommittee and submit testimony regarding the steps that FSIS is taking to remain a world leader in public health. I look forward to working with you to improve our food safety system and ensuring that we continue to have the safest food in the world.




Senator BENNETT. Thank you. Dr. Lambert.

STATEMENT OF CHARLES LAMBERT

Mr. LAMBERT. Thank you, Chairman Bennett, Senator Kohl.

I am pleased to appear before you to discuss the activities of the Marketing and Regulatory Programs and to present our 2007 budget proposals.

With me today are Dr. Ron DeHaven, who is the Administrator of the Animal and Plant Health Inspection Service (APHIS); Mr. Lloyd Day, Administrator of the Agricultural Marketing Service (AMS); and Mr. James Link, who is the Administrator of the Grain Inspection, Packers and Stockyards Administration (GIPSA). And those are the three agencies that make up Marketing and Regulatory Programs (MRP).

In addition, Mr. Dennis Kaplan from the department's Budget Office is here with us.

MRP has addressed several broad goals and objectives to increase marketing opportunities and to protect American agriculture from damages caused by pests and diseases, both intentional and unintentional. The key to private sector financial success is relatively simple. First, offer high-quality products. Second, produce them at a competitive cost. And third, earn a fair price in the marketplace.

In relation to this, MRP has identified three areas for special attention to make American agriculture more competitive. They include protecting plant and animal health; ensuring quality; and continuing to work with the Department of Homeland Security to exclude agricultural health threats and with farmers and ranchers to control endemic pests and diseases once they are here.

Through MRP's commodity grading and inspection programs, we support producers in the marketing of high-quality crops and livestock.

Second is through enhancing market access by reducing technical barriers to trade. And third is harmonizing international standards by redoubling our efforts in a variety of international standard-setting organizations and working closely with our sister agencies to ensure that technical standards do not become technical barriers.

MRP activities are funded both by the taxpayers and beneficiaries of program services. The budget proposes that the MRP agencies carry out programs of close to $2 billion, with $412 million funded by fees charged to direct beneficiaries and $450 million from customs receipts.

On the appropriation side, the President's budget requests about $959 million for APHIS, $85 million for AMS, and $42 million for GIPSA.

The budget proposes user fees that, if enacted, would generate about $42 million in savings to the U.S. taxpayer. The budget also includes a proposal to terminate the AMS Microbiological Data Program, given its limited use to determine the source of food-borne illnesses and other reasons.

PREPARED STATEMENTS

Mr. Chairman, the increases that you referred to are generally in the exclusion of foreign animal and plant diseases and pests and for enhanced monitoring and surveillance primarily related to avian influenza.

I look forward to working with the committee on the 2007 budget for marketing and regulatory programs. We believe the proposed funding amounts and sources of funding are vital to improving plant and animal health and ensuring quality and enhancing market access and achieving harmonization of international standards. It also works to reduce the deficit and protects American agriculture from terrorists.

We are happy to answer any questions. Thank you.

[The statements follow:]

PREPARED STATEMENT OF CHARLES LAMBERT

Mr. Chairman and members of the Committee, I am pleased to appear before you to discuss the activities of the Marketing and Regulatory Programs (MRP) of the U.S. Department of Agriculture and to present our fiscal year 2007 budget proposals for the Animal and Plant Health Inspection Service (APHIS), the Agricultural Marketing Service (AMS), and the Grain Inspection, Packers and Stockyards Administration (GIPSA).

With me today are Mr. Jeremy Stump, Acting Deputy Under Secretary for MRP; Dr. Ron DeHaven, Administrator of APHIS; Mr. Lloyd Day, Administrator of AMS; and Mr. James Link, Administrator of GIPSA. They have statements for the record and will answer questions regarding specific budget proposals.

MRP has addressed several broad goals and objectives to increase marketing opportunities and to protect American agriculture from damages caused by pests and diseases, both intentional and unintentional. The key to private sector financial success is relatively simple. First, offer the highest quality products. Second, produce them at the lowest possible cost. And, third, earn a fair price in the marketplace.

MRP helps American farmers and ranchers in several ways. AMS and GIPSA certify the quality of agricultural commodities and provide industry with a competitive edge earned by the USDA seal of approval for grading and inspection. APHIS protects the health of plants and animals, thereby keeping costs low. APHIS also provides plant and animal sanitary and phytosanitary (SPS) expertise during inter-

national negotiations to maintain and open markets around the world, and GIPSA works to ensure that livestock producers have a level playing field upon which to compete. A healthy and marketable product provides the foundation of competitive success.

MRP INITIATIVES

MRP has identified three areas for special attention to make American agriculture more competitive. They include:

*Protect Plant and Animal Health and Ensure Quality.*—MRP will continue to work closely with the Department of Homeland Security (DHS) to prevent the entry of foreign plant and animal pests and diseases through the Agricultural Quarantine Inspection Program (AQI). We will continue to work with farmers and ranchers to control endemic pests and diseases at minimal levels. Through MRP's commodity grading and inspection programs, we will support our producers in the marketing of their high quality crops and livestock.

*Enhance Market Access.*—Market access can be impaired through technical barriers and SPS measures. MRP will continue to work closely with international counterparts to educate them about our systems; to learn more about the foreign country requirements; and to certify that U.S. products meet their standards.

*Harmonize International Standards.*—MRP will continue to provide expertise in an effort to harmonize sanitary and phytosanitary measures. Since risk is inherent and fair trade relies upon the same standards being applied to all parties, MRP will increase its efforts with the World Organization for Animal Health and the International Plant Protection Convention to develop standards and processes for two-way trade to exist, with restrictions and mitigations based on science to reduce risk. Moving away from an "all or nothing" approach makes trade therefore less risky, as a localized or contained outbreak has fewer effects on exports and thus on the economy. In a similar vein, a level playing field in world markets depends on technical standards that describe the quality and other characteristics of agricultural products in a manner that does not discriminate against U.S. producers and shippers. MRP will redouble its efforts in a variety of international standard setting organizations and work closely with our sister agencies to ensure that technical standards do not become technical barriers.

FUNDING SOURCES

The MRP activities are funded by both the taxpayers and beneficiaries of program services. The budget proposes that the MRP agencies carry out programs of close to $2 billion, with $412 million funded by fees charged to the direct beneficiaries of MRP services and $450 million from Customs receipts.

On the appropriation side, the Animal and Plant Health Inspection Service is requesting about $953 million for salaries and expenses and $6 million for repair and maintenance of buildings and facilities; the Agricultural Marketing Service is requesting $85 million; and the Grain Inspection, Packers and Stockyards Administration is requesting $42 million.

The budget proposes user fees that, if enacted, would generate about $42 million in savings to the U.S. taxpayer. Legislation will be proposed to provide USDA the authority to recover the cost of administering the Packers and Stockyards Act, developing grain and other commodity standards that are used to support fee-based grading programs and for other purposes, providing Federal oversight of marketing agreements and orders, and inspecting entities regulated under the Animal Welfare Act. I will use the remainder of my time to highlight the major activities and our budget requests for the Marketing and Regulatory Programs.

ANIMAL AND PLANT HEALTH INSPECTION SERVICE

The fundamental mission of APHIS is to anticipate and respond to issues involving animal and plant health, conflicts with wildlife, environmental stewardship, and animal well-being. Together with their customers and stakeholders, APHIS promotes the health of animal and plant resources to enhance market access in the global marketplace and to ensure abundant agricultural products and services for U.S. customers. I would like to highlight some key aspects of the APHIS programs:

*Improve Plant and Animal Health.*—While APHIS continues to work closely with the Department of Homeland Security (DHS) to exclude agricultural health threats, it retains responsibility for promulgating regulations related to entry of passengers and commodities into the United States. APHIS' efforts have helped keep agricultural health threats away from U.S. borders through increased offshore threat-assessment and risk-reduction activities. APHIS has also increased an already vigilant

animal and plant health monitoring and surveillance system to promptly detect outbreaks of foreign and endemic plant and animal pests and diseases.

Since June, 2004, when we launched the one-time, significantly enhanced surveillance program for BSE, we have tested about 660,000 high-risk animals as of March 20, 2006, and an additional 21,000 clinically-normal animals. Only two samples have tested positive. APHIS is in the process of evaluating the enhanced program, though it certainly would not be premature to say that by any measure the incidence of BSE in the United States is extremely low.

In addition, we are moving ahead with the National Animal Identification System (NAIS). All 50 States, five Tribes, and two U.S. Territories are registering premises with an estimated total of about 213,000 premises registered as of March 7, 2006. APHIS and its State and Tribal cooperators are registering hundreds of premises each week, and we are also in the preparation stage to begin allocation of individual animal identification numbers.

We have been closely monitoring the very alarming spread of highly pathogenic avian influenza overseas. USDA is a full partner in the government-wide effort to prepare the country for a potential pandemic and the worldwide effort to stop the spread of H5N1 virus at its source overseas. We appreciate funding provided through the December, 2005, pandemic influenza emergency supplemental. We are using those funds for international efforts, domestic surveillance of poultry and migratory birds, diagnostics, and emergency preparedness and response.

Because efforts to exclude foreign pests and diseases are not 100 percent successful, APHIS also assists stakeholders in managing new and existing agricultural health threats, ranging from threats to aquaculture, crops, tree resources, livestock and poultry. In addition, APHIS assists stakeholders on issues related to conflicts with wildlife and animal welfare.

*Enhance Market Access.*—The Trade Issues Resolution and Management efforts are key to ensuring fair trade of all agricultural products. APHIS' staff negotiates SPS standards, resolves issues, and provides clarity on regulating imports and certifying exports which improves the infrastructure for a smoothly functioning market in international trade. Ensuring that the rules of trade are based on science helps open markets that have been closed by unsubstantiated SPS concerns.

In fiscal year 2005, reopening markets for United States products posed one of the greatest challenges. In regard to beef markets that were closed to U.S. exports because of BSE, APHIS has contributed to regaining at least partial access to 26 markets. Altogether, APHIS resolved 79 SPS issues in fiscal year 2005, allowing approximately $1.4 billion worth of trade to occur.

Recent developments in biotechnology underscore the need for effective regulation to ensure protection of the environment and food supply, reduce market uncertainties, and encourage development of a technology that holds great promise. APHIS' Biotechnology Regulatory Services unit coordinates our services and activities in this area and focuses on both plant-based biotechnology and transgenic arthropods. We also are examining issues related to transgenic animals.

## APHIS' 2007 BUDGET REQUEST

In a year of many pressing high-priority items for taxpayer dollars, the budget request proposes about $953 million for salaries and expenses. There are substantial increases to support the Administration's Food and Agriculture Defense Initiative, enhance avian influenza efforts, address SPS trade barriers, and deal with specific threats to the agriculture sector. In addition, existing user fees of about $139 million will support Agricultural Quarantine Inspection and related activities. A brief description of key efforts supported by the 2007 budget request follows.

*A Total of About $182 Million for Foreign Pest and Disease Exclusion.*—Efforts will focus on enhancing our ability to exclude Mediterranean fruit fly, foreign animal diseases, and screwworm. In addition, we also request funds to open offices in Thailand, India, Italy, and West Africa to facilitate U.S. exports.

*A Total of About $304 Million for Plant and Animal Health Monitoring and Surveillance.*—Due to the critical role of APHIS in protecting the Nation from both deliberate and unintentional introductions of an agricultural health threat, the budget requests an increase of about $62 million as part of the Food and Agriculture Defense Initiative. This request would provide: enhanced international information gathering about potential threats abroad; greater plant pest detection and safeguarding; increased national wildlife and animal health surveillance; improved ability to respond to plant or animal disease outbreaks; and vaccines and supplies for the National Veterinary Stockpile. We will also continue efforts to build the National Animal Identification System to limit the spread of a potential animal disease outbreak.

A new request is intended to stop, slow, or otherwise limit the spread of highly pathogenic avian influenza to the United States and to limit the domestic spread of a pandemic. The budget includes an additional $57 million for international capacity building (e.g., providing in-country veterinary expertise overseas); domestic surveillance and diagnostics (including wildlife surveillance); and emergency preparedness and response. This would continue efforts that were started with funds from the December, 2005, pandemic influenza emergency supplemental.

*A Total of $344 Million for Pest and Disease Management Programs.*—Once a pest or disease is detected, prompt eradication will reduce long-term damages. In cases where eradication is not feasible (e.g., European gypsy moth), attempts are made to slow the advance, and damages, of the pest or disease. APHIS provides technical and financial support to help control or eradicate a variety of agricultural threats. The budget proposes a number of increases, including those for citrus canker, emerald ash borer, and sudden oak death. Other programs are reduced. For example, successes in boll weevil eradication efforts allow a reduction in that program. Included is an increase of $10 million for competitive grants to fund the application of innovative private-sector solutions to real-world pest and disease problems.

*A Total of $20 Million for the Animal Care Programs.*—Additional funding will help APHIS maintain its animal welfare and horse protection programs despite the rapid growth in the number of new licensees and registrants. The budget includes a proposal to collect $8 million in fees from regulated entities to help cover costs associated with inspections under the Animal Welfare Act.

*A Total of $94 Million for Scientific and Technical Services.*—Within USDA, APHIS has chief regulatory oversight of genetically modified organisms. To help meet the needs of this rapidly evolving sector, the budget includes a request to, in part, enhance our regulatory role towards transgenic animals and disease agents. Also, APHIS develops methods and provides diagnostic support to prevent, detect, control, and eradicate agricultural health threats, and to reduce wildlife damages (e.g., coyote predation). It also works to prevent ineffective or harmful animal biologics from being marketed.

*A Total of $10 Million for Improving Security and IT Operations.*—A portion of the increase would be used to upgrade key computer resources for eGov requirements and other efforts. It also includes providing the State Department funds to help cover higher security costs for APHIS personnel abroad.

AGRICULTURAL MARKETING SERVICE

The mission of the AMS is focused on facilitating the marketing of agricultural products in the domestic and international marketplace, ensuring fair trading practices, and promoting a competitive and efficient marketplace to the benefit of producers, traders, and consumers of U.S. food and fiber products. The Agency accomplishes this mission through a wide variety of publicly and user funded activities that help its customers improve the marketing of their food and fiber products and ensure such products remain available and affordable to consumers. Consequently, most AMS programs enhance access to current trading information, including availabilities of supply, location and size of demand, underutilized market facilities, and availability of means of transportation. In addition, the Standardization program contributes to the harmonization of international quality standards.

*Market News.*—Market news reports improve market efficiency for all parties by offering equal and ready access to current, unbiased market information so that agricultural producers and traders can determine the best place, price, and time to buy or sell. AMS Market News provides this information by reporting current prices, volume, quality, condition, and other market data on farm products in more than 1,300 production areas and specific domestic and international markets. In October 2005, AMS launched a new Market News Web Portal, making Fruit and Vegetable and Livestock and Grain reports immediately available for users, with other AMS commodities to be added in coming months.

The Livestock Mandatory Price Reporting Program continues to provide more than 100 daily, weekly, or monthly reports on fed cattle, swine, lamb, beef, and lamb meat market transactions. However, since legislative authority for the Program lapsed on September 30, 2005, the program operates on a voluntary basis. The Government Accountability Office recently reviewed the program and we are making improvements in response to their recommendations.

*Commodity Standards.*—AMS works with the agricultural industry to establish and improve commonly recognized quality descriptions for agricultural commodities that support access to domestic and international markets. The Standardization program supports exports of U.S. agricultural products by helping to represent the interests of U.S. producers in a variety of international standards development meet-

ings. AMS experts continue to participate in developing international dairy, meat, poultry, fruit, and vegetable standards.

*Country of Origin Labeling.*—AMS is implementing a Country of Origin Labeling surveillance and enforcement program for fish and shellfish. Labeling requirements for these products became mandatory on April 4, 2005, and AMS has educated the industry on the documentation and records required to substantiate country of origin and method of production claims.

*National Organic Program.*—The National Organic Standards program supports market access for organic producers by setting national standards for organic products sold in the United States, which provides assurance for consumers that the organic products labeled "organic" uniformly meet those requirements. The U.S. organic food industry has increased to an $18 billion annual sales level and is still growing.

*Pesticide Data and Microbiological Data Programs.*—AMS also provides consumer assurance by collecting pesticide residue data and microbiological baseline data. In 2005, the Pesticide Data program performed over 120,000 analyses on more than 13,000 samples. The data gathered and reported by AMS on pesticide residues supports science-based risk assessments performed by a number of entities, including regulatory agencies.

*Transportation Services.*—The Transportation Services program supports market access by facilitating the movement of U.S. agriculture products from farm to market. This program helps maintain farm income, expand exports, and sustain the flow of food to consumers by providing "how to" technical expertise, research, and data on domestic and international transportation to growers, producers, and others in the marketing chain, and for government policy decisions. The Transportation Services program also produces periodic publications that improve market access by providing information for agricultural producers and shippers on trends, availability, and rates for various modes of transportation, including grain and refrigerated transport, agricultural containers, and ocean shipping. In fiscal year 2005, the program greatly expanded its reporting to keep the Secretary and Administration officials well-apprised on the impacts of Hurricanes Katrina and Rita on agricultural transportation.

*Wholesale, Farmers, and Alternative Markets.*—AMS program experts, in cooperation with local and city agencies, improve market access to market facilities by assisting local efforts to develop or improve wholesale and farmers markets, and to discover other direct marketing opportunities. This program also supports research projects to help agricultural producers discover new or alternative marketing channels and new technology. For 2006, AMS was appropriated funds to implement the Farmers Market Promotion program. The program will make grants of up to $75,000 to eligible entities, such as agricultural cooperatives, local governments, and others, to establish, expand, and promote farmers' markets and other direct-to-consumer marketing channels.

*Federal/State Marketing Improvement Program (FSMIP).*—AMS helps to resolve local and regional agricultural market access problems by awarding Federal matching grants for projects proposed by State agencies. In 2005, the FSMIP program allocated grant funds to 21 States and Puerto Rico for 27 projects such as studies on linking producers with new buyer groups and innovative uses for locally important agricultural products.

*Commodity Purchases.*—USDA nutrition programs provide growers and producers with access to an alternative outlet for their commodities. AMS food purchases stabilize markets and support nutrition programs, such as the National School Lunch Program, the Emergency Food Assistance Program, the Commodity Supplemental Food Program, and the Food Distribution Program on Indian Reservations. AMS works in close cooperation with both the Food and Nutrition Service (FNS) and the Farm Services Agency (FSA) to administer USDA commodity purchases and to maximize the efficiency of food purchase and distribution operations. In fiscal year 2006, we will begin the development of a Web-based Supply Chain Management System, which will enhance our ability to track bids, orders, purchases, payments, inventories, and deliveries of approximately $2.5 billion of commodities used in all food assistance programs every year in addition to those price-support commodity products maintained in inventory.

AMS' 2007 BUDGET REQUEST

For 2007, the AMS budget proposes a program level of $730 million, of which $195 million (nearly 27 percent) will be funded by existing user fees, $450 million (approximately 62 percent) by Section 32 funds and $85 million (about 12 percent)

by appropriations, which includes $14.5 million to be derived from proposed new user fees. More specifically, the budget includes the following:

*An Increase of About $1 Million for the National Organic Program.*—This request is to ensure that the National Organic Program can meet the needs of the rapidly growing organic industry. The increase will support: rulemaking needed to address a court order that found three elements of the national organic standards regulations inconsistent with statutory authority; renewal of substances on the National List of Approved and Prohibited Substances that are set to expire on October 21, 2007; and increased compliance actions, including training sessions for certifying agents.

*An Increase of About $400,000 for the Federal Seed Act Program.*—AMS would assume seed testing in those States that have withdrawn from the program and work with seed producers and States to improve the accuracy of seed sampling and testing programs.

*An Increase of About $2.8 Million for a Food Protection Program.*—AMS would promote the protection of commodities provided to the National School Lunch Program (NSLP) and other Federal nutrition assistance programs by incorporating food security attributes into purchase specifications, conducting vulnerability assessments needed to develop industry guidance on how to protect products purchased for distribution through NSLP, and development of model food security plans for products of importance to NSLP.

*Funding of More than $1 Million for Payments to States.*—Under the Federal-State Marketing Improvement Program, AMS awards Federal matching grant funds to State agencies to address local and regional agricultural marketing problems.

*Funding of Nearly $10 Million Within Marketing Services for the Web-based Supply Chain Management System.*—As mentioned earlier, this system, the successor to the Processed Commodities Inventory Management System, will improve information technology systems used to manage and control commodity orders, purchases, and delivery. Discretionary appropriated funding is requested in fiscal year 2007 to continue developing the system.

As Secretary Johanns testified before this committee last month, the 2007 budget funds our most important priorities while exercising fiscal discipline that is necessary to reduce the Federal deficit. The AMS budget has proposals that moves us in the right direction while continuing to meet key priorities.

*A Decrease of About $6.3 Million for the Termination of the Microbiological Data Program (MDP).*—The fiscal year 2007 budget does not request funding to continue the MDP because it is difficult to determine to what extent the data is used to support risk assessments. Sample origin data is not collected which limits the use of the data in epidemiological investigations aimed at determining the source of outbreaks of foodborne illness. In response to these findings and the need to limit Federal spending, the program is proposed for termination in 2007.

*User Fees.*—The budget proposes to collect about $2 million through user fees for the development of domestic commodity grade standards that are associated with a grading program. Users of grading services are direct beneficiaries of commodity standards and, therefore, should be charged for the development of commodity grades associated with the grading and inspection program. In order to implement this proposal, legislation will be submitted to Congress to authorize these fees. Likewise, approximately $12 million in user fees would be collected for Federal administration of marketing agreements and orders, which is currently funded through Section 32. The local market administrator or committee will be billed for their portion of Federal administrative costs.

GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION

GIPSA's mission is to enhance market access for livestock, meat, poultry, cereals, oilseeds, and related agricultural products and to promote fair and competitive trade for the benefit of consumers and American agriculture. GIPSA fulfills this through both service and regulatory functions in two programs: the Packers and Stockyards Programs (P&SP) and the Federal Grain Inspection Service (FGIS).

Before proceeding, I want to note that we are taking very seriously the recent audit by the Office of Inspector General (OIG) of the P&SP and we have established an aggressive schedule to improve enforcement of the Packers and Stockyards Act. The audit identified areas where program management was not up to the high standard that this Administration expects and our stakeholders deserve. The OIG provided ten recommendations for strengthening the P&SP. GIPSA concurs with all recommendations and is taking aggressive action to implement them.

*Packers and Stockyards Programs.*—Recognizing what needs to be improved, the strategic goal for P&SP is to promote a fair, open and competitive marketing envi-

ronment for the livestock, meat, and poultry industries. Currently, with 152 employees, P&SP monitors the livestock, meatpacking, and poultry industries, estimated by the Department of Commerce to have an annual wholesale value of about $120 billion. Legal specialists and economic, financial, marketing, and weighing experts work together to monitor emerging technology, evolving industry and market structural changes, and other issues affecting the livestock, meatpacking, and poultry industries that the Agency regulates.

The Swine Contract Library began operation on December 3, 2003, and continues, though since October, 2005, it has been on a voluntary basis since the legislative authority in the Livestock Mandatory Price Reporting Act lapsed. Producers can see contract terms, including, but not limited to, the base price determination formula and the schedules of premiums or discounts, and packers' expected annual contract purchases by region.

Progress continues to be made on the Livestock and Meat Marketing Study, which examines broad issues surrounding packer ownership of livestock. The contractor for the study, the Research Triangle Institute (RTI), released an interim report in August, 2005. The final report is scheduled for release in early 2007. We recognize that this is later than expected, but given the complexity of issues, more time is needed to adequately analyze them.

*Federal Grain Inspection Service.*—FGIS facilitates the marketing of U.S. grain and related commodities under the authority of the U.S. Grain Standards Act and the Agricultural Marketing Act of 1946. As an impartial, third-party in the market, we advance the orderly and efficient marketing and effective distribution of U.S. grain and other assigned commodities from the Nation's farms to domestic and international buyers. We are part of the infrastructure that undergirds the agricultural sector.

GIPSA works with government and scientific organizations to establish internationally recognized methods and performance criteria and standards to reduce the uncertainty associated with testing for the presence of biotechnology traits in grains and oil seeds. It also provides technical assistance to exporters, importers and end users of U.S. grains and oilseeds, as well as other USDA agencies, industry organizations, and other governments. These efforts help facilitate the sale of U.S. products in international markets.

Our efforts to improve and streamline our programs and services are paying off for our customers, both in terms of their bottom lines and in greater customer satisfaction. In fiscal year 2005, GIPSA employees issued nearly 3 million certificates representing approximately 245 million tons of grain. One indicator of the success of our outreach and educational initiatives is the number of foreign complaints lodged with FGIS regarding the quality or quantity of U.S. grain exports. In fiscal year 2005, FGIS received only ten complaints regarding poor quality and one complaint regarding inadequate weights from importers on grains inspected under the U.S. Grain Standards Act. These involved 456,069 metric tons, or about 0.4 percent by weight, of the total amount of grain exported during the year.

I would like to acknowledge the efforts of GIPSA employees in the aftermath of Hurricanes Katrina and Rita. We are proud to report that no service requests were denied as a result of the hurricanes. GIPSA personnel were on duty and ready to provide service as soon as the industry resumed operations. Our local personnel showed fortitude and determination in addressing both the personal and work-related challenges created by the storms.

GIPSA'S 2007 BUDGET REQUEST

For 2007, the budget proposes a program level for salaries and expenses of about $84 million, of which more than $42 million is from existing inspection and weighing user fees. Of the appropriations request of almost $42 million, approximately $20 million is devoted to the grain inspection activities including standardization, compliance, and methods development activities and about $21 million to the P&SP. The 2007 budget includes the following program increases:

*About $2.9 Million for IT Initiatives.*—This would continue the agency's multi-year IT modernization efforts, of which $1.4 million is one-time funding. The agency's eGov initiatives would facilitate the electronic transfer of information to and from stakeholders, and allow more efficient utilization by GIPSA of information such as program reviews and evaluations, agricultural product standards, inspection data, field test equipment reporting.

About $400,000 to facilitate U.S. grain exports to Asia. GIPSA would establish an ongoing presence in Asia to expand upon our successful international services and trade activities currently provided on a temporary basis.

User fees. Two user fees are included in the budget. One would be charged to recover the costs of developing, reviewing, and maintaining official U.S. grain standards used by the grain industry. This fee proposal would enable GIPSA to recover almost $4 million in fiscal year 2007. Also, a further $16 million in license fees would be collected for the Packers and Stockyards program.

CONCLUSION

This concludes my statement. I am looking forward to working with the Committee on the 2007 budget for the Marketing and Regulatory Programs. We believe the proposed funding amounts and sources of funding are vital to improving plant and animal health and ensuring quality, enhancing market access, and achieving harmonization of international standards. It also reduces the deficit and protects American agriculture from terrorists. We are happy to answer any questions.

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PREPARED STATEMENT OF LLOYD C. DAY, ADMINISTRATOR, AGRICULTURAL MARKETING SERVICE

Mr. Chairman and Members of the Committee, I am pleased to have this opportunity to represent the Agricultural Marketing Service (AMS) in presenting our fiscal year 2007 budget proposal. Although I have worked with AMS only since early August, I understand the importance of efficient and effective marketing systems for U.S. agricultural producers and consumers. My previous Government experience was focused on international trade issues at the Foreign Agricultural Service and the California Trade and Commerce Agency; in private industry, I have managed business development and marketing activities.

To provide a starting point for discussion of our budget proposals, I would like to begin by reviewing our agency's mission in the context of USDA's strategic objectives. I will also discuss a few of the programs through which we carry out that mission, and mention a few recent accomplishments and issues of interest to AMS clientele.

MISSION

AMS is a key component in USDA's strategic objective to increase the efficiency of domestic agricultural production and marketing systems. This objective recognizes that the long-term viability of agricultural producers depends on their ability to manage an efficient and profitable operation. Once produced, agricultural goods need efficient and equitable market outlets. AMS plays an integral role in the U.S. marketing system by ensuring that buyers and sellers in the food production and distribution chain have equal access to market information and technical services. Although our focus is generally on domestic marketing, some of our programs also support USDA's efforts to assist U.S. agricultural producers in international marketing.

The mission of AMS is to facilitate the marketing of agricultural products in the domestic and international marketplace, ensure fair trading practices, and promote a competitive and efficient marketplace to the benefit of producers, traders, and consumers of U.S. food and fiber products. We accomplish our mission through a wide variety of appropriated activities and through our user-funded grading, certification, and Perishable Agricultural Commodities Act programs. Although our user-funded and reimbursed programs are important to agricultural marketing, most of my discussion today will focus on our appropriated programs.

AMS PROGRAMS

AMS programs work together, in cooperation and coordination with other Federal agencies within USDA and outside the Department, and with State partners to provide services that support our mission. Our "clients" span the marketing chain from the producer to the consumer. For example, we collect and disseminate current market information on agricultural prices, quality, supply, demand, and other data useful for production, sales, and purchase decisions. We also publish current rates and availability information on agricultural product transportation modes. We provide technical advice and support on market facilities, methods, and technology, plus matching grants for regional projects that support agricultural marketing. We offer independent, official verification services to provide assurance for sellers and buyers that commodities meet contract specifications, quality and marketing claims, labeling, and Federal requirements, and to ensure fair trading of agricultural production in the United States. Consumers benefit directly from organic labeling, graded foods, farmers markets, and pesticide residue information. Our programs assist com-

modity producer groups by providing technical and regulatory support for federally-authorized self-help programs, and we purchase food commodities that are in short-term oversupply for use in USDA nutrition assistance programs.

MARKETING SERVICES

Our Marketing Services programs provide services that benefit all agricultural producers, traders, and consumers of dairy products, fruits, vegetables, specialty crops, livestock and meat, poultry, cotton, and tobacco. These programs facilitate marketing by providing information, technical expertise, and buyer assurance. They are funded through annual appropriations and include our Market News, Standardization, Shell Egg Surveillance, Federal Seed, National Organic, Pesticide Recordkeeping, Country of Origin Labeling, Pesticide Data, Transportation Services, and Wholesale, Farmers, and Alternative Market Development programs.

MARKET NEWS

AMS' Market News service reports market data on farm products in more than 1,300 production areas and many domestic and international markets. Market News reports for over 700 commodities are disseminated within hours of collection via the Internet and other electronic means and through the news media. In October 2005, we made available a new Market News Web Portal to the public, making Fruit and Vegetable and Livestock and Grain reports immediately available for users, with other AMS commodities to be added in coming months. The portal allows the agricultural industry and other interested users to customize the data they receive, build their own reports, and query the database back to 1998. We have already received an enthusiastic response to the expanded availability of data through the portal.

Market news data is provided by buyers and sellers for most commodities on a voluntary basis. However, Congress established Livestock Mandatory Price Reporting (LMPR) in 2000 to ensure that information on meat and livestock trades would continue to be available for producers in a consolidating industry, including formula and contract market information. LMPR generates more than 100 daily, weekly, or monthly reports on fed cattle, swine, lamb, beef, and lamb meat market transactions. Legislative authority for LMPR lapsed on September 30, 2005, following a 1-year extension. As both Houses of Congress were considering bills to continue the program, AMS sent letters to all packers previously required to report, requesting voluntary cooperation in continuing to submit information required under the mandatory program. Consequently, most of the reports continue to be published—only the imported boxed lamb cuts and slaughter cow reports have been discontinued.

The Government Accountability Office recently reviewed the program and recommended some improvements. To improve reporting transparency, AMS will inform Market News readers about the general guidelines followed by AMS reporters in making reporting decisions through periodic public reports on the volume of submitted transactions that are excluded by reporters and the effect that such exclusions had on net price distributions on all reported commodities. We also have established a toll-free telephone information line for questions about reporting which gives producers an opportunity to obtain information on how the data for the livestock they sold is used in reporting.

To help verify the overall accuracy of the transaction data supplied by packers and to identify recurring significant problems, AMS will implement additional or modified auditing methods to increase the overall effectiveness of compliance activities. The program is reviewing sample selection, the need for more audits at plants that demonstrate a higher frequency of non-compliances, and additional analyses to identify any widespread reporting problems. To ensure timely and consistent follow-up to audit findings, AMS has developed new procedures that greatly improve the audit process, including timeframes for corrective action and a hierarchy for categorizing the severity of non-compliances. AMS also has modified its audit process to more closely review transactions reported at the low-price end of the market. All of these improvements will be completed by the end of this fiscal year.

Livestock and meat information is used as a basis for developing contracts between producers and packers, as well as packers and retailers. We believe that the program has resulted in the availability of comprehensive information that has improved the transparency of the marketplace. Therefore, we request continued funding and support reauthorization of Livestock Mandatory Price Reporting.

COUNTRY OF ORIGIN LABELING

This year, we are implementing a Country of Origin Labeling (COOL) surveillance and enforcement program for fish and shellfish. Labeling requirements for these

products became mandatory on April 4, 2005, and we have used the intervening months to educate the industry—suppliers and retailers—on the documentation and records required to substantiate country of origin and method of production claims. Mandatory labeling requirements for all other covered commodities were delayed until September 30, 2008. The delay will allow us to develop an operational infrastructure before mandatory labeling for all other commodities covered by the Act—beef, lamb, pork, perishable agricultural products, and peanuts—becomes effective.

TRANSPORTATION

Our Transportation Services program facilitates the movement of U.S. agricultural products to market. As part of that effort, the program produces periodic publications that provide information for agricultural producers and shippers on various modes of transportation, including grain transportation, refrigerated transport, ocean rates and transportation trends, and agricultural containers. In 2005, the program greatly expanded its reporting to keep the Secretary and Administration officials well-apprised of the impacts of Hurricanes Katrina and Rita on agricultural transportation; issuing 22 daily and 5 weekly briefing reports from August 29, 2005 to October 26, 2005. In early November, the program switched to issuing a Weekly Transportation Update, which continued to provide information on the recovery status of the transportation systems. During the aftermath of the hurricanes AMS participated with the Army Corps of Engineers in briefing staff from both houses of Congress and supported Departmental testimony on the recovery.

MARKET DEVELOPMENT

Our Wholesale, Farmers, and Alternative Market Development program experts, in cooperation with local and city agencies, assist local efforts to develop or improve wholesale and farmers market facilities, and to discover other direct marketing opportunities. This program also supports research projects on marketing channels and market technology improvements, as well as numerous marketing conferences and workshops across the country. For 2006, AMS was appropriated funding to implement the Farmers Market Promotion program. The program will make grants of up to $75,000 to eligible entities to establish, expand, and promote farmers' markets and other direct-to-consumer marketing channels. These eligible entities include agricultural cooperatives, local governments, regional farmers' market authorities, and nonprofit, public benefit, and economic development corporations.

SECTION 32

AMS also receives appropriated funding for activities authorized under Section 32 of the Act of August 24, 1935. AMS' Commodity Purchase program buys perishable non-price supported agricultural commodities—meat, poultry, fruits, vegetables, and fish to encourage domestic consumption. Commodity purchases support the market for these agricultural commodities by reducing supplies in temporary surplus, by providing foods used by domestic nutrition assistance programs, and by purchasing commodities for use in disaster relief efforts. The purchased foods are donated to the National School Lunch Program and other domestic nutrition programs. In fiscal year 2005, AMS purchased 1.46 billion pounds of commodities that were distributed by the Food and Nutrition Service through its nutrition assistance programs. As directed by the Secretary, this program may also make emergency diversion and relief payments to producers in temporary distress. In addition to commodity purchasing activities, Section 32 funds the Federal administration of Marketing Agreements and Orders, which help producers in the marketing of their milk, fruit, vegetables, and specialty crops.

PARTNERSHIPS

Discussion of AMS' programs is not complete without a brief mention of the extensive partnerships with other Federal agencies, State agencies, and industry that characterize our program delivery.

The Agricultural Marketing Act of 1946, the authority on which we rely for a great number of our programs, encourages Federal-State cooperation in carrying out market facilitating activities. AMS depends on strong partnerships with cooperating State and Federal agencies to operate many of our programs. AMS provides guidance and coordination to State agency partners who collect data, provide inspection, monitoring, and laboratory services, and otherwise maximize the value of both State and Federal resources through sharing and coordination. For instance, AMS' Market News program maintains cooperative agreements with 38 States to coordinate their local market coverage with the regional and national coverage needed for AMS' mar-

ket reporting. State employees, who inspect shipments of seed within a State, provide information to AMS' Federal Seed program on potential violations in interstate shipments. Our transportation and direct marketing programs work with Federal, State, city and local policy makers to maintain an efficient national transportation system and expand and improve market outlets for U.S. agricultural products. Under Section 32, USDA's food purchase programs have developed partnerships that maximize the unique expertise that each agency brings to the process. AMS works in close cooperation with the Food and Nutrition Service (FNS) and the Farm Service Agency (FSA) to support USDA's nutrition assistance and administer surplus commodity programs.

FISCAL YEAR 2007 BUDGET REQUEST

This leads us into our budget requests for fiscal year 2007. In Marketing Services, we propose to strengthen the operations of the National Organic and Federal Seed Act programs, implement a new Food Protection program for purchased commodities, and continue work on the Web-based Commodity Supply Chain Management System. The budget also includes a proposal to terminate the Microbiological Data program and institute new user fees for the development of grade standards and the Federal administration of Marketing Agreements and Orders.

NATIONAL ORGANIC PROGRAM

The U.S. organic food industry has grown approximately 20 percent a year to an $18 billion annual sales level and provides an important marketing opportunity for many producers. We are requesting additional funding of $1.1 million for fiscal year 2007 so that we can more effectively manage the statutory and operational requirements of the National Organic Program (NOP) to ensure that it meets producers' needs and consumers' expectations.

The National Organic program (NOP) provides assurance for consumers that organic products uniformly meet established requirements nationwide. Program personnel work in partnership with the National Organic Standards Board, which is appointed by the Secretary to represent industry and consumer interests. In January, six new members were appointed to the Board. Based on earlier Board recommendations, AMS has hired an Executive Director and developed a plan to establish a peer review panel. The panel will assist in evaluating applications of certifying agents seeking accreditation and ensure that the accreditation process is consistent with the intent of the law.

The budget request will provide the funds needed for independent peer audits that evaluate all aspects of the NOP accreditation program and for program staffing to implement the results of those audits and otherwise assist in the delivery of this program. The audits, which will be conducted every 2 years, are necessary to maintain the program's credibility with the organic industry and for continuous improvement of the program's management systems.

The program also needs additional resources to avoid interruption of organic production. As provided in statute, the approvals for some 174 materials originally placed on the National List of approved and prohibited substances for organic production will sunset in October 2007. AMS program staff works with the National Organic Standards Board to update and maintain the National List and each of the expiring materials must be re-evaluated. To ensure that the Board and all interested parties have sufficient time to evaluate such a large number of materials, AMS published an Advance Notice of Proposed Rulemaking in June 2005 that began the public comment process on whether the specific exemptions or prohibitions should be continued. Due to heightened interest, technological obsolescence, or available alternatives, we expect that almost one-third of those materials will have to undergo independent scientific reviews before their use can be reauthorized. Our fiscal year 2007 budget request includes funding for the program to work with the Board to complete the re-evaluation of the National List.

The requested funding also will provide the resources needed to resolve other issues facing the program: (1) strengthening compliance and enforcement activities to maintain trade and consumer confidence; (2) developing organic standards for additional products, which will require extensive public input; and (3) dealing with current issues such as recent amendments to the Organic Foods Production Act and questions on access to pasture for organically produced ruminants. Although Congressional action amending the Organic Foods Production Act of 1990 (OFPA) restored the program to its status before the decision by the U.S. District Court for the District of Maine in the case of Harvey v. Johanns, certain procedural issues remain to be resolved. The court found, on June 9, 2005, that USDA had in two instances exceeded its statutory authority in developing program regulations. To re-

duce the impact of the court's ruling on the organic industry, Congress amended the OFPA on November 10, 2005, to permit the use of synthetic ingredients and the transitioning of dairy farms.

FEDERAL SEED ACT PROGRAM

Our fiscal year 2007 budget request includes an increase of $432,000 for our Federal Seed Act program. The Federal Seed Act protects anyone who purchases seed by prohibiting false labeling and advertising on seed shipped interstate. The program prevents financial losses to farmers by detecting mislabeled, low quality seed before it is planted and creates a level playing field for seed companies that market truthfully labeled seed. In States where seed monitoring programs exist, AMS works with State partners who refer interstate violations to us. However, in States that do not have their own monitoring programs, we estimate that the percentage of mislabeled seed doubles. To better enforce the Act to protect growers, we propose to assume seed testing in 8 States—Maine, Vermont, New Hampshire, Connecticut, Rhode Island, New York, Michigan, and Wisconsin—that receive most of their seed from other States but do not have their own monitoring programs.

FOOD PROTECTION PROGRAM

For fiscal year 2007, we are requesting a $2.75 million increase in Marketing Services to establish a new Food Protection program that will better protect the recipients of commodities that are purchased by USDA and distributed through the National School Lunch Program (NSLP) and other Federal nutrition assistance programs.

The Food Safety and Inspection Service (FSIS) and the Food and Drug Administration (FDA) are doing significant work with the food industry to promote food defense. AMS is pleased to be participating in several FSIS and FDA initiatives. Additional funding is necessary to ensure that all possible actions are taken in assessing and eliminating vulnerabilities in the production and distribution of foods for NSLP and other Federal nutrition assistance programs that serve vulnerable population segments. The resources we are requesting will enable us to work effectively with our vendors in their protection of their production facilities and with distributors in the transport of food products to State warehouses. AMS will ensure that our vendors are aware of FSIS' and FDA's food defense guidance and that they are early and effective adopters of that guidance.

In full partnership with FSIS and FDA, AMS will work with the vendor community to conduct vulnerability assessments, develop guidance on protecting products purchased for distribution through Federal programs, fund studies on improving security through safer packaging and transportation, and incorporate food protection attributes into our purchase specifications. AMS has begun developing specialized training materials to ensure that agency staff involved in contract acceptance are properly trained and supervised. With additional resources, we plan to offer food protection training for about 6,000 employees of State partner agencies, along with workshops and training sessions for vendor employees. With the funds being requested we can protect Federal commodity purchases and help advance the food defense efforts of FSIS and FDA by ensuring that AMS' vendors are implementing effective food defense plans in their facilities.

FEDERAL-STATE MARKETING IMPROVEMENT PROGRAM

The Federal-State Marketing Improvement Program (FSMIP) helps to resolve local and regional agricultural marketing problems by awarding Federal matching grant funds for projects proposed by State agencies. Our fiscal year 2007 budget request includes $1.3 million for FSMIP. These matching grant funds are made available to State departments of agriculture and other State agencies for 25 to 35 projects each year, with the State agencies contributing at least half of the project cost. In 2005, the program allocated grant funds to 21 States and Puerto Rico for a total of 27 projects, including studies on linking producers with new buyer groups and innovative uses for locally important agricultural products. The program encourages projects that use a collaborative approach between the States, academia, and the farm sector, that have regional or national significance, and that address challenges or opportunities posed by the global economy, changing consumer preferences, agricultural diversity, technical innovation, transportation, and distribution.

WEB-BASED SUPPLY CHAIN MANAGEMENT SYSTEM (WBSCM)

For fiscal year 2007, we are proposing to continue development of the Web-based Supply Chain Management System at a reduced level of $9.9 million, and we are requesting funding from Marketing Services so that this project is funded from discretionary resources. As $20 million was provided from Section 32 in fiscal year 2006, our budget request for Commodity Purchases Administrative funds in fiscal year 2007 has been reduced by that amount.

The WBSCM system will support $2.5 billion worth of USDA food purchases distributed through the National School Lunch Program and other domestic and international food assistance programs. WBSCM will replace USDA's existing Processed Commodity Inventory Management System (PCIMS) that links the procurement and distribution functions of AMS, FNS, and FSA. PCIMS is over 15 years old and is inflexible, resource intensive, and costly to maintain. AMS initiated and coordinated the budget request for this initiative on behalf of all three agencies.

The implementation of WBSCM will save USDA's nutrition programs several million dollars annually, in operational and maintenance costs, increased productivity, and reduced purchase and shipping costs. WBSCM will create a single point of access for customers, allowing the agencies to share information with customers more quickly and conveniently. The new system will improve efficiency by greatly reducing the time required for processing purchases; shortening delivery times; improving USDA's ability to collaborate with other Departments; improving reporting capabilities; reducing transportation, inventory, and warehousing costs; and enabling future systems updates as needed. Successful completion of this initiative will support clean financial audits for the Department, the agencies' ability to effectively and efficiently work with recipients and vendors, and USDA's ability to respond to natural disasters.

MICROBIOLOGICAL DATA PROGRAM TERMINATION

The fiscal year 2007 budget does not request funding to continue the Microbiological Data Program (MDP) which was established in 2001 to establish a national database on foodborne pathogens on domestic and imported produce. It is difficult to determine to what extent the data obtained through this program are used to support risk assessments by other Federal agencies such as the Food and Drug Administration. Furthermore, the use of these data by agencies, such as the Centers for Disease Control and Prevention, involved in epidemiological investigations aimed at determining the source of outbreaks of foodborne illness is limited because data on sample origin is not collected, as directed by Congress. In response to these concerns and the need to limit Federal spending, the program is proposed for termination in 2007.

NEW USER FEES

Our Marketing Services request for fiscal year 2007 includes $2.2 million to be recovered through new user fees, based on a proposed legislative change that would convert most of our domestic standards activities to user-fee funding. USDA will submit legislation that will amend the Agricultural Marketing Act of 1946 and authorize the agency to implement, collect, and retain user fees for domestic standards that are associated with AMS' grading and certification services. Also, $12.3 million is proposed to be recovered for the Federal administration of Marketing Agreements and Orders through increased assessments on program beneficiaries, which is currently funded through Section 32.

STANDARDS USER FEES

This budget again proposes to recover the costs for developing and updating domestic standards through user fees paid by those requesting AMS' grading and certification services. This proposal was recommended by the Program Assessment Rating Tool (PART) review conducted for the fiscal year 2006 budget. On average, we expect the cost for Standards development will be about 2 percent of the cost of grading services. The Department has proposed a legislative amendment authorizing standards user fees.

AMS' Standardization program works closely with interested parties in agriculture and the food marketing system to ensure that quality descriptions are aligned with current U.S. marketing practices because efficient markets need widely-recognized agricultural product descriptions in commercial sales and purchases. The agriculture industry uses these descriptions to convey commodity quality in purchase specifications and sales contracts. AMS currently maintains about 600 U.S. agricultural quality standards for domestic and international trading of cotton,

tobacco, dairy products, fruits and vegetables, livestock, meat, poultry, eggs, and rabbits.

The Standardization program also supports exports of U.S. agricultural products by representing the interests of U.S. producers in a variety of international standards development organizations. We are proposing to retain appropriations to fund these activities.

MARKETING AGREEMENTS AND ORDERS USER FEES

Marketing Agreements and Orders are requested by producers and handlers to help establish orderly marketing conditions for milk, fruits, vegetables, and tree nuts. AMS evaluates and conducts hearings on proposed Marketing Orders, which are subject to approval by producers of the regulated community. Section 32 funds have been appropriated for Federal costs in administering the order at the national level, including public hearings, referenda on new programs and proposed revisions, and enforcement. The Milk Marketing Order Administrators and Fruit and Vegetable Marketing Order Committees, who oversee local administration of Marketing Orders, operate on assessments paid by their industries. Our fiscal year 2007 budget proposes to charge user fees to recover the cost of Federal oversight. The assessments already charged to beneficiaries for local program administration would be increased to cover Federal costs. USDA is preparing a legislative amendment to authorize recovery of these costs.

BUDGET REQUEST SUMMARY

Our budget request includes $81.5 million in appropriated funds and $2.2 million in new user fees for a total budget of $83.7 million in Marketing Services; we also request $1.3 million for FSMIP grants funding. For administration of Section 32 activities, we request $11.6 million to support commodity purchasing and a total of $16.4 million for the Marketing Agreements and Orders program—$4.1 million in appropriations and $12.3 million from user fees. Our Marketing Services and Section 32 administrative funding requests include an increase for pay costs.

Thank you for this opportunity to present our budget proposal.

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PREPARED STATEMENT OF DR. W. RON DEHAVEN, ADMINISTRATOR, ANIMAL AND PLANT HEALTH INSPECTION SERVICE

Mr. Chairman and members of the Subcommittee, it is a pleasure for me to represent the Animal and Plant Health Inspection Service (APHIS) before you today. APHIS is an action-oriented agency that works with other Federal agencies, Congress, States, agricultural interests, and the general public to carry out its mission to protect the health and value of American agriculture and natural resources. This mission is vital not only to protect the livelihoods of agricultural producers and the industries related to them, but also to United States homeland security and food and agriculture defense. The past year has brought many challenging agricultural issues our way, such as the threat of a pandemic Highly Pathogenic Avian Influenza (HPAI) outbreak and Bovine Spongiform Encephalopathy (BSE); outbreaks of Medfly, Sudden Oak Death, and Emerald Ash Borer; as well as the spread of citrus canker in Florida due to the heavy hurricane season last year. APHIS remains committed to preventing the spread of animal and plant pests and diseases in the United States and our Agency has continued its vigilant effort to prevent foreign agricultural pests and diseases from entering the country. We also remain committed to keeping American agricultural products moving overseas. APHIS' mission of protecting the health and value of United States agricultural and natural resources encompasses a wide variety of activities. I would like to report on our fiscal year 2005 highlights, and our fiscal year 2007 budget request.

FISCAL YEAR 2005 HIGHLIGHTS

*Pest and Disease Exclusion Activities*

APHIS' efforts begin with offshore threat assessment and risk reduction activities at the sources of exotic agricultural pests and diseases. Through our pest and disease exclusion programs, we follow animal and plant health throughout the world and use this information to set effective agricultural import policy, and facilitate international trade by clarifying and amending import requirements, as necessary. Our off-shore risk reduction activities also include conducting pest and disease eradication programs in foreign countries and pre-clearance inspection of certain commodities in off-shore locations; performing intense monitoring and surveillance for exotic fruit flies and cattle fever ticks in high-risk, border areas of the United

States; and cooperating with the Department of Homeland Security's Bureau of Customs and Border Protection (CBP) to inspect arriving international passengers, cargo, baggage, mail, and other means of conveyance.

Officials with our Agricultural Quarantine Inspection, Trade Issues Resolution Management, Foreign Animal Disease/Foot and Mouth Disease (FAD/FMD), and Import/Export programs track plant and animal health issues around the world and use the information to set import policies to ensure that agricultural diseases are not introduced through imports. This information also helps determine what pests and diseases might have pathways into the United States and informs our monitoring and surveillance efforts here at home. APHIS is establishing a formal international information gathering program under the FAD/FMD and Pest Detection line items to build on these efforts. Through its off-shore pest information system, APHIS has identified more than 600 plant pests that pose risks to U.S. agriculture. APHIS uses this information to provide guidance to CBP on inspection protocols and to target cargo from certain areas for increased inspection.

To ensure our import regulations are enforced and adequately protect United States agricultural and natural resources, we work closely with CBP to monitor and intercept prohibited items that arrive at United States ports of entry. In fiscal year 2005, agricultural inspectors checked the baggage of nearly 66 million arriving passengers and cleared 49,394 ships and 2,239,813 cargo shipments. In total, agricultural inspectors intercepted 49,665 reportable pests at land borders, maritime ports, airports, and post offices. These include exotic fruit flies, various moth species, scale insects, and rust diseases.

In fiscal year 2005, APHIS and CBP also began enforcing new entry requirements for solid wood packaging materials, which can harbor serious forest pests. The introduction of pests such as the Asian longhorned beetle and emerald ash borer has been linked to solid wood packaging materials used as crates and boxes for shipping all kinds of commodities. The new regulations are based on an international standard that will be used by more than 150 countries to address this world-wide problem.

APHIS continued to support the FMD barrier between Central America and Columbia and began plans to move it further away from the United States to reduce the risk of an FMD introduction. We reported 29 FMD-positive cases in countries bordering Columbia: 21 in Ecuador and eight in Venezuela. Agency officials in these two countries maintained relationships with local governments and strengthened cooperative agreements for FMD eradication. In particular, we supported 15 new cattle movement control posts along the Columbian-Ecuador border that will begin operating in November 2007 to establish a buffer zone to prevent the introduction of FMD in Columbia.

APHIS is actively engaged in ensuring that U.S. agricultural producers benefit from the global trade system established under the World Trade Organization (WTO), particularly the WTO Sanitary/Phytosanitary (SPS) Agreement. APHIS' scientific and technical expertise is key to enforcing our rights under the SPS Agreement involving animal and plant health measures. As a direct result of our efforts, 79 SPS trade issues were resolved in fiscal year 2005, allowing trade of U.S. agriculture exports worth close to $1.4 billion to occur. These accomplishments involved retaining or expanding existing markets as well as opening new markets for U.S. products. The products involved range from poultry exports to China, apples to Japan, stonefruit to Mexico, almonds to India, and feeder cattle to Canada.

Our efforts to remove unjustified trade barriers related to BSE and AI are prime examples of APHIS work in this area. In fiscal year 2005, we successfully addressed barriers for U.S. poultry and poultry products in 25 export markets worth a combined $254 million. We resolved BSE-related trade issues involving 19 foreign markets for U.S. bovine genetics, beef and beef products, allowing exports worth $58 million in fiscal year 2005. Furthermore, APHIS leadership in international standard setting resulted in important science-based changes to the international standards for BSE and AI that we believe will encourage greater reliance on sound science in the trade of beef and poultry products.

*Animal and Plant Monitoring and Surveillance*

To minimize agricultural production losses and export market disruptions, APHIS quickly detects and responds to new invasive agricultural pests and diseases, or other emerging agricultural health threats, through our plant and animal health monitoring programs. The Agency creates and updates endemic pest and disease information systems, and monitors and conducts surveys in cooperation with States and industry. APHIS also conducts surveys for exotic plant pests and investigates reports of suspicious animal pests and diseases to reduce their spread, which elimi-

nates significant losses and helps maintain pest-free status for export certification of agricultural commodities.

The Animal Health Monitoring and Surveillance (AHMS) and Pest Detection programs coordinate national detection efforts for animal and plant pests and diseases. Both work closely with State and university cooperators to ensure that any introduction of exotic or foreign pests and diseases is quickly detected. These programs are also working closely with USDA's Cooperative State Research, Education, and Extension Service (CSREES) to coordinate the National Animal Health Laboratory Network and the National Plant Diagnostic Network to increase testing capacity in the United States for economically and environmentally significant animal and plant diseases.

To quick detect and contain foreign animal disease incursions from spreading, APHIS thoroughly investigates all suspicious situations. In fiscal year 2005, the AHMS program conducted 1,027 foreign animal disease investigations, up from 870 in fiscal year 2004. The most common investigation was for vesicular conditions. Most suspected cases were investigated and subsequently diagnosed as not being an FAD. The program also continued to implement an enhanced surveillance program in response to the December 2003 detection of BSE in Washington State. With additional funding from the Commodity Credit Corporation, as of March 20, 2006, APHIS has sampled more than 660,000 animals for BSE since the inception of the enhanced surveillance program. To date, two samples have tested positive. Most samples were from high-risk categories (such as those animals exhibiting signs of central nervous system disorders); however, we also tested more than 21,000 samples from clinically normal adult animals. APHIS is in the process of analyzing data from the enhanced surveillance effort to determine what appropriate conclusions to draw about BSE prevalence, though it certainly would not be premature to say that the incidence of BSE in the United States is extremely low. At the conclusion of the enhanced BSE surveillance effort, we will continue our BSE monitoring program by conducting a minimum of 40,000 tests annually, which would still allow us to find BSE in one million cattle, with a confidence level of 95 percent.

To facilitate response efforts in the event of a future foreign animal disease outbreak, APHIS and its State and industry cooperators continue to implement the National Animal Identification System (NAIS) designed to identify, within 48 hours of discovery, any agricultural premise exposed to a disease so that potential outbreaks can be contained and eradicated as quickly as possible. The NAIS is a networked computerized system that will allow us to identify livestock and poultry and record their movements over their life-spans. All 50 States, five Tribes, and two U.S. Territories are currently registering premises with an estimated total of 213,000 premises registered. APHIS and its State and Tribal cooperators are registering hundreds of premises each week, and we are also in the preparation stage to begin allocation of individual animal identification numbers.

Through the Pest Detection program, APHIS targets pests based on their risk of entry and potential to cause significant economic or environmental damage. In fiscal year 2005, our national Cooperative Agricultural Pest Survey network resulted in the detection of several significant pests and diseases, including citrus greening in Florida and swede midge and sirex beetle in New York. While the responses to these pests will differ based on many factors, the early detections made by the Pest Detection program are allowing APHIS or the affected State to take action to address the outbreaks and mitigate their effects.

In addition to conducting traditional surveys, the Pest Detection program and its cooperators are implementing ongoing monitoring activities at high-risk sites such as nurseries and warehouses that receive international cargo. In June 2005, California personnel detected an Asian longhorned beetle (ALB) introduction at a Sacramento warehouse as part of these efforts. ALB is present in urban locations in New York, New Jersey, and Chicago, Illinois. To control the beetle in these places, APHIS and cooperators have removed more than 10,000 trees at a significant cost to U.S. taxpayers. Because the Sacramento introduction was detected and addressed at its source, APHIS and State officials believe they have eliminated the threat of an ALB infestation in California by fumigating the warehouse and quickly tracking other products from the same shipment. Surveys will continue through 2008 to make certain that the beetle is not present.

In fiscal year 2004, Asian soybean rust (SBR) was detected for the first time in the United States. Because SBR cannot be eradicated, soybean producers must adjust to its presence and the costs associated with it, namely the application of fungicides to protect crops. Early detection of SBR in each new area is critical for effective disease management because the application of fungicides is most effective if applied as a preventive measure, before a field is infected. However, fungicide application is cost prohibitive (an average of $25 per acre) if a particular area is not at

risk for infection. Accordingly, USDA (including APHIS and CSREES) implemented a short-term monitoring and surveillance network for the disease in fiscal year 2005. The survey data collected by the program in 36 States provided soybean producers with accurate information to use in determining whether or not to treat their fields and prevented the unnecessary application of fungicides.

Under the Animal and Plant Health Regulatory Enforcement program, our Investigative and Enforcement Services unit continues to provide support to all APHIS programs by conducting investigations of alleged violations of Federal laws and regulations under APHIS' jurisdiction and taking appropriate civil or criminal enforcement actions. Regulatory enforcement activities prevent the spread of animal and plant pests and diseases in interstate trade. In fiscal year 2005, APHIS conducted 842 investigations involving animal health programs, resulting in 440 warnings, 104 civil penalty stipulations, three Administrative Law Judge Decisions, and $345,044 collected in fines. APHIS also conducted 1,773 investigations involving plant quarantine violations resulting in 456 warnings, 744 civil penalty stipulations, 157 Administrative Law Judge decisions, and approximately $2 million collected in fines.

The Agency maintains a cadre of trained professionals prepared to respond immediately to potential animal and plant health emergencies. APHIS' Emergency Management System (EMS) is a joint Federal-State-industry effort to improve the ability of the United States to successfully manage animal health emergencies, ranging from natural disasters to introductions of foreign animal diseases. The EMS program identifies national infrastructure needs for anticipating, preventing, mitigating, responding to, and recovering from such emergencies. The Preparedness and Incident Command group of the EMS continued its ongoing efforts to complete, review, and update response plans for foreign animal diseases, such as BSE, Avian Influenza, and Classical Swine Fever.

*Pest and Disease Management*

APHIS also works closely with State, industry, and academic partners to maintain national detection networks and emergency response teams for plant and animal pest and disease outbreaks that may occur here in the United States. We work with these same partners to manage or eradicate economically significant endemic pests and diseases, and manage wildlife damage to agricultural and natural resources.

APHIS continues the cooperative effort with States and cotton producers to eradicate the Boll Weevil, and, by the end of fiscal year 2005, the program had eliminated the boll weevil from approximately 85 percent of the 15 million acres of cotton grown in the United States, up from 80 percent the previous year. We are on track to achieve full eradication by the end of fiscal year 2009.

At the end fiscal year 2005, 47 States were in full compliance with the Johne's national program standards with the goal being 45 States enrolled. Only 3 States, Massachusetts, Montana, and Wyoming, have not adopted the Voluntary Bovine Johne's Disease Control Program (VBJDCP). By the end of the year, 7,860 herds were enrolled in the VBJDCP. Since the initial goal was to enroll 4,000 herds, we exceeded the target by 96 percent.

APHIS continues to address the last stubborn pockets of endemic animal diseases such as pseudorabies, brucellosis, and bovine tuberculosis (TB). At the end of fiscal year 2005, all 50 States and 3 territories were in Stage V (free) status for pseudorabies. A full declaration of National Pseudorabies eradication will be possible after all 50 States and 3 territories have maintained free status for 2 consecutive years. Throughout fiscal year 2005, 48 States and three Territories remained classified at Brucellosis Class Free status, and two States, Texas and Wyoming, continued their Brucellosis Class A status classification for bovine brucellosis. In addition, at the end of fiscal year 2005, the TB program designated 49 States and Territories and portions of two others as accredited TB-free, thus exceeding the target of 47 States and territories considered class free.

Through our Wildlife Services Operations program, the Agency's cadre of wildlife disease biologists provided technical assistance, conducted surveillance, and maintained control of more than 18 wildlife diseases including Chronic Wasting Disease, West Nile Virus, bovine and swine brucellosis, pseudorabies, classical swine fever and plague. In addition, APHIS reinforced oral rabies vaccination zones along the Appalachian Ridge through the distribution of 5.52 million baits on 31,000 square miles from the Ohio-Pennsylvania border through northern Alabama.

APHIS wildlife biologists provided wildlife hazard management assistance to over 580 airports nationwide for the protection of human safety and property in fiscal year 2005, more than 12 times the amount in 1990 with only 42 airports. Wildlife strikes cost U.S. civil aviation nearly $500 million in 2004.

APHIS has been challenged with numerous emergencies over the last several years. As such, we took quick and aggressive action to address plant and animal

health situations with BSE, Mediterranean fruit fly, citrus canker, sudden oak death, and emerald ash borer. The Secretary approved approximately $177 million in Commodity Credit Corporation funding releases for APHIS programs in fiscal year 2005, of which $8 million was funded through unused balances and $169 million from new funds.

*Animal Care*

APHIS ensures the humane care and treatment of animals covered under the Animal Welfare Act (AWA) and the Horse Protection Act. Under this legislation, first enacted in 1966 and amended several times thereafter, APHIS carries out activities designed to ensure the humane care and handling of animals used in research, exhibition, the wholesale pet trade, or transported in commerce. APHIS places primary emphasis on inspection of facilities, records, investigation of complaints, inspection of problem facilities, and training of inspectors. Regulations supporting the AWA provide minimum standards for the handling, housing, feeding, transportation, sanitation, ventilation, shelter from inclement weather, and veterinary care of regulated animals. APHIS continues to focus on conducting quality inspections at USDA licensed and registered facilities. The program's risk-based inspection system concentrates activities on facilities where animal welfare concerns are the greatest. During fiscal year 2005, the program conducted 16,474 inspections of licensees, registrants, and prospective applicants. This represents a 9 percent increase over fiscal year 2004.

APHIS conducted 575 animal care investigations in fiscal year 2005, resulting in 391 formal cases submitted for civil administrative action. We also issued 219 letters of warning for animal care. During fiscal year 2005, we resolved 87 cases with civil penalty stipulations resulting in $160,184 in fines. Administrative Law Judge decisions resolved another 82 cases resulting in $946,184 in fines. High-priority and significant cases included several involving the sale of dogs and exotic animals by unlicensed dealers as well as numerous handling violations involving exhibition animals attacking and/or injuring the public.

*Scientific and Technical Services*

The programs within this component ensure the effectiveness of the technology and protocols used in APHIS programs. The Agency conducts these programs to develop new or improved methods for managing wildlife damage and detecting and eradicating animal and plant pests and diseases. The Agency also conducts laboratory testing programs to support disease and pest control and/or eradication programs. Additionally, those programs provide advice and assistance to APHIS on environmental compliance requirements with respect to pesticide registration and drug approvals for products used in implementing these programs.

APHIS has successfully regulated the biotechnology industry for almost 20 years. During that time, the Agency has overseen approximately 10,000 field trials without any adverse impacts on human health or significant environmental harm, and has evaluated more than 90 petitions for deregulation to ensure these plants posed no threat to other plants or the environment. As of September 30, 2005, APHIS has granted 68 petitions for deregulation for varieties of the following crops: tomatoes, squash, cotton, soybeans, rapeseed, potatoes, papayas, beets, rice, flax, tobacco, and corn.

To carry out its goal of safeguarding U.S. agricultural resources from foreign pest and disease introductions, APHIS needs the appropriate technological tools. The Plant Methods program develops new or improved existing tools to enhance APHIS' safeguarding capabilities. The program met its fiscal year 2005 performance target of developing five new quarantine treatments or detection methods or improving existing ones for commodities of trade.

In our Veterinary Biologics program, APHIS issued 97 product licenses in fiscal year 2005. Veterinarians and animal owners now have 16 new products for the diagnosis, prevention, or treatment of animal diseases. Of the 16, four new product licenses were issued for biotechnology-based products.

APHIS exceeded its long-term performance measure target in fiscal year 2005 to have 39 States involved with the National Animal Health Laboratory Network (NAHLN). At the end of fiscal year 2005, the NAHLN consisted of 49 State and university laboratories in 41 States that are available to assist our National Veterinary Services Laboratory in animal disease testing. The laboratory network forms the nation's strongest weapon against bioterrorism: an effective network of laboratories capable of integrated and coordinated response to emergencies that could otherwise devastate the U.S. economy and food supply. This key resource of APHIS has increased testing capacity significantly. APHIS and its NAHLN partners are currently testing up to 10,000 samples per week for BSE, 4,800 samples per week for chronic

wasting disease, and 4,800 samples per week for scrapie. Additionally, in a period of extraordinary demands caused by an adverse animal disease event, the network could test up to 18,000 samples per day for AI/Exotic Newcastle Disease or 15,000 samples per day for classical swine fever or FMD.

Growing populations of Canada geese, a Federally-protected species, continue to pose problems for homeowners across the country. In September 2005, APHIS' National Wildlife Research Center (NWRC) received a Notable Technology Development Award from the Federal Laboratories Consortium Mid-Continent Region for its role in the development and registration of OvoControl-G Canada goose bait. Which is the first EPA approved oral contraceptive of its kind. The NWRC also continued work to support the Environmental Protection Agency's approval of a new chemical treatment to reduce the hatchability of eggs laid by treated Canada geese.

FISCAL YEAR 2007 BUDGET REQUEST

The fiscal year 2007 Budget Request for Salaries and Expenses totals just over $953 million, an increase of $146 million over the fiscal year 2006 Agriculture Appropriations Act and an increase of $75 million when the fiscal year 2006 supplemental for avian influenza is included. About $9.2 million of the increase is for pay raises. Of the total request, approximately $453 million is identified in the President's Homeland Security initiative, including $314 million in discretionary funding. Of the $453 million, $188 million is also identified in the President's Food and Agriculture Defense Initiative, which serves to protect the agriculture and food system in the United States from intentional, unintentional, or naturally occurring threats.

The increase, approximately 15 percent above the fiscal year 2006 appropriation, is for initiatives designed to address the increasing domestic and international threats to the health of United States agriculture. In the international arena, APHIS plans to use additional funding to establish a formal international information collection program that will help us set agricultural import policy and inform others of our monitoring and surveillance efforts here in the United States, and protect and expand the $53 billion annual agricultural export market, among other things. We are also addressing HPAI threats in other countries by requesting additional funding to provide technical assistance to develop knowledge and experience in surveillance and control techniques, which will help prevent the spread of HPAI to the United States. On the domestic side, our efforts include enhancements to both animal and plant health surveillance systems and diagnostic capabilities; the ability to track animal and plant pathogens and toxins identified as Select Agents; the build up of our animal disease vaccine bank; the ability to address wildlife disease threats to livestock health; an investment to substantially reduce emergency fund transfers for a variety of plant pest and disease programs; and continuing enhancements to our Biotechnology Regulatory Services program. Our goal is to reduce economic damage that pests and diseases can cause to American agriculture. As such, APHIS is in the process of developing a new performance measure that will allow us to assess the value of the pest and disease damage that our programs are preventing or mitigating, and we will utilize this information to help determine future funding requests. We will begin applying this measure to all of our programs.

The following paragraphs detail some of the funding increases and associated accomplishments expected under the fiscal year 2007 budget request:

*Pest and Disease Exclusion*

An increase of $6.4 million for the Foreign Animal Disease/Foot-and-Mouth Disease program and $4.7 million under Pest Detection to expand the program's formal collection of international health information, which will allow APHIS to conduct risk assessments and regulate imports more effectively as well as provide an overall picture of global animal health trends.

An increase of $13.85 million for the Fruit Fly Exclusion and Detection program to strengthen the Moscamed (Mediterranean fruit fly) program along the Mexico-Guatemala border to prevent the northward spread of the Medfly into Central Mexico thereby reducing the threat to the United States.

An increase of $4.68 million for the Trade Issues Resolution and Management program to increase work on Free Trade Agreements, and expand and retain markets to provide new market access and facilitate trade worth $2.4 billion in fiscal year 2007.

*Animal and Plant Monitoring and Surveillance*

An increase of $8.5 million for the Animal Health Monitoring and Surveillance program to enhance the current disease monitoring and surveillance system by increasing and integrating its infrastructure to better protect the nation's animals from emerging and foreign animal disease. The fiscal year 2007 request also in-

cludes continued funding for the maintenance of monitoring and surveillance of BSE (approximately $17 million for 40,000 samples) and continued implementation of the National Animal Identification System (approximately $33 million).

An increase of $1.2 million for the Animal and Plant Health Regulatory Enforcement to provide additional support to APHIS programs by conducting investigations of alleged violations of Federal laws and regulations under the Agency's jurisdiction.

An increase of $9.1 million for Emergency Management Systems to improve readiness at the Federal, State, Tribal, and local levels to respond to disease incursions or acts of bioterrorism, and respond effectively and efficiently to all hazardous animal health incidents. We will also stockpile sufficient levels of supplies, vaccines, materials, and equipment needed to respond to an outbreak of 50 percent of the most damaging disease agents, or four of the eight most damaging and highly contagious foreign animal diseases.

$57 million for the new HPAI program (initially funded via fiscal year 2006 supplemental appropriation) to continue the development of the Agency's new HPAI surveillance and preparedness program through efforts with international capacity building ($5.01 million) and domestic surveillance and preparedness ($51.72 million).

An increase of $15.4 million for Pest Detection activities to enhance early detection efforts through an increase in the number and intensity of surveys conducted throughout the United States for high-risk plant pests; enhance emergency response capabilities; and develop molecular diagnostic tools for high-risk pests.

An increase of $1.8 million for the Select Agents program to register facilities desiring to handle select agents, and enhance current physical security requirements to expand the barcode inventory tracking system.

Approximately $2 million for the new Wildlife Disease Monitoring and Surveillance program to establish methods for surveillance data collection in wildlife populations and investigate the prevalence of specific diseases that may move from wildlife to domestic livestock or poultry populations.

*Pest and Disease Management*

A $16 million shift in funding from Boll Weevil and Pink Bollworm programs to establish a new program, Cotton Pests, to improve technical efficiency by formally merging resources to simplify administration of both programs and help move toward the goal of eradication of both pests.

An increase of approximately $27 million for Emerging Plant Pests to enhance survey and tree removal to control emerald ash borer ($21 million); continue conducting surveys for various citrus pests and diseases in Florida ($2 million); conduct additional inspections in nurseries to determine extent of P. remora (Sudden Oak Death) in California, Oregon, and Washington State ($3.45 million); and continue containment activities for Karnal bunt ($1.25 million).

An increase of approximately $10 million for Invasive Species to establish a new competitive grant program to the private sector to apply innovative and cost-effective methods for responding to and controlling invasive species.

An increase of approximately $3 million for the Low Pathogenic Avian Influenza (LPAI) program to continue addressing LPAI on a national level in live bird markets and commercial industries, and develop and oversee production of AI test reagents to be distributed to State and industry laboratories approved to participate in the LPAI program.

An increase of $3 million for the Wildlife Services Operations Airport Safety program to enhance human safety by reducing wildlife strikes to aircraft.

An increase of $1.75 million for rabies control under the Wildlife Services Operations program to maintain the oral rabies vaccination barrier to prevent the spread of this disease.

An increase of $5 million for Homeland Security and Food and Agriculture Defense to enhance wildlife disease surveillance.

*Animal Care*

An increase of almost $1.5 million for the Animal Welfare program to enhance current program operations through the application of the new regulation to inspect facilities that contain mice, rats, and birds not involved in research. We will continue to use a risk-based inspection system to concentrate activities on facilities where animal welfare concerns are greatest, while also developing strategies for effective outreach and education programs to develop expertise and promote voluntary compliance.

*Scientific and Technical Services*

An increase of $3.3 million for the Biotechnology Regulatory Services program to enhance our infrastructure for a transgenic program by conducting additional risk

assessments; preparing environmental assessments; advising on policies related to animal and disease agent biotechnology; developing and implementing regulations and guidelines regarding transgenic animals and disease agents; and providing leadership to advance the Agency's use of biotechnology oversight to protect and enhance American agriculture. We will also strengthen regulatory validation activities by developing scientific personnel exchange programs with academia and industry; conducting peer reviews for significant scientific components of biotechnology policies and regulations; and conducting quantitative analyses and studies to support regulatory decisions.

An increase of $1 million for Plant Methods Development Laboratories to establish a new National Crop Biosecurity Center to coordinate technical and scientific needs for detecting and responding to high-consequence plant pests and diseases. We also will assess current and emerging threats and develop a laboratory accreditation program to certify State and university laboratories to conduct tests for high-risk diseases that have the potential to generate large volumes of samples and overburden the current testing capacity.

An increase of $3.5 million for Veterinary Biologics to reduce the time it takes to review and test new veterinary biologics products entering the market. We also will address containment requirements to meet the required standards for the use of select agents and toxins maintained by the Center for Veterinary Biologics. In addition, we plan to expand activities in pharmacovigilance (the post-marketing monitoring of adverse events associated with the use of licensed veterinary biological products) with the implementation of a standard data system for sharing resources, data collection methods, and review processes for adverse events reporting with the Food and Drug Administration.

An increase of approximately $5.5 million for Veterinary Diagnostics to expand diagnostics capability to include additional foreign animal diseases; expand the National Animal Health Laboratory Network to address significant biological and chemical threats to animal agriculture and our national food supply; address security requirements and meet standards related to Select Agents; and achieve NVSL lab accreditation.

A $3.2 million shift in funding within Wildlife Disease Methods Development to dedicate funding to conduct avian influenza methods development research to improve environmental sample diagnostics, and characterize and evaluate the risk that feral swine pose in the generation and maintenance of avian influenza subtypes of domestic animal and human health concern.

*Decreases*

To support our high priority programs while continuing to meet the goal of reducing the Federal deficit, we propose several offsetting decreases. Within our Pest and Disease Exclusion activities, we propose a reduction of $2 million for the Hawaii Interline program within the appropriated Agricultural Inspection Quarantine line item, which we expect to conduct in the future via a reimbursable agreement with the State of Hawaii; a reduction in Cattle Fever Tick activities to the fiscal year 2005 level because we do not anticipate outbreaks occurring outside of the quarantine zone nor an increase in incursions into the quarantine zone; and, a reduction of $1.2 million in the Import/Export program to dedicate resources to higher priority activities.

Within our Animal and Plant Monitoring and Surveillance activities, we propose a $2.3 million shift in funding within the Animal Health Monitoring and Surveillance program and an $830,000 shift in funding within the Pest Detection program to dedicate resources to higher priority activities.

Within our Pest and Disease Management activities, we propose a reduction of $25.9 million for Boll Weevil program activities due to the program's success in eradicating boll weevil, and other reductions ($1.5 million for Brucellosis; $3.3 million for Chronic Wasting disease; $1.14 million for Grasshopper; $9.9 million for Johne's; $1.92 million for Pink Bollworm; and $763,000 for Noxious Weeds) to dedicate resources to higher priority activities.

Also, in fiscal year 2007, we are re-proposing new user fees for the Animal Welfare program, which would generate $8.22 million.

Finally, within our Scientific and Technical Services activities, we propose a shift of $371,000 in our Veterinary Diagnostics program and a $3.2 million shift in our Wildlife Disease Methods Development program to dedicate resources to higher priority activities.

CONCLUSION

APHIS' mission of safeguarding United States agriculture is becoming ever more critical. Although the processes by which we protect America's healthy and diverse

food supply are being increasingly challenged by increased trade and tourism, APHIS is committed to taking the lead in building and maintaining a world-class system of pest and disease exclusion, surveillance, detection, diagnosis, and response. Healthy plants and livestock increase our market potential internationally, and thus contribute to a healthy U.S. economy. The APHIS budget consists of interdependent components that, when combined, truly protect the health and value of American agriculture and natural resources.

On behalf of APHIS, I appreciate all of your past support and look forward to continued, positive working relationships in the future. We are prepared to answer any questions you may have.

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PREPARED STATEMENT OF JAMES E. LINK, ADMINISTRATOR, GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION

INTRODUCTION

Mr. Chairman and Members of the Committee, I am pleased to highlight the accomplishments of the Grain Inspection, Packers and Stockyards Administration (GIPSA), and to discuss the agency's fiscal year 2007 budget proposal.

GIPSA's activities are an integral part of USDA-wide efforts to support a competitive global marketplace for U.S. agricultural products. Our mission is to facilitate the marketing of livestock, poultry, meat, cereals, oilseeds, and related agricultural products, and to promote fair and competitive trading practices for the overall benefit of consumers and American agriculture.

We fulfill our service and regulatory roles through our Packers and Stockyards Program, which promotes a fair, open, and competitive marketing environment for the livestock, meat, and poultry industries and our Federal Grain Inspection Service, which provides the U.S. grain market with Federal quality standards and a uniform system for applying these standards to promote equitable and efficient marketing.

ORGANIZATION

We carry out our mission with a dedicated staff of 680 employees working in partnership with a variety of State and private entities. Our Packers and Stockyards Program relies on three regional offices which specialize in poultry, hogs, or cattle/lamb. Our grain inspection services are delivered by the national inspection system, a network of Federal, State, and private inspection personnel. The system includes 9 GIPSA field offices, 1 Federal/State office, and 56 State and private agencies authorized by GIPSA to provide official services.

PACKERS AND STOCKYARDS PROGRAM

Our Packers and Stockyards Program (P&SP) administers the Packers and Stockyards Act (P&S Act) to promote fair and competitive marketing in livestock, meat and poultry for the benefit of consumers and American agriculture. The P&S Act is intended to protect producers, other market actors, and consumers against unfair, discriminatory, or deceptive practices that might be carried out by those subject to the Act.

To meet this objective, GIPSA seeks to educate, regulate and investigate individuals and firms subject to the P&S Act; to respond to anti-competitive behavior, unfair, deceptive, or unjustly discriminatory trade practices; and to ensure livestock producers and poultry growers are paid for their products. GIPSA takes corrective action when there is evidence that firms or individuals have violated the P&S Act.

In April 2005, the USDA's Office of Inspector General (OIG) initiated an audit in response to Congressional concerns with the Agency's management and oversight of P&SP. The audit identified four primary areas where program management was not up to the high standard that this Administration expects and our stakeholders deserve.

The OIG provided ten recommendations for strengthening P&SP. GIPSA concurs with all recommendations and is taking immediate actions to implement them. We have already taken steps to improve the management of investigations, to correct how we categorize and track investigations and to implement additional recommendations from prior OIG and Government Accountability Office reviews. The Administration takes the Inspector General's findings very seriously and we have established an aggressive schedule to improve the enforcement of the P&S Act.

While improvements are needed, P&SP has delivered valuable services to the livestock, meatpacking, and poultry industries. With only 136 employees, we continued to regulate these industries, estimated by the Department of Commerce in fiscal

year 2002 to have an annual wholesale value of $120 billion. At the close of fiscal year 2005, 5,569 market agencies and dealers and 1,858 packer buyers were registered. In addition, there were 1,443 facilities that provided stockyard services, an estimated 6,000 slaughtering and processing packers, meat distributors, brokers and dealers, and 202 live poultry dealers operating subject to the P&S Act.

Our regulatory responsibilities are the heart of our mission to administer the P&S Act. To this end, GIPSA closely monitors practices that may violate the P&S Act. Last fiscal year, we conducted 1,936 activities related to compliance with the P&SP Act. These activities included 1,491 regulatory activities such as financial audits and scale check weighs and 445 investigations of P&S Act violations. As a result of these investigations, P&SP helped recover over $14.1 million for producers and enforced the restoration of nearly $350 million to custodial accounts and business balance sheets to protect producers from financial harm.

We continue to work with violating firms to achieve voluntary compliance, and continue to initiate appropriate corrective action when we uncover evidence that the P&S Act has been violated. In fiscal year 2005, with assistance from the Office of the General Counsel, we filed 18 administrative or justice complaints alleging violations of the P&S Act. These formal disciplinary complaints resulted in 21 decisions ordering the payment of $116,300 in civil penalties and suspending 7 registrants from operating for periods ranging from 21 days to 6 years. In one specific case, GIPSA worked through informal resolution channels to obtain voluntary compliance when a market agency and dealer operation in the Midwest discovered one of its employees had defrauded the company in excess of $1 million. Through GIPSA's timely intervention, the firm secured sufficient financial protection so that none of the company's livestock sellers suffered losses.

We regularly assist the FBI, State and local law enforcement agencies with their investigations. Some of our investigations involve overlapping jurisdiction, and sometimes these agencies call on GIPSA for its expertise. In addition, we communicate with our sister agencies within USDA, the Department of Justice, the Commodity Futures Trading Commission, and local and State governmental organizations to discuss common issues and when appropriate, coordinate plans.

GIPSA maintains a toll-free hotline (800–998–3447) as an avenue for receiving complaints and other communications from livestock producers, poultry growers and other members of the industry or general public. Use of the hotline allows callers to voice their concerns or file a complaint anonymously without fear of retaliation. In fiscal year 2005, GIPSA's Packers and Stockyards Program received 39 hotline calls. Those calls that related to livestock or poultry issues resulted in investigations. To encourage voluntary compliance, we regularly attend industry meetings and conduct orientation sessions (28 in 2005) for new auction market owners and feed mills to educate them about their fiduciary and other responsibilities under the P&S Act.

In fiscal year 2005, we continued working with stakeholders and other interested parties to develop and publish two additional voluntary industry standards for technologies used to assess quality and determine payment for livestock, meat, or poultry. The tentative code was published by the American Society for Testing and Materials in the 2006 National Institute of Standards and Technology—Handbook 44 "Specifications, Tolerances and Other Technical Requirements for Weighing and Measuring Devices", which was released in October 2005. The new standards will help producers receive full value for the quality of livestock they produce as well as help packers pay only for the product they want to purchase. We will continue to work with stakeholders to develop additional standards, as needed, to enhance transparency in the marketplace.

GIPSA continues to operate the Swine Contract Library (SCL) which includes information pertaining to price, premiums, discounts, grids, formulas, and other important contract terms extracted from offered and available contracts used to purchase hogs. The data is available on GIPSA's website on a real time basis. In October 2005, the reporting requirements under the Livestock Mandatory Reporting Act of 1999 became voluntary due to the sunset of the law.

GIPSA continues to administer a livestock and meat marketing study that examines the broad issues surrounding packer ownership of livestock. Research Triangle Institute (RTI), the firm with whom GIPSA has contracted to complete the study, released an interim report in August 2005. RTI began contacting survey respondents in November 2005 and collecting transaction data in February 2006. The final report is scheduled for release in early 2007.

FEDERAL GRAIN INSPECTION SERVICE

Our Federal Grain Inspection Service (FGIS) facilitates the marketing of U.S. grain and related agricultural products through the establishment of standards for quality assessments, regulation of grain handling practices, and management of a network of Federal, State, and private laboratories that provide impartial, user-fee funded official inspection and weighing services under the authority of the U.S. Grain Standards Act and the Agricultural Marketing Act of 1946.

FGIS establishes terms and methods for quality assessments that the grain industry uses to buy and sell about $50 billion of commodities annually. These standards for quality assessments provide the U.S. grain marketing system with the means to align post-harvested crop quality with the diverse end-use needs of today's food and feed industry. GIPSA currently maintains 131 unique standards and quality assessment factors to characterize the quality of grain and grain-related products.

We continue work with producers, technology providers, and food and feed manufacturers to consensually identify the essential quality attributes that require standard measurement to effectively differentiate quality and add value to U.S. agriculture. In fiscal year 2005, GIPSA implemented artificial neural network (ANN) technology to streamline and improve the accuracy of the wheat protein testing program, and to offer, for the first time, a barley protein testing service. The new official ANN protein testing services facilitate the marketing of these grains by providing a fair, accurate, and transparent third-party determination, backed by a national quality control process, and standardized instrumentation, reference samples, calibration, and procedures.

GIPSA also conducted activities related to soybeans in fiscal year 2005. GIPSA verified and adopted an American Oil Chemists' Society (AOCS) gas chromatographic method as a reference method to measure levels of various fatty acids in soybeans, including linolenic acid. Soybeans with lower linolenic acid levels were introduced during 2004. "Low-lin" soybeans produce oil that has half the linolenic acid level of commodity soybean oil, making it more stable and reducing or precluding the need for hydrogenation—the process that creates unhealthy trans fats in foods. This standard quality assessment method will help the market capture the full value of this emerging product. GIPSA continues to explore rapid tests for fatty acid contents of soybeans and other grains.

We are also working with the wheat industry in an effort to regain the U.S. wheat market share which has declined from 33 percent of the international market in 1995 to an estimated 25 percent in 2005.

Our goal is to develop rapid measurement methods to differentiate wheat quality at the first point of sale and allow the U.S. wheat industry to better meet the needs of foreign buyers. To date, working with the wheat industry, we have identified several key quality attributes, such as gluten strength, that require rapid measures, as well as the need to validate international reference methods relating to the attributes.

In fiscal year 2005, GIPSA validated and adopted three widely used, internationally recognized reference methods that assess various aspects of protein quality in wheat: the Farinograph reference method to measure water absorption and dough strength; the Glutomatic reference method for wet gluten quantity; and the Alveograph reference method to measure dough strength.

Gaining consensus on the salient wheat attributes and reference methods will allow GIPSA to pursue the development of rapid analytical methods for use at the first point of sale.

As we develop measures of new attributes entering the market, we are ensuring the current measurement methods are accurate and cost-effective. For example, we are working to transform the measurement of grain moisture. Maintaining current calibrations for moisture measurement is time consuming and resource intensive. Advances in the basic means to measure moisture, led by GIPSA, have the potential to greatly reduce maintenance costs and improve the accuracy of moisture measurements over a much wider range. These advances will benefit the entire grain industry, from producer to food manufacturer.

We are also working with stakeholders to ensure grading standards further facilitate trade. GIPSA is developing national feed pea standards to meet surging production and use of peas for feed. As the global competition in soybean markets intensifies, we are collaborating with the soybean industry to determine whether changes in analytical methods and grading standards would improve the U.S. competitive position. One grading factor under review is test weight per bushel, a factor used to market soybeans in the United States for over a half century, but not used by our major international competitors. We are also working closely with the wheat industry to ensure the wheat standards facilitate the expansion of the new and evolv-

ing market for Hard White Wheat. In 2005, we amended the U.S. Standards for Wheat to change the definition of contrasting classes in Hard Red Winter wheat and Hard Red Spring wheat. The new standard and policy will ensure the purity of both the Hard White and the Hard Red classes, which is essential to promote market growth and meet the needs of those making high-quality wheat products for consumers around the world. All of these activities improve the American agriculture's ability to deliver the specific quality of grain desired by food manufactures and consumers, and strengthen its competitive position in the global market.

In the biotechnology arena, we are improving the reliability and accuracy of testing for the presence of modern biotechnology-derived grains to help U.S. agriculture avoid market disruption as trading partners around the world implement new import requirements. Our Test Kit Evaluation Program validates the performance of commercially available rapid tests for biotechnology-derived grains. Our Proficiency Program improves the performance and reliability of government and private laboratories that test for biotechnology-derived grains in the United States and worldwide. More than 115 organizations participated in the program in fiscal year 2005, compared to 22 in 2002.

In response to the results of the proficiency program, we are working to harmonize international reference materials and biotechnology measurement methods used in commerce to measure the level of biotechnology-derived events in raw agricultural products. The current focus of many laboratories is to assay for the presence or absence of a particular transgenic event, whereas the regulatory requirements evolving for agricultural products usually require reliable methods to measure the quantity of a biotechnology derived event.

Our international outreach goes beyond work in the area of biotechnology. We work cooperatively with other government agencies to support market development and remove obstacles to U.S. grain reaching world markets.

In recent years, we have focused on providing technical support to the Mexican and Asian markets. Last year, GIPSA worked with Mexico's private and public grain sectors to harmonize sampling and analytical methods with the goal of minimizing trade disruptions due to differences between GIPSA-certified quality and an importer's own quality assessment. We conducted seminars at three major grain importing locations in Mexico for personnel from Mexican commercial firms and government agencies to educate buyers on grain contracting, U.S. grain standards, sampling, and inspection procedures. We also spearheaded the establishment of a government-to-government grain industry consultative group as a technical-level forum to address cross-border grain quality issues. Finally, GIPSA led a USDA team that visited key Mexican border inspection offices to facilitate cross-border trade by addressing Mexico's inspection and clearance process for U.S. grain shipments to Mexico.

Since fiscal year 2002, GIPSA has placed a temporary duty officer in Asia to address immediate and long-term issues in the region, to promote a better understanding and adoption of U.S. sampling and inspection methods to minimize differences in inspection results and to develop face-to-face relationships with customers, USDA cooperators and government officials. During fiscal year 2005, a GIPSA officer served on a 7-month assignment in the region. In fiscal year 2005, this program allowed GIPSA to respond face-to-face to importers in Japan who raised concerns regarding dockage levels in U.S. wheat; to Taiwanese importers about differences in grain weight; and to representatives of Malaysia and Singapore regarding U.S. soybean quality. We also were able to share samples with Japan to allow them to monitor pesticide residue levels in U.S. wheat, rice, and barley, before they implement new domestic residue limits. Finally, GIPSA's representative participated in several marketing seminars sponsored by USDA cooperator organizations to inform importers and their governments about the role and responsibilities of GIPSA and the national inspection system.

We also provide technical consultative services for international customers. During fiscal year 2005, GIPSA facilitated the reopening of Iraqi grain markets to the United States for the first time since 1999, leading to wheat sales of $107 million in 2005. We provided technical monitoring and on-site inspection expertise for U.S. wheat shipments from their departure point in the United States to their arrival in Syria and final destination in Baghdad.

Also during the fiscal year, GIPSA installed and check tested laboratory equipment to inspect and grade wheat in Yemen; conducted wheat grading and inspection seminars in El Salvador and Tunisia; worked with Algerian grain buyers to address Karnal bunt concerns; met with Peruvian officials to discuss the effects of their new rice import regulations; developed sample collection procedures for Japan's Ministry of Agriculture, Forestry and Fisheries; participated in several international meetings on implementing the Biosafety Protocol; continued to work with Chinese offi-

cials to discuss biotechnology, the Biosafety Protocol, and their impact on trade; helped the USDA/Foreign Agricultural Service and Animal and Plant Health Inspection Service resolve various grain quality issues in other countries that would otherwise have restricted U.S. grain exports; and briefed visiting trade and governmental teams representing 44 countries around the world.

In addition to facilitating the marketing of U.S. grain by developing grain quality assessment methods and carrying out international outreach efforts, GIPSA administers a national inspection system comprising Federal, State, and private laboratories. These laboratories provide valuable service to all sectors of the grain industry on a user fee basis, 24 hours a day, 7 days a week. The world recognizes the certificates issued by these laboratories as the gold standard for grain quality certification. Buyers and sellers around the world have confidence in and rely on the GIPSA certificate to trade grain.

This confidence was earned. The dedicated Federal, State, and private employees of the national grain inspection system work tirelessly to ensure the integrity and reliability of the national inspection system. The dedication and professionalism of GIPSA employees was proven last year in the aftermath of Hurricanes Katrina and Rita. Four GIPSA offices (New Orleans and Lake Charles, Louisiana, and League City, and Beaumont, Texas) were in the paths of these storms. Through the superlative efforts of employees in New Orleans, Louisiana, and League City, Texas, all agency employees were located and inspection personnel were working with industry with 48 hours after the hurricanes passed to get U.S. export port operations in the Gulf online. Within a week, employees in the affected area had set up an alternate field office and were responding to industry service requests. Local GIPSA employees, many of whose homes were lost or destroyed, were on duty. Within 3 weeks, the New Orleans field office was fully operational.

GIPSA's Beaumont, Texas, and Crowley/Lake Charles, Louisiana, offices took direct hits from Hurricane Rita. The Crowley/Lake Charles office suffered moderate damage and was fully functional within a week. The Beaumont suboffice was severely damaged by Rita and closed for a month but is now fully operational.

We are proud to report that no service requests were denied as a result of the hurricanes. GIPSA personnel were on duty and ready to provide service as soon as the industry resumed operations. Our local personnel showed fortitude and determination in addressing both the personal and work-related challenges engendered by the storms. All told, GIPSA employees issued nearly 3 million certificates representing approximately 245 million tons of grain during fiscal year 2005.

GIPSA continuously works to improve service delivery by this network of laboratories and meet the needs of a changing market. In fiscal year 2005, we revised the regulations on short-voyage fumigations to facilitate the movement of waterborne grain shipments of 5 days or less duration.

EGOVERNMENT SOLUTIONS

Our most ambitious undertaking to improve program operations and service to the public is a sweeping, multi-year project to upgrade information management systems and modernize our business functions. Our current information management system consists of several independent systems that have served specific purposes over the years well, but are not integrated. This has limited our ability to meet the growing demand for electronic, or web-based, delivery of our services. It also impedes our efforts to improve the cost effectiveness and efficiency of our internal business practices. The enterprise-wide system currently under development will modernize nearly every aspect of GIPSA operations and provide a great opportunity to improve current business practices and service delivery. The new system includes twenty-seven applications to be built over 5 years.

New funding provided in fiscal year 2005 and fiscal year 2006 along with the redirection of existing funds has enabled GIPSA to begin development on ten of the twenty-seven GIPSA Application Modernization modules. Currently funded components of the new system will be deployed incrementally in 2006 and 2007 with the first seven applications scheduled for deployment in the spring of 2006. This long term initiative is scheduled to continue through fiscal year 2009. We have requested additional funding in fiscal year 2007 to support this important initiative.

When completed, customers will have online access to the information and applications they need to file complaints with GIPSA via the Internet; receive status reports on a complaint; place claims against bonds required under the P&S Act; register as a grain exporter or livestock dealer; submit required annual reports; request grain inspection services; receive reports on service status; see the status of their user-fee account; and receive final certified results online which will, in turn, allow customers to integrate official inspection data into their own information and docu-

ment management systems. Private and State inspection agencies interested in being authorized to provide official inspection services will also be able to apply for GIPSA designation and re-designation on-line. Once officially designated, these agencies will have direct access through the web to GIPSA's extensive quality assurance program to ensure their inspection results align with the official standards maintained by GIPSA.

This modernization effort will create synergy across GIPSA programs and data sources, allowing GIPSA to improve internal program efficiencies and effectiveness. This large multi-year initiative will deliver improved performance and reduce costs years into the future.

PROTECTING THE HOMELAND

In addition, GIPSA has dedicated resources to homeland security efforts. We continue to work closely with the USDA Office of Crisis Planning and Management (OCPM) to refine the Department's and the Agency's Continuity of Operations Plan (COOP) and to support and staff the Department's Crisis Action Team (CAT). In fiscal year 2005, GIPSA's COOP and CAT representatives participated in critical disaster-related exercises and training sessions, including a major government-wide exercise.

We provided technical assistance related to homeland security issues to a number of industry and governmental groups, including the USDA Homeland Security Working Group; worked with the National Food Laboratory Steering Committee to coordinate and integrate resources to support key components of the Food Emergency Response Network (FERN); and participated on an Federal Bureau of Investigation-led team that conducted a threat assessment of a major export grain elevator.

2007 BUDGET REQUEST

To fund important initiatives and address the Agency's responsibilities, GIPSA's budget request for fiscal year 2007 is $41.5 million under current law for salaries and expenses and $42.5 million for our Inspection and Weighing Services. These budgets include additional requests of $673,000 for employee compensation; $2,870,000 to continue the modernization of our information management systems and business functions; and $405,000 for international services; and a decrease of $500,000 for the corn growers initiative. In addition our request includes a proposal to recover $19.7 million through user fees to cover the costs of grain standardization activities and Packers and Stockyards program activities.

An increase of $673,000 for employee compensation will enable GIPSA to meet its objectives consistent with the priorities established by the Secretary of Agriculture. This critically important increase is needed to support and maintain current staffing levels to meet projected increased demand.

We are requesting an additional $2,870,000 for our IT modernization initiative. This multi-year project will upgrade information management systems and modernize our business functions. This request includes $1.4 million to continue the development of eGov solutions and $1.5 million for recurring costs associated with the maintenance of these applications.

We are also requesting an additional $405,000 to establish an ongoing presence in Asia allowing GIPSA to continue and expand upon our successful international services and trade activities currently provided on a temporary basis. GIPSA's hands-on approach of assigning a temporary duty officer in Asia to facilitate trade of U.S. grain has provided a positive impact on existing and potential buyers. These buyers say their concerns related to grain quality are addressed effectively. Continuing and expanding this program is crucial not only to increasing U.S. grain exports and reducing market disruptions due to technical differences in analytical methods and standards, but to increase satisfaction and loyalty among our current customers in an extremely competitive marketplace. The U.S. trade dollars saved upon the resolution of just one grain shipment complaint can far outweigh the costs associated with maintaining a GIPSA presence in Asia.

Part of our appropriation request will be derived from proposed new user fees. The budget proposes collecting $3.7 million from grain standardization user fees and $16.0 million from Packers and Stockyards Program licensing fees after a 3 month start-up period.

CONCLUSION

Mr. Chairman, Members of the Committee, thank you for the opportunity to share some of the accomplishments made by our dedicated staff and highlight our future plans to facilitate the marketing of U.S. agricultural products and to promote fair

and competitive trading practices for the overall benefit of consumers and American agriculture.

I would be pleased to address any issues or answer any questions that you may have.

Thank you.

Senator BENNETT. Thank you very much. Appreciate the testimony of all of you.

USER FEES

Dr. Collins, let us talk about user fees. FSIS proposes a user fee. If this were authorized, what would be the impact on domestic slaughter capacity and facilities? Would this increase the price of meat at the supermarket counter? Would it be absorbed? How would that happen?

Mr. COLLINS. Mr. Chairman, a user fee is an increase in processing costs, and the way economics looks at that is that if slaughter is a competitive industry, that is, it is buying its inputs from a competitive industry and selling its outputs in a competitive industry that, over time, the increase in processing costs will be passed on. It will not be borne by the processor. It will be passed back in some form to the supplier of the live animal to the slaughterhouse. It will also be passed forward to consumers.

Generally, because consumer demand for meat is so unresponsive to price, most of the processing costs over time would be passed on to consumers. The user fee that I believe has been proposed, which is for inspection beyond the regular 8-hour shift, would generate about $105 million in revenue.

That would be small in the context of our meat production; we produce or we expect to produce in 2006 about 90 billion pounds of meat in the United States. That would be red meat, plus poultry. So if you divide that production into $105 million, it turns out to be about one-tenth of one cent effect on the price of meat if that user fee is passed fully forward 100 percent to the consumers.

So I find it hard to suggest that the fee would have much effect at all on the meat packing industry, which, incidentally, is getting a little bit better margins right now compared to a year ago.

Senator BENNETT. Okay. Thank you.

AVIAN INFLUENZA

Let us talk about avian flu. If a widespread depopulation should occur, what do you think the effect of that would be on the industry as a whole? I am not predicting that it would occur——

Mr. COLLINS. No, you are hypothesizing a widespread incident in the United States?

Senator BENNETT. Right.

Mr. COLLINS. We have already seen it, of course, in many countries around the world, which has had some impact on our exports.

If we had such an outbreak in the United States, there are a lot of scenarios that could play out. But clearly, the effect is going to be focused in two areas—the exports of poultry products, including broilers, turkeys, and eggs, and in the domestic demand for those products with secondary effects on feed markets.

I think the impact is going to depend very much on the size of the outbreak, where the outbreak occurs, whether it is in major or

minor producing States. It is also going to depend on the effectiveness of APHIS in eradicating the outbreak. So the economic effects will depend on those factors.

But, of course, we would immediately lose some exports. It would be incumbent upon Dr. Lambert and Dr. Penn to work with other countries to ensure that any suspension of imports by those countries would be quickly regionalized just to those States where the outbreak occurs. If that is the case, then we might be able to reduce, fairly quickly, the effect on our exports.

Regarding domestic demand, the United States has been incredibly resilient in the face of any kind of animal disease for many, many years. You can go back to the 1983–1984 high pathogenic avian influenza (HPAI) outbreak in Pennsylvania and the eastern States, and poultry consumption actually went up that year. We have had other high-path incidents, such as Texas in 2004 with no effect on poultry consumption.

There could possibly be some small effect because of the front-page news that Avian influenza (AI) has had for so long. But I think, again, effective eradication and depopulation would limit any domestic consumer effect.

You know, we use as a rule of thumb, if we were to lose 10 percent of our exports, we say that would probably reduce poultry prices by about 3 percent, which on a $23 billion industry for broilers would be about $700 million.

So there are any number of scenarios that you can play out here, but I think that on the domestic side, it ought to be manageable. And I think with good work by APHIS and our trade experts, we can limit the damage on the export side.

Senator BENNETT. Thank you. That kind of analysis is helpful in a world that is filled with hype about all of these various issues.

BOVINE SPONGIFORM ENCEPHALOPATHY

Dr. Lambert, let me swing back to you now, as long as we are talking about these kinds of problems, and have you tell us what happened in Japan when you were over there. And they have shut their market down again because of a single cow with BSE.

And you have just returned. You are quoted extensively, I hope accurately. But having been in public life now, I know that is not always the case. So tell us, briefly, what you found and what you see with respect to our possibility of reopening the export market for beef in Japan.

Mr. LAMBERT. Thanks, Mr. Chairman.

The technical team that went to Japan consisted of representatives from APHIS and AMS and MRP, but also the Food Safety and Inspection Service and the Foreign Agricultural Service. And we were there after the finding of this one cow that was not consistent with Japanese criteria in January. The Japanese government did shut off all imports or suspended all imports of U.S. product.

The Secretary promised a thorough and extensive investigation into that incident. We have completed that investigation and submitted a 475-page report. After that, there were follow-up questions to which we responded. Then, in spite of those efforts, there were continued gaps in the understanding of officials in Japan about how this incident occurred and the measures that we were

going to put into place to assure that we can at least minimize, to the extent humanly possible and hopefully prevent another incident like this from happening.

So the team was there primarily to address these gaps in understanding. I feel that we were successful in doing that. We have both identified the next steps that our governments will take.

From the USDA side, we will provide a checklist of all the new measures that the Secretary indicated and that were indicated in the report and that we agreed to during our discussions these last couple of days. We will provide a checklist of that to the Japanese government and get concurrence that these are the changes that processing plants need to make in order to resume trade.

Once that happens, FSIS and AMS will re-audit the plants that are eligible to export to Japan with an eye toward getting Japan's technical people into the plants to do follow-up verification audits and verify, in fact, that we have made the changes we said we would, and re-establish trade.

Senator BENNETT. Do you have any kind of guess as to the timetable?

Mr. LAMBERT. These timelines are always a crap shoot. We have committed that we will respond just as fast as we can with the checklist. Once that takes place, we will have people in the plants and perform the verification audits just as fast as we can. That probably will take in the neighborhood of 10 days to 2 weeks. The next challenge will be to get the audit teams from Japan onsite to conduct the verification visit.

We are optimistic, but in these types of situations, unanswered questions continue to arise. I should mention, too, that while we are doing the audits, the Japanese government will begin communication and outreach with their consumers to explain the changes that have taken place and to help reassure Japanese consumers of the safety and wholesomeness of the product as we move forward to reopening trade.

Senator BENNETT. Good. Thank you very much.

PUBLIC LAW 480 TITLES I AND II

Dr. Penn, the fiscal 2007 request provides no funding for Public Law 480, Title I. But it does provide an increase of $80 million for Title II. Do you want to talk about that?

Mr. PENN. Yes, Mr. Chairman, thank you for the question.

We have, for the first time ever, not asked for funding for Title I because, as I indicated in my statement, it has been our experience that the use of that program has dwindled away. In the last fiscal year, we only had two government-to-government concessional programs operating. And so, various countries are using that program less and less.

Senator BENNETT. Just for information, which two countries?

Mr. PENN. One in Latin America and one elsewhere, but I can't tell you off the top of my head.

Senator BENNETT. Okay. Fine. All right.

Mr. PENN. But we did, as you noted, propose an increase of $80 million for Title II. So all of the Public Law 480 funding will be made available through Title II.

More and more of that is used for emergency purposes. We are seeing a greater need all around the world, and especially on the African continent, for emergency funding. And so, more and more of the resources will be devoted to that.

Senator BENNETT. Okay. Fine.

Senator Kohl, I will come back later on. But let us hear from you. Thank you.

SPECIALTY MARKETS

Senator KOHL. Dr. Lambert, at one of our hearings last year, I asked about opportunities for small farmers who are seeking niche or specialty markets. The response I got, talked about credit programs that are available and a number of grant programs to help with the value-added product development.

Both things help, but I think there are a lot of opportunities out there for men and women who are creative, willing to work hard as independent business owners, and don't want to have their livelihoods controlled by some large mega grain or livestock company.

This past November, USDA proposed a rule change to allow China to export processed poultry products back into the United States. It seems to me that if the department could find a way to help Chinese poultry make their way back into the United States, they should push as hard or harder to help our own farmers develop niche or specialty markets.

So can you point to any USDA actions taken recently to help small producers?

Mr. LAMBERT. Well, we have a number of programs within MRP that work with small producers. Among these are the process verified and organic programs. There are ways that producers can verify that they have a unique or specialty product to market in niche or specialty markets.

The organics program is rapidly growing. One of the budget requests we have this year is for an additional $1 million for the organics program based solely on the expanding demand for organic products. So there are a number of programs where we work with small and mid-sized farmers.

We also have the farmers markets that allow individual producers to market their produce and goods directly to consumers, and that has been a growing and very successful program.

With respect to the processed poultry from China, basically, that is for only United States or Canadian product, or product that is eligible for export to the United States to be processed or value-added in China and then re-exported to the United States. But, as I say, we do have a number of programs that support specialty crops, including block grant programs for specialty crop producers that facilitate niche marketing both by small and mid-sized producers.

Senator KOHL. On these farmers markets, last year we provided funds for the program to promote farmers markets. But they are not included in your budget this year. Have I missed something?

Mr. LAMBERT. The 2007 budget includes $1 million that provides for block grants of up to $75,000 per farmers market to do outreach and promote those activities. That is included in the 2007 budget.

ALTERNATIVE FUELS

Senator KOHL. Thank you.

Dr. Collins, over the past several years, there has been a lot of talk about alternative fuels. The President's State of the Union address increased interest in this subject.

As an economist, do you believe that the development of alternative fuels is good for our country and, in particular, is it good for rural America? Can you describe how the market's regulations and technology have changed over the recent years and have made alternative fuels more or less attractive?

Mr. COLLINS. Certainly, Senator Kohl.

Yes, I think we are in the midst right now of quite a transformation in thinking about alternative fuels. I can remember when I first started working at the department, we actually had our energy office being an opponent of ethanol. We were worried about creating a subsidy-dependent commodity with an uncertain value.

But I think as we have gone through the 1990s, and particularly in this decade, there has been a substantial change. This substantial change relates to, of course, what happened on 9/11, the concern about energy security, the concern about diversification of energy supplies.

We have an exploding trade deficit. One third of our trade deficit is oil imports. We have also had energy prices soar to unprecedented levels. That has changed the backdrop in which alternative fuels now are looked.

In addition to that, we have the environmental side of alternative fuels. Today, people are valuing alternative fuels not just for their BTU content in the gasoline tank, but for their environmental value, for their rural development, employment creation opportunities, for their trade deficit reduction, for their energy security.

I would say that many people are valuing it that way. The Wall Street Journal aside, of course—if you saw their editorial this week—which seems to miss most of those points.

I would say also a point that you made is the development of new technologies. You could probably go back into the 1980s and find ethanol being produced at a cost of over $2 a gallon. It fell by the early 2000s to about 95 cents a gallon as its cost of production. It is now probably about $1.10 a gallon, mainly because of the higher price of energy, as a lot of natural gas is used in ethanol production.

But I think this combination of new technologies and, of course, the President talked about down the road by 2012, hopefully, the commercialization of cellulosic conversion to ethanol, this advent of all of these new technologies, combined with the environment in which we find ourselves with high fuel costs, have really changed the thinking about ethanol.

And of course, you are seeing that in the explosion of production across rural America. And yes, I do believe that this is an enormously important opportunity for rural economic development.

If you look at the value of our oil imports, they exceed the total net cash income of agriculture. So even capturing a small portion

of that for agriculture could be very important to farm income and rural economic growth.

COMMODITY SUPPLEMENTAL FOOD PROGRAM (CSFP)

Senator KOHL. Thank you.

Mr. Bost, when Secretary Johanns was here, we briefly discussed elimination of the Commodity Supplemental Food Program, CSFP, which, as you know, provides food boxes to low-income elderly individuals and also some women, infants, and children.

He stated several reasons why USDA believes this program is no longer necessary, including the fact that seniors can move to food stamps, there simply isn't enough money, and that the program only operates in a limited number of States.

Is CSFP the only nutrition program that operates in a limited number of States?

Mr. BOST. Senator Kohl, in this particular program, it is not only in a limited number of States, in those States, it is not even State wide. Right now, it is in 32 States, 2 Indian reservations, and the District of Columbia.

As I said in my opening statement, when you put together a budget, you are not able to do everything that you would like to do. We feel strongly that many of the people currently served in this specific program would be better served in other nutrition assistance programs that essentially are in existence across the Nation—for example, the WIC Program and, for the elderly participants, the Food Stamp Program.

Senator KOHL. Well, a little bit of the math on that. The CSFP program was last year funded at $109 million, and it served over 420,000 people, nearly 90 percent of whom were seniors. The increase in food stamps in the budget to take care of these people the USDA says it plans to switch from CSFP is only $50 million, with an additional $18 million in transition benefits.

So it seems to me that the funding levels show a discrepancy, and how would you explain that people are not going to lose benefits under this plan?

Mr. BOST. Senator Kohl, as we are transitioning the elderly eligible participants in this program, we are providing them with $20 a month until they do participate in the Food Stamp Program. However, it is true given the income levels of some of the CSFP participants, they probably would not be eligible to participate in the Food Stamp Program.

One final point, the average amount of money that we believe many of the elderly would be eligible to receive in the Food Stamp Program would be approximately $63. So, they would actually get more. Some of them—not all of them—would actually get a higher benefit under the Food Stamp Program as opposed to the value of their benefit as a participant in CSFP.

Of course not all of the elderly are eligible for the average Food Stamp benefit, which currently is about $63. The food box that they get in CSFP is delivered. They do not have to go get it. There is some belief that many of these seniors will not participate in the Food Stamp Program for this reason.

But we believe that, working with our partners, building in transition, we will be able to pick up and offer these services to a significant number of persons.

The other point that I want to make, finally, is for those that are not eligible for either the Food Stamp or WIC Program, there is another nutrition program we have available in which they will probably be able to participate, which is our TEFAP program.

Senator KOHL. So you are saying that in many States, like my own State, those people who are receiving the benefits of this program won't be disadvantaged?

Mr. BOST. Some of them may be, but not all of them. That is why it is a very difficult budget decision for us to make because some may be adversely affected.

But we are going to do our best to ensure that those who are eligible to participate in our nutrition assistance programs, are picked up. And for those that are not eligible they will be provide with other resources like the TEFAP program.

MEAT AND POULTRY IMPORT REQUIREMENTS

Senator KOHL. One question for Dr. Raymond. We have recently heard reports that FSIS is working to set up a trial program during which some Canadian plants will be able to export beef into the United States without requiring daily inspections, which is something that we require in this country.

I know that most recently this trial has been put off until at least July, but apparently, it is not off the table. One of our most important safety requirements for bringing food into this country is that the exporting country has to have the equivalent food safety requirements as we do, and this project appears to throw that out the window.

Are you considering lessening the requirements on our food plants at home for less than daily inspections? Do you think this would be wise, especially when certain countries already have questions about our food safety program? Would you talk about this trial program that you have on the table?

Dr. RAYMOND. Certainly, Senator Kohl.

First of all, to clarify, the trial program has not been established as exactly what it will look like. One of the possibilities is that the Canadian government would do daily inspection for 3 months in 50 plants that export to the United States and do intensified laboratory testing for food-borne pathogens. Then they would do 3 months of less than daily inspection and continue with the enhanced laboratory testing so they could compare food product contamination rates for daily inspection and for less than daily inspection.

When that product is tested, that product would not be shipped across the border to the United States until it tested negative for food-borne pathogens. That is just one proposal. That is not necessarily the proposal that will take place.

First of all, they may not do any project. They may not do any test for equivalency of less than daily. That is their choice.

But the point right now is that they cannot export product to America unless they have daily inspection in those plants, which

they are now doing. All of the facilities that export to the United States have daily inspection.

If they want to try to show us that less than daily inspection is equivalent in safety, they have to devise a project that would satisfy our requirements to evaluate that. We are still in negotiations with them on that issue.

I hope that clarifies that issue. They have been doing daily inspection since August 22, 2005.

Senator KOHL. Okay. Well, I understand there is a trial program under consideration in Australia to export beef to America from plants that pay for their own inspectors, something that we don't allow in this country. As you know, we pay for meat inspectors, believing Government employment is the best way to make sure that our meat stays safe.

Are we thinking about a program with Australia that would allow them to export beef from companies that employ their own inspectors?

Dr. RAYMOND. At this time, Senator Kohl, there are no Australian establishments certified to export to the United States that are using their meat safety enhancement program.

Senator KOHL. So there is really nothing to that consideration of a trial program to allow them to export meat?

Dr. RAYMOND. They have had one plant that has expressed interest, and at this point, that plant has not been certified for export to the United States.

Senator KOHL. Thank you.

Mr. Chairman.

Senator BENNETT. Thank you very much.

GRAZING LAND CONSERVATION INITIATIVE

Mr. Rey, let us talk about invasive species. They affect forage quality and range land health and wildlife and watershed function and all of those things.

And in fiscal 2006, we provided $4.1 million to control and manage invasive species through the Grazing Land Conservation Initiative. And these funds were leveraged with private matching, and the administration eliminated funding for Grazing Land Conservation Initiative.

I have a series of questions on this, but just talk about that generally and let us see what your thinking is with respect to this problem.

Mr. REY. Our thinking generally is that we are trying to consolidate and better organize a variety of the conservation programs. The Grazing Land Conservation Initiative is one that fulfills functions that are already being fulfilled under Conservation Technical Assistance and under the Environmental Quality Incentive Program (EQIP).

Much of the work that would have been done was being done under the Grazing Land Conservation Initiative. In our 2007 budget that work will be done under the other two programs, and will include work on invasive species.

We are also investing $2 million in our 2007 budget request in the cooperative conservation partnership initiatives to deal specifi-

cally with invasive species, and that issue, invasives, will be one of the top priorities in that area and in the EQIP area as well.

Senator BENNETT. Have you had any response or comment from the various stakeholders with the elimination of the funding for GLCI?

Mr. REY. Not so far. I expect as the budget process unfolds and as we talk about that, we will hear from them. Particularly where GLCI earmarks were directed toward specific States and locales, we are going to have to lift a burden of proof to demonstrate that the work will still be done if those earmarks are eliminated.

AIR AND WATER QUALITY ISSUES

Senator BENNETT. Okay. Let us see, Mr. Rey, Conservation Technical Assistance. Senator Kohl and I made this a priority last year. We provided $12 million, a major increase in light of the budget that we faced last year. There is no similar request for the 2007 budget. Why did the budget request not ask for funding to continue the progress that we started last year?

Mr. REY. Well, the funding request for Conservation Technical Assistance is a total of $634.3 million, which is a fairly significant budget line item.

Senator BENNETT. No. I am sorry. I am talking about specific money to meet water quality and air quality requirements. I apologize. I didn't pose the question properly.

Mr. REY. Sorry. We have established as a priority for the EQIP program and for the General Conservation Title programs at large to work on air and water quality issues, and we are making substantial progress in those areas. So I think what you are going to see in the mix of program priorities from both EQIP and Conservation Technical Assistance is a substantial amount of work directed toward water quality and air quality, particularly in addressing the air and water quality in packs of confined animal feeding operations.

Senator BENNETT. So you are saying that the amount we very specifically focused on this will be taken care of in the overall, and we don't need to worry about it?

Mr. REY. Correct. In 2006, we spent the amount that you earmarked for air and water quality, but we also spent a substantially greater amount of that as part of the overall EQIP and Conservation Technical Assistance budgets to deal with air and water quality issues.

Senator BENNETT. So you are telling us the emphasis is still there?

Mr. REY. Correct.

Senator BENNETT. All right. I am sure we will watch that and appreciate that.

I have some additional questions, but I think we will submit those for the record.

Okay. Senator Kohl.

FARM SUBSIDIES

Senator KOHL. Thank you, Mr. Chairman.

I would like to address this to Dr. Penn and Dr. Collins. There was an article in the Wall Street Journal recently about the future

of farm subsidies. The article discussed how subsidies can promote overproduction and lead to other problems, including issues with the World Trade Organization.

It also noted that American citizens, both rural and urban, are becoming concerned about the way traditional farm programs affect farmers in poor African countries and elsewhere, as well as the effect they have on our environment here.

These issues, as you know better than I, are very complex. There are several different ways to estimate this, but I understand that in the past 3 years, farm payments averaged approximately 25 percent of net farm income, which is more generous than some countries and less generous than others.

This is an issue that could consume an entire hearing all by itself, but while we have you here, I am interested in your views. Can you talk about this shift in public opinion? Can you talk about the WTO?

Can you talk about traditional farm programs, if they were to decrease or to be eliminated? What thoughts do you have on the best way to protect not only our farmers, but our rural America?

For after all, all this money that the farmers get is spent in rural America in ways that keep rural America alive. So where do you see this whole issue going in terms of its impact on our rural economy?

WTO

Mr. PENN. Senator Kohl, let me begin by discussing the WTO aspects of the question. As you indicated, it is a very broad question and one that we could spend a lot of time discussing.

But let me say before I turn to Dr. Collins that in recent times, there has been a much greater consideration given to the impact of our domestic farm programs on our trading partners. And I think that this has been around since the Uruguay round agricultural agreement was concluded in the mid 1990s.

This was the first multilateral or international agreement to include food and agriculture in a very substantive way. So we have been much more cognizant of this connection between the trade impacts and the domestic farm program impacts since that time.

Now this really came to a head quite recently when some of our programs were challenged in the WTO. Brazil and some other countries launched the so-called "cotton case" in which they singled out cotton and other various programs and challenged those for the very reasons that you indicate. They said that the programs were stimulating additional production here at home. We then exported that production into the world market. That extra production had a price-depressing effect.

Now we certainly think that that effect is greatly overstated, but nonetheless, Brazil prevailed in that WTO challenge, and they prevailed on the appeal. So that has now caused us to take into account the effects of our programs on others, or the extent of the trade distortions that our programs may have.

So as we approach the 2007 Farm Bill, as we approach what we hope to be the successful conclusion of the Doha trade negotiations, we are now much more mindful of the form in which we provide support to our producers than perhaps we have been in the past.

The WTO has established various color boxes. The amber box, which is the most trade distorting form of domestic support; the blue box, which is less trade distorting; and the green box, which is non- or minimally trade distorting.

So we are having to give more and more thought about switching our support for our farmers from amber box to blue box to green box, so that we can continue to provide support for domestic agriculture, but do it in a way that doesn't negatively or adversely affect our trading partners around the world.

That is sort of the trade aspects. But as you know, Dr. Collins has spent most of his career studying all of the other aspects of your question. So I will turn to him.

Mr. COLLINS. That is very kind of a senior author of a multiple edition agricultural policy book to hand that off to me.

PUBLIC OPINION ON AGRICULTURAL POLICY

Mr. COLLINS. Mr. Kohl, your question deserves a comprehensive and thoughtful answer, and Dr. Penn mentioned the trade implications of our programs and how that can affect future agricultural policy.

One of the things you asked about was how public opinion has shifted, which is part of what the Wall Street Journal article was about. I guess my feeling is that the great majority of Americans really don't know much about agricultural policy, and I think they are very positive about agriculture and about farmers. So I don't sense a great shift among most people, urban residents, for example.

However, within agriculture in rural areas, I think there is a shift, and I think part of it reflects a broader and deeper understanding about farm programs. Some of that has come because of the international scrutiny of our programs—WTO challenges, the loss of the cotton case, for example, the understanding that programs are "amber box" in many cases and have resource allocation effects.

Also there has been a lot of discussion about the effects of farm programs on land values, the equity of the payments across commodities, across regions, and across size of producers. Much data has been presented in recent years about those things. And so, I think there is a bigger and deeper understanding about some of the consequences of our current structure of programs than perhaps we have had in the past, and that is starting to show in the public discourse.

As you probably saw yesterday, the department released 41 short papers, which are the summaries of what the department heard at the 52 Farm Bill forums that were held by the Secretary and people at this table. If you look through some of the comments, you will find that people are questioning.

Well, you mentioned 25 percent of net farm income or net cash income coming from Government payments. You know, this year, it is going to be about 30 percent in 2006. That is roughly $20 billion the last couple of years.

People are saying, well, $20 billion a year is a lot of money and are there other ways that that money can be used to continue to promote rural well-being, address some of the problems with the

current programs, and also deal with some of the new emerging issues that people want dealt with.

You already talked about promoting niche opportunities for small producers in rural America. Maybe more could be done there. People want to do more in energy. We had an energy title in the last Farm Bill. Very little money went into that energy title. Maybe money is not the answer for energy, but that is something to think about.

There is the question of specialty crops. I have been struck by the fact that 20 years ago, the cash receipts that farmers earned from specialty crops was half of what was earned from program crops. And this year, it is going to be equal to what is earned from program crops. So we have had this incredible growth in specialty crops in the United States, and specialty crops are not really party to that $20 billion.

So I think there is a discussion going on within agriculture in rural areas about farm programs and about what is the best way to deal with the problems that farmers face, which certainly are there, but also deal with the needs of rural areas.

And of course, you asked, how we thought that might come out, and I guess my answer to that would be, well, we will wait and see how that comes out in the 2007 Farm Bill. But that is the landscape behind the debate that is emerging, and I do think that there has been some shifting of opinion within rural areas and agriculture.

You even see that in some of the reports that some of the farm groups are putting out. The National Corn Growers and the American Farm Bureau Federation have put out some very thoughtful pieces about where we should go in the long run with our agricultural policy and it is a little bit different than you might have heard 10 or 15 years ago.

Senator KOHL. Do you anticipate that there will be some very detailed discussion of this whole issue surrounding the Farm Bill in 2007 and maybe some significant changes?

Mr. COLLINS. I guarantee you there will be detailed discussion. As to the significant changes, my forecasting ability there has failed me in the past. So I am not sure. But there is always that potential.

Senator KOHL. But isn't it true in the sense that if we spend the money in different ways, the direct payments to farmers, as they go down, will have a direct impact on farming? I mean, if we are spending $20 billion a year——

Mr. COLLINS. Right. Right.

Senator KOHL. And we take that money and spend a portion of it or a large amount of it in other ways to impact in a positive way rural America, but the money doesn't go through the farmer, what will happen to the farmer?

Mr. COLLINS. Well, it may or may not. Look at the situation now. The $20 billion, most of that goes to a small set of farmers.

Senator KOHL. That is true.

Mr. COLLINS. Most of that goes to wheat, corn, cotton, rice, soybeans, and so on. It is not going to another big part of agriculture. So you could already argue that there is some relative disadvantage in place right now with the current structure.

So if you start to reapportion things, change things around, it is true that some farmers would stand to lose. Other farmers would stand to gain.

And there also may be alternative ways that those producers who would lose their direct payments or their counter-cyclical payments or their marketing loan benefits could pick up those benefits through other programs—other programs that exist now, such as expanded conservation programs, or other programs yet to be designed in the 2007 Farm Bill.

So I don't think you can conclude that automatically every producer is going to lose. They are not. There is going to be a distribution of losers and of gainers, and always part of the dilemma in changing farm policy is how to deal with anybody that is perceived as a loser.

We have figured out how to do that in some cases. We had a peanut buyout program. We had a tobacco buyout program. Who knows? Maybe there will be new ways that we can think about how we can transition from one structure to another structure and minimize the losers.

Senator KOHL. Thank you very much, gentlemen.

Mr. Chairman.

ADDITIONAL SUBMITTED STATEMENTS

Senator BENNETT. The subcommittee has received statements from Rural Development and Research, Education and Economics which will be placed in the record.

[The statements follow:]

PREPARED STATEMENT OF THOMAS C. DORR, UNDER SECRETARY, RURAL DEVELOPMENT

Mr. Chairman, members of the Subcommittee, I appreciate this opportunity to appear before you today to present the President's fiscal year 2007 Budget request for USDA Rural Development.

With me today are Jim Andrew, Administrator of our Rural Utilities Programs; Russell Davis, Administrator of our Rural Housing and Community Facilities Programs, and Jack Gleason, Acting Administrator of our Rural Business and Cooperative Programs.

On behalf of all of us, let me say that it is indeed a privilege for us to be here today representing over 6,800 dedicated men and women of USDA Rural Development. They are spread across every State and are your neighbors. They do an outstanding job.

And if I may, I would like to take just a moment to pay a special tribute to the extraordinary contributions so many of them made this past year under very difficult circumstances in the wake of the 2005 hurricanes. This is not the place for an extended discussion, but I do want to say that amidst all the controversies, a great deal of good work by good people has gone unremarked.

I have visited the Gulf Coast repeatedly since the hurricanes, and I have been inspired by the resiliency, commitment, and energy of hundreds of USDA Rural Development people in the affected areas. Some of them, in fact, had lost their own homes—but in those first days after landfall, all of them were working around the clock helping to provide emergency shelter, financial support, and transitional housing to evacuees. And they are hard at work now helping with the rebuilding of homes and businesses across the region.

We are a relatively small agency and, in the context of the hurricanes, a relatively small part of a much larger story. But this was truly a case where we punched above our weight. I am tremendously proud of the work our people did, and not just those in Louisiana, Mississippi, Alabama, and Texas, but also their colleagues around the country.

VISION

Mr. Chairman, I am both honored and humbled by the opportunity President Bush has given me to serve as Under Secretary for Rural Development. I am committed to the future of rural America. My home is outside Marcus, Iowa, a metropolis of about 1,100. I am a farmer. I treasure the rural way of life and understand the pressures faced by rural communities in our rapidly urbanizing society. But I also believe that the traditions and values of rural America remain a vital part of our national heritage.

I believe also that the future of rural America is bright. Certainly there are challenges; there always are. But rural communities enjoy many assets as well: the quality of life, a clean environment, peace and quiet, livable small towns, a lower cost of living, strong communities, and traditional values. These are communities worth preserving, and they have a future well worth building.

The mission of USDA Rural Development is to provide leadership, infrastructure, venture capital, and technical support to enable rural communities to prosper in a dynamic new environment defined by globalization, the Internet revolution, and the rise of new technologies, products, and markets.

In this effort, we begin with the recognition that rural America is extraordinarily diverse. It includes some of the fastest growing communities in the Nation, areas that are suffering from long-term economic and population decline, and everything in between. One size does not fit all.

We understand as well that sustainable development must be market driven, not program dependent. And finally, we recognize that our role is to encourage and support local initiatives, both public and private. We know that our success depends on our ability to attract both private and other public partners; our success, indeed, is measured primarily by their success.

I believe in this mission. And I believe firmly that rural America today is more competitive . . . more attractive as a place to live, work, and do business . . . and better positioned for self-sustaining growth . . . than has been the case for many years.

FISCAL YEAR 2007 BUDGET REQUEST

The President's fiscal year 2007 Budget proposes $2.1 billion in budget authority and a program level of $13.7 billion for rural housing, community facilities, infrastructure, and economic development. Under the USDA Rural Development programs, each Federal dollar supports 6.5 dollars of investments in rural America. We are also able to leverage our funds with those of the private sector, as well as create partnerships with State, local, and tribal governments, community development organizations, and for-profit and not-for-profit companies.

In a challenging budget environment, this is an important means of maximizing the return on scarce budget dollars. It should be emphasized, however, that this emphasis on leveraging is a sound policy choice quite independent of current budget constraints. Indeed, the evolution of program emphasis within USDA Rural Development has for some years been away from grants and direct loans and toward a greater reliance on loan guarantees. This has allowed us to serve more individuals, businesses, and communities for any given level of budget authority. It also reinforces our strategic objective of fostering sustainable development based, on market orientation and private investment.

I would like to touch briefly on some highlights of our fiscal year 2007 request.

RURAL UTILITIES PROGRAMS

USDA Rural Development provides financing for electric, telecommunications, and water and wastewater services that enhance the quality of life and provide the foundation for economic development in rural areas. For fiscal year 2007, the President's Budget proposes $553 million in budget authority to support a program level of $6.3 billion for rural utilities programs.

Of this total, $3.8 billion is for the rural electric program. With the support of the President and Congress over the last several years, we have eliminated the backlog in electric program applications and believe that the funds proposed for fiscal year 2007 will be sufficient to meet the demand.

In addition, the President's budget proposes $1.414 billion in loans and grants for rural water and wastewater projects. To enhance the ability of low-income communities to finance vital water and wastewater improvements, we propose to change the calculation of the "poverty" interest rate for this program from the current fixed 4.5 percent to an adjustable rate set at 60 percent of the market rate. This change is reflected in the higher subsidy rate projected in fiscal year 2007 for Water and

Wastewater Program Direct Loans. We also continue to believe that in the current low interest rate environment, rural communities can afford to finance a higher share of project costs, and we therefore propose to shift the loan-grant ratio to an approximate 75–25 percent ratio.

The President's budget proposes $690 million in telecommunications loans and the investment of $356 million in loans to accelerate the deployment of broadband to rural communities. Broadband is fast becoming an essential tool for businesses, both large and small, and we are acutely aware that broadband deployment continues to lag in rural areas. Ensuring broadband access is essential to achieving a dynamic rural economy. The budget request is expected to be sufficient to meet the demand for the next year. This represents a reduction from the nominal fiscal year 2006 program level of $495 million, but as this Subcommittee knows, we have to date been unable to obligate all the broadband loan funds that Congress has made available to us. The volume of viable applications that either we or the Congress anticipated has simply not materialized.

It is clear, therefore, that the rural broadband deployment model must be improved. This has been a top priority since my confirmation last summer. We are now engaged in a thorough review to identify obstacles to borrower participation. In the meantime, we look forward to working with the Congress, the telecommunications industry, and rural stakeholders to accelerate deployment of this vital technology.

In addition, the President's budget includes $24.8 million for the Distance Learning and Telemedicine (DLT) Grant Program, which enables rural communities to enhance their educational options and access the resources of big city medical centers via the Internet. This request maintains the fiscal year 2006 program level for DLT Grant Program.

RURAL HOUSING AND COMMUNITY FACILITIES PROGRAMS

Safe, modern, affordable housing is essential to healthy communities. USDA Rural Development works to extend the benefits of homeownership to low- and moderate-income Americans and to historically disadvantaged communities. We finance affordable rental housing and essential repairs for low- and very-low income homeowners. We also assist rural communities in providing quality health care, police and fire services, day care, educational and recreational facilities, and other essential community services.

The fiscal year 2007 budget request for rural housing and community facilities exceeds $6.27 billion. This includes an increase in funding for both direct and guaranteed homeownership loans, to $1.2 billion and $3.56 billion, respectively. We anticipate that this level of funding will provide homeownership opportunities for over 40,000 rural families. In order to meet this goal, we propose raising the guarantee fee from 2 percent to 3 percent. This nominal increase will provide an additional $2.86 billion in single family guaranteed loans.

For multi-family housing, the budget proposes shifting funding from direct to guaranteed lending in order to increase our leveraging and serve more residents at a lower cost. A total of $198 million—double the fiscal year 2006 program level for guaranteed lending—is requested for this purpose.

We also propose $486 million for rental assistance, a figure which reflects a shift from 4 to 2 year contracts. We believe it is unnecessary to renew contracts for 4 years especially while revitalization is underway, and the Administration remains committed to renewing contracts as needed. However, 2 years is the minimum contract term the program should have to operate efficiently from year to year.

In addition, the budget proposes $74 million to fund our multi-family housing revitalization initiative. As this Subcommittee knows, the multi-family housing portfolio faces longstanding issues of deferred maintenance. This is compounded by the threat of prepayment by the owners of some complexes who may wish to exit the program, leading to the displacement of significant numbers of elderly and low-income tenants. The $74 million will fund the voucher program to help displaced tenants from USDA financed multifamily housing properties where the owner has chosen to pre-pay the Rural Development loan and withdraw the property from the program. The $74 million is proposed in the Budget solely for funding the anticipated need for the voucher program. Funding debt restructuring without the proper legislative authorizations in place would be premature. However, in order to allow for balancing of needs in anticipation of the new authorization passing, the appropriations language does allow for the funds to be used for this purpose if debt restructuring authorization language is enacted. While modest in budgetary terms, this is a very significant investment in the long-term stabilization and revitalization of the rural rental housing portfolio.

Finally, the budget proposes to increase the program levels for the Farm Labor and Self Help Housing Programs to $55 million and $38 million, respectively. It continues Community Facilities Loans and Grants at their fiscal year 2006 levels.

RURAL BUSINESS AND COOPERATIVE PROGRAMS

The third leg of the Rural Development stool is business development and job creation. The future of rural communities depends on their ability to attract and regain young families. A diversified, growing rural business sector is essential to offering opportunity to young adults and a future to growing families.

To support these goals, the President's budget for fiscal year 2007 requests $103 million in budget authority to support a program level of $1.138 billion for our Rural Business and Cooperative Programs.

Our request for fiscal year 2007 is—as it was last year—consistent with the Strengthening American Communities Initiative, which called for a consolidation of several economic development programs within the Department of Commerce. We are confident of our ability to partner with the Department of Commerce to ensure that rural America participates fully in this broader funding pool.

Of the programs remaining in USDA Rural Development, the Business and Industry Guaranteed Loan Program (B&I) accounts for approximately 42 percent of proposed budget authority and 87 percent of total program level for fiscal year 2007. We will also continue to provide technical assistance, development, and research support for rural cooperatives, targeted investment in alternative energy and energy conservation, and support for intermediary lending institutions through a variety of smaller programs. We estimate that total business program investment in fiscal year 2007 will create or save over 56,000 jobs.

CLOSING

In closing, Mr. Chairman, I want to emphasize that the bottom line for USDA Rural Development is not budget numbers; it is water lines laid, families able to afford a new home, new businesses and jobs created or saved, and rural communities strengthened by what we do. It is a privilege to work with the members of this Subcommittee to advance these objectives despite the stringent budget environment we face today. This concludes my formal statement and I will be glad to answer any questions you may have.

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PREPARED STATEMENT OF JACKIE J. GLEASON, ACTING ADMINISTRATOR, RURAL BUSINESS-COOPERATIVE SERVICE

Mr. Chairman and members of the Subcommittee, I am pleased to present the Administration's fiscal year 2007 Budget for the Rural Development's rural business and cooperative programs.

Mr. Chairman, the programs and services of Rural Development, in partnership with other public and private sector businesses, continue to improve the economic climate of rural areas through the creation or preservation of sustainable business opportunities and jobs. Rural Development continues to invest in rural America, especially in the under-served rural areas and populations. Rural Development programs help close the gap in opportunity for these under-served rural areas and populations, moving them toward improved economic growth by providing capital, technology and technical assistance. The $103 million requested in budget authority for Rural Business-Cooperative Service programs will support $1.138 billion in direct and guaranteed loans and grants and will assist in creating or saving over 56,000 jobs and providing financial assistance to more than 1,200 small businesses.

The cooperative form of organizational governance continues to be a cornerstone of business development in our rural communities, whether in the traditional form that brings day care services to a rural community or today's new generation ethanol cooperatives that lessen our dependence on foreign oil. From the large agricultural marketing cooperative that brings additional value to its members products, to the small rural telephone cooperative that brings broadband technology to its community's businesses and residents, to the elder care cooperative that brings desperately needed services to our "greatest generation," cooperative organizations provide our rural residents with new and exciting job opportunities, enhanced educational and health care opportunities, and products and services that enable viable rural communities to compete with their urban and suburban counterparts.

Rural Development's mission is "to increase economic opportunity and improve the quality of life for all Rural Americans." Rural Development's business and cooperative programs successfully carry out this mission by providing an array of edu-

cational, technical assistance, research, and loan and grant programs to rural Americans.

BUSINESS AND INDUSTRY GUARANTEED LOAN PROGRAM

For the Business and Industry (B&I) Program, the fiscal year 2007 budget includes

$43.16 million in budget authority to support $990 million in guaranteed loans. We estimate that the funding requested for fiscal year 2007 will create or save over 23,667 jobs and provide financial assistance to approximately 554 businesses. The B&I program allows lenders to better meet the needs of rural businesses. Through the lender's reduced exposure on guaranteed loans, they are able to meet the needs of more businesses at rates and terms the businesses can afford. B&I guaranteed loans may also be used by individual farmers to purchase cooperative stock in a start-up or existing cooperative established for value-added processing.

I would like to illustrate how this program partners with a lender. Desert View Regional Medical Center Holdings, LLC was approved for a Business and Industry Guaranteed Loan in the amount of $17.5 million. The funds will be used to construct a 25 bed acute-care surgical hospital in Pahrump, NV, which currently does not have hospital services. The facility will include 22 medical beds, 3 birthing suites, and emergency rooms with 8 treatment bays and trauma unit. The surgery department will have 2 operating rooms; the imaging department will include radiology, fluoroscopy, mammography, ultra sound, C/T, and mobile MRI; and there will be a clinical laboratory, cardiopulmonary, physical, and occupational therapies. At present, residents of the Pahrump area must travel approximately 60 miles to Las Vegas for acute primary hospital care. Approximately $12 million in equity and other funds will be contributed to the project. In addition to benefiting the community with a critical access hospital, the new hospital will bring 140 new jobs to the area, which includes 40 doctors and nurses.

I would also like to share with you another example of how this program partnering with a lender, Comerica Bank, has supported alternative energy development in rural America. The Snowflake White Mountain Power, LLC, was approved for a B&I guaranteed loan of $6 million in addition to a Section 9006, Renewable Energy System Guaranteed Loan of $10 million to build a 20 megawatt biomass electrical generating plant 17 miles southwest of Snowflake, Arizona. The raw materials for generation are burnt trees from the Abitibi Paper Mill which is located adjacent to the proposed plant. About six jobs will be created directly and 40 jobs from subcontractors. This is a good example of how two programs within Rural Development were jointly utilized to purchase the guaranteed loan assistance needed for the project to be realized.

VALUE-ADDED PRODUCER GRANT PROGRAM

For fiscal year 2007, the budget requests $20.295 million for the value-added producer grant program, the same as in the previous year. The Value-Added Producer Grant (VAPG) program encourages independent agricultural commodity producers to further refine or enhance their products, thereby increasing their value to end users and increasing the returns to producers. Grants may be used for planning purposes such as conducting feasibility analyses or developing business plans, or for working capital accounts to pay salaries, utilities and other operating costs. Program revisions were made in fiscal year 2006 that will increase the number of eligible applicants competing for this critically important funding, and in support of the President's e-Gov initiative, administrative processes were refined to enable producers to complete an electronic application template and submit their completed applications through Grants.gov.

The successes of the Value-Added program are evident throughout the country. Alternative crops are two vital words for the survival of agriculture in today's world. For example, Paulk Vineyards of Wray, Georgia, is a family-based grower of southern grapes, commonly known as muscadines. While this alternative crop is used in wines, jellies, jams, and juice, studies have shown that the product and its by-products have tremendous health benefits. Paulk Vineyards received a $126,350 VAPG to develop processes that would turn muscadine seeds into anti-oxidant powders and a healthy, good-tasting juice. Muscadine seeds are higher in reseratol antioxidant, ellagic acid, and total antioxidants than any other fruit analyzed according to several researchers, including the University of Georgia. When dried, crushed, and encapsulated, this value-added product can be sold on the market to biomedical companies, health food stores, natural food stores, and the public. As a result of being able to develop these new processes with the value-added grant, the Paulk family

is building a new processing facility for its extract and powder lines which will substantially increase employment in this rural area.

Since the passage of the 2002 Farm Bill, funding for the Agricultural Marketing Resource Center (AgMRC) has been set at 5 percent of the funding made available to the other value-added programs. Therefore, approximately $1.015 million of the $20.295 million budget request will fund the AgMRC's activities. AgMRC is an electronically based information center that creates processes, analyzes, and presents information on value-added agriculture. The center is housed at Iowa State University; however, it has partners at Kansas State University and the University of California–Davis. The center provides producers, processors, and other interested parties with critical information necessary to build successful value-added businesses.

RURAL COOPERATIVE DEVELOPMENT GRANT PROGRAM

For fiscal year 2007, the budget requests $4.95 million for the Rural Cooperative Development Grant Program. The Rural Cooperative Development Grant program provides funds to establish and operate centers for developing new cooperatives and improving the operations of existing cooperatives with the primary goal of improving the economic conditions of rural areas. This program complements our national and State office technical assistance efforts by increasing outreach and developing feasibility studies and business plans for new cooperatives, and assisting existing cooperatives in meeting the demands of today's ever-changing global economy.

For example, when Cooperative Development Services, Inc. (CDS) started fielding inquiries to start new food cooperatives, they found this to be very unique. Not since the 1970s had a major number of new food cooperatives been developed in the United States. While CDS' consultants work with over 100 food cooperatives in rural Wisconsin, Minnesota, and Iowa, assisting with all phases of leadership development; store growth, and expansion; and operations improvement, it needed additional financing for the technical assistance necessary to meet the growing demands of start-up cooperatives. With a Rural Cooperative Development Grant from USDA's Rural Development, CDS was able to advise and assist two steering committees as they moved through the steps of cooperative development, including market research, feasibility analysis, business planning, equity formation, and, in one case, the hiring of the cooperative's manager. The results have been an overwhelming success. Harvest Market Co-op, located in the Village of Barneveld, opened a grocery store cooperative that has 348 members. The store is thriving with projections calling for the store to reach breakeven profitability this year. A second cooperative, Just Foods Co-op, has already grown in membership to over 1,100. These start-ups served as the catalyst for CDS to create a national model to guide the development of food cooperatives across the country. Implemented in June 2005, the model has been adopted by other cooperative associations and is expected to grow the number of food cooperatives throughout the country in the next 10 years from 300 to 500.

GRANTS TO ASSIST MINORITY PRODUCERS

For fiscal year 2007, the budget requests $1.485 million for funding for cooperatives or associations of cooperatives whose primary focus is to provide assistance to small, minority producers whose governing board and/or membership comprise at least 75 percent minority members. Grants may be used for developing business plans, conducting feasibility studies, or developing marketing plans for farmers, ranchers, loggers, agricultural harvesters and fishermen whose gross annual sales do not exceed $250,000.

COOPERATIVE RESEARCH AGREEMENTS

For fiscal year 2007, the budget requests $495,000 for cooperative research agreements to encourage the study of those issues essential to the development and sustainability of cooperatives. Because so much of rural America's business endeavors are cooperatively formed, their continued success is critical for the continued sustainability of the Nation's rural communities. Through cooperative research agreements, Rural Development can continue to develop and maintain the information base vital for innovative, creative, and prudent decision making.

INTERMEDIARY RELENDING PROGRAM

The fiscal year 2007 budget also includes $14.951 million in budget authority to support $33.925 million in loans under the Intermediary Relending Program (IRP). We estimate that the proposed level of funding will create or save approximately 25,952 jobs over the 30-year period of this year's loans. Participation by other private credit funding sources is encouraged in the IRP program, since this program

requires the intermediary to provide, at a minimum, 25 percent in matching funds. To illustrate the benefits IRP provides to rural America, I would like to share with you a success story from rural Iowa.

A $625,000 IRP loan was made to the Corn Belt Power Cooperative in Humboldt, Iowa, for the purpose of expanding their existing Revolving Loan Fund. Together with private sector matching funds, the loan fund was increased to approximately $2,250,000. Based on historical performance, Corn Belt Power estimates that approximately 95 jobs will be created in rural areas with this new injection of funding.

RURAL BUSINESS ENTERPRISE GRANT PROGRAM/RURAL BUSINESS OPPORTUNITY GRANT PROGRAM

The Rural Business Enterprise Grant (RBEG) and the Rural Business Opportunity Grant (RBOG) programs are being proposed to be consolidated into the Federal Economic and Community Development programs as part of the President's initiatives to help strengthen America's transitioning and most needy communities. These grant programs, along with others will be transformed into a new, two-part program: (1) the Strengthening America's Communities Grant Program, a unified economic and community development grant program, and (2) the Economic Development Challenge Fund, a bonus program for communities.

RURAL ECONOMIC DEVELOPMENT LOAN AND GRANT PROGRAMS

The fiscal year 2007 budget includes $7.568 million in budget authority to support $34.652 million in Rural Economic Development Loans (REDL) and $10 million in Rural Economic Development Grants (REDG). This program represents a unique partnership, since it directly involves the Rural Development electric and telecommunications borrowers in community and economic development projects. It provides zero-interest loans and grants to intermediaries, who invest the funds locally. The return on our equity from rural America is strong.

The following is an example of how one REDL will benefit two States by allowing a Wisconsin firm to expand its capacity. A loan of $740,000 was provided to the Northwest Telephone Cooperative Association on behalf of the Laurens Industrial Foundation for Link Snacks, Inc. Laurens, Iowa has a population under 1,500. The loan will be used to assist with the purchase of a warehouse facility and equipment to accommodate Link Snacks, Inc., of Minong, Wisconsin. Link Snacks, Inc. will use the facility as freezer storage and international distribution center for a snack and meat production company. In addition, some meat products will be processed at this site. As a result, the loan will increase opportunities, help fill vacant space, and create up to 150 new jobs in an area suffering from population decline.

RENEWABLE ENERGY GRANTS/LOAN GUARANTEE PROGRAM

The Renewable Energy Systems and Energy Efficiency Improvements Program were authorized by the Farm Security and Rural Investment Act of 2002. The program authorizes loans, loan guarantees, and grants to farmers, ranchers, and rural small businesses to (1) purchase renewable energy systems, and (2) make energy efficiency improvements. The fiscal year 2007 budget proposes a $7.92 million grant program and a budget authority of $2.243 million to support $34.560 million guaranteed loan program. The program supports the President's energy policy goals by helping to develop renewable energy supplies that are environmentally friendly. In addition, the program contributes to local rural economies through the creation of jobs and provides new income sources to rural small businesses, farmers, and ranchers. Finally, the program helps to reduce the costs of doing business for farmers, ranchers, and rural small businesses by encouraging the use of energy efficient physical plant systems. We anticipate 37,440 households will be served, 388 million-kilowatt hours of energy generated while reducing greenhouse gasses by 0.1 million metric tons. These loans and grants will reduce oil imports by 73 million barrels in the year funded.

Reducing the costs of operating a business is significant in terms of job retention. In June, 2005, an energy efficiency improvement grant of $98,873 was awarded to the New Holland Brewing Company, a Limited Liability Corporation in Holland, Michigan. Using the grant, as well as leveraged funds of almost $400,000, the company installed a low pressure boiling storage system and a new lighting fixture with motion sensors. Thus, the lights are only on when a person is present to use them. It is estimated that the energy efficiency improvements are saving the business between 40 percent and 50 percent of their normal energy costs.

BIOMASS RESEARCH AND DEVELOPMENT GRANTS

The Biomass Research and Development Grant program, authorized under section 9008 of the 2002 Farm Bill, is jointly administered by USDA and the Department of Energy. During fiscal year 2006, Rural Development will assume USDA's part of the administration of this program from the Natural Resources Conservation Service. The fiscal year 2007 budget includes funding to provide up to $12 million in grants to organizations involved in researching biomass energy alternatives and developing bio-based energy products.

Mr. Chairman, and members of the Subcommittee, this concludes my testimony for the Rural Development fiscal year 2007 budget for rural business-cooperative programs. I look forward to working with you and other Committee members to administer our programs. I will be happy to answer any questions the Committee might have.

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PREPARED STATEMENT OF RUSSELL T. DAVIS, ADMINISTRATOR, RURAL HOUSING SERVICE

Mr. Chairman and members of the Subcommittee, thank you for the opportunity to present the fiscal year 2007 President's Budget for the USDA Rural Development rural housing and community facilities programs.

As an integral part of Rural Development, the rural housing programs assist rural communities with a wide array of single and multi-family housing options to residents of rural communities. We also help to fund medical facilities, fire and police stations, childcare centers, and other essential community facilities.

The proposed budget for rural housing and community facilities programs in fiscal year 2007 supports a program level of approximately $6.27 billion in loans, loan guarantees, grants, and technical assistance. It also maintains the Administration's strong commitment to economic growth, opportunity, and homeownership for rural Americans. We believe that our efforts, combined with the best of both the non-profit and private sectors, will ensure that this budget makes a tremendous difference in rural communities. The fiscal year 2007 Budget also includes a major initiative to revitalize the rural rental housing programs.

Let me share with you how we plan to continue improving the lives of rural residents under the President's fiscal year 2007 Budget proposal for our rural housing programs.

PROGRAM HIGHLIGHTS

I am pleased to provide you with an update on several highlights from our major programs, as well as key initiatives being undertaken.

In fiscal year 2005, we were instrumental in the Federal response efforts to hurricanes Katrina and Rita. Immediately following the hurricanes we had our people who were already living in the gulf States coordinating relief efforts and assisting evacuees with their housing needs. Our Multi-Family Housing program was able to place about 10,000 individuals or nearly 4,000 hurricane evacuee families nationwide and was able to offer approximately $17 million in emergency Rental Assistance. In our Single Family Housing program, we provided immediate housing payment moratoriums for over 18,000 of our affected borrowers, suspended foreclosure actions, and opened up our single family housing inventory properties nationwide in order to place some evacuees. We are continuing to provide relief and assistance through aggressive loan servicing, and new loans and grants in the affected areas.

In December 2005, the Department of Defense Appropriations Act for 2006 provided some relief for areas affected by the hurricanes of 2005. The legislation provides approximately $175.593 million in program level for section 502 direct single family loans, $1.293 billion in program level for section 502 guaranteed single family loans, $34.188 million in program level for section 504 home repair loans, and $20 million for section 504 home repair grants. In addition to funding, Congress gave Rural Development flexibility within their current statutes and regulations to meet the needs of those affected by the hurricanes.

We will soon be announcing details for the rural housing voucher demonstration program and expanded revitalization demonstration program that were authorized in the 2006 Appropriations Act. We expect to have these programs fully underway within the next few months.

MULTI-FAMILY HOUSING PROGRAMS

The Multi-Family Housing (MFH) budget preserves Rural Development's commitment to maintaining the affordable housing for the many rural Americans who rent

their homes. Our existing portfolio provides decent, safe, sanitary, and affordable residences for about 470,000 tenant households.

The total program level request is $825.4 million. Four hundred and $86 million will be used for rental assistance (RA) for contract renewals, farm labor housing, and preservation. These funds will renew more than 46,000 2-year RA contracts.

The fiscal year 2007 budget also requests funds for a program level of $41.6 million in loans and $13.9 million in grants for the Section 514/516 Farm Labor Housing program, and program level of $1.5 million in loans for credit sales, and $9.9 million for housing preservation grants.

*Multi-Family Housing Revitalization*

The fiscal year 2007 budget extends the Administration's proposal to revitalize USDA's multi-family housing projects by providing $74.2 million for rural housing vouchers for tenants of projects that have withdrawn from the program. Upon enactment of legislation the Administration has already submitted to Congress, these funds could also be used to provide incentives for project sponsors to stay in the program and make essential repairs and rehabilitations.

We anticipate our revitalization efforts will span the next several years and have initiated a demonstration program using existing authority during fiscal year 2005 to test the viability of the revitalization concepts. The demonstration validated some of the basic revitalization concepts and helped us identify an efficient process for implementing the fiscal year 2006 demonstration program and preparing for the full scale implementation of the revitalization initiative. The 2005 demonstration effort will revitalize 22 rental properties through 12 transactions in the States of Missouri, Wisconsin, Louisiana, Arkansas, and Georgia. Through these efforts, 559 tenant families will continue to live in affordable rental housing. Eight of the transactions have closed and we will complete the remaining shortly.

*Section 538 Guaranteed Rural Rental Housing Program*

The fiscal year 2007 budget request will fund $198 million in section 538 guaranteed loans, funds that may be used for new construction and repairing 515 properties. The section 538 guaranteed program continues to experience ever-increasing demand and brisk growth, and is rapidly becoming recognized within the multi-family housing finance, development, and construction industry as a viable conduit to facilitate the financing of housing projects.

In fiscal year 2005, we distributed more than $97 million in guarantees to fund housing projects that attracted over $338 million in other sources of funds. The risk exposure to the government continues to be very low, as loan guarantees to total development costs are well under 30 percent. We also have a delinquency rate of zero. Over 90 percent of the applications were awarded Low-Income Housing Tax Credits from the various State governments where the projects were located. This type of leveraging helps ensure that properties are affordable for low-income families.

Since inception of the program, the section 538 guaranteed program has closed approximately 100 guarantees totaling over $185 million. These closed guarantees will provide over 4,500 rural rental units at an average rent per unit of approximately $500 per month. In addition, the program has more than 100 applications in the works.

The rural housing program recently published a final rule on January 19, 2005, to address program concerns from our secondary market partners and to make the program easier to use and understand. The fiscal year 2007 proposed budget of $198 million will enable Rural Development to fund a significant number of additional guaranteed loan requests.

SINGLE FAMILY HOUSING PROGRAMS

The Single Family Housing (SFH) programs provide several opportunities for rural Americans with very low- to moderate-incomes to purchase homes. Of the $4.80 billion in program level requested for the SFH programs in fiscal year 2007, $3.56 billion will be available as loan guarantees of private sector loans, including about $99 million for refinancing more affordable loans for rural families. Also, with $1.237 billion available for direct loans, an increase of 10 percent over the 2006 enacted level, our commitment to serving those most in need in rural areas remains strong. This level of funding will provide homeownership opportunities for approximately 40,760 rural families.

Effective outreach and a quality guarantee product, coupled with low interest rates, have increased demand for the section 502 guaranteed program. Currently, approximately 2,000 lenders participate in the guaranteed SFH program. The competitive low-interest rate environment has enabled the rural housing program to

serve low-income families, who would typically receive a section 502 direct loan, with a guaranteed loan instead. To help decrease the Federal cost of this program, we are requesting the authority to charge up to a 3 percent guarantee fee for purchase loans. Without the proposed fee change the budget authority requested will support only $601 million in loans compared to $3.56 billion available if the 3 percent fee were in place. In addition, we are ensuring that this program is not redundant with other Federal guarantee housing loan programs by requiring that the lender certify that the borrower does not qualify for another guarantee that the lender offers and that they would not issue the loan without the guarantee.

*Section 523 Mutual and Self-Help Housing*

The President's fiscal year 2007 Budget requests $37.6 million for the mutual and self-help housing technical assistance program, an increase of 12 percent over fiscal year 2006 levels.

The fiscal year 2005 ended with over $42 million awarded for contracts and 2-year grants. There were 39 "pre-development" grants awarded in fiscal year 2005, including many first-time sponsors, several faith-based groups, and groups in States with no self-help housing programs. Pre-development funds may be used for market analysis, determining feasibility of potential sites and applicants, and as seed money to develop a full-fledged application. Groups in the pre-development phase typically need 6 to 12 months before they are ready to apply for full funding.

The fiscal year 2007 proposed budget also includes approximately $36.4 million in program level for home repair loan funds and $29.7 million for grants to assist elderly homeowners. It also includes approximately $5 million in loan level for each of two site loan programs, $10 million in loan level for sales of acquired properties, and approximately $990 thousand for supervisory and technical assistance grants.

COMMUNITY PROGRAMS

The Community Facilities budget request will provide essential community facilities, such as educational facilities, fire, rescue, and public safety facilities, health care facilities, and child care centers in rural areas. The total requested program level of $521.7 million includes $297 million for direct loans, $207.9 million for loan guarantees, and $16.8 million for grants.

In partnership with local governments, State governments, and Federally-recognized Indian Tribes, the fiscal year 2007 budget will support more than 300 new or improved public safety facilities, 125 new and improved health care facilities, and approximately 90 new and improved educational facilities to serve rural Americans.

In fiscal year 2005, we invested over $163 million in 155 educational and cultural facilities serving a population totaling over 1.8 million rural residents, over $136 million in 523 public safety facilities serving a population totaling over 2.4 million rural residents, and over $426 million in 166 health care facilities serving a population totaling over 2 million rural residents. Funding for these types of facilities totaled $725 million. The remaining balance was used for other essential community facilities such as: food banks, community centers, early storm warning systems, child care centers, and homeless shelters.

CONCLUSION

Through our budget, and the continued commitment of President Bush, rural Americans will have the tools and opportunities they can put to work to improve both their lives and their communities. We recognize that we cannot do this alone and will continue to identify and work with partners to improve the lives of rural residents.

I would like to thank each of you for your support of the rural housing and community facility programs' efforts. I look forward to working with you in moving the fiscal year 2007 Budget forward, and welcome your guidance as we continue our work together.

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PREPARED STATEMENT OF JAMES M. ANDREW, ADMINISTRATOR, RURAL UTILITIES SERVICE

Mr. Chairman, members of the Subcommittee, thank you for the opportunity to present the President's fiscal year 2007 budget for USDA Rural Development utilities programs. This is my first appearance before you and I appreciate the opportunity. We value the work and support you and other members of this subcommittee have provided us so that together we can provide a strong, dependable infrastructure in the rural United States.

A strong rural America is important for a strong Nation. We consider the rural utilities programs an important part of the USDA Rural Development mission. Safe, affordable, modern utility infrastructure is an investment in economic competitiveness and serves as a fundamental building block of economic development. Changes in the landscape of rural America, along with developments in technology and changes in market structure, combined with an ageing utility infrastructure, are impacting the electric, telecommunications and water sectors. Without the help of USDA Rural Development's utilities programs, rural citizens face monumental challenges in participating in today's economy, as well as maintaining and improving their quality of life.

The $43.5 billion rural utilities loan portfolio includes investments in 8,000 small community and rural water and waste disposal systems, as well as approximately 2,000 electric and telecommunications systems serving rural America. This local/Federal partnership is an ongoing success story. Eighty percent of the Nation's landmass continues to be rural, encompassing 25 percent of the population. For an economy to prosper, we need infrastructure investment to spur economic growth, create jobs and improve the quality of life in rural America.

ELECTRIC PROGRAM

The Electric Program budget proposes a program level of $3.8 billion supported by $2.7 million in budget authority. This includes a hardship program level of $99 million and a $39.6 million program level for municipal rate loans. The Direct Treasury rate loan program level is proposed to be $700 million. There is also $3 billion for the guarantee of Federal Financing Bank (FFB) direct loans. The FFB loans are made at the cost of money to the Federal Government plus an one-eight of a percent. Both the President and Congress have provided very generous loan levels over the past four years and we have been able to eliminate the backlog in loan applications. I believe the President's budget request will meet the demand during the 2007 fiscal year.

To meet the demands of economic growth across our Nation, the need for transmission lines to deliver electric power where it is needed is placing new demands on cooperatives providing transmission service. Last year we predicted that because in the last twenty years no new base load capacity had been built, there would be an increasing demand for power generation and transmission. We are now seeing the first of many applications for those base load requirements. However, past history has shown that base load is riskier than other projects. We intend to develop a separate subsidy rate that reflects the increased risk and incorporates a fee to offset the cost. Legislation will be necessary to allow for a fee. Within the $700 million requested for direct loans, we plan to make $200 million available for renewable energy projects.

TELECOMMUNICATIONS PROGRAM

The area of rural telecommunications is the most rapidly changing aspect of rural utilities infrastructure. Job growth, economic development, and the quality of life in rural America are directly tied to access to today's high speed telecommunications. We administer the Broadband Loan Program, the traditional Telecommunications Infrastructure Loan Program, as well as Distance Learning and Telemedicine Loan and Grant Programs.

The fiscal year 2007 Broadband Loan Program budget proposes a program level of $356.4 million driven by $10.8 million in budget authority. This replaces the mandatory funding provided by the Farm Bill for the 2007 fiscal year. Moreover, as a result of decreased subsidies, the President's budget will deliver nearly the same program level as was anticipated by the Farm Bill. When the 2002 Farm Bill was enacted, the mandatory funding anticipated a program level of approximately $400 million a year. The proposed budget is reflective of the intent of the Farm Bill and as it has turned out, more in concert with the demand in qualified loan applications.

Included in the broadband loans budget proposal is $29.7 million in direct 4 percent loans requiring $3 million in budget authority; $297 million in direct Treasury Rate loans is requiring $6.4 million in budget authority, and $29.7 million in guaranteed loans requiring $1.4 million in budget authority.

We are reviewing every aspect of the program with a view toward making needed improvements. We must continue to balance fiduciary responsibility with mission delivery. Making bad loans helps no one; making successful loans helps everyone.

In the regular Telecommunications Program, the 2007 budget proposes a program level of $689 million. Included is $143.5 million in direct 5 percent loans, $246.7 million in direct Treasury Rate loans, and $299 million in Federal Financing Bank

(FFB) direct loans guaranteed by USDA Rural Development. All of this is driven by $605,000 in budget authority.

I am happy to report that the dissolution of the Rural Telephone Bank is progressing on schedule. No funds are requested for that program.

Distance learning and telemedicine technologies are having a profound impact on the lives of rural residents. This program helps rural schools and learning centers to take advantage of the information age and enables rural hospitals and health care centers to have access to quality medical services only found in large hospitals. The Distance Learning and Telemedicine (DLT) program pulls together the best of Federal assistance and local leadership. The DLT grants are budgeted at $24.75 million. The President's proposal does not request loan program funding simply because the demand for loans to schools and hospitals has never developed and funding is available from previous years to support new loans in fiscal year 2007.

WATER AND ENVIRONMENTAL PROGRAMS

The Water and Environmental Programs provide the most basic of infrastructure needs for rural citizens: clean, safe, affordable drinking water and ecologically sound wastewater disposal. No element is more vital to human life and dignity as clean, safe water. Rural communities are challenged to provide this vital service while facing increasing regulatory requirements and persistent drought conditions across a large area of the country.

The budget request seeks a program level of $1.4 billion in loans and grants, costing $514 million in budget authority. The total is divided with $990 million in direct loans and $75 million in loan guarantees for the Water and Waste Disposal programs. The direct loan program requires $164.7 million in budget authority. The budget request also includes $345.9 million in Water and Waste Disposal Grants and $3.4 million in Solid Waste Management Grants.

SUMMARY

Rural Utilities infrastructure programs are interwoven in the fabric of USDA Rural Development programs. To provide safe, clean, water; modern communications; and reliable, affordable electric power means businesses can develop, homes can have light and heat, and markets can be opened to the rest of the world. We will play our part in building communities from the ground up.

Thank you for the opportunity to present the President's fiscal year 2007 Budget for USDA Rural Development utilities programs.

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PREPARED STATEMENT OF DR. JOSEPH J. JEN, UNDER SECRETARY, RESEARCH, EDUCATION, AND ECONOMICS

Mr. Chairman, members of the Committee, it is my pleasure to appear before you to discuss the fiscal year 2007 budgets for the Research, Education, and Economics (REE) mission area agencies of the USDA. I am accompanied by Dr. Merle Pierson, Deputy Under Secretary of REE and the Administrators of the four agencies: Dr. Edward Knipling, Administrator of the Agricultural Research Service (ARS); Dr. Colien Hefferan, Administrator of the Cooperative State Research, Education, and Extension Service (CSREES); Dr. Susan Offutt, Administrator of the Economic Research Service (ERS); and Mr. Ronald Bosecker, Administrator of the National Agricultural Statistics Service (NASS). Also present is Dr. Scott Steele, Director of the Office of Budget and Program Analysis of the Department. Each Administrator has submitted written testimony for the record.

The President is committed to reducing the budget deficit by half, and USDA as well as many departments across the Federal Government have been called on to help make this a reality. The President's fiscal year 2007 budget proposes $2.283 billion for the four REE agencies to conduct research, education, economics and statistical programs. This represents a slight decrease of $39 million from the level in the President's fiscal year 2006 budget and a $401 million decrease from the total REE appropriation in fiscal year 2006. Within this decrease, the agency budgets have critical increases in high priority areas such as food and agricultural defense, nutrition and obesity, genomics, and animal and plant diseases.

Agricultural research is truly the lynchpin of the American food and agricultural system. A great deal of the system's success over many decades is attributable to the new scientific understandings and technology generated by our national food and agricultural research system, of which USDA's research agencies are key components. Numerous studies have found that the return on investment in agriculture research is high. Whether measured in productivity, competitive strength in global

markets, environmentally sustainable production practices, or new science-based food safety technology, research and development underpins essentially all advances in the food and agriculture sector. It provides a necessary condition for success. Natural events, market conditions and resistance to adoption of new technologies can be formidable barriers to success. At the same time, absent cutting-edge research, the food and agriculture sector runs the risk of losing its edge in increasingly competitive global markets. In that context, I look forward to your consideration of the many important requests for the four REE agencies proposed in the President's budget.

The budget we are discussing today includes what I consider to be an innovative and excellent proposal for restructuring the Hatch and McIntire-Stennis formula programs. The Administration has been on record for some years as believing that competitive programs provide the most effective mechanism for allocating research funds to solve pressing national problems. Consistent with that proposition, the fiscal year 2007 President's budget proposes an innovative approach to introducing competition into the Hatch and McIntire-Stennis formula programs. Under the proposal, the current Hatch multi-state research program will be expanded from 25 percent to approximately 56 percent of the total Hatch funding in 5 years. As current multi-state projects are completed, an increasing portion of these multi-state funds will be competed. A similar proposal is made for the McIntire-Stennis formula program, with the introduction of a new nationally-competed multi-state program in fiscal year 2007.

This design of the proposal for the two formula programs is responsive to the concerns raised by many stakeholders to last year's budget proposal. Among other things, the new proposal sustains matching funds and sustains the land grant institutions' Federal funds for leveraging non-Federal resources. In addition, it does not reduce appropriated funding from the fiscal year 2006 enacted level. The Department looks forward to working with the State Experiment Stations and forestry colleges in developing an implementation plan for this expanded multi-state program.

Before turning to the individual agency budgets, I would like to describe increases in three particularly high priority areas for the Department: food and agricultural defense, nutrition and obesity, and genomics.

*Food and Agricultural Defense Initiative.*—Now in its 5 year, the Food and Agriculture Defense Initiative is designed to strengthen the Federal Government's capacity to defend the Nation's food and agricultural systems against terrorist attacks, major disasters and other emergencies. The fiscal year 2007 budget provides increased program funding of $42.3 million for ARS and $7.1 million for CSREES to expand their participation in this initiative.

Under the Food Defense component of the initiative, ARS increases will allow the agency to expand its food safety research, particularly focused on developing technology that rapidly identifies suspected food pathogens and toxins. The budget also proposes an increase of $4.2 million for ARS' National Plant Disease Recovery System which is designed to ensure that disease resistant seed varieties are continually developed and made available to producers in the event of a natural or intentional catastrophic disease or pest outbreak. An increase of $24.6 million will support strengthening ARS' ongoing research on rapid response systems to bioterror agents, improved vaccines, and identification of genes affecting disease resistance.

The budget provides CSREES $12 million, an increase of $2.1 million from fiscal year 2006, to maintain and enhance the Regional Diagnostic Network of public agricultural institutions that serves as a component of APHIS diagnostic laboratories for both animals and plants. The initiative also includes $5 million for a competitive Higher Education Agrosecurity Program that promotes the training of food system defense professionals critically needed in securing our Nation's agriculture and food supply.

*Nutrition and Obesity.*—Concern continues regarding the epidemic of obesity in the Nation. Particularly distressing is the incidence of obesity in children, estimated to be approximately 16 percent for children and adolescents ages 6 to 19. Recent studies show that Type 2 diabetes, previously considered an adult disease associated with obesity, is increasingly found in children. Future projections of the incidence of diabetes, particularly for Hispanic and African-American children, are alarming. The causes of obesity are many and complex. Levels of physical activity, reliance on convenience food, large food portions, and genetic make-up all play a role. Whatever the set of causes and their interplay, collectively they portend greater problems for individuals, families, communities and the country, with the potential for significant productivity losses to the economy and increases in health-related expenses. Funding for research now could significantly contribute to the reduction of these negative impacts in the future.

As the Federal Government department most closely associated with food policy and programs, USDA has an important role in addressing the obesity challenge and more broadly promoting healthy nutrition and weight. Its food assistance, nutrition education, and nutrition research programs are all addressing this major national public health problem.

Under the President's HealthierUS Initiative, the fiscal year 2007 budget proposes increases and program redirections for ARS, CSREES, and ERS that will strengthen the Department's capacity to address obesity and associated issues. The increases focus on gaining a better understanding of food consumption patterns and the factors influencing them, and on developing effective interventions to promote healthy dietary choices.

ARS increases and redirection of funds total $11.3 million, of which $4.7 million will support a longitudinal study to assess the long-term benefits and approaches to controlling weight. We know that it is easy for people to control weight for a short period, but very difficult to do so for extended periods of time. This initiative will be the only one of its type to address the efficacy of the healthful eating and physical activity patterns set forth in the Dietary Guidelines in preventing obesity in the U.S. population, with particular attention focused on children. One aspect of the obesity conundrum is that the factors affecting dietary choices and the effects of those choices are not only complex, but vary with subpopulations. Redirected funds in ARS will be used to gain a better understanding of dietary patterns that contribute to obesity in low socioeconomic and minority populations. Other redirected funds will support research to develop effective, and likely distinct, dietary strategies for children, middle-aged adults and Native Americans.

An ERS increase of $1.6 million under the agency's new consumer data and information system will be used to obtain food-away-from-home data that is important in supporting the development and targeting of USDA policies and programs to help improve the diets and nutrition of all consumers, particularly low-income consumers.

*Genomics.*—The future of agriculture rests in genomics and associated molecular biology. Moreover, in many ways that future is here. Genomics and molecular biology are now effectively being used in many types of food and agricultural research focused on a wide range of research objectives. Over the last several years, ARS and CSREES have increased their investment in genomics and molecular biology, helping to lay the foundation for their use today in applied research. Past increases have supported sequencing the genome of important agricultural plants and animals and learning about the functions of different genes and how they can be turned on and off. ARS and CSREES supported researchers are now aggressively using the technology associated with genetic and molecular biology toward such goals as developing rapid detection tests, isolating disease resistant plant varieties, and enriching the nutrients in food.

Both the ARS and CSREES budgets continue a trend of requested increases in genomics. The President's fiscal year 2007 budget provides a total of almost $17.7 million for the two agencies. The ARS budget provides an additional $8.7 million to identify genes that influence animal and plant growth and quality, disease resistance, and other economically important traits. The proposed increases in the National Research Initiative (NRI) of CSREES would support new or more research in domestic animal genomics ($5 million), genomics to improve production of biofuels and biobased products ($1 million) and molecular biology to improve the water use-efficiency of plants ($3 million).

An important part of the ARS and CSREES genomics programs is active partnering with other science institutions and governments. For example, research on plant genomics, in particular sequencing the soybean genome, is being supported through a CSREES partnership with the U.S. Department of Energy. ARS and CSREES are both coordinating their genomics research with NIH's National Human Genome Research Institute, and the National Science Foundation.

*Classical Chinese Garden.*—Under the ARS Building and Facilities program, the President's budget proposes $8.4 million towards a Classical Chinese Garden at the U.S. National Arboretum. The Garden is a gift from the Chinese government and people to the U.S. Government and people. Once completed, the Garden will be the finest example of a Classical Chinese Garden outside of China. The Garden will also enrich the Arboretum's research program, through increasing the availability of vast numbers of plants from China that can be used to develop new and improved ornamental and floral plants in the United States. The proposed $8.4 million will be used for design validation, infrastructure, and site preparation only. An estimated equivalent of over $50 million will be contributed by the China's State Forestry Administration towards the Garden. The Chinese government is providing the garden structures, rockeries, furniture, art objects, and unique plants and is reassembling

all the structures and placing them on the infrastructure foundation provided by the United States.

REE FISCAL YEAR 2007 INITIATIVES

I would now like to turn briefly to the budgets of the four REE agencies.

*Agricultural Research Service.*—The Agricultural Research Service fiscal year 2007 budget requests slightly over $1 billion in ongoing research and information programs and facilities. Within the total, the budget proposes increases of $57.7 million dedicated to high priority programs addressing issues of national and regional importance, several of which were previously described. The budget also proposes $49.1 million in program redirections of ongoing base resources to enhance priority research objectives. To offset the increases, terminations of approximately $195.7 million in current programs are proposed. As the principal intramural biological and physical science research agency in the Department, ARS continues to play a critical role for the Department and the larger agricultural community in conducting both basic and mission-oriented research. Results from ARS' basic research provide the foundation for applied research carried out by ARS, academic institutions and private industry. ARS' applied research and technology development address the research needs of other USDA agencies, as well as of those engaged in the food and agriculture sector.

In addition to the increases previously described, the ARS budget proposes increases to strengthen its research program addressing several diseases, pests, and pathogens threatening crop and animal production and marketing and in some cases, human health. Bovine Spongiform Encephalopathy (BSE) continues to be a challenge for the livestock sector, particularly as it relates to foreign markets. An increase of $9.8 million will support ARS scientists in the development of countermeasures to detect, control, and eradicate future BSE and Chronic Wasting Disease. Rust diseases, such as Asian soybean rust, pose severe problems throughout the United States. A $3.9 million increase will focus on controlling or minimizing the spread of rust diseases of grains and soybeans. Throughout the country, different varieties of invasive weeds, insects, and pathogens cause tens of billions of dollars of agricultural losses each year. Research on these wide-ranging threats such as the Asian Longhorned Beetle and Salt Cedar will be enhanced with a proposed $5.4 million increase.

Development of biobased fuels continues to be a high Administration priority. Research is critical to both improve the agricultural biomass feedstock for the production of energy and to develop the technologies to produce biofuels from the feedstock. An increase of $3.6 million will enhance ARS on both these research objectives, as well as development of other biobased products. Other priority programs to be strengthened through funding increases or redirections include climate change and associated carbon sequestration, water quality and technologies to minimize vulnerability to drought, and air quality in the context of animal feeding.

The Abraham Lincoln National Agricultural Library (NAL), one of four national libraries, serves as a valuable national resource for information on food and agricultural sciences. Full integration of many kinds of digital information and fast, seamless navigation among them are essential for NAL to meet the increasingly complex customer demands. Proposed funding of $4 million will be used to sustain the national collection of agricultural information warranted by a national library. The funds will also be used to continue developing information technology to manage and deliver information efficiently.

*Cooperative State Research, Education, and Extension Service*—The President's fiscal year 2007 budget provides the Cooperative State Research, Education, and Extension Service just over $1 billion, which is approximately the same as the President's fiscal year 2006 budget and $161.3 million less than fiscal year 2006. In providing critical funding for the research, education, and extension programs of the Land Grant system and other universities and organizations across the country, CSREES continues to play a central role in the generation of new knowledge and technology, and the transfer of that knowledge and technology to stakeholders.

The restructuring of the Hatch and McIntire-Stennis formula programs at the same overall funding levels as fiscal year 2006 is a critical part of CSREES' budget proposal. The budget also includes important increases to strengthen high priority programs.

The NRI, the agency's flagship competitive research program, continues to be a very effective avenue for supporting cutting-edge research conducted by the finest scientists across the country. The fiscal year 2007 budget proposes a $66.3 million increase in the NRI. In addition to the increases in genomic research previously described, the budget provides for increases in animal production, emerging issues in

food and agricultural biosecurity, and invasive species. A $42.3 million increase in the NRI on-going programs is being shifted from the Integrated Activities account to the NRI to achieve greater efficiency in program administration. The focus of the programs, including water quality and food safety, will stay the same.

The proposed CSREES budget also includes an increase of about $1 million to a total of $6.9 million to fund outreach and technical assistance for socially disadvantaged farmers and ranchers.

*Economic Research Service.*—The Economic Research Service is provided $82.5 million in the President's fiscal year 2007 budget. As the Department's principal intramural economics and social science research agency, ERS conducts research and analysis on the efficiency, efficacy, and equity aspects of issues related to agriculture, food safety, human nutrition, the environment, and rural development. In addition to the increases described above related to obesity and nutrition, the budget includes $5 million to fund a new Agricultural and Rural Development Information System, a comprehensive data collection and research program to monitor the economic health and well-being of farm and non-farm households in rural areas. The increase will support collection of multiple-year, longitudinal information on rural household in areas with specific challenges, such as persistent poverty and population loss, and adds a longitudinal component to USDA's Agricultural Resource Management Survey (ARMS) to collect information on farms in the same areas. In particular, the information generated will support programs administered by the Department's Rural Development mission area.

*National Agricultural Statistics Service.*—The National Agricultural Statistics Service budget requests $152.5 million, an increase of $13.3 million over the fiscal year 2006 Act. NASS' comprehensive, reliable, and timely data are critical for informing policy decisions to keep agricultural markets stable, and to ensure a level playing field for all users of agricultural statistics. The President's budget provides increases in the agency's agricultural estimates program and the Census of Agriculture.

An increase of $3.9 million is directed at the continuing restoration and modernization of the agency's core survey and estimation program begun in fiscal year 2004. Producers rely on the NASS surveys as being comprehensive and accurate in making their decisions. Funding received in the fiscal year 2004 through fiscal year 2006 appropriations has been used to successfully improve the precision level for commodity surveys conducted by NASS for State, regional, and national estimates through sample size increases and better survey response. Funding requested in fiscal year 2007 will promote data quality by encouraging voluntary response through increased respondent awareness of market and policy reliance upon USDA–NASS statistical measures and by improving the data collection capabilities of local interviewers throughout the Nation. The budget also provides an increase of $7.3 million for the Census of Agriculture based on its 5 year cycle. The increase supports the normal increase in the level of activity as the next Census year, 2007, approaches. The 2007 data will be collected in 2008. For the first time, respondents will be able to complete the survey over the Internet.

SUMMARY

In summary, the REE agencies' budgets we are discussing today present a balanced research, education, and economics portfolio, with investments in such high priority issues as animal disease, nutrition and obesity, food safety and farm household well-being. Such a budget is particularly notable at a time of severe budget constraints.

Reflecting back on the importance of research to the long-term success and competitiveness U.S. agriculture, it is critical that a strong, dynamic, and focused food and agricultural research portfolio be sustained. The proposals for REE in the President's budget will do just that. This concludes my statement. Thank you for your attention. I look forward to answering your questions.

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PREPARED STATEMENT OF DR. EDWARD B. KNIPLINGS, ADMINISTRATOR, AGRICULTURAL RESEARCH SERVICE

Mr. Chairman, and members of the Subcommittee, I appreciate this opportunity to present the Agricultural Research Service's (ARS) budget recommendations for fiscal year 2007. The President's fiscal year 2007 budget request for ARS' research programs is a little over $1 billion, a net decrease of $123 million or about 11 percent from the fiscal year 2006 funding level. There are several components to ARS' fiscal year 2007 budget request: (1) $106.8 million for new and expanded priority research initiatives ($57.7 million represents a net increase in budget authority and

$49.1 million is from reprogramming); (2) $15.4 million for pay costs; (3) $3.1 million for reprogramming recommendations to transfer resources from existing locations in support of priority research needs; and (4) $195.7 million for proposed program and project terminations.

Of the proposed new and enhanced research increases, $48.2 million is in support of the Federal Government's initiative to strengthen the Nation's homeland security. Homeland security research is in the areas of food safety, emerging and exotic diseases of animals and crops, and for the National Plant Disease Recovery System. ARS is also proposing new and expanded initiatives for research on Bovine Spongiform Encephalopathy (BSE), invasive species of animals and plants, nutrition and obesity, genetics and genomics, biobased products and bioenergy, air and water quality, and climate change. Increases for the National Agricultural Library and information technology are also requested.

The budget proposes the termination of a number of research laboratories and projects and associated resources appropriated in recent years totaling $195.7 million. The savings to be achieved through the proposed terminations will finance the higher priority research initiatives proposed in ARS' budget, as well as help reduce overall Federal spending.

The ARS budget also includes $8.4 million under its Buildings and Facilities account for the construction of infrastructure for a Classical Chinese Garden at the U.S. National Arboretum in Washington, DC.

PROPOSED PROGRAM INCREASES AND REDIRECTIONS

These high priority increases respond to urgent, nationwide issues in critical areas, such as homeland security, emerging diseases, food safety, obesity, climate change, invasive species, and genomics and genetics, that affect the entire country.

—*Food Safety—$13.8 Million.*—Ensuring the safety of the Nation's food supply is essential and vitally important to the Nation's homeland security. Bioterrorism against our food supply would affect the health and safety of consumers and their confidence in the safety of the foods they consume. It would also have far-reaching impacts on the country's economy, since U.S. agriculture employs nearly one-quarter of the Nation's workforce and annually contributes over one trillion dollars to the gross domestic product. ARS research will focus on assessing the vulnerabilities of the food supply, strengthening and expanding laboratory preparedness, and developing technologies which rapidly identify suspected food pathogens and toxins. ARS will work in these areas of prevention, detection, and response with the Food Safety and Inspection Service and other USDA agencies, through programs, such as the Collaboration for Animal Health and Food Safety Epidemiology.

—*Human Nutrition/Obesity Prevention Research—$11.3 Million.*—Two of every three American adults and an increasing number of children are overweight or obese, making obesity one of this country's fastest growing public health problems. It contributes to heart disease, cancer, diabetes, and other illnesses resulting in hundreds of billions of dollars in health care costs each year. Understanding food consumption trends and the factors that influence dietary choices is critical for developing strategies for preventing and mitigating obesity. ARS will use the proposed increase to conduct nutrition surveys and research to prevent childhood and adult obesity, and to develop strategies which encourage healthy food choices.

—*Avian Influenza (AI) and Foot-and-Mouth Disease (FMD)—$6.1 Million.*—Animal health officials define a foreign animal disease as a transmissible livestock or poultry disease that has a potentially significant health or economic impact. AI and FMD are two of the most serious foreign animal diseases which presently threaten the United States. ARS will use the proposed increase to: develop diagnostic detection tools that can be more widely used in field situations, increase our understanding of disease epidemiology (i.e., spread of virus, routes of transmission, persistence of infection), and deploy countermeasures in the form of vaccines and antivirals.

—*Bovine Spongiform Encephalopathy (BSE) and Chronic Wasting Disease (CWD)—$9.8 Million.*—BSE is a progressive, degenerative, fatal disease affecting the central nervous system of adult cattle. It is believed that eating contaminated beef products from BSE-affected cattle causes a variant form of Creutzfeldt-Jacob Disease in humans. The first case of BSE was identified in the United States on December 23, 2003. CWD is a disease which affects deer and elk. Unlike BSE, CWD does not appear to be transmissible to humans, but it is worrisome because it could jump species barriers and become more virulent

or infectious. The proposed increase will enable ARS scientists to develop countermeasures to detect, control, and eradicate future BSE and CWD outbreaks.

—*Soybean and Wheat Stem Rust—$3.9 Million.*—Rust diseases pose severe problems in crops throughout the United States. Since 2000, Stripe Rust has caused hundreds of millions of dollars in losses to wheat growers. Asian Soybean Rust (SBR) is reported to cause up to 80 percent yield losses in numerous countries around the world. The first incidence of SBR, in nine soybean producing States in the United States, was confirmed by the Animal and Plant Health Inspection Service (APHIS) in 2004. The proposed increase will be used to control or minimize the spread of SBR, Stripe Rust, and other rust diseases of grains and soybeans.

—*Emerging and Exotic Diseases of Animals and Plants—$15.3 Million.*—The United States is increasingly vulnerable to emerging animal and plant diseases which could threaten the Nation's homeland security. The threat of new diseases—whether they are a result of bioterrorism or of naturally occurring epidemics—is an urgent and growing challenge to livestock producers. Bovine Viral Diarrhea in cattle, Porcine Reproductive Respiratory Syndrome in swine, and Marek's disease virus in chickens are examples of these exotic diseases. Harmful animal diseases introduced to the United States in recent years from foreign countries include Exotic Newcastle Disease and Monkeypox. Brucellosis, Leptospiroris, and West Nile Virus are still other examples of zoonotic diseases that pose a threat not only to animals but to humans as well. Similarly, exotic and emerging plant diseases—wheat and barley rusts, citrus canker, and corn viruses—present a potential threat to the Nation's agriculture industry. With the proposed increase, ARS will develop vaccines, intervention strategies, and diagnostics for the detection, identification, control, and eradication of these animal and plant disease threats.

—*Emergency Research Needs and Research to Assist APHIS—$7.4 Million.*—APHIS has requested help from ARS in controlling various animal diseases, such as FMD, Rift Valley Fever, and Classical Swine Fever, and plant diseases, such as Citrus Canker and Citrus Leprosis Virus. There is also a need for ARS to be able to respond to unanticipated special research needs and emergencies. Often, funds are not readily available for these situations. The proposed increase will provide ARS with the flexibility to respond quickly to special needs and emergencies as well as support APHIS' efforts to control and eradicate pests and diseases.

—*National Plant Disease Recovery System—$4.2 Million.*—The emergence or spread of certain plant diseases, such as soybean rust, citrus variegated chlorosis, or bacterial wilt, could seriously harm America's agriculture. Recovery from a significant disease outbreak requires a national system to manage host/pathogen interactions using cultural, biological, and chemical control strategies and deploy resistant plant resources. Homeland Security Presidential Directive (HSPD–9) has charged ARS with the responsibility for leading this effort with the Cooperative State Research, Education and Extension Service (CSREES), APHIS, and others. ARS will use the proposed increase to minimize the impacts of devastating crop diseases by documenting and characterizing plant diseases, developing germplasm and plant varieties with improved disease resistant characteristics, implementing integrated pest management approaches, and transferring genetic resources (i.e., disease resistant plant varieties) to its customers.

—*Invasive Species—$5.4 Million.*—Invasive weeds, insects, pathogens, and other pest species cost the United States tens of billions of dollars each year in agricultural losses, negatively impacting the environment and biodiversity as well. Sudden Oak Death has had negative effects on California's plant nurseries. Salt Cedar and Yellow Starthistle (invasive weeds) have caused agricultural and environmental damage in several western States. Lobate Lac Scale, Asian Longhorned Beetle, and Emerald Ash Borer (invasive insects) have caused damage to a wide range of plant species. Animals are also at risk. Imported Fire Ants, which inhabit over 350 million acres in 12 southern States, from Texas to Virginia, damage crops and are a threat to livestock, wildlife, and humans. ARS will use the proposed increase to target its research on controlling invasive species including Imported Fire Ants, Sudden Oak Death, Salt Cedar, Yellow Starthistle, Lobate Lac Scale, Asian Longhorned Beetle, and Emerald Ash Borer.

—*Applied Genomics—$8.7 Million.*—Genomics holds the key to maintaining America's agricultural competitiveness in global markets. Advances in genomics research can improve the production and quality of food products, prevent animal and plant diseases, and produce foods which are richer in nutrients. To capture the potential of genomics, ARS needs to continue its work on character-

izing, identifying, and manipulating the useful properties of genes and genomes. In this regard, ARS will use the proposed increase to identify genes that influence animal and plant growth and quality, disease resistance, and other economically important traits. ARS will continue to coordinate its genomics research with National Institutes of Health's National Human Genome Research Institute, CSREES, and the National Science Foundation.

—*Genetic Resources—$2.6 Million.*—The rate of extinction of lines and strains of food animals and plants is accelerating. The Nation needs a more comprehensive program to maintain threatened germplasm to prevent the loss of genetic diversity. An adequate supply of useful genes is essential in the event of bioterrorism or other crises (e.g., FMD, Exotic Newcastle Disease, etc.). With the proposed increase, ARS will enhance its ability to collect, identify, characterize, and incorporate plant germplasm into centralized gene banks. The additional funding will help sustain ARS' National Plant Germplasm System repositories; it will also enable further development of cryopreservation technologies for long-term storage of important animal germplasm (i.e., of poultry, aquaculture, cattle and swine).

—*Biobased Products/Bioenergy Research—$3.6 Million.*—The Biomass Research and Development Act of 2000 and the Food Security and Rural Investment Act of 2002 encourages the development and use of biobased products. There is also a need to expand the development of bioenergy. ARS will focus its research on: (1) improving the quality and quantity of agricultural biomass feedstocks for the production of energy and biobased products, (2) developing technologies to produce biofuels from agricultural commodities and byproducts, and (3) developing technologies leading to new value-added products from food animal byproducts. Increased development of bioenergy and biobased products will expand market opportunities for U.S. agriculture, reduce the Nation's dependence on petroleum imports from unstable regions, and improve environmental quality by reducing air pollution and greenhouse gas emissions.

—*Air/Water Quality and Drought Mitigation—$3.5 Million.*—Millions of Americans are exposed to air pollution levels that exceed the Environmental Protection Agency's air quality standards. Agriculture activities, such as animal production operations, which produce ammonia, particulate matter, and volatile organic compounds, can adversely affect air quality. Another concern is the quantity and quality of water available in the United States. Drought and its impacts annually cost the Nation $6 to $8 billion. ARS will use the proposed increase to develop new technologies that reduce gaseous and particulate matter emissions from animal feeding operations. It will also provide technologies that help ensure adequate water for agriculture and improve the health of the Nation's streams, rivers, and lakes.

—*Global Climate Change—$3.2 Million.*—Climate change encompasses global and regional changes in the earth's atmospheric, hydrological, and biological systems. Agriculture is vulnerable to these environmental changes. The objective of ARS' global change research is to develop the information and tools necessary for agriculture to mitigate climate change. ARS has research programs on carbon cycle/storage, trace gases (i.e., methane and nitrous oxide), agricultural ecosystem impacts, and weather/water cycle changes. ARS will use the proposed increase to develop climate change mitigation technologies and practices for the agricultural sector. Specifically, ARS will: (1) conduct interdisciplinary research leading to technologies and practices for sustaining or enhancing food and fiber production and carbon sequestration by agricultural systems exposed to multiple environmental and management conditions, (2) expand the existing network of ARS sites conducting measurements of greenhouse gas fluxes between the atmosphere and the land, and (3) identify ways to decrease methane emissions associated with livestock.

—*National Digital Library for Agriculture and Improved Agricultural Information Services—$4.0 Million.*—In 2001, both a "Blue Ribbon Panel" and an advisory board concluded that the National Agricultural Library (NAL) needed increased resources to meet its potential, taking advantage of technological innovations for timely information access and retrieval. Full integration of many kinds of digital information and fast, seamless navigation among them are essential for NAL to satisfy the increasingly complex interdisciplinary information needs of its customers. The proposed funding will support the revitalization of NAL, enabling it to better deliver relevant information products, satisfy increasingly complex customer demands, and provide leadership as the premier agricultural information resource of the United States.

—*Information Technology—$4.1 Million.*—ARS information technology (IT) systems and networks are exposed to an unprecedented level of risk. Of particular

importance is safeguarding the Agency's pathogenic, genomic, and other sensitive research information from being acquired or destroyed by unauthorized intruders through unprotected or undetected cyber links. Agencywide centralized security measures are needed to counter security threats. ARS must also ensure that its IT infrastructure (i.e., computers, network hardware, etc.) is up-to-date and reliable. ARS will use the proposed increase to replace, upgrade, and secure its IT equipment and systems.

PROPOSED OPERATING INCREASES

In addition to the proposed research initiatives, ARS' fiscal year 2007 budget provides funding to cover costs associated with pay raises. An increase of $15.4 million is essential to finance these costs and to avoid erosion of the Agency's base resources.

PROPOSED PROGRAM DECREASES

ARS is proposing the reduction/termination of selected research programs and projects, totaling $195.7 million, to finance higher priority research and support the Administration's efforts to reduce spending and the Federal deficit. As the country faces new challenges in the areas of homeland security, food safety, and obesity, ARS needs to reprioritize and reallocate resources. Many of the projects being reduced or terminated pertain to research carried out by other ARS locations or other research institutions.

PROPOSED REPROGRAMMINGS

The proposed budget includes $3.1 million to reprogram programs and resources currently operating at Baton Rouge, Louisiana and Lane, Oklahoma. Funding for Soil and Water research at Baton Rouge, Louisiana is proposed to be reprogrammed to higher priority initiatives and obesity research at the Pennington Biomedical Research Center at Baton Rouge. Similarly, funding for crop genetics research at Lane, Oklahoma is proposed to be reprogrammed to higher priority forage-livestock research at ARS' El Reno and Woodward, Oklahoma locations.

PROPOSED INCREASE FOR BUILDINGS AND FACILITIES

The fiscal year 2007 budget recommends $8.4 million for ARS' Buildings and Facilities account. The Agency is recommending these funds be used to assist in the construction of a Classical Chinese Garden (CCG) at the U.S. National Arboretum (USNA) in Washington, DC, most of which will be built and paid for by the People's Republic of China. The Garden will serve as a symbol of friendship between the Chinese and American people and help promote better relations between the two nations. The proposed new garden will also serve as a major research facility. The project will enable the introduction of unique Chinese flowers and plants into the United States for horticultural research purposes.

CCG is a priority project for the USDA and the People's Republic of China (PRC). The design was developed by a joint team from the PRC and the United States and has been approved by the National Capital Planning Commission and the District of Columbia Commission on Fine Arts.

The structure, landscaping, and interior furnishings of the CCG will be provided by the Chinese State Forestry Administration. The land at USNA has been made available by USDA. As part of this venture, USDA is responsible for providing the infrastructure and site work, including grading and foundations. The proposed $8.4 million is to cover these activities. USDA will subsequently be responsible for the security and maintenance of the garden.

Mr. Chairman, this concludes my presentation of ARS' budget recommendations for fiscal year 2007. I will be happy to respond to any questions the Committee may have.

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PREPARED STATEMENT OF DR. COLIEN HEFFERAN, ADMINISTRATOR, COOPERATIVE STATE RESEARCH, EDUCATION, AND EXTENSION SERVICE

Mr. Chairman and Members of the Committee, I appreciate the opportunity to present the President's fiscal year 2007 budget for the Cooperative State Research, Education, and Extension Service (CSREES), one of the four agencies in the Research, Education, and Economics (REE) mission area of the United States Department of Agriculture (USDA).

The CSREES fiscal year 2007 budget proposal is just over $1 billion. CSREES, in concert with the Secretary of Agriculture and the intent of Congress, works in

partnership with the land-grant university system, other colleges and universities, and public and private research and education organizations to initiate and develop agricultural research, extension, higher education, and related international activities to advance knowledge for agriculture, the environment, human health and well-being, and communities. In addition, CSREES implements grants for organizations to better reach and assist disadvantaged farmers and ranchers in accessing programs of USDA. These partnerships result in a breadth of expertise that is ready to deliver solutions to problems facing U.S. agriculture today.

The fiscal year 2007 CSREES budget request aligns funding and performance with the USDA strategic goals. CSREES manages its many budget elements in support of research, education, extension, and outreach programs as part of a cohesive whole supporting all six of the Department's strategic goals. The Agency defines distinct performance criteria, including strategic objectives and key outcomes with identified annual targets. As part of an integrated budget and performance process, CSREES conducts periodic portfolio reviews by external experts to monitor overall program progress, suggest alternative approaches, and propose management improvements.

In support of the Administration's commitment to ensure that Federal funds are used to support the highest quality research, the fiscal year 2006 Budget proposed to increase overall funding for competitive peer reviewed research and reduce funding for formula grant programs that do not allocate funds based on a competitive process. Extensive analysis of the stakeholder response to the proposal indicated that primary concerns included the lack of consultation with affected universities and stakeholders, loss of matching funds, program continuity and length of awards, sustaining breadth of capacity in agricultural science and education nationwide, providing responsiveness to State and local issues, and leveraging and sustaining partnerships across institutions.

In response to the concerns, CSREES proposes a new initiative that supports the Administration's belief that the most effective and flexible way to fund research projects is through peer reviewed competitive awards that address national issues, while at the same time, responds to stakeholder concerns and still retains overall funding at enacted levels. CSREES recognizes that multi-state programs have been an effective part of the portfolio of work funded through the Hatch formula, assuring focused, non-duplicative, collaborative, problem-solving science. This program lends itself to national peer review. To achieve the goals of expanding competitiveness and peer review, we propose an approach that would expand and continuously recompete the multi-state awards of the Hatch Act program; and establish a similar, though separately authorized, program for McIntire-Stennis Cooperative Forestry (McIntire-Stennis) funds.

In fiscal year 2007, CSREES is proposing to distribute a portion of the Hatch Act and the McIntire-Stennis formula programs to nationally, competitively awarded multi-state/multi-institutional projects based on high priority national topics decided by CSREES in consultation with our land grant partners. This new plan for multi-state programming sustains the matching requirement and the leveraging of Federal funds. It also allows institutions to focus on program strengths they identify and sustain through linking local issues to broad national goals. The Agency is eager to work with the agricultural experiment station and university forestry research communities to develop an implementation plan for the expanded multi-state/multi-institutional effort.

CSREES also will continue to distribute a portion of the Hatch Act and McIntire-Stennis funds on the basis of the formula. The requested $177 million of Hatch Act funds will support research at the SAES related to producing, marketing, distributing, and utilizing crops and resources; enhancing nutrition; and improving rural living conditions. Funds will support research topics such as water and other natural resources, crop and animal resources, people and communities, competition and trade, and human nutrition. In addition, $22 million of the funding requested for the McIntire-Stennis program will continue to support research related to timber production, forest land management, wood utilization, and the associated development of new products and distribution systems. Both the Hatch Act and McIntire-Stennis programs allow 5 year projects supporting the goal of continuity.

CSREES proposes to eliminate funding for the Animal Health and Disease Program. Alternative funding from the National Research Initiative (NRI) program could be used to support aspects of this program. Recent, large Coordinated Agricultural Project (CAP) grants have supported animal disease issues, such as Johnes Disease and Avian Influenza.

CSREES continues to provide new opportunities for discoveries and advances in knowledge through the NRI program. The fiscal year 2007 budget request of $247.5

million for the NRI is a strong statement of the importance that the Administration places on competitively awarded grants to advance knowledge for agriculture.

The NRI will continue to support current high priority programs with an emphasis on critical issues. For example, under the NRI CAP, multi-million dollar awards support multi-year large-scale projects to promote collaboration, open communication, and coordinated activities among individuals, institutions, States, and regions to address priority issues of national importance. Under the NRI Animal Biosecurity Program, CSREES is investing funds to support three animal disease CAPs. CAP awards for Avian Influenza ($5 million/3 years with 18 States involved), Porcine Reproductive and Respiratory Syndrome ($4.4 million/3 years with 16 States involved), and Johne's Disease ($4.4 million/3 years with 21 States involved) are working to accelerate research discoveries and the translation of basic and applied research into significant outcomes that diminish the impact and threat from these diseases. These projects provide a strategic framework of objectives that integrate research, education, and extension specialists representing academia, producers, veterinarians, pharmaceutical and other biologics companies, Federal agencies, State partners, and international institutions.

Under the Applied Plant Genomics Program in the NRI, CSREES supports two CAPs—rice ($5 million/4 years representing 12 States) and wheat ($5 million/4 years representing 17 States.) Activities under these CAPs are working to bridge the gap between cereal grain genomics and traditional breeding practices. The Project Directors for the CAPs recently met to discuss facilitating synergistic activities across the CAPs that will provide lasting benefits to U.S. agriculture through improved varieties. Also discussed was how the U.S. public breeding programs can capitalize on advances in genomics. The Agency also continues support for a CAP focused on food safety at North Carolina State University.

Expanded partnerships with other Federal agencies on research topics of mutual interest will be possible with the increase in the NRI funding. For example, research on plant genomics, in particular sequencing of the soybean genome, will be supported through a partnership with the U.S. Department of Energy. The research collaboration will substantially contribute to advances in soybean breeding, with great potential to improve the environmental and nutritional quality of the plant, leading to improved efficiency of production, reduced environmental impact, and healthier foods.

The NRI also will support research on animal genomics. Substantial public investment in the Human Genome Project has led to technologies, practices, and knowledge which enable cost-effective research in animal genomics. The considerable similarities of the genomes of livestock species, fish, and birds to that of human will reduce the need for whole genome sequencing. An increase of $5 million in the NRI to support domestic animal genomics including bioinformatics is requested.

CSREES proposes that $42.3 million from the Integrated Activities account for programs that focus on water quality, food safety, methyl bromide, organic transition, and pest-related programs be administered through the NRI. This transfer is proposed as a means to streamline the CSREES budget portfolio. Funding for these programs will be sustained at the fiscal year 2006 levels.

Under the NRI, an increase of $1 million is requested for genomics and biomass/biofuels that focus on the functional genomics and bioinformatics of microorganisms to increase the efficiency of biological conversion of pulp and paper products to bioenery and biobased products and the development of new products including biologically-based fuels. These efforts will tap into the power of genomics to provide insights into new approaches for converting low value, agricultural feedstocks to high value fuels and products.

An increase of $12 million is proposed to address emerging issues in food and agriculture biosecurity under the NRI. The requested funding will support research, education, and extension activities on emerging pathogens and antibiotic production for animal protection and biosecurity, and on microbial forensics of food safety pathogens.

In fiscal year 2007 an increase of $3 million is proposed under the NRI for ecology and economics of biological invasions. The requested funds will support projects that couple the economic predictions of costs of prevention and control with ecological processes that govern the entry, spread, and damage by invasive species.

Under the NRI, an increase of $3 million is proposed in fiscal year 2007 for plant biotechnology and water security. The funds will support research on methods of modern molecular biology to improve the water use-efficiency of crops, managed forests, and horticulture plants.

In continuing and expanding our efforts for agricultural security and in support of the President's Food and Agriculture Defense Initiative, CSREES, through cooperative efforts with the Animal and Plant Health Inspection Service, has established

a unified Federal-State network of public agricultural institutions to identify and respond to high risk biological pathogens in the food and agricultural system. The network is comprised of 13 State animal diagnostic laboratories and 6 plant diagnostic laboratories, strategically located around the country. These 19 key laboratories are developing a two-way, secure communications network with other university and State Department of Agriculture diagnostic laboratories throughout their respective regions. The diagnostic laboratories are responsible for identifying, containing, and minimizing the impact of exotic and domestic pests and pathogens that are of concern to the security of our food and agricultural production systems. For example, the National Animal Health Laboratory Network (NAHLN) with its 12 founding laboratories in New York, Louisiana, Georgia, Texas, Wisconsin, Iowa, Colorado, Washington, California, Arizona, North Carolina and Florida continued efforts to enhance national preparedness against foreign animal disease appearing in the United States by conducting activities related to Avian Influenza (AI). AI is one of the new high-consequence animal pathogens covered by the NAHLN protocols. In its efforts to increase the ability to respond to outbreaks, NAHLN increased the number of laboratories that can run the real time polymerase chain reaction for AI using a standardized assay and protocol. Annual proficiency testing is required of individuals conducting testing to ensure quality results. The budget proposal requests an increase of $2.1 million for a total of $12 million to maintain the current level of diagnostic capabilities across the Nation.

CSREES proposes $5 million for the Agrosecurity Education Program to support educational and professional development for personnel so strengthen our national capacity to secure the Nation's agricultural and food supply. The program will develop and promote curricula for undergraduate and graduate level higher education programs that support the protection of animals, plants, and public health. The program is designed to support cross-disciplinary degree programs that combine training in food sciences, agricultural sciences, medicine, veterinary medicine, epidemiology, microbiology, chemistry, engineering, and mathematics (statistical modeling) to prepare food system defense professionals. Also proposed is $2.3 million for the Asian Soybean Rust Program. The funds will provide stakeholders with effective decision support for managing diseases of legume crops, particularly soybean rust, to continue surveillance of sentinel plots.

CSREES continues to expand diversity and opportunity with activities under 1890 base and educational programs, and 1994, insular areas, and Hispanic-Serving Institutions educational programs. In fiscal year 2007, the budget requests an increase of approximately $1.2 million for both the research and extension 1890 base programs. Funding for our 1890 base programs provides a stable level of support for the implementation of research and extension programming that is responsive to emerging agricultural issues. Funding for the 1994 Institutions strengthens the capacity of the Tribal Colleges to more firmly establish themselves as partners in the food and agricultural science and education system through expanding their linkages with 1862 and 1890 Institutions. Proposed funding for the Resident Instruction Grants for Insular Areas Program will be used to enhance teaching programs at higher education institutions located in U.S. insular areas that focus on agriculture, natural resources, forestry, veterinary medicine, home economics, and disciplines closely allied to food and agriculture production and delivery systems. Continued funding for the Hispanic-Serving Institutions promotes the ability of the institutions to carry out educational training programs in the food and agricultural sciences. This proven path of research, extension, and educational program development rapidly delivers new technologies into the hands of all citizens, helping them solve problems important to their lives.

CSREES also will continue to effectively reach underserved communities through increased support for the Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers (OASDFR) Program. CSREES will fund competitive multi-year projects to support outreach to disadvantaged farmers and ranchers by providing grants to educational institutions and community-based organizations to support these groups. Funds for the OASDFR program will encourage and assist socially disadvantaged farmers and ranchers in their efforts to become or remain owners and operators by providing technical assistance, outreach, and education to promote fuller participation in all USDA programs. CSREES requests an increase of about $1 million for the OASDFR program.

The CSREES higher education programs contribute to the development of human capacity and respond to the need for a highly trained cadre of quality scientists, engineers, managers, and technical specialists in the food and fiber system. The fiscal year 2007 budget provides a $.8 million increase in the Food and Agricultural Sciences National Needs Graduate Fellowship program. This program prepares graduates to deal with emerging challenges in such areas as agricultural biosecurity

to ensure the safety and security of our agriculture and food supply, natural resources and forestry, and human health and nutrition, including problems related to obesity such as diabetes and cardiovascular health. Other higher education programs will provide important and unique support to Tribal Colleges, the 1890 Land-Grant Colleges and Universities, and the 1862 Land-Grant Universities as they pilot important new approaches to expand their programs.

CSREES is requesting funds to accelerate and innovate the New Technologies for Agricultural Extension (NTAE) to establish an eXtension network which will offer Americans unparalleled access to scientifically-derived and unbiased information, education, and guidance. The fiscal year 2007 budget proposal includes a $1.5 million increase for the NTAE Program to allow the Cooperative Extension System to make available research-based education offered through eXtension to a technology conscious Nation.

To ensure the highest quality research which addresses national needs within available funding, the fiscal year 2007 budget proposes to eliminate earmarked projects. Peer-reviewed competitive programs that meet national needs are a much more effective use of taxpayer dollars than earmarks that are provided to a specific recipient for needs that may not be national. Based upon its broad scope, including the expanded integrated authority, and proposed funding increase, alternative funding from the NRI could be used to provide a peer-reviewed forum for seeking and assessing much of the work funded through earmarks. For example in the past four years, CSREES supported research in animal identification and/or animal tracking under earmarked projects which fit within the scope of the NRI. In addition, earmarked projects for human nutrition and food safety also could fit within the program areas of the NRI.

The fiscal year 2007 budget proposes changes in the general provisions including increasing the amount provided for the NRI that may be used for competitive integrated activities from up to 22 percent to up to 30 percent. Also proposed is the elimination of the cap on indirect costs for competitively awarded grants. In the past indirect cost rate caps have resulted in recipients' inability to recover legitimate indirect costs, thus penalizing recipients who choose to do business with CSREES. This elimination allows full indirect cost recovery under competitive awards and places CSREES competitive programs on an equal footing with other Federal assistance programs, so that top scientists will be more likely to apply for CSREES grant programs.

CSREES consulted widely in the development of program goals and budget priorities for fiscal year 2007. In discussions with the land-grant university system, forestry researchers, and others, stakeholders expressed their concerns over the approach to expand competitive research grant programs. The President's fiscal year 2007 budget proposal addresses their concerns, and is consistent with the view that the most effective use of taxpayer dollars is through competitively awarded grants that meet National goals. CSREES, in collaboration with university and other partners nationwide, continues to enhance its responsiveness and flexibility in addressing critical agricultural issues. This proposal provides support for research, extension, higher education, and outreach and assistance activities in the food, agricultural, and human sciences that can make a difference in solving problems facing the Nation.

Mr. Chairman, this concludes my statement. I will be glad to answer any questions the Committee may have.

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## PREPARED STATEMENT OF SUSAN E. OFFUTT, ADMINISTRATOR, ECONOMIC RESEARCH SERVICE

Mr. Chairman and members of the Committee, I am pleased to have the opportunity to present the proposed fiscal year 2007 budget for the Economic Research Service (ERS).

### MISSION

The Economic Research Service informs and enhances public and private decision making on economic and policy issues related to agriculture, food, the environment, and rural development.

### BUDGET

The agency's request for 2007 is $82.5 million, which includes increases for two initiatives and pay costs. The agency is requesting an increase of $5 million to develop an agricultural and rural development information system that will monitor

the changing economic health and well-being of farm and non-farm households in rural areas; and an increase of $1.6 million to continue the development of an integrated and comprehensive data and analysis framework of the food system beyond the farm-gate that will provide a basis for understanding, monitoring, tracking, and identifying changes in the food supply and in consumption patterns.

AGRICULTURAL AND RURAL DEVELOPMENT INFORMATION SYSTEM

In fiscal year 2007, ERS is requesting an increase of $5.0 million to fund the Agricultural and Rural Development Information System, to implement a comprehensive data collection and research program that will monitor the changing economic well-being of farm and non-farm households in rural areas. This initiative supports collection of survey data from farm and non-farm households over time to analyze the effects of policy adjustments in rural areas facing specific development issues, such as persistent poverty or substantial out migration. Data and analysis from this Agricultural and Rural Development Information System will be critical to identifying the most successful economic development strategies for different types of rural areas, the adjustments that farm households and rural communities make in response to agricultural policy changes, and the importance of the linkages between farm and non-farm economies in assessing farm and rural policy effects. The initiative also supplies the better and more useful information on the status of farm, market, and rural economics that USDA partners and customers seek.

The $5.0 million total amount requested would be allocated to four specific sets of activities. The first, collecting longitudinal data from rural households, will involve developing and supporting an integrated set of surveys, which include core components to track critical indicators over time as well as modules on specific topics related to emerging policy issues. The second, collecting longitudinal data from farm households, will build on USDA's Agricultural Resource Management Survey (ARMS). The third will be to expand public internet access to ERS agricultural and rural data. A portion of the initiative funds would be devoted to providing State and local governments, trade and commodity associations, other interest groups, and the public, easy, interactive access to a new Agricultural and Rural Development System. The fourth is to assure research capacity to analyze, interpret and apply new agricultural and rural development information.

Data are not currently available to allow analysts to distinguish the effects of rural development, farm, and agricultural resource programs from one another, and from the myriad of other forces affecting the economic well-being of farm and rural households. The Census Bureau's Census of the Population provides information on rural households within the context of their local area, but it does not include a longitudinal component that allows assessment of individual household response to changing policies and programs over time. The American Community Survey will, in time, provide social and economic data at the census tract level, but it does not use a longitudinal framework to understand individual household change. Other data sources, such as the Survey of Income and Program Participation, have a longitudinal component but do not have sufficient detail or statistical reliability to allow analyses of local rural area household response for specific areas facing specific development challenges.

CONSUMER DATA AND INFORMATION SYSTEM

In fiscal year 2007, ERS is requesting an increase of $1.6 million to augment the Consumer Data and Information System that was provided funds in fiscal year 2006. New funding will be used to obtain data on consumption of food away from home to improve the understanding of how individuals make food choices. A major change in U.S. food consumption patterns in the last several decades has been the increasing popularity of foods consumed away from home. The importance of data on food-away-home consumption for understanding food choices and nutritional outcomes is growing, as Americans now spend about 50 percent of their total food budget on food-away-from-home in 2004, up from 27 percent in 1962.

The additional funding requested this year supports ERS long-term goals and objectives for research on food choices, including:

—Identifying differences in consumption of food away from home by region and customer/household demographics (such as income, education level, age, and presence of children in the household);
—Measuring the effect of prices of food away from home on food choices, by region and customer/household demographics;
—Assessing how low-income households differ in the away-from-home food choices they make and the prices that they pay;

—Assessing how households' away-from-home food choices change through consumers' life cycle. For example, households with young children tend to favor fast food restaurants over sit-down restaurants. Older Americans are known to eat out less frequently than young adults; and

—Examining the extent by which convenience of eating away from home is impact American's food choices.

USDA officials require timely information on food prices, product movements, and potential consumer reactions to events to effectively make commodity support decisions, provide nutrition education, and ensure the safety of food. The components of the Consumer Data and Information System already implemented with prior years' funding will provide USDA with current food prices, sales volumes, food purchases, a database on consumer characteristics and purchasing behavior, and the ability to quickly survey consumer reactions, knowledge, attitudes, and awareness on a host of issues. For example, we will be able to determine how consumers respond to USDA's nutrition information efforts, such as the Food Guide Pyramid and recommendations to increase consumption of whole grains.

The Consumer Data and Information System has three major components providing intelligence across and within the food and agricultural complex. The Food Market Surveillance Report will provide policy officials with the most up-to-date information on food prices, purchases, and sales data publicly or privately available. This information will improve USDA decision-making and provide data for understanding consumer purchasing behaviors.

The Rapid Consumer Response Module will provide real-time information on consumer reactions to unforeseen events and disruptions, current market events, and government policies. The module question will be asked of members of several proprietary consumer data panels currently maintained by private vendors. The Rapid Consumer Response Survey is awaiting OMB approval.

Using fiscal year 2005 and fiscal year 2006 funding, ERS has continued development of the third major component of the Consumer Data and Information System, the Flexible Consumer Behavior Survey (FCBS). This survey will complement data from the National Health and Nutrition Examination Survey (NHANES) by providing information needed to assess linkages among individuals' knowledge and attitudes about food safety and dietary guidance, their economic circumstances, their food-choice decisions, and their nutrient intakes. Combining the NHANES with this new survey allows analysis of how individual behavior, information, and economic factors affect food choices, dietary status, and health outcomes. The FCBS is scheduled to appear on the 2007–2008 NHANES with research data available in 2009.

ERS CONTRIBUTIONS TO MISSION AREA GOALS

ERS supports the six USDA strategic goals to: (1) enhance international competitiveness of American agriculture; (2) enhance the competitiveness and sustainability of rural and farm economies; (3) support increased economic opportunities and improved quality of life in rural America; (4) enhance protection and safety of the Nation's agriculture and food supply; (5) improve the Nation's nutrition and health; and (6) protect and enhance the Nation's natural resource base and environment.

*Goal 1: Enhanced International Competitiveness of American Agriculture*

ERS helps the U.S. food and agriculture sector adapt to changing market structures in rapidly globalizing, consumer-driven markets by analyzing the linkages between domestic and global food and commodity markets, as well as the implications of alternative domestic and international policies on competitiveness. ERS economists analyze factors that drive change in the structure and performance of domestic and global food and agriculture markets; provide economic assessment of structural change and competition in the agricultural sector; analyze the price impacts of evolving structural changes in food retailing; analyze how international trade agreements and foreign trade restrictions affect U.S. agricultural production, exports, imports, and income; and provide economic analyses that determine how fundamental commodity market relationships are adjusting to changing trade, domestic policy, and structural conditions. ERS will continue to work closely with the World Agricultural Outlook Board (WAOB) and USDA agencies to provide short- and long-term projections of United States and world agricultural production, consumption, and trade.

In 2006, several initiatives are increasing the timeliness and availability of data and information, while simultaneously saving staff time. We are increasing the transparency of our commodity projections processes, and automating calculations where possible, and embedding them within databases. Our goals are to: (1) make the work transparent, inviting critique from both internal and external users; (2) transition to fewer outlook analysts as retirements near, and (3) increase timeliness

in the release of data. Our redesigned feedgrains database provides a wider range of data with automatic updates from our ongoing commodity analysis reports. A new database on base acres allows users to download and map county-level farm program and planted acreage data for nine major program crops.

Large developing countries—such as China, India and Brazil—are becoming more important to U.S. agriculture. China is one of the top 10 markets for U.S. agricultural exports and is the world's largest producer and consumer of a range of commodities. ERS research continues to examine key factors that will shape the size and pattern of China's agricultural trade: water scarcity, implementation of WTO commitments, changes in Chinese consumers' demand for food, and new directions in agricultural policy and investment in agriculture and rural areas. ERS' China briefing room on our website provides access to a new queriable Agricultural and Economic database containing information on agricultural production, food consumption, price indices, macroeconomic information and industrial output. India's strong economic growth and rising middle class are creating new markets for agricultural products. ERS research examines the policy environment and prospects for growth in key commodity markets, such as cotton, oilseeds, poultry and apples.

Food price determination is increasingly important for understanding domestic and international markets and opportunities to promote U.S. agriculture. ERS food markets research focuses on enhancing knowledge and understanding of food prices, both their objective measurement and how they are set by firms at different stages of the food system. ERS has begun to use micro-level household and store scanner data to measure the impact of changing store formats on food prices in order to focus on the changing economic environment and how these changes could affect customers' retail food purchasing habits.

ERS will continue to work closely with the Foreign Agricultural Service (FAS) and the Office of the U.S. Trade Representative to ensure that ongoing negotiations on the Doha Development Agenda under the auspices of the World Trade Organization (WTO) and regional trade agreements are successful and advantageous for U.S. agriculture. The demands of developing countries for sharp cuts in domestic agricultural policies, along with exemptions that would limit the opening of their markets, serve as stumbling blocks to reaching an agreement in current WTO negotiations. ERS has developed new analytic tools, including its PEATSIM (Partial Equlibrium Trade Simulation) modeling framework, to provide more detailed analysis of the global benefits of trade liberalization. It has also completed studies of important issues affecting developing countries, including preferential trade agreements and forces shaping global cotton markets after the end of the Multifiber arrangement.

*Goal 2: Enhanced Competitiveness and Sustainability of Rural and Farm Economies*

ERS provides assessment of the effects of farm policy on commodity markets and the food and agricultural sector. For example, the 2005 USDA report, The 20th Century Transformation of U.S. Agriculture and Farm Policy provides perspective on the long-term forces that have helped shape agricultural and rural life and considers the extent to which farm policy design has or has not kept pace with the continuing transformation of American agriculture. ERS is also preparing a series of nine commodity background studies to augment information available to policy decision makers.

Changes in U.S. farm structure can have wide-ranging impacts on agricultural productivity, opportunities for farm operators, and the distribution of benefits from government programs. ERS research focuses on two elements of change: the widespread shift of production to larger farms, and the growing use of formal contracts between farmers and buyers, used to guide farm production and marketing decisions. An updated Family Farm report will be released in 2006, as well as an Economic Brief detailing the impact of structural change on the distribution of Federal commodity payments.

ERS recently released a report, using 2003 data, on the growing use of agricultural contracts (Agricultural Contracting Update: Contracts in 2003). For producers, contracting can reduce income risks of price and production variability, ensure market access, and provide higher returns for differentiated farm products. For processors and other buyers, vertical coordination through contracting is a way to ensure the flow of products, obtain differentiated products, ensure traceability for health concerns, and guarantee certain methods of production. But widespread contract use can also limit the efficiency of cash markets, and under certain circumstances contracts can allow buyers to extend market power. A September, 2005 ERS report (Did the Mandatory Requirement Aid the Market? Impact of the Livestock Mandatory Reporting Act) examined the effects of expanded price reporting requirements on contract and cash markets for cattle.

Current research is examining the effects of contract use in hog, dairy, and poultry sectors. For example, ERS research has found that marketing contracts between packers and producers can facilitate industry efforts to address pork quality needs by reducing measuring costs, controlling quality attributes that are difficult to measure, facilitating adaptations to changing quality standards, and reducing transaction costs associated with relationship-specific investments in branding programs.

Organic farming continues to be one of the fastest growing segments of U.S. agriculture and can potentially enhance environmental protection, as well as economic opportunities for producers. Appropriations received in fiscal year 2005 and fiscal year 2006 will enable ERS to continue to explore in greater depth the market for organic products and the performance of organic farm sectors. In 2005, ERS hosted an interagency USDA workshop on organic agriculture which assessed producer options and obstacles in adopting organic farming systems, and evaluated new developments in organic marketing and technology. Also in 2005, ERS began adding a targeted sample of organic producers to the USDA Agricultural Resources Management Survey (ARMS). The first of these enhanced ARMS surveys, targeting organic dairy producers, will be administered in 2006, and will be followed by an over sample of organic soybean producers in the subsequent ARMS survey. Survey data for both organic and conventional operations will enable, for the first time, a side-by-side comparison of the profitability, productivity, energy efficiency, and other economic characteristics of these farms.

The Agricultural Resource Management Survey (ARMS) helps support important estimates, analyses, and research produced by ERS. Two key uses of ARMS are to underpin estimates of income and value-added that are provided to the Department of Commerce for use in preparing the U.S. national accounts, and to produce estimates of income for different types of commercial-size farm businesses, such as those that produce program crop commodities, that were required by the Congress in the 2002 Farm Bill. Data from ARMS are used in a collaborative effort between ERS and the National Agricultural Statistics Service to measure annual production expenses in U.S. agriculture.

A special emphasis of ARMS in 2006 is to measure use of purchase practices and strategies by farm managers in acquiring production inputs, including energy-based inputs such as fertilizers, chemicals, and fuels. These data will be used to help provide a broader understanding of how changes in inputs costs affect different types of farms and areas of the country. Additional funding provided for ARMS in fiscal year 2003 was used to increase the number of farm businesses included in the ARMS sample and to more effectively disseminate annual survey results to data users. In the 2005 calendar year survey, now in the field to be enumerated, about 34,000 farmers will be interviewed nationwide. The larger sample for ARMS gives us greater confidence in income and financial measures produced for the and geographic areas, and for types and sizes of farms engaged in U.S. agriculture. ERS continues to focus on improving the dissemination of ARMS data so that annual survey results are more readily available and easily accessible to data users, while assuring that sensitive data are not disclosed. The web-based, secure ARMS data retrieval and summarization tool, implement in late 2004, has now been through a successful update with release of the latest annual data in November, 2005. About 700 unique data users access ARMS results through this web-based outlet each month.

*Goal 3: Support Increased Economic Opportunities and Improved Quality of Life in Rural America*

ERS assesses rural needs by examining the changing demographic, employment, education, income, and housing patterns of rural areas. Data from the 2000 Census and other Federal information sources provide the most up-to-date information on the current conditions and trends affecting rural areas, and provide the factual base for rural development program initiatives. In 2006, the agency is continuing its series of publications that report current indicators of social and economic conditions in rural areas for use in developing policies and programs to assist rural people and their communities. Rural America at a Glance: 2006 and Rural Employment at a Glance, designed for a policy audience, will summarize the most current information on these topics.

ERS research focuses on the determinants and consequences of critical themes in contemporary rural America, including changing population composition and industrial restructuring. One emerging rural population trend is baby boomer migration as they retire. The oldest members of the baby boom cohort are now 60 years old, just entering the stage in their lives when they tend to migrate for retirement. The growth of baby boomer populations in rural and small town America depends on demographic, natural amenity, housing market, urban proximity, and economic factors

affecting their migration flows. ERS will publish a report in 2006 analyzing the impact of these factors during the 1990s, which will help policymakers and planners better anticipate the likely increase in migration of baby boomers into rural areas over the next 20 years.

ERS is examining the effects of industrial change on the geography of low-skill employment. Today many rural labor market areas find themselves in the midst of industrial transformation as regional, national, and global forces reshape the geography of economic activity. ERS research is addressing how the transformation of rural America from an economy based on manufacturing and extraction to one based on services and amenities has changed the prospects for workers with limited skills and education. A recent ERS study analyzed trends in rural low-skill employment in the 1990s and identified the industrial and occupational components of this change. The findings suggest that investment in education and training, rather than industrial targeting, is a more effective approach to raising skill levels in the rural economy. In 2006, ERS will publish a second report looking at the regional variation in the rural shift toward a service economy, and in the effects of this shift on low-skill labor demand. The expected result is a better understanding of how global economic forces, including broader trade liberalization and rapid technological change, can affect rural communities and how Federal and local responses can assist in the resulting restructuring.

*Goal 4: Enhance Protection and Safety of the Nation's Agriculture and Food Supply*

In response to increased risks to the Nation's agriculture and food supply due to bio-terrorism, ERS embarked on an ambitious project known as Geo-Spatial Economic Analysis (GSEA). The GSEA system merges an extensive Geographic Information System with the analytical expertise of ERS's economists. The Security Analysis System for U.S. Agriculture (SAS–USA), which is being updated and enhanced in 2006 under a cooperative agreement with the Massachusetts Institute of Technology, systematically ties all food supply processes from farm production, food manufacturing, distribution of food products, to food consumption in every region of the country and other non-agricultural sectors, such as energy and services. The GSEA system is designed to serve as a platform for collaborative analysis across agencies in USDA and with appropriate groups in FDA and the Department of Homeland Security (DHS). These capabilities mean that emergencies can be managed efficiently and expeditiously by assessing vulnerabilities and predicting outcomes. The first simulation system prototype will completed this year as part of a joint project with the Army Corps of Engineers, the Tennessee Valley Authority, and Oak Ridge National Lab to improve our ability to measure the economic consequences in the food and agricultural industries caused by transportation disruptions. In support of broad USDA initiatives such as the National Plant Disease Recovery System, the GSEA system will serve as a tool to improve economic assessments of crop and animal disease outbreaks using alternative control strategies.

As part of several national homeland security activities, ERS continues to develop and expand the capacity to assess the impact of accidental and intentional disruptions to our food and agricultural system. This year ERS will provide access to the GIS platform for selected staff in USDA and other government agencies. The GIS platform allows analysts to quickly manage the county-level crop, livestock, demographic and economic data needed to provide scope and context in the event of an emergency. ERS staff are prepared to conduct the complex economic analysis needed to assess the cost of securing our food supply, which includes protecting production, processing, distribution, and consumption of food and agricultural products. ERS is working with the Homeland Security Office (HSO), Office of Risk Assessment and Cost Benefit Analysis (ORACBA), Animal and Plant Health Inspection Service (APHIS), and the Food and Drug Administration (FDA) to improve tools for the analysis of disruption and disease mitigation strategies that require both sound biological and economic analysis.

ERS has become well-known for its pioneering estimates of the societal costs associated with foodborne illnesses due to E. coli and other known pathogens. ERS and researchers from Harvard and the University of Wyoming are collaborating to develop new methodologies for more accurately eliciting and measuring the value of reductions in health risk associated with foodborne pathogens. This project applies state-of-the-art valuation methodologies to measure the benefits of improving food safety. A survey conducted in 2004 presented respondents with information on duration and severity of foodborne illness and asked respondents how much they would be willing to pay for a food with lower risk of foodborne illness. Another survey conducted in 2005 provided respondents with information about the likelihood of foodborne illnesses and asked them about their food consumption and food safety

practices. Analysts will explore the linkage between food choices and food safety information using the information obtained by this survey.

In the event that unsafe food enters the marketplace, public health officials and food safety regulators ultimately rely on records maintained by private industry and retailers to track the manufacture and distribution of that food. Privately maintained traceability bookkeeping records provide investigators with information on the extent and distribution of a contaminated product—and on how to remove such a product from distribution channels efficiently. The strength of private traceability systems and the readiness of the food industry to track and recall a contaminated product is important for safeguarding the Nation's food supply. In 2006, ERS will continue work with agricultural economists from the University of Arkansas to investigate how various food companies in different industries handle product recalls, the operation of designated recall teams, and the frequency and results of mock recalls. The research will examine the type and scope of information collected from auditing and certification activities, characteristics of firms with recall practices, and the proportion of firms in given sectors participating in auditing and certification activities.

*Goal 5: Improve the Nation's Nutrition and Health*

ERS research has a major focus on the economic dimensions of obesity, including understanding the societal costs of obesity, explaining obesity trends among different demographic and income groups, and assessing the benefits and costs of alternative options for influencing Americans' food choices and dietary behaviors, including roles for nutrition education and Federal food and nutrition assistance programs. ERS investigated consumers' likely response to a tax on snack foods a public health issues generated by rising U.S. obesity rates. Findings suggest that the impacts on dietary quality from the tax are small and negligible at the lower tax rates. If taxes were earmarked for funding information programs, as several proponents suggest, taxes would generate a revenue stream the public health community could use for nutrition education.

In 2006, ERS is investigating the factors that influence consumers' food choices when eating away from home using the NHANES data. This research will focus on discovering consumer preferences, such as convenience and entertainment that compete with healthy eating. Information about these factors help social marketers design effective campaigns to influence consumers' away from home eating behavior. Whether the poor pay more for food than other income groups matters to their nutrition and health; therefore, the operating costs of the stores at which they shop matter. An ERS study found overall operating costs of stores with high food stamp redemption rates are not significantly different from those of stores with moderate redemption rates. If the poor do pay more, factors other than operating costs are likely to be the reason.

ERS is currently conducting a study of the economic factors affecting the cost of infant formula and rebates issued to the Special Supplemental Nutrition Program for Women, Infants, and Children Program (WIC). Over half of all infant formula sold in the United States is purchased through USDA's Special Supplemental Nutrition Program for Women, Infants, and Children (WIC). In fiscal year 2004, WIC State agencies obtained $1.6 billion in rebates from infant formula manufacturers for formula purchased through WIC. In recent years, some States awarding new infant formula contracts have seen a marked decrease in the size of the rebate. As a result, concern has been raised that the cost to the States of providing infant formula to WIC participants is increasing, a result that if sustained, could have far-reaching negative implications for the WIC program A final report will be released in 2006.

ERS continues to monitor U.S. households' food security—their access to enough food for active, healthy living—and the extent and severity of food insecurity. ERS funds a national food security survey, conducted by the Census Bureau, and reports annually on the food security of the Nation's households. The Committee on National Statistics (CNSTAT) of the National Academy of Sciences will complete its review, funded by ERS and USDA's Food and Nutrition Service, of the methods and procedures that underlie the current measures of food security. ERS will lead USDA's work to enhance and strengthen these methods for monitoring, evaluation, and related research purposes pursuant to CNSTAT findings and recommendations.

As part of our effort to improve the timeliness and quality of the Department's food consumption data, in 2003 ERS launched an interagency effort to develop a proposal for an external review of USDA's food consumption data needs and gaps. Enhancements to the food consumption data infrastructure are critical to understanding and addressing many market and policy issues in the Department. The interagency effort led to the funding of a review by the National Research Council's

Committee on National Statistics. The Committee issued its final report in 2005, which included several recommendations. An interagency working group has been established to take responsibility for the systematic development and use of diet and food consumption data to address policy and research questions of the Federal Government, as recommended by the Committee. ERS is participating in this working group, which will consider priorities and methods for obtaining additional food and nutrition-related data in the National Health and Nutrition Examination Survey. As recommended by the committee, ERS is also evaluating the use of data on food purchases, prices, and consumption from proprietary retail scanner systems, household scanner panels, and household consumption surveys. This evaluation will examine the quality of the data, consider ways to reduce the cost of access to the data, and determine the highest priority applications for the information.

*Goal 6: Protect and Enhance the Nation's Natural Resource Base and Environment*

ERS continues to provide comprehensive information to public and private users on programs in the Conservation Title of the Farm Security and Rural Investment Act of 2002. The ERS report, Flexible Conservation Measures on Working Land: What Challenges Lie Ahead? released in 2005, deals with the complexities associated with the design of working-land payment programs. Program design and implementation will largely determine the extent to which environmental goals are achieved, and whether they are achieved cost-effectively. Empirical analysis also shows how the environment, commodity prices, and farm incomes could be affected by alternative designs.

In the course of the production of food and fiber, agriculture also produces many by-products (positive externalities) such as open space, recreational amenities, scenic views, groundwater recharge, and wildlife habitat. Historically, the standard policy practice has been to address each externality through a separate policy instrument. However, when the transaction costs of administering policies (e.g., information gathering, contract formulation, enforcement) are positive, using one instrument to address each externality or objective may not be optimal. Using an empirical analysis focusing on the CRP, the ERS report The Multiple Objectives of Agri-Environmental Policy, to be released in 2006, explores the extent to which environmental attributes may be jointly produced, e.g., efforts to reduce soil erosion may also reduce nutrient runoff and increase soil carbon, with implications for simultaneously targeting multiple environmental and cost objectives.

Furthermore, applying environmental policies in an uncoordinated fashion fails to account for interactions among environmental mediums (i.e., air, land, water). This can result in conflicting policies, in that addressing one environmental problem can make another worse. The ERS report, Manure Management for Multimedia Environmental Improvement: A Comparison of Single Media versus Multi-Media Policy Optimization, released in 2005, provides a concrete example of the tradeoffs of alternately and simultaneously meeting air and water quality objectives, in terms of farmers' costs, production decisions, and environmental indicators, by focusing on livestock and poultry production. Among the results in the report is that, if enacted, restrictions on ammonia emissions from concentrated animal feeding operations could increase the cost of meeting Clean Water Act regulations for spreading manure.

In 2006, ERS will release an update of its popular Agricultural Resources and Environmental Indicators report, which describes trends in resources used in and affected by agricultural production, as well as the economic conditions and policies that influence agricultural resource use and its environmental impacts. Each chapter provides a concise overview of a specific topic with links to sources of additional information.

In fiscal year 2005, ERS continued the Program of Research on the Economics of Invasive Species Management (PREISM) that was initiated in fiscal year 2003. PREISM supports economic research and the development of decision support tools that have direct implications for USDA policies and programs for protection from, control/management of, regulation concerning, or trade policy relating to invasive species. Program priorities have been selected through extensive consultation with APHIS, the Office of Budget and Program Analysis (OBPA) and other agencies with responsibility for program management. In 2004 and 2005, APHIS used an ERS-supplied pest ranking decision tool to determine which pests would be on its Federal-State Cooperative Agricultural Pest Survey list, making transparent the basis for selecting the pests for which State cooperators could receive targeted pest surveillance and detections funds. The recent and rapid spread of the pathogen, soybean rust (SBR), in South America prompted ERS, in April 2004, to publish a study of the potential economic impacts and policy impacts of its windborne entry into the United States, Economic and Policy Implications of Wind-Borne Entry of Asian Soy-

bean Rust into the United States. USDA used this study to refine rapid response strategies to SBR entry, which was confirmed by APHIS in November 2004. ERS built on this work to examine the value to producers of USDA's coordinated framework to detect and report the presence of Asian soybean rust in different producing areas in The Value of Plant Disease Early-Warning Information: USDA's Soybean Rust Coordinated Framework, to be published in 2006.

In addition to ERS-led analyses of invasive species issues, PREISM has allocated about $3.6 million in extramural research cooperative agreements since fiscal year 2003 through a peer-reviewed competitive process. These agreements and their accomplishments through 2005 are documented in a new report, Program of Research on the Economics of Invasive Species Management: Fiscal 2003–2005 Activities. PREISM-funded projects are developing analytical tools to address Federal and State decision issues such as trade regulation, design and choice of exclusion policies, and the selection of options or strategies to manage plants pests and animal diseases. For example, researchers from Virginia Polytechnic Institute developed a framework and assisted APHIS in analyzing the impacts of a trade regulation to allow imports of avocados from approved orchards and packers in the state of Michoacan, Mexico. The economic model, analysis, and responses to public comments were published along with the new avocado regulation in the Federal Register (Nov. 30, 2004). To share and review progress made by cooperators who received PREISM funding, and to provide a forum for dialogue on economic issues associated with agricultural invasive species, ERS organized workshops in 2004 and 2005, each with about 100 attendees from academia and Federal agencies. Among the projects funded in fiscal year 2005 were studies of the value of animal traceability systems is managing contagious animal diseases, the economic effects of phytosanitary barriers to U.S. seed exports, and the benefits and costs of policy options to manage risks associated with commercial imports of non-native nursery stock.

CUSTOMERS, PARTNERS, AND STAKEHOLDERS

ERS shapes its program and products principally to serve key decision-makers who routinely make or influence public policy and program decisions. This clientele includes White House and USDA policy officials and program administrators/managers; the U.S. Congress; other Federal agencies, and State and local government officials; and domestic and international environmental, consumer, and other public organizations, including farm and industry groups interested in public policy issues.

ERS depends heavily on working relationships with other organizations and individuals to accomplish its mission. Key partners include: NASS for primary data collection; universities for research collaboration; the media as disseminators of ERS analyses; and other government agencies and departments for data information and services. Examples of successful partnerships with other agencies include conservation policy design (NRCS), creating a component to the National Health and Nutrition Examination Survey (FNS, Center for Policy and Promotion, along with the Department of Health and Human Services), and the economics of invasive species management (APHIS). ERS augments its research capacity with 93 cooperative agreements, 14 research grants, and 26 Memorandums of Understanding (MOUs).

CLOSING REMARKS

I appreciate the support that this Committee has given ERS in the past and look forward to continue working with you and your staff to ensure that ERS makes the most effective and appropriate use of public resources. Thank you.

ADDITIONAL COMMITTEE QUESTIONS

Senator BENNETT. Thank you. Thank you all for your testimony.

We will have some written questions for you, but we appreciate your service and appreciate your appearing here today.

[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

### CAPITAL SECURITY COST SHARING PROGRAM

*Question.* The Department of State requires all agencies with an overseas presence in U.S. diplomatic facilities to pay a share of costs through the Capital Security Cost Sharing Program. The fiscal year 2007 budget request for the Foreign Agricultural Service (FAS) includes $2.9 million for this program. What assurances have you received from the State Department that FAS is paying for space that they actually occupy? Is the agency currently paying for space in facilities where they do not have a presence?

Answer. The State Department has not provided any specific assurances that FAS will actually occupy the space for which we are billed; however, they are working very closely with the affected agencies. Currently, the State Department depends on several databases and a data call issued to Posts to collect personnel data. Once the data is collected, FAS reviews the results and verifies each position. If the State Department numbers differ from ours, we will file an appeal.

The fiscal year 2007 Capital Security Cost Sharing Program is estimated to require an additional $2.9 million over the fiscal year 2006 costs for a total of $6 million.

### RISK MANAGEMENT AGENCY—CROP INSURANCE

*Question.* The fiscal year 2007 budget request includes two new legislative proposals for the crop insurance program. One proposal would tie farm payments to the purchase of crop insurance protection at 50 percent or higher of their expected market value. The other proposal would allow for a new participation fee that would generate funding for information technology improvements. Please explain both legislative proposals.

Answer. The first legislative proposal would provide savings to reduce the Federal deficit while increasing participation in the Federal crop insurance program. The proposal contains several key features that, in combination, are expected to save about $140 million on an annual basis. The proposal is identical to last year's deficit reduction proposal which was not enacted by Congress. The proposal's specifics are summarized below.

—The proposal would require any farmer that receives a Federal commodity payment for his/her crop to buy crop insurance at a minimum coverage level of 50/100. This is intended to ensure farmers have adequate protection in the event of a natural disaster without resorting to ad hoc disaster assistance.

—The proposal reduces premium subsidies by stated percentages points for buy-up coverage levels.

—The proposal modifies the administrative fee on CAT to equal the greater of $100 or 25 percent of the imputed CAT premium, subject to a maximum fee of $5,000. This change would make the administrative fee more equitable between small and large producers.

—The proposal would also lower the imputed CAT premium rate by 25 percent.

—Finally, the proposal reduces the A&O reimbursement on all buy-up coverage by 2 percentage points and increases the net book quota share to 22 percent, but provides a ceding commission to the companies of 2 percent.

The second proposal is to provide the authorization for a participation fee. The participation fee would be used to help fund the modernization and maintenance of the Risk Management Agency's computer systems. The proposed fee would initially be used, beginning in 2008, to fund modernization of the existing information technology (IT) systems and would supplement the annual appropriation provided by Congress. Subsequently, the fee would be shifted to maintenance and would be expected to reduce the annual appropriation. The participation fee would be charged to insurance companies participating in the Federal crop insurance program; based on a rate of about one-half cent per dollar of premium sold. Because it is the companies that will most benefit from better, more advanced computer systems, it is reasonable that they contribute to the modernization and maintenance of these systems. The fee is expected to generate an amount not to exceed $15 million annually.

*Question.* Will the implementation of the proposal to tie payments to higher levels of crop insurance eliminate the need for ad hoc disaster assistance to farmers?

Answer. Much of the demand for ad hoc disaster assistance is believed to be driven by producers who do not purchase crop insurance, or who purchase catastrophic (CAT) coverage. CAT coverage provides a maximum indemnity of only 27.5 percent in the event of a total loss. The low coverage level for CAT has produced significant pressure for additional relief. Linking eligibility for farm program payments to the purchase of buy-up levels of crop insurance should mitigate some of the demand for

ad hoc disaster assistance as a much larger percentage of the losses experienced by producers will be covered by the Federal crop insurance program.

*Question.* Also, in regard to the one half cent per dollar on premiums, when was the last time this type service fee was increased or has the cost of participating in the program been set for a number of years?

Answer. The fiscal year 2007 budget proposes a "new" participation fee designed to help pay for the modernization and maintenance of the Risk Management Agency's computer systems. The participation fee to be paid by insurance companies, will generate funds estimated to be consistent with similar past Agency budget requests. The participation fee will initially supplement the existing appropriation to support improved IT systems for the many new programs and program enhancements occurring within the Federal crop insurance program. Modernization is expected to take about 2 years to complete, after which the participation fee will be available to reduce the need for appropriated funding. The Federal crop insurance program has seen substantial growth over the past several years, yet the Agency's IT budget has remained constant. Modernization of the RMA IT system is critical in light of the existing systems reaching the end of their expected useful life. The modernization system will provide substantial benefits to the participation insurance companies and will improve RMA's ability to comply with Congressional mandates regarding data mining and data reconciliation/data sharing with the Farm Service Agency.

CODEX AND TRADE CAPACITY BUILDING

*Question.* USDA has publicly stated that the vitality and science based independence of the United Nations standard setting organizations under FAO, specifically Codex Alimentarius and the International Plant Protection Convention (IPPC) are critical to advance U.S. agricultural trade objectives. A strong American policy presence within these organizations is important to effectively represent U.S. agriculture interests. Yet, concern has been raised by the U.S. industry that the EU policy personnel, and consequently the EU influence, in those organizations is far greater than the United States. For example, I understand that of the 100 Associate Professional Officers (APOs) at FAO, only one is from the United States. Can you speak to this issue within the context of your $1.5 million budget request for trade capacity building and explain how the requested budget is intended to address this stated imbalance.

Answer. It is critical to place Americans in key positions within international bodies like the CODEX and IPPC where they can influence policies in crucial areas such as standard-setting. These bodies are essential for implementing the Doha Development commitments. The APO program is a useful tool for placing more Americans in international organizations. Currently, the Netherlands funds about 30 APOs, Germany 11, Italy 9, and Spain 8. The advancement of science-based, decision-making practices in agricultural trade is a well known U.S. priority. The APO program, operating within organizations like FAO, not only helps to increase U.S. influence in these bodies, but it also assists developing member countries to build capacity to better participate in standard-setting bodies, comply with international trade agreements, and engage as full partners in global trade.

Part of the $1.5 million requested would be used to expand the APO program and place at least one APO in the IPPC or CODEX secretariats, where the United States currently has no representation. This would not only allow the United States to quickly place competent Americans in these increasingly important secretariats, but past experience has shown that the APO program can also leverage additional resources from the international organizations themselves as well as from other member countries. For example, USDA provided $500,000 in funding for two APO's to develop a pilot International Food Safety, Animal and Plant Health portal at FAO. This initial funding has leveraged additional funding from FAO, the Netherlands, Norway, and the Standards and Trade Development Facility. The portal was launched at the 2nd Global Forum of Food Safety Regulators in Bangkok in 2004. It provides a single electronic access point for official information which increases transparency in SPS measures and improves national laws and regulations across the sectors of food and animal and plant health.

Another way USDA influences CODEX is through leadership on the CODEX Commission as well as chairing and hosting various Committee meetings. Ms. Karen Hulebak of USDA's Food Safety Inspection Service (FSIS) was elected this year to serve as a Codex Commission vice-Chair. Also, the U.S. Codex Office hosts meetings for three Codex Committees—the committee on Food Hygiene, which FSIS also chairs; Committee on Residues of Veterinary Drugs and Food; and the Committee on Processed Fruits and Vegetables. In addition, FSIS provided an employee on a temporary duty assignment for a year and a half to the Codex Secretariat, who pro-

vided secretarial support to the group of consultants making recommendations on Codex committee structure and mandates, monitored contracts to translate standards into Chinese and developed and edited FAO/Codex publications (e.g. "Understanding Codex").

RESOURCE CONSERVATION AND DEVELOPMENT PROGRAM

*Question.* The fiscal year 2007 budget proposes to fund the Resource Conservation and Development program at $25,933,000. This is a reduction of $25,971,000 and 230 staff years. How was this level of funding and staff years determined? What is your plan to allocate RC&D coordinators? Will you evaluate the needs of each council before allocating RC&D coordinators? Since many of the sponsors of these councils are local governments, how will this budget affect USDA's relationship with rural county commissioners and mayors?

Answer. The fiscal year 2007 President's Budget recognizes the important role RC&D coordinators and councils play in protecting the environment in a way that improves the local economy and living standards. USDA's goal is to improve Federal efficiency and reduce spending. The rationale for the RC&D proposal reflects the belief that many councils will have the capacity to be more autonomous by fiscal year 2007. An assessment leading up to the proposal included a review of current RC&D Coordinator duties and responsibilities to find ways to increase efficiency and reduce costs without reducing effectiveness. Geographic considerations for remoteness and very large distances were included in the overall proposal. The Budget assumes, on average, that RC&D coordinators will serve multiple RC&D areas. Large geographic distances and complexity in service area will be taken into consideration.

NRCS is updating its analysis on the staffing impacts associated with the President's Budget proposal. At the time the Budget proposal was initially developed, the Agency estimated that up to 225 current RC&D coordinators would need to be reassigned, without counting potential retirements.

The plan to provide assistance through a federally funded RC&D coordinator to each RC&D Council takes into consideration three different factors. First, NRCS will conduct a business analysis that takes into consideration current geographic considerations for remoteness and very large distances to see if there could be some effectiveness gained through this analysis. In addition, it is expected that some RC&D coordinator positions would become vacant due to attrition. Over the next 5-years, more than half the Federal workforce is eligible to retire. This will create opportunities to once again assess effectiveness and service needs. And lastly, there will be many opportunities for promotions within the agency for existing RC&D coordinators. RC&D employees possess a variety of highly skilled, highly desirable, multi-disciplinary backgrounds and would have many opportunities for promotion to other positions within the Agency. This again would provide the Agency the opportunity to consider service and effectiveness criteria on a case-by-case basis.

NRCS Regional Assistant Chiefs will work closely with State Conservationists throughout their regions. Parameters for the number of positions per State and Region will include an understanding of the geographic attributes and needs associated with serving multi-jurisdictions within the region, including the needs of each council.

USDA will continue to have a strong working relationship with rural county commissioners and mayors. For several years, USDA has been working with the National Association of RC&D Councils (NARC&DC) to increase council capacity by providing resources, training and expertise. By fiscal year 2007, many councils will be ready to take a more active and autonomous role in addressing local concerns identified in their area plans.

Examples of council capacity building tools used and/or available include:

Publication of a manual for RC&D Council members entitled: "Guidebook For RC&D Directors." This manual is designed to help Council members carry out their personal and corporate responsibilities in governing the RC&D area. This publication is available in hard copy and can be downloaded from the NARC&DC website: www.rcdnet.org.

Training courses with accompanying information that include:

—RC&D (A Primer)
—What, Why & How (Basic Roles and Responsibilities)
—Organizational Capacity Building
—Nonprofit Financial Management
—Strategies for Stronger Associations
—Hiring 101

Development, publication, and dissemination of guidelines for rural communities to use to recognize and respond to drought conditions.

National and regional workshops for RC&D Councils to increase diversity from underrepresented individuals and groups in area plan development and implementation.

National workshop or "Forum on Entrepreneurial Development" with an emphasis on meaningful community economic development and disseminate the information to RC&D Councils.

National conference on the utilization of alternative energy and disseminate information to RC&D Councils.

WATERSHED PROJECT BACKLOG

*Question.* Please provide the status of the watershed project backlog assessment that Bruce Knight mentioned in testimony in December 2005 before the House Committee on Agriculture. How long will it take to complete this assessment? How much will this assessment cost? Which account will fund this assessment?

Answer. The current watershed project unfunded list totals $1.8 billion. The funding provided for fiscal year 2006 will fund projects where sponsors have acquired the necessary land rights and permits to proceed with construction. In addition, there are some projects on this list categorized as active that have been on the records for 40 years or longer. Clearly it is time to work with local sponsors to assess the viability of each individual project.

NRCS is committed to working with local project sponsors to determine more accurately the viability of the potential watershed project unfunded list. NRCS will assess the viability of unfunded projects in two steps. First, we will use internal databases along with employee and partner knowledge to determine which projects are clearly active and viable. NRCS identified watershed projects that have not had requests for implementation funding for the last 2 years or where the NRCS state water resource long range plans do not indicate planned implementation activity over the next 3 to 5 years. Second, for projects that are not clearly active or viable, the sponsors will be contacted to establish their continued interest in project implementation. The sponsor's role in completing this effort will be critical. Upon mutual agreement with the project sponsor, adjustments to NRCS's watersheds database will be completed by each State to reflect changes agreed upon with regard to project viability. This effort is currently underway and will be completed by June 2, 2006.

The staff time associated with this effort will be minimal. To date most of the assessment work has been completed through existing program manager knowledge, phone calls and record checks. Depending on the sponsor, additional individual case investigations for the assessment could be completed with Watershed Surveys and Planning, and/or Conservation Technical Assistance funds.

RAPID WATERSHED ASSESSMENTS

*Question.* How many watersheds have undergone the rapid watershed assessment? In which states? In total how many watersheds will go through these assessments? How much has been spent on these assessments? From which account(s)? How have these assessments improved conservation? Please give examples. How much will be spent in fiscal year 2007 on these assessments?

Answer. Thirteen watersheds have been completed using the rapid watershed assessment (RWA) approach in California, Oregon, and Idaho. Georgia and Ohio have developed assessments similar to RWAs. Approximately $390,000 has been spent on these assessments.

Individual states and local stakeholders decide if they will conduct RWAs. NRCS currently anticipates the average cost of completing a single RWA on an 8-digit hydrologic unit to be in the range of $25,000 to $50,000. NRCS plans to mainly use Conservation Technical Assistance Program funding to complete RWAs.

NRCS has been active with a variety of local, State and Federal agencies as well as non-government organizations in developing RWAs in the Klamath Basin. Through the use of rapid watershed assessments, NRCS and stakeholders have more efficiently targeted specific conservation measures to specific watersheds, ensuring the best use of available program funds for securing permanent solutions to the issues related to the quality and quantity of water.

The Upper Klamath Basin includes 271,700 acres of irrigated agriculture. Based on a series of rapid watershed assessments, NRCS determined that approximately 260,500 acres of these irrigated lands need some level of conservation treatment including improvements to existing irrigation systems. Also identified in the RWAs, the Lower Klamath Basin has approximately 41,000 irrigated acres needing treatment to improve irrigation water management. Through the RWA process, local

landowners were able to effectively address these conservation issues and identify potential funding sources for implementing irrigation improvements.

NRCS's Upper Klamath Rapid Watershed Assessment concluded improving water quality and riparian habitat in Upper Klamath Lake and its tributary streams would provide the greatest benefits to the Endangered Species Act listed Shortnose and Lost River suckers. As a result of the RWA, irrigation improvement practices were identified that would have an impact in reducing the amount of warm, nutrient rich irrigation tailwater that return to area streams. It identified additional wetland and riparian habitat that needed restoring around the lake or along its tributary streams, resulting in clean, cool water as well as spawning and rearing habitat for endangered suckers.

Funding decisions have not been made for fiscal year 2007 regarding the completion of additional RWAs.

COMMODITY SUPPLEMENTAL FOOD PROGRAM (CSFP)—PROGRAM ELIMINATION

*Question.* The budget request eliminates the Commodity Supplemental Food Program, which serves 32 States, 2 Indian reservations, and the District of Columbia. The elimination of this program results in a $108 million reduction from the fiscal year 2006 appropriation. Please explain why you chose to eliminate this program. What will the participants in CSFP do if the program is eliminated?

Answer. The President's fiscal year 2007 budget request proposes to discontinue CSFP operations and transition eligible CSFP participants to other nutrition assistance programs such as the Food Stamp Program (FSP) and the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC Program). The CSFP is a relatively small program which operates in limited areas of 32 States, two Indian reservations, and the District of Columbia. In an era of fiscal constraint, we face a difficult challenge with regard to discretionary budget resources, and must ensure that those limited resources are targeted to those programs that are available to needy individuals and families, wherever they live.

If Congress adopts the budget request, we will work closely with CSFP State agencies to ensure that any negative effects on program participants are minimized and that they are transitioned as rapidly as possible to other nutrition assistance programs for which they are eligible.

We are requesting $2 million to provide outreach and to assist individuals to enroll in the FSP. We also propose that elderly participants who leave the CSFP upon the termination of its funding and who are not already receiving FSP benefits will be eligible to receive a transitional benefit worth $20 per month ending in the first month following enrollment in the FSP under normal program rules, or 6 months, whichever occurs first. CSFP women, infants, and children participants who are eligible for WIC Program benefits will be referred to that program as appropriate.

FOOD STAMP PROGRAM—PARTICIPATION

*Question.* The budget request anticipates declining participation in the Food Stamp Program. Specifically, overall participation is expected to decrease by 1.1 million in fiscal year 2007. Can you take a moment to explain why participation is declining and do you expect these reductions to continue?

Answer. One of the key strengths of the Food Stamp Program is its ability to adjust automatically to changing economic conditions. The number of participants generally rises as the economy weakens and unemployment and poverty increase, and falls as the economy grows. Between January 2004 and January 2006, the unemployment rate fell from 5.7 percent to 4.7 percent, and the number of people working increased. In 2005, program participation began to flatten before the Gulf Coast hurricanes of the fall. As a result, we expect the number of food stamp participants to decline between 2006 and 2007. We currently project additional reductions through 2009, after which food stamp participation is projected to be fairly flat.

SPECIAL SUPPLEMENTAL PROGRAM FOR WOMEN, INFANTS, AND CHILDREN (WIC)—LEGISLATIVE PROPOSAL

*Question.* The fiscal year 2007 budget request includes a legislative proposal to cap State nutrition services and administration (NSA) grants at 25 percent. A savings of $152 million is assumed in the budget for this proposal. Please explain this proposal. What is the current NSA cap, and how will enacting this proposal further the goals of the WIC program? If the legislative proposal is not enacted, does the budget request fully fund the WIC program?

Answer. The cap on WIC NSA funding will be applied at the national level. In other words, the funds available from the WIC appropriation for grants to State agencies will be divided into two components: 75 percent of the available funds will

be released to WIC State agencies as food funds and 25 percent of the available funds will be for NSA. The requested funding level for fiscal year 2007 would equally reduce each State agency's NSA grant from the prior year's NSA grant level as needed to ensure that the national total of funds allocated for NSA stays within the 25 percent cap.

Currently, funds available from the WIC appropriation for grants to States are divided between food and NSA funds to provide a nationally guaranteed administrative grant per participant. During fiscal year 2006, 26.5 percent of available funds were provided for NSA.

SPECIAL SUPPLEMENTAL PROGRAM FOR WOMEN, INFANTS, AND CHILDREN (WIC)—FOOD PACKAGE

*Question.* In April 2005, the National Academy of Sciences Institute of Medicine released a report that recommended revisions to the food package offered to WIC participants. The report recommends that revisions to the food package encourage consumption of fruits and vegetables, emphasize whole grains, lower saturated fat, and appeal to diverse populations. In accordance with these recommendations, I understand that a final rule updating the WIC food package will be released at the end of 2006. Will the final rule be released at the end of this year as required? I understand that the final rule will be cost neutral, meaning that the total cost of the food package will not change. Will keeping changes to the package cost neutral have an affect on the overall make up of the food package?

Answer. Absent further delays, we fully anticipate that a proposed rule can be published this summer. However, affording opportunity for a full 90-day public comment period for this important rule may preclude issuing an interim final rule within the 18-month statutory deadline of November 2006.

Adding new items to the food package requires adjustments to current items in the package. As such, the overall make up of the food package would change.

MINORITY OUTREACH

*Question.* The Food and Nutrition Service provides outreach and information on the programs it operates and dietary guidelines. What is FNS doing to make sure these important messages are appropriately targeted to minority populations, including the rapidly growing Hispanic population in the United States? How much does FNS spend annually on these information campaigns and specifically on minority outreach?

Answer. For all of the major nutrition assistance programs, program outreach and information materials are targeted to reach low-income populations, including minority populations and those who speak Spanish and other languages beyond English. This includes making program application easier for non-English speakers by expanding the number and types of products available in Spanish and other languages.

In food stamps, USDA's largest nutrition assistance program, FNS identified three target populations for food stamp outreach activities—seniors, the working poor, and immigrants. Each of these groups contain large subsets of minority populations, including Hispanics. These target populations were selected because they represent populations that are hard to reach and have historically low food stamp participation rates. FNS makes special efforts to reflect cultural diversity in all outreach materials, tools, and resources (including photos and cultural sensitivities) and to provide outreach materials in multiple languages, whenever possible. Numerous outreach materials are available in Spanish as well as English. In addition, about six informational publications are available in more than 30 other languages. Food stamp outreach activities include:

—Posters, flyers, and brochures available in English and Spanish featuring diverse families and individuals.
—Informational materials available in 35 languages.
—Collection of "10 FSP Myths and Facts" handouts for various populations in English and Spanish.
—Television PSA available in English and Spanish.
—Toll free number offering information and service in English and Spanish.
—Paid radio advertisements for the past 3 years in English and Spanish.
—Award of small outreach grants awarded to community organizations that serve immigrants and minority populations (every year since 2001 with the exception of 2003).
—Photo gallery featuring images of outreach and nutrition education for use by State and local outreach providers and featuring diverse families and individuals.

—Food stamp pre-screening tool in English and Spanish.

In WIC, USDA developed the Fathers Supporting Breastfeeding Project, which focuses on educating fathers about the benefit of breastfeeding so that they may have a positive impact on a mother's decision to choose to breastfeed. The primary target audience for this project is African American males because African American females have the lowest breastfeeding rates compared to other racial/ethnic groups. USDA also recently launched the WIC Hispanic Breastfeeding Promotion and Education Project to develop educational resources that specifically address the barriers to breastfeeding for Hispanic WIC participants.

USDA conducts a wide range of nutrition education and promotion activities to motivate participants to improve their eating and physical activity behaviors. Food and Nutrition Service (FNS) nutrition education efforts are targeted primarily to participants or potential participants in the nutrition assistance programs, rather than to the general public. The Center for Nutrition Policy and Promotion (CNPP) provides nutrition information for the general public. USDA makes the development of materials that promote healthy food choices to the Spanish-speaking community, in ways that are understandable and culturally relevant, a critical priority. Key efforts include:

—Development of a comprehensive nutrition education initiative targeting low-literacy and Spanish-language populations, to help Food Stamp Program recipients and other groups served by USDA to overcome their barriers to healthy eating and physical activity behaviors, based on the Dietary Guidelines for Americans. The materials are planned for release in 2007.

—Eat Smart. Play Hard. Materials in Spanish promote healthy eating and physical activity, including activity sheets, bookmarks, posters, and brochures. Over 2.4 million of these Spanish-language materials have been ordered by program cooperators to date.

—Development of Eat Smart, Live Strong, a behavior-focused nutrition and physical activity intervention for able-bodied, low-income seniors, 60–74 years old. The intervention focuses on two key behaviors: increasing fruit and vegetable consumption and physical activity.

—The Food Stamp Nutrition Connection (FSNC), an online resource system designed to facilitate communication and resource sharing among Food Stamp Nutrition Education providers. There are 70 nutrition education materials written in Spanish on the FSNC Web site, http://www.nal.usda.gov/foodstamp.

One of the main tenets and philosophies of CNPP's new MyPyramid Food Guidance System was to personalize and individualize dietary guidance. Upon the release of MyPyramid in April 2005, children and Spanish speakers were the first two sub-groups of the U.S. population to receive personalized attention. Within the year, USDA released MyPyramid for Kids and MiPirámide, the Spanish-language version. MyPyramid for Kids features Tips for Families in both English and Spanish, an interactive computer game, posters, worksheets, and classroom materials to help children learn about the benefits of healthful diets and physically active lifestyles.

With the funds requested for 2007, the CNPP will seek expanded translation of MyPyramid materials. We will also look for greater message dissemination supported by culturally appropriate consumer research and seek greater outreach through public/private partnerships.

Major FNS/CNPP nutrition education and information expenditures are listed below:

FNS NUTRITION EDUCATION AND INFORMATION ESTIMATED EXPENDITURES

[In thousands of dollars]

| Program | Fiscal year 2006 | Fiscal year 2007 |
|---|---|---|
| Food Stamp Program | 262,900 | 263,004 |
| Team Nutrition (for Child Nutrition Programs) | 15,039 | 15,034 |
| WIC Program (general nutrition education and information) | 305,599 | 290,510 |
| WIC Program (breastfeeding promotion and education) | 91,091 | 91,241 |
| Food Distribution Program | 200 | 1,200 |
| Other Nutrition Education | 7,504 | 8,634 |
| TOTAL, FNS | 682,423 | 669,624 |
| CNPP Nutrition Education and Information Expenditures | 2,865 | 4,898 |
| Total, FNCS | 685,288 | 674,522 |

Each fiscal year, FNS spends $8 million on national outreach activities to promote the nutrition benefits of food stamps. As described above, most all of our food stamp outreach activities touch minority populations in some way. Thus, while it is not possible to break out how much is spent on minority outreach specifically, we believe that almost all of it is spent on program information activities that impact minority populations.

FOOD DEFENSE—FOOD EMERGENCY RESPONSE NETWORK

*Question.* The fiscal year 2007 budget requests an increase of $15.8 million to expand the Food Emergency Response Network (also known as FERN) and upgrade FSIS' laboratory capabilities for evaluating a broader range of threat agents for food. A part of the President's food and agricultural defense initiative, the Food Emergency Response Network will be a national network of 100 laboratories for testing of food samples for contaminants. The Food Emergency Response Network has been an ongoing partnership with FSIS, FDA, and State laboratories since fiscal year 2005. How many labs currently participate in FERN? Where are they?

Answer. Currently, there are 26 laboratories actively participating in FERN. Of these 26 laboratories, FSIS has cooperative agreements with 18 State laboratories to begin to build what is, at this time, a very limited capacity to test for biological threat agents in food, while the Department of Health and Human Services' Food and Drug Administration has agreements with 8 State laboratories to develop capacity to respond to chemical attacks on the food supply. Over 100 more laboratories have completed a checklist and volunteered to share data with FERN.

FSIS has cooperative agreements with the following 18 State laboratories to build a still very limited capacity to test for biological threat agents in food:

| State | Division |
|---|---|
| Virginia | Virginia Division of Consolidated Laboratory Services |
| Arkansas | Arkansas Department of Health |
| Delaware | Delaware Health and Social Services |
| Florida | Florida Department of Agriculture and Consumer Affairs |
| Hawaii | Hawaii State Laboratories Division, Department of Health |
| Indiana | Indiana State Department of Health |
| Massachusetts | Massachusetts Department of Public Health, State Lab Institute |
| Michigan | Michigan Department of Agriculture & Michigan Department of Health |
| Minnesota | Minnesota Department of Agriculture |
| Montana | Montana Department of Public Health & Human Services |
| Nebraska | Nebraska Department of Agriculture |
| New Hampshire | New Hampshire Public Health Laboratories |
| New Jersey | New Jersey Department of Health and Senior Services |
| New York | New York State Department of Agriculture |
| Ohio | Ohio Department of Agriculture, Consumer Analytical Lab |
| Rhode Island | Rhode Island Department of Agriculture |
| South Carolina | South Carolina Department of Health & Environmental Control |
| South Dakota | South Dakota Animal Disease Residue & Diagnostic Lab, South Dakota State University |

The Department of Health and Human Services' Food and Drug Administration has agreements with the following 8 State laboratories to develop capacity to respond to chemical attacks on the food supply:

| State | Division |
|---|---|
| Iowa | University of Iowa |
| California | Regents of the University of California |
| Arizona | Arizona Department of Health Service |
| Connecticut | Connecticut Agriculture Experimental Station |
| Virginia | Virginia Division of Consolidated Labs |
| Minnesota | Minnesota Department of Agriculture |
| New Hampshire | New Hampshire Department of Public Health |
| Florida | Florida Department of Agriculture |

*Question.* How many labs do you hope to add with the increased funding?

Answer. Using fiscal year 2005 funds, FSIS spread $1.2 million between 18 laboratories with which the agency has cooperative agreements. As a result, more funding is needed to make these labs operational within FERN. An operational FERN lab is defined as a laboratory that has developed the capability and demonstrated proficiency to test meat, poultry, and egg products for 2–3 threat agents, either as a screening test or a confirmatory test. It is important to note that not all labs will test for the same threat agent or agents. The request was for $15.8 million, $13 million of which will go to build laboratory capacity and $2.8 million for electronic communication in real-time between the laboratories for more rapid, timely information sharing and response. With the $13 million FERN request for fiscal year 2007, FSIS will be able to ensure that those original 18 laboratories plus five additional laboratories are operational FERN labs. Thus, by the end of fiscal year 2007 with the funding requested, 23 State labs would be capable of operating in FERN in the event of an intentional attack, an act of nature, or a hoax and help USDA ensure product safety and consumer confidence in the food supply.

FSIS also requests $2.5 million for two data systems to support FERN: the electronic laboratory exchange network (eLEXNET), and a repository of analytical methods. The eLEXNET is a nationwide, Web-based electronic data reporting system that allows analytical laboratories to rapidly report and exchange standardized data. This system is currently operational in nearly 100 food-testing, public health, and veterinary diagnostic laboratories across the country. The funding will be used to make eLEXNET available to additional FERN and other analytical, food-testing laboratories.

FSIS is working with FDA to develop a Web-based repository of analytical methods compatible with eLEXNET. Access to these methods will greatly enhance the ability of FERN and other laboratories to respond to emergencies, to use new methodologies and technologies, and to enhance efficiency. The requested funding will be used to enhance the repository and to populate the repository with numerous methods that will be obtained from analytical laboratories.

*Question.* What does USDA provide for the State labs with this funding—staff, equipment, training?

Answer. FERN establishes the network of communication between levels of government and ensures that all laboratories participating have the necessary capacities and capabilities needed to respond to an attack, act of nature, or hoax affecting the food supply. FERN enhances the abilities of existing laboratories to perform procedures and tests through training, proficiency testing, food defense exercises, acquisition of new equipment, and the repository of validated methods. FERN is able to offer these, and other, resources to the State and local labs primarily through funding from cooperative agreements. No staff years are provided with these funds.

*Question.* How, exactly, do the labs assist USDA in protecting the food supply from a potential terrorist attack?

Answer. FERN enables FSIS to leverage State and local laboratories for surge capacity in handling the numerous samples that would be required in the event of an attack, act of nature, or hoax that affects the food supply and to maintain product safety and consumer confidence in the U.S. food supply. The request was for $15.8 million, $13 million of which will go to build laboratory capacity and $2.8 million for electronic communication in real-time between the laboratories for more rapid, timely information sharing and response. The $13 million budget request for FERN will enable the agency to manage, maintain, and expand the capacities and capabilities of the existing FERN labs and bring new labs into the network. The $2.5 million requested for eLEXNET and the repository of analytical methods, will enhance the data systems supporting FERN.

There are estimated to be over 50,000 food types and literally thousands of biological, chemical, and radiological agents that can be added to food that pose a threat to humans. Many different laboratory analytical methods are needed to detect these agents. For a large number of agent/food combinations, there are no proven or validated methods. Part of the FERN effort will be to develop and validate these methods and to provide the necessary equipment and training to the member laboratories. Because there are such a large number of agent/food combinations that may require testing, no single laboratory will be able to respond to every threat. The mission of FERN is to develop the capability and capacity of existing labs to respond to any type of threat to food. Some analyses can be done at a rate of over 1,000 per day while others are much slower, perhaps only 10 per day. The laboratory capacity is dependent on the specific scenarios and the specific threat agent involved. The goal of 100 State labs to be fully functional under FERN is an estimate of the capacity necessary to address many of the common foodborne threats agents in the vast array of food matrices.

BUDGET REQUEST—CONSTRUCTION AUTHORITY

*Question.* The budget request includes $565,000, from current resources, for construction of a laboratory receiving facility at an Agricultural Research Service lab in Athens, GA. FSIS currently does not have authority to construct facilities, and this is the first time FSIS has requested such authority through the budget process. Why is this sample receiving facility necessary and how will it benefit FSIS operations and performance?

Answer. In the event of a food safety emergency, a sample receiving facility that is separate and distinct from the laboratory in Athens, Georgia, would be essential. For instance, if a hazardous material arrived at the present sample receiving area, FSIS may have to shutdown and decontaminate the entire laboratory. As a result, all incoming test samples would be delayed while shipped to one of only two other FSIS laboratories and in a food safety emergency, such delays could have a serious impact on public health. The Agricultural Research Service laboratories in the same building could also be shut down and need to be decontaminated. Decontamination can be a long, tedious process. For example, the Hart Senate Office Building was closed for a lengthy period of time for decontamination. FSIS cannot afford to have its only BSL–3 laboratory and a major ARS research laboratory closed for any length of time. Thus, a separate sample receiving facility would enable the laboratory to continue with its work, even if the receiving facility was forced to shut down.

*Question.* If funding for the facility comes from current resources, what current activities will be negatively impacted by this reduction?

Answer. No current essential public health activities would be negatively impacted by the construction of a laboratory receiving facility in Athens, Georgia. Only after the essential public health needs are met will the agency consider using other available resources to build the facility.

CODEX

*Question.* The work of the U.S. Government through Codex has been critical in advancing trade in U.S. food and agriculture. So important, in fact, that several years ago dedicated funding was identified to support the U.S. Codex office. In fiscal year 2006, funding for Codex through this appropriations bill is slightly more than $3 million. This funding is intended, in part, for international outreach efforts with other countries to advance U.S. policy positions. The U.S. food industry has expressed concern that these dedicated resources are not available for Codex outreach as intended but are being directed to general FSIS program activities. Does your office provide an accounting of how the Codex money is spent?

Answer. The U.S. Codex Office is part of the Office of the Administrator for the Food Safety and Inspection Service (FSIS), which provides funding and tracks expenditures for U.S. Codex Office operations, outreach and representational events. The Manager of the U.S. Codex Office reports directly to the Under Secretary for Food Safety and keeps the Under Secretary informed about the status of the U.S. Codex Office budget and expenditures.

*Question.* Are other organizations or initiatives, outside of direct Codex work, being funded by this specific amount?

Answer. No, the funding provided will be used for activities associated with the work of the Codex Alimentarius Commission and its committees, task forces, and working groups.

*Question.* Please identify the international outreach programs for fiscal year 2007.

Answer. The U.S. Codex Office manages a vigorous program of outreach to developing countries, which involves co-hosting committee meetings, organizing multi-day technical seminars on a variety of issues, and inviting delegates from developing countries to meet U.S. delegates at special, issue-specific workshops. These meetings provide opportunities for Codex officials from developing countries to exchange views with experts from the United States for the purpose of developing working relationships and building confidence in the U.S. positions on issues under negotiation.

One of the United States' on-going objectives is to broaden participation in Codex, especially participation by developing countries. Many of the least developed countries have varied levels of food safety infrastructure, and participation in Codex by representatives of these countries is largely disconnected from the national experience. While the United States believes that capacity-building activities should be funded and managed by other organizations, the outreach program of the U.S. Codex Office can help developing countries to set priorities for their participation in Codex and identify specific objectives for building their capacity to participate effectively in Codex negotiations.

Africa has become a priority for developing new working relationships. On April 19–21, 2006, the U.S. Codex Office hosted a technical seminar in Maputo, Mozambique for Codex contact points from African countries. In 2007, the U.S. Codex Office will follow up on the outcomes of this technical seminar.

The Latin American and Caribbean communities will continue to be top priorities, and the U.S. Codex Office will build on the working relationships existing with these countries to organize additional outreach events, just as the U.S. Codex Office has organized events with Latin America and the Caribbean in the previous 3 years. Currently, the U.S, Codex Office is working with Argentina, Mexico, and Brazil to organize a technical seminar with the member countries of the Codex Committee for Latin America and the Caribbean (CCLAC), except Cuba. Argentina holds the rotating presidency of CCLAC, Mexico is the representative for Latin America and the Caribbean on the Codex Executive Committee, and we propose to host this seminar with the Brazilians in Rio de Janeiro, June 1–3, 2006. This seminar has two main purposes: (1) to enhance the capacity of officials in Latin America and the Caribbean countries to participate more effectively in meetings of the Codex Alimentarius Commission and its Committees; and (2) to strategize about potential new work and new directions for the Codex Alimentarius Commission to respond to emerging food safety and trade issues in which the United States and the CCLAC members have common interests. The agenda features presentations and panel discussions with U.S., Latin American and Caribbean experts, and experts will also be invited from inter-American institutions (such as the Pan American Health Organization (PAHO), the Inter-American Institute for Cooperation on Agriculture (IICA)) and from the Food and Agriculture Organization (FAO) and the World Health Organization (WHO) which are the sponsoring organizations of the Codex Alimentarius Commission.

In addition, FSIS' Food Safety Institute of the Americas (FSIA), established in October 2004 to improve food safety and public health training throughout the Western Hemisphere, is promoting more effective participation in the Codex Alimentarius Commission. The Western Hemisphere has many shared interests in food safety, many of which are raised in Codex. FSIA wants to assist these countries in becoming more aware of these shared hemisphere interest, and encourage joint scientific and unified responses in Codex by the hemisphere. FSIA will do this by working with governments throughout the hemisphere to establish permanent food safety and public health training programs in each country at all educational levels—high school, university, and graduate levels. FSIA has its own budget. No Codex funds are used for FSIA activities.

Through FSIA, FSIS hopes to encourage countries to adopt the food safety standards developed by Codex as minimum food safety standards within their countries.

By building relationships throughout the hemisphere on a non-regulatory basis, FSIA can improve trade and public health in the hemisphere. With new trade agreements being implemented, FSIA has an opportunity to work closely with these countries to provide a forum for discussions about the food safety and public health needs of the hemisphere. Scientifically based education and training need improvement throughout the hemisphere, and by sharing information and finding common solutions, we will all benefit.

FSIA provides training and education materials to educational institutions throughout the hemisphere. Many excellent but underutilized educational programs have been developed by international and hemispheric organizations such as the PAHO, the IICA, the FAO, and the WHO. FSIA promotes these types of existing programs.

HUMANE SLAUGHTER

*Question.* There are allegations that USDA does not adequately inspect the transport and slaughter of horses. Please comment on the adequacy of USDA's effort for both of these critical functions.

Answer. Under USDA's Slaughter Horse Transport Program (SHTP), administered through the Animal and Plant Health Inspection Service (APHIS) and described in the 1996 Farm Bill, only horses that are fit to travel may be shipped in accordance with APHIS regulations. Upon arrival at a U.S. slaughter plant, APHIS Veterinary Services personnel (1) examine each shipment of horses; (2) accept and review the owner/shipper certificate; (3) question the shipper to verify compliance; (4) examine each horse after off-loading; (5) inspect the animal cargo area of the conveyance; (6) document any violations; and (7) ensure the plant provides food and water after off-loading.

At U.S. borders, port veterinarians review and compare the health certificate and the owner/shipper certificate for each shipment. If discrepancies are noted, port vet-

erinarians visually examine the horses to determine if the crossing should be permitted or refused.

The SHTP helps ensure that horses are transported humanely to slaughter by preventing injuries and ensuring adequate food and water so that the horses do not endure unnecessary suffering prior to slaughter. Examination of the horses prior to and after shipment is critical to ensuring that owners and shippers transport horses humanely to slaughter.

USDA has abided by the prohibition of federally-funded USDA inspections of horses presented for slaughter at official establishments. The fiscal year 2006 Agriculture, Rural Development, Food and Drug Administration and Related Agencies Appropriations Act included a section prohibiting the use of appropriated funds to pay the salaries or expenses of personnel to inspect horses (ante-mortem inspection) after March 10, 2006. Conference report language for the Act recognized the Food Safety and Inspection Service's (FSIS) obligation under existing statutes to "provide for the inspection of meat intended for human consumption (domestic and exported)."

While the appropriations bill prohibited appropriated funds from being used to pay for ante-mortem inspection, it does not eliminate FSIS' responsibility under the Federal Meat Inspection Act (FMIA) to carry out post-mortem inspection of carcasses and meat at official establishments that slaughter horses. In response to a petition, FSIS established a fee-for-service program under which establishments can apply and pay for ante-mortem inspection of horses. The interim final rule became effective March 10, 2006.

The fee-for-service program meets all of the Federal inspection requirements for slaughter. Under the fee-for-service program, all requirements in the regulations authorized by the FMIA that pertain to official establishments that slaughter horses continue to apply. Inspection program personnel are to continue to conduct all inspection activities, including ante-mortem inspection, in accordance with the requirements of the FMIA and applicable Federal meat inspection regulations, including regulations pertaining to humane handling.

*Question.* Will the recently implemented fee-for-service regulations regarding ante-mortem inspection of horses at slaughter diminish USDA's ability to carry out its duty under the humane slaughter act?

Answer. No, USDA considers humane handling and slaughter high priorities and is committed to ensuring compliance with the Humane Methods of Slaughter Act (HMSA). USDA strictly enforces the provisions of the HMSA, which, like other Federal meat inspection regulations, continues to apply under the fee-for-service program.

FSIS employs a veterinarian and slaughter line inspectors at every federally inspected slaughter establishment. FSIS compliance officers also make further inquiries and prepare reports of instances in which there are alleged violations of regulations, including violations of the humane handling and slaughter regulations. All FSIS livestock inspection personnel are trained in humane handling and understand that they are obligated to take immediate enforcement action when a humane slaughter violation is observed.

*Question.* Will the recently enacted language in the Agriculture Appropriations Bill allow the USDA to adequately inspect the transport of horses for humane treatment?

Answer. With the language included in the fiscal year 2006 Agriculture Appropriations Bill, USDA will be able to continue to adequately inspect the transport of horses for humane treatment by supporting this activity through user fees.

*Question.* Do you believe that the USDA is able to insure the humane transport and slaughter at these plants in the United States?

Answer. As long as APHIS is authorized to carry out the SHTP activities through either Federal funding or user fees, program personnel will be able to help ensure the humane transport of horses to slaughter. SHTP personnel help prevent injuries and ensure that the horses have adequate food and water so that they do not endure unnecessary suffering prior to slaughter. Examination of the horses is critical to ensuring that owners and shippers transport horses humanely to slaughter.

All requirements in the regulations authorized by FMIA that pertain to official establishments that slaughter horses continue to apply. Inspection program personnel are to continue to conduct all inspection activities, including ante-mortem inspection, in accordance with the requirements of the FMIA and applicable Federal meat inspection regulations, including regulations pertaining to humane handling. FSIS can deny or withdraw ante-mortem inspection services at horse slaughter establishments for any applicable reason under Federal regulations.

ANIMAL IDENTIFICATION

*Question.* The Congress has provided over $66 million for the implementation of an animal identification system. This level of funding does not include an additional $18.7 million that was transferred from the Commodity Credit Corporation. With that in mind, the budget request for fiscal year 2007 proposes another $33 million to continue this animal identification exercise. Please provide us with an update on the status of animal identification and when you expect a national program to be fully implemented.

Answer. USDA anticipates that the National Animal Identification System (NAIS) will be a fully operational system in early 2007, and it will consist of three main components: premises registration, animal identification, and animal tracking. The standardized premises registration system provided by USDA is operational in 40 States. The remaining States are using one of several compliant premises registration systems, for which they are financially responsible. Premises registration continues to be USDA's priority, which the Agency supports by providing cooperative agreement funding to States and Tribes. The States and Tribes themselves administer the premises registration process. APHIS has established benchmarks and timelines to achieve full participation in this aspect of the NAIS by fiscal year 2009.

The component of NAIS that enables individual animal identification became operational in March 2006 and is funded by USDA. Animal identification devices will be purchased by producers. The NAIS implementation plan calls for increased levels of animals to be identified with the Animal Identification Number starting in 2006, and for all newborn animals born throughout 2008 to be identified when moved from their birth premises.

The final component of NAIS—the animal tracking databases—will be managed and owned by the industry and States. The cost of the animal tracking databases will be covered by the industry and States. An interim/development phase for these tracking systems will be launched in April 2006, and fully operational systems will be in place by February 2007. USDA is developing the metadata system that supports the integration of multiple animal tracking databases.

*Question.* How do you plan to address the infrastructure needs (i.e.; eartags, scanners, and private databases) to implement this program? For instance, if all the cattle in the United States are ear tagged, without a network of scanners in place, the program will be unable to operate.

Answer. In developing NAIS, USDA is establishing data standards and the design of the data system. Once the identification system is designed, stakeholders will determine which technologies are the most appropriate to meet the needs of the system and which methods are most cost-efficient and effective. Producers are in the best position to determine which animal identification and data collection technologies are used, and they will have responsibility for purchasing them.

Although the marketplace will determine which technologies are used to support the NAIS, USDA has established minimum standards and requirements for certain species. For example, a visual eartag with the Animal Identification Number (AIN) imprinted on the tag has been established as the de facto standard for cattle. Other forms of identification that may be used with the AIN tag are referred to as "supplemental identification." The use of such supplemental identification is a decision to be made by the producer. This ensures that the additional cost of advanced technology is optional at the producer level. Some producers may elect not to use such technologies within their herd management program, and USDA does not want to limit their participation in the NAIS.

It is true that automated data collection devices will help the industry effectively obtain information on their animals. The integration of the NAIS data standards into management systems and processes will result in the most successful and cost-effective systems. The selection of such technology is best determined by the industry sector to ensure their preferences are met in incorporating the data standards with their management practices and information systems. However, as long as animals are identified according to uniform standards established through the NAIS, State and Federal animal health officials will have a much better chance of carrying out a successful epidemiologic investigation than they would otherwise. The technology for identifying animals is rapidly evolving. USDA acknowledges the need to have compatibility of systems throughout the pre-harvest production chain, but believes producers and the marketplace are in the best position to determine which technologies are used.

*Question.* Please provide a legal opinion explaining the authority of the Secretary to create a mandatory national animal identification system.

Answer. The Animal Health Protection Act (AHPA), 7 USC § 8301–8317, authorizes the Secretary of Agriculture to carry out operations and measures to detect,

control, or eradicate livestock pests or disease. It also provides ample authority to establish and implement either a mandatory or voluntary system of animal identification. Further, the AHPA enables the Secretary to enter into agreements with States or other stakeholder organizations to implement either a mandatory or voluntary animal identification program.

PREMISE IDENTIFICATION

*Question.* Please provide information by State on the total number of premises, the total number of premises identified, and the percentage of premises identified. Please keep the subcommittee updated on these figures quarterly.

[The information follows:]

Please note: The estimated number of premises for each State was obtained from USDA's National Agricultural Statistics Service 2002 Census of Agriculture. Based on NASS' definition of a farm, the estimated number of premises may not accurately reflect the total number of premises in each State for purposes of the NAIS. (Number of premises identified as of March 2006)

| State | Total estimated premises | Number of premises identified | Percentage of premises Identified |
|---|---|---|---|
| Alabama | 48,036 | 1,766 | 3.68 |
| Arkansas | 52,878 | 5,542 | 10.48 |
| Arizona | 9,443 | 234 | 2.48 |
| California | 52,234 | 2,343 | 4.49 |
| Colorado | 36,747 | 1,667 | 4.54 |
| Delaware & Maryland | 13,406 | 2,108 | 15.72 |
| Florida | 41,458 | 2,215 | 5.34 |
| Georgia | 46,836 | 1,385 | 2.96 |
| Iowa | 64,327 | 3,134 | 4.87 |
| Idaho | 29,502 | 15,073 | 51.09 |
| Illinois | 40,810 | 3,745 | 9.18 |
| Indiana | 49,500 | 5,105 | 10.31 |
| Kansas | 54,030 | 3,057 | 5.66 |
| Kentucky | 80,823 | 5,026 | 6.22 |
| Louisiana | 27,650 | 517 | 1.87 |
| Maine | 7,525 | 326 | 4.33 |
| Michigan | 45,706 | 10,221 | 22.36 |
| Minnesota | 61,625 | 10,606 | 17.21 |
| Missouri | 109,082 | 7,771 | 7.12 |
| Mississippi | 41,272 | 543 | 1.32 |
| Montana | 32,370 | 312 | 0.96 |
| North Carolina | 51,309 | 2,699 | 5.26 |
| North Dakota | 19,716 | 7,182 | 36.43 |
| Nebraska | 43,236 | 5,734 | 13.26 |
| New Jersey | 9,169 | 70 | 0.76 |
| New Mexico | 19,338 | 467 | 2.41 |
| Nevada | 4,764 | 934 | 19.61 |
| New York | 40,134 | 13,176 | 32.83 |
| Ohio | 72,543 | 1,417 | 1.95 |
| Oklahoma | 105,158 | 2,904 | 2.76 |
| Oregon | 48,188 | 1,930 | 4.01 |
| Pennsylvania | 68,699 | 27,987 | 40.74 |
| South Carolina | 23,115 | 1,361 | 5.89 |
| South Dakota | 32,216 | 3,842 | 11.93 |
| Tennessee | 93,529 | 9,008 | 9.63 |
| Texas | 277,493 | 9,711 | 3.50 |
| Utah | 20,981 | 6,807 | 32.44 |
| Virginia | 51,097 | 2,686 | 5.26 |
| Vermont | 7,341 | 78 | 1.06 |
| Washington | 34,541 | 947 | 2.74 |
| Wisconsin | 74,511 | 47,171 | 63.31 |
| West Virginia | 26,582 | 7,452 | 28.03 |
| Wyoming | 14,615 | 227 | 1.55 |
| Total | 2,083,535 | 236,486177 | |

OFFICE OF THE UNDER SECRETARY FOR MARKETING AND REGULATORY PROGRAMS

*Question.* The Under Secretary position for Marketing and Regulatory programs is currently vacant. This position is one that is very significant based on current issues that the Department of Agriculture continues to monitor. For instance, this office provides oversight and management of Department actions related to avian influenza, pest eradication programs, marketing and grading of commodities, and animal disease surveillance.

Please provide us with an update on this Under Secretary position. Also, how long do you expect this position to be vacant?

Answer. The Secretary appointed Dr. Charles "Chuck" Lambert as the Acting Under Secretary for Marketing and Regulatory Programs on November 14, 2005. Dr. Lambert served as Deputy Under Secretary for Marketing and Regulatory Programs since December 2, 2002. The Department anticipates that the President will nominate someone for this position in the very near future.

AVIAN INFLUENZA

*Question.* Please give us a status of avian influenza worldwide.

Answer. Avian influenza (AI) is a disease found among poultry. AI viruses can infect chickens, turkeys, pheasants, quail, ducks, geese, and guinea fowl, as well as a wide variety of other birds, including migratory waterfowl. Each year, there is a flu season for birds just as there is for humans and, as with people, some forms of the flu are worse than others.

AI viruses can be classified into low pathogenicity and highly pathogenic forms, based on the severity of the illness they cause in poultry, and within each of these forms are numerous subtypes. Most AI strains are classified as low pathogenicity avian influenza (LPAI) and cause few clinical signs in infected birds. Incidents of LPAI are commonly detected in domestic poultry flocks, and LPAI does not pose a serious threat to human health. However, two subtypes of LPAI can potentially mutate into a more dangerous form, and USDA is initiating programs to monitor those subtypes.

In contrast, high pathogenicity avian influenza (HPAI) causes a severe and extremely contagious illness and death among infected birds. The HPAI subtype that is considered to be the most serious is H5N1. Of the few avian influenza viruses that have crossed the species barrier to infect humans, H5N1 has caused the largest number of detected cases of severe disease and death in humans.

The World Organization for Animal Health reports that H5N1 HPAI has been detected in over 40 countries in 2005 and 2006. Nine countries have reported laboratory-confirmed cases of H5N1 influenza in humans, according to the World Health Organization.

There is no evidence that HPAI currently exists in the United States. Historically, there have been three HPAI outbreaks in poultry in this country—in 1924, 1983 and 2004. No significant human illness resulted from these outbreaks.

*Question.* Also, please provide an update on actions taken by your agency and how you are preparing for avian influenza.

Answer. Our safeguarding system against avian influenza (AI) encompasses, among other things, (1) cooperation with States in targeted and passive surveillance; (2) cooperative efforts and information sharing with States and industry; (3) outreach to producers regarding the need for effective on-farm biosecurity practices; (4) trade restrictions on poultry and poultry products from overseas; and (5) anti-smuggling programs.

*Surveillance.*—National surveillance for AI is accomplished through several means: (1) the National Poultry Improvement Plan (NPIP), a cooperative Industry-State-Federal program, which has a program for breeder flocks that has been in place since 1998; (2) State and university laboratories, which test suspect cases; (3) industry, which works with States to conduct export testing at slaughter; and (4) States, which conduct surveillance in areas where AI has historically been a concern (e.g., the live bird marketing system).

*Low Pathogen Avian Influenza (LPAI) Surveillance and Control.*—APHIS has developed a Federally-coordinated and State-assisted domestic LPAI program that provides surveillance for H5/H7 AI in two areas: (1) the live bird marketing system, and (2) the U.S. commercial broiler, layer, and turkey industries. By doing so, USDA and its partners will prevent the possible mutations and reassortments of the low-pathogenicity virus to its highly pathogenic form; reduce the likelihood of the virus becoming a zoonotic agent, thereby protecting the public (human health); and preserve international trade in poultry and poultry products.

*Live Bird Market System.*—In October 2004, APHIS established the live bird market segment of the National Control Program by publishing uniform standards to

prevent and control the H5 and H7 LPAI subtypes in live bird markets. These standards are now being implemented. APHIS enters into cooperative agreements with States that have live bird market activities, as well as Official State Agencies and NPIP authorized laboratories participating in the NPIP LPAI program. States will use funds to implement uniform guidelines for all participants in the live bird market system in the areas of State licensing, AI testing, recordkeeping, sanitation, biosecurity education and outreach, surveillance, inspections, and response to positive facilities. Funds also provide for equipment, supplies, and personnel to inspect and collect samples within the live bird market system; perform trace backs and trace forwards; and support additional field and laboratory activities essential to the program. By the end of fiscal year 2005, cooperative agreements for the live bird market system LPAI program were initiated with 21 States (California, Delaware, Florida, Georgia, Illinois, Indiana, Kentucky, Maine, Maryland, Massachusetts, Minnesota, Missouri, North Carolina, New Jersey, New York, Ohio, Pennsylvania, South Carolina, Texas, Vermont, and Virginia).

*Commercial Poultry.*—The NPIP is developing the commercial poultry segment of the LPAI surveillance. The surveillance program will provide for H5 and H7 AI monitoring of participating broiler, table egg, and turkey production flocks and their respective breeding flocks. The adopted program is currently proceeding through the regulatory process that will fully establish this voluntary program as part of the NPIP. Official State Agencies use funds to work with NPIP LPAI participants to conduct active and passive surveillance and to develop State containment and response plans to enhance their ability to detect and respond to LPAI. This also facilitates trade through the documentation of disease-free status. Funds also provide for supplies and labor for conducting tests, laboratory cost for conducting LPAI clinical diagnostic surveillance, laboratory equipment to conduct the official tests of the NPIP LPAI program, site visits, sample collection, transportation, and submission to authorized laboratories and NVSL. APHIS has memoranda of understanding in place with 48 official State agencies to carry out commercial flock surveillance through the NPIP. The rule to establish the surveillance program is in the final stages of clearance.

*Domestic Surveillance of Migratory Birds.*—On March 20, 2006, USDA announced an enhanced national framework for early detection of HPAI in wild migratory birds in the United States. This readiness plan and system builds on, significantly expands, and unifies ongoing efforts among Federal, State, regional and local wildlife agencies. Because Alaska is at the crossroads of bird migration flyways, scientists believe the strain of highly pathogenic H5N1 currently affecting Southeast Asia would most likely arrive there first if it spreads to North America via migratory birds. Thus, the plan recommends a prioritized sampling system with emphasis in Alaska, elsewhere in the Pacific flyway, and the Pacific islands, followed by the Central, Mississippi, and Atlantic flyways.

The ability to effectively prevent the spread of highly pathogenic H5N1 to domestic poultry operations is greatly enhanced by being able to rapidly detect the pathogen if it is introduced into wild migratory birds in the United States. The interagency plan outlines five specific strategies for early detection of the virus in wild migratory birds, including (1) investigation of disease outbreak events in wild birds; (2) expanded monitoring of live wild birds; (3) monitoring of hunter-killed birds; (4) use of sentinel animals, such as backyard poultry flocks; and (5) environmental sampling of water and bird feces.

In spring 2006, under the interagency plan, the USDA and its cooperators plan to collect between 75,000 and 100,000 samples from live and dead wild birds in all States and 50,000 samples of water or feces from high-risk waterfowl habitats across the United States. The U.S. Geological Survey will initially screen 11,000 of the live bird samples at its National Wildlife Health Center in Madison, Wisconsin. The remaining samples will be initially tested at labs certified by USDA in the National Animal Health Laboratory Network. Suspected findings of HPAI will be further tested and diagnosed by the National Veterinary Services Laboratory. Since the summer of 2005, the Department of Interior (DOI) has been working with Alaska to strategically sample migratory birds in the Pacific flyway. DOI has already tested more than 1,700 samples from more than 1,100 migratory birds. No highly pathogenic isolates have been detected. Since 1998, USDA has tested over 12,000 migratory birds in the Alaska flyway; since 2000, almost 4,000 migratory birds in the Atlantic flyway have been tested. All birds in these flyways have tested negative for the highly pathogenic H5N1 virus of concern.

*Education and Outreach.*—The USDA's Biosecurity for the Birds Campaign is an outreach initiative designed to educate noncommercial poultry owners about the signs of AI and other poultry diseases; promote the importance of practicing biosecurity; and encourage rapid reporting of clinical signs of disease and/or unexpected

deaths. The advertising campaign began in July 2004 and has reached a circulation of over 125 million.

*Trade Restrictions and Anti-Smuggling Program.*—USDA maintains import restrictions on poultry and poultry products from countries affected by H5N1. Furthermore, all imported live birds (and returning U.S.-origin pet birds) must be quarantined for 30 days and tested for the AI virus before entering the country. USDA works closely with the Department of Homeland Security's Customs and Border Protection to enforce import restrictions. To ensure compliance with restrictions, APHIS concentrates on identifying smuggled poultry products and live birds from H5N1-affected countries. APHIS also conducts routine surveys, special operations, and marketing activities focusing on H5N1 products in commerce and at ports of entry. All suspected violations are forwarded to APHIS' Investigative and Enforcement Services staff for further investigation. Civil and/or criminal penalties may be issued for violations.

APHIS has also increased its monitoring of domestic commercial markets for illegally smuggled poultry and poultry products. USDA works with trading partners and the World Organization for Animal Health (OIE) to maintain safe trade.

*Responding to an Outbreak.*—In the event of an HPAI outbreak, APHIS has the Foreign Animal Disease management infrastructure to conduct an emergency response that would occur at the local level, in accordance with the National Animal Health Emergency Management System's guidelines for highly contagious diseases. Should the disease be detected in commercial flocks or in back yard flocks, affected flocks would be quickly quarantined to prevent spread. Sick and exposed birds would be euthanized and the premises cleaned and disinfected to stamp out the disease. USDA would conduct epidemiology investigations to determine the source of the virus, and to track the movement of birds to contain spread.

To ensure immediate deployment of supplies necessary to contain, control, and eradicate an HPAI outbreak, APHIS is building a stockpile of needed vaccines, antiviral, and therapeutic products including reagents, disinfectants, and equipment. We are also conducting simulated exercises specific to avian influenza to ensure an effective response to an outbreak of the disease. Further, APHIS is developing models of the potential impacts of avian influenza outbreak in the United States and alternative control strategies.

If the scope of the HPAI outbreak is beyond APHIS' and the affected State's immediate resource capabilities, additional resources can be obtained through the following mechanisms: the National Response Plan's Emergency Support Function #11 ensuring that animal-health emergencies are supported in coordination with the emergency support function that covers public health and medical services; and the National Animal Health Emergency Response Corps and various State response corps can be activated. These private veterinarians and animal health technicians are ready to assist on short notice.

HURRICANE ASSISTANCE

*Question.* The Congress recently provided emergency funding through the hurricane supplemental for a number of programs that are within the rural development mission area. To be more specific, we provided supplemental funding for the Rural Community Advancement Program and Rural Housing.

Please provide us with an update on the Department's use of the funds. What additional needs are you aware of in rural areas that were affected by Hurricane Katrina?

Answer. On March 13, 2006, Rural Development published a Notice of Funding Availability (NOFA) in the Federal Register implementing the hurricane supplemental provisions of Public Law 109–148.

The supplemental provided $35 million in budget authority for our direct and guaranteed homeownership programs, $10 million for direct homeownership repair loans, and $20 million in direct homeownership repair grants. These funds have been allocated to the gulf region. We expect that all direct loan and grant funds will be obligated in fiscal year 2006. Of the $15 million of budget authority for guaranteed homeownership loans ($1.3 billion in deliverable program level), we expect the majority of these funds will be carried over into fiscal year 2007. We are also planning to use a portion of this budget authority to implement a mortgage recovery program for our guaranteed homeownership customers. Under this program, Rural Development will advance to a lender up to 1 year's worth of payments to bring the customer to a current status. To be eligible for the program, the customer had to be in good standing with the lender prior to the hurricanes and have a reasonable prospect for success. The debt would be secured by a non-interest bearing soft-sec-

ond lien on the property payable upon sale or transfer of title. Rural Development will be publishing a NOFA on this initiative in the near future.

The Water and Environmental Programs received $45 million in budget authority. We continue to monitor the situation with regard to telecommunications and electric demands, but to date, we have not received any applications. The first request for 2005 hurricane funds was received on April 10, 2006, and is in the process of being reviewed for funding qualifications.

Additional demand for our programs is still difficult to estimate. Rebuilding of the housing stock in the gulf region is very dependent on ensuring that adequate infrastructure exists, on-going negotiations between existing homeowners seeking Federal Emergency Management Agency (FEMA) and insurance benefits, lack of builders, and high building costs. Our local field offices continue to work with our customers and within these rural communities to help with recovery efforts.

515 HOUSING PROGRAM

*Question.* The fiscal year 2007 budget request eliminates funding for the 515 Rural Rental Housing Program. The 515 housing program provides funding for construction and revitalization of affordable rental housing for rural families who have very low to moderate incomes.

If the Congress does not provide funding for the 515 housing program, will low income citizens have any other option when it comes to affordable housing?

Answer. Yes. Rural Development's section 538 Guaranteed Rural Rental Housing Program (GRRHP) provides affordable housing to very-low and low income families. The section 538 program works in partnership with other financing entities to create affordable housing. The lender provides the financing to construct or renovate affordable housing, Rural Development guarantees the loan. Guaranteed loans generate 10 times more loan funds for the same budget authority than do direct loans, and attract 2.5 times more private sector leveraged money. More than 90 percent of the closed loans in the portfolio have 9 percent tax credit dollars. Tax credits require owners to achieve affordability targets, resulting in high percentages of low and very low income tenants. Many tenants in section 538 properties have section 8 vouchers which assist the tenants in paying rent. The program also offers interest credit subsidies that assist in lowering the interest rate throughout the term of the loan. The subsidized interest rate keeps rents low for tenants. The section 538 program requires that rents not be more than 30 percent of 115 percent of the area median income, and average rents for all units at the property cannot be more than 30 percent of 100 percent of area median income.

For example, last year the following was provided for new construction:

[The information follows:]

COMPARING RENTAL UNITS PRODUCED IN FISCAL YEAR 2005 WITH SECTION 515 AND 538 BUDGET AUTHORITY

| | Direct loans | Guaranteed loans |
|---|---|---|
| Budget Authority | $13,200,000 | $3,462,000 |
| Funding Authority | $28,013,000 | $99,200,000 |
| Units Produced | 783 | 3,313 |
| Tenants < 60 percent of Area Median Income (Est.) | 720 | 1,000 |

While the average incomes may appear different ($10,036/year adjusted income in Section 515 vs. $18,400/year gross income in Section 538), the aggregate number of families served in the very low income category is greater in Section 538.

RURAL HOUSING VOUCHER PROGRAM

*Question.* In fiscal year 2006, Congress included $16 million for a new rural housing voucher program. This funding is available to assist tenants who are unable to reside in the current rental arrangement due to a property owner exiting the program. The fiscal year 2007 budget request increases the funding level for housing vouchers to $74 million.

Please take a moment to explain the current status of the $16 million that was provided for fiscal year 2006. Also, do you expect the funding that has been provided for the current fiscal year to meet the demand?

At this point, it seems difficult to determine how many owners will choose to prepay and exit the program. Please explain how the Department determined this level of funding for fiscal year 2007.

Answer. On March 20, 2006, Rural Development published a NOFA announcing the availability of a voucher demonstration program and has started to utilize the $16 million that was provided for fiscal year 2006. The first Rural Development Vouchers were issued in early April. We anticipate that demonstration funding will be sufficient to provide 2,700 vouchers to protect tenants in projects that prepay during fiscal year 2006.

The Comprehensive Property Assessment (CPA) found that 10 percent of the properties (approximately 1,700) could be economically viable to prepay, if permitted. This is estimated to be about 46,000 units, with approximately one-third of the prepayments occurring in each of the first 3 years. The $74 million proposed fiscal year 2007 funding level allows USDA to fund approximately 15,000 units at a per voucher funding level of slightly over $400 per month. This will include the renewal of up to 2,700 vouchers funded during fiscal year 2006. However, the specific dollar amount and number of tenants is dependent on the number of properties that pre-pay, their location, and the market conditions at the time.

WATER AND WASTEWATER

*Question.* The budget request proposes to change the calculation of the interest rate for water and wastewater grants from the fixed rate of 4.5 percent to a floating rate set at 60 percent of the market rate.

Please take a moment to explain the reason why this proposal has been included and how it will affect the current program.

Answer. The reason the President's budget proposed a change in the method it uses to determine its loan interest rates is to enable communities to better use available loan funds and make the lowest rate more reflective of changing market rates. Under our current method of establishing a three-tier interest rate, the market rate is indexed quarterly to the Bond Buyer 11 GO Bond Index. The poverty rate is fixed at 4.5 percent and the intermediate rate is halfway between the market and poverty rates.

In the last 12 quarters the market rate has been at or below 4.5 percent 7 times, effectively reducing our three-tier to a one-tier interest rate schedule. To avoid this, we are proposing to index all three interest rate tiers to the 11 GO Bond Index. The market rate will remain at the 11 GO Bond Index, the intermediate rate will be 80 percent of the 11 GO Bond Index and the poverty rate will be 60 percent of the 11 GO Bond Index. The final rate will be 3.2 percent for fiscal year 2007.

*Question.* Most importantly, would this be an administrative change or will it require legislative language?

Answer. The change in rate calculation is administrative.

ORGANIC RESEARCH

*Question.* Please provide information on all current research on organic agriculture performed by ERS and ARS or funded through CSREES.

Answer. A search of the Current Research Information System indicates that there are 187 active organic agriculture research projects supported by CSREES. These projects are being conducted in 42 States with 57 different cooperating land-grant university or other institutional partners. In total, these projects support an equivalent of 46 scientist years, and the funds are fairly evenly distributed across the four CSREES regions. The $10.2 million invested in these 187 projects is further leveraged by the State partners to increase funding support to $20.5 million for organic research.

An assessment of all Agricultural Research Service research activities supporting organic agriculture has been completed. Of $18.4 million spent by ARS that directly benefits organic agriculture, $4.7 million is spent for research conducted in the field under conditions that are the same or similar to certified organic. Other ARS research that indirectly benefits organic agriculture totals $44.1 million. ARS now has a national program leader for Integrated Agricultural Systems who oversees ARS organic agriculture research. Based on the customer input from the 2005 ARS organic agriculture workshop, ARS scientists are encouraged to incorporate organic agriculture objectives into research plans as part of the next national program cycle. New organic field research sites are being planned at Ames, Iowa, Mandan, North Dakota, and Fort Pierce, Florida, in addition to field research already conducted at Salinas, California, Lane, Oklahoma, Beltsville, Maryland, Dawson, Georgia, Morris, Minnesota, Weslaco, Texas, and Orono, Maine. ARS is developing a national strategy to identify the greatest barriers to organic agriculture production in different regions of the country. ARS will use organic agriculture customer input to develop specific research problems for the 2007 Integrated Agricultural Systems National Program Action Plan.

The Economic Research Service has been tracking organic acreage and livestock, by commodity since 1997, and partnered with NASS in increasing the availability of production data and statistics. More recently, ERS has gotten involved in organic marketing and social science research, including work comparing United States to European organic policy, issues and trends in retailers and handlers and consumer data analysis. The most recent addition to their research projects is data tracking wholesale organic produce prices. In terms of leading the research agenda, ERS has sponsored two workshops in the past 5 years to frame the consumer, production and environmental issues that warrant more research.

The National Agricultural Library, through its Alternative Farming Systems Information Center, general reference and referral services, document delivery services and collection development provides access to and/or can obtain access to published research on organics conducted outside the United States. Some of the information is made available through the AFSIC Web site, the NAL Agricola database and through other databases to which NAL has access. NAL helps organic farmers to locate information on organic research that is conducted nationally and internationally.

*Question.* Please provide information on all statistics on organic agriculture published through NASS.

Answer. Only one directed question on organic sales was included in the 2002 Ag Census, and NASS reported statistics for the value of certified organically produced sales by total sales and number of farms. The 2007 Census of Agriculture was modified to address the increasing data needs of the organic sector and will ask a number of new questions of producers in Section 22. Respondents will be asked whether the operation is a certified organic operation, how many acres were used for organic production, the total value of sales for crops and livestock produced and sold, and how many acres were being converted to organic production in the past year.

NASS also conducts the Agricultural Resource Management Survey (ARMS) that asks very specific questions about production practices, including organic, which together with other detailed data could provide rich analyses of the financial performance, sociodemographic and marketing choices and trends of organic producers. This cooperative arrangement with the Economic Research Service is likely to increase the level of data and research available. For example, the ARMS for dairy, added an oversample of 700 organic dairy farmers to this survey. An expanded section on pasture, organic certification, and other questions to capture aspects of organic production that can be contrasted with conventional dairy production systems were also added. A similar project is underway to explore the costs and production practices of organic soybean producers through the ARMS survey program.

*Question.* How would the amount of research and statistical information available for organic agriculture compare to that for other sectors of agriculture?

Answer. According to the World Trade Organization's International Trade Centre, certified organic products make up between 2 and 2.5 percent of total retail food sales in the United States. ARS research in direct support of organic agriculture is $18.4 million, or 1.4 percent of its total budget in fiscal year 2005. CSREES research in direct support of organic agriculture is $10.2 million or 0.8 percent of its total budget in fiscal year 2005.

The data on organic production has been relatively scarce, a situation that is being remedied with the ERS/NASS ARMS, and will also improve with the addition of questions to the 2007 Ag Census. With the increasing inclusion of questions on organic sales, acres and production practices relevant to organic producers, comparable data will be available on organic producers.

On the marketing side, data and statistics on organic agriculture are less available than for conventional products. Again, ERS has taken lead in increasing the amount of information available for some products and geographic markets, but until the Agricultural Marketing Service (AMS) adapts their price reporting to include more delineations for organic product lines, and explores how prices are discovered differently, for example through direct markets, little useful price information will be available to organic producers and marketing channel partners. AMS is currently making changes that will result in greater availability of marketing information on organic products.

*Question.* What are the organic agriculture's greatest areas of need for research and statistical information?

Answer. The research topics identified at the ARS Organic Agriculture Customer Workshop in January 2005 suggest where more research is needed in core areas of production, processing, resource management and economics. These topics include how organic production contributes to different aspects of food quality, safety and security, developing production systems to increase profitability, ways to manage and measure the health of soils, the environmental benefits from organic production

systems, ways to achieve the greatest productivity in organic production, the contributions of organic production to overall sustainability, genetic materials specific to organic production systems, and biologically-based strategies to manage diseases, weeds and insect pests.

A recent white paper on organic agriculture developed by CSREES identified a number of research priorities that will facilitate organic production. The research priorities include developing an improved understanding and management of soil fertility, pest management, livestock production and health; the development and evaluation of adapted cultivars and breeds, assessment of the long term impacts of whole-farm systems; the evaluation of the economic, business and social aspects of various organic production systems to improve grower returns, reduce market barriers, marketing strategies to increase consumer demand; the development of science-based information on which to base organic regulations, thereby assuring rational regulation, providing options to overcome current constraints, and assisting in overcoming the increasing number of complex, technical barriers to foreign trade; assessment of the production and processing practices for impact on consumer valuation of various attributes such as identifying: varieties with enhanced flavor and nutrition, improved practices to add value and enhance shelf life and quality, effects of production systems on product nutrition and quality, and mechanisms to minimize GMO contamination of organic products; and the identification of the marketing and policy constraints on the expansion of organic agriculture, especially among conventional growers who would otherwise transition to organic.

The high interest in, and widespread use of, data collected by the ERS on organic production scale and growth would suggest that any new data that can be collected on certified acres, including the detailed information collected in the Agricultural Resource Management Survey, would be a good investment. But, after consultation with the Economic Research Organic Work team, the true need is information on prices, marketing margins, marketing practices, trade data and other information that would allow for better research on competitiveness, profitability, emerging marketing trends and how the organic food market performs under its evolving growth and change in structure.

AVIAN FLU

*Question.* Please provide information on all current USDA research on highly pathogenic avian influenza. Please provide a brief description of the research topic, where it is being performed, and the funding history by fiscal year.

Answer. Avian influenza (AI) presents a major disease threat to the U.S. poultry industry. The recent highly publicized outbreak of H5N1 avian influenza (AI) in chickens and people in Hong Kong illustrates the potential public health concerns that may surface as a result of AI infections. In 1997, a deadly form of AI (H5N1) infected poultry farms and live poultry markets in Hong Kong and was associated with 18 hospitalized human cases, of which six died. More recently, a similar virus has been seen spreading in poultry throughout Asia and Europe and is occasionally infecting humans (approximately 200 cases and 100 deaths). Less pathogenic strains of avian influenza have caused problems in many U.S. turkey flocks and live poultry markets since the 1960's, although few commercial chicken flocks were involved. Because of research on AI viruses in recent years we now know that some viruses can rapidly change from causing only mild disease to ones that cause a deadly disease in chickens. It is likely that the longer a virus infects commercial poultry, the more likely it is to cause the severe form of the disease. This research seeks to understand the changes that are required for this shift in ability to cause disease. The research also seeks to control the presence of AI viruses in poultry by development of new and more effective vaccines and to develop tests to more rapidly diagnose infection in chickens.

It is crucial that we both seek ways to eradicate or control these AI viruses and to understand their potential for a virulence shift. The research takes several approaches to these goals including: identifying and evaluating the best vaccination approaches to control the disease; identifying the source(s) and family relationships of the viruses; characterizing the events leading to increase in virulence; characterizing the chicken's response to infection with AI viruses; and characterizing the factors that allow AI viruses to cross infect other species of animals. To aid in the detection and control of the virus, ARS developed and APHIS validated a rapid detection assay for Avian Influenza Virus (AIV), which is now widely deployed into the National Animal Health Laboratory Network.

For the control of low pathogenic AI outbreaks, vaccination is being more commonly considered, because it can potentially help control an outbreak at a lower cost than depopulation programs. At ARS, the use of currently available and new vac-

cination strategies are being investigated for the control of AI. Currently only two types of vaccines are available for use for AI, killed adjuvanted vaccines and fowlpox-vectored vaccines. Our research has shown that to get optimal protection from these vaccines, it is important to match the vaccine to the challenge strain. A better match of vaccines allows less virus to be shed from vaccinated but infected birds. Additional research has shown that when vaccination is used on a widespread basis antigenic drift, similar to what is seen with human influenza viruses, can be a problem for decreased effectiveness for the vaccine. Additional research has been focused on using viral-vectored or recombinant vaccines for AI including fowlpox vectored vaccines, replication incompetent alphavirus vectors, and Newcastle disease virus vectored vaccines. All three of these vaccines types have shown to provide protection from influenza challenge, and can provide the advantage of use as a DIVA (differentiate infected from vaccinated animals) vaccine. These vaccines are still being evaluated to determine if they have significant advantages over commercially available vaccines and can be produced in a cost-effective manner. Additional vaccine technologies, including the reverse genetics approach to create AI viruses that can also be used with the DIVA approach have also been shown to be effective.

To aid in the understanding of AI epidemiology, AI viruses received recently from U.S.A. (low pathogenic), Hong Kong, Italy, El Salvador, Chile, Netherlands, Indonesia, Viet Nam, and South Korea are being classified for disease causing potential. Research studies include molecular characterization related to the lethality of the viruses, the search for genetic markers for this lethality, and investigating the epidemiology and spread of the viruses. Pathogenic potential of the viruses is being assessed in disease free chickens held in biocontainment facilities. ARS is developing and evaluating techniques to predict which mild forms of viruses will change to more deadly forms of the AI virus. Furthermore, ARS is assisting the Centers for Disease Control and Prevention with evaluating recombinant vaccines to assure human vaccines will not cause disease in poultry.

With the supplemental funding received in fiscal year 2006, ARS plans to conduct the following:

—research on developing and validating existing and new vaccines to ensure that they can be distributed to domestic poultry or wild waterfowl before, during, or after an outbreak to help them build immunity and resistance to AI infection. In addition, ARS will provide direct support to the appropriate in-country counterparts in Asia for testing and evaluating different vaccine formulations via challenge studies; in addition to virus sequencing, cross hemagglutination inhibition titers, and neutralization titers.

—ARS with partners will develop rapid, State laboratory based or site-deployable tools and other assays that will allow rapid detection and classification of AI viruses. The tests will be accurate for detecting AI virus in various samples including birds (domestic and wild) and environmental specimens. The other assays will include: (1) development, bench validation and limited field validation of a real-time RT–PCR (RRT–PCR) for screening of wild birds for AI viruses; (2) microarray test development for AI virus classification; (3) more sensitive penside tests for avian influenza.

—genome sequencing of poultry outbreak and wild bird AI viruses in SEPRL archive and those obtained by on going surveillance, and characterize them biologically. ARS will sequence genomes and then mine the sequence data for viral evolution, relationships, and determinants of virulence as well as identify diagnostic sequences and potential vaccine antigens. Viruses will be studied to determine genomic changes that define host adaptation and specificity and changes necessary for AI viruses to cross to new avian and mammalian hosts.

—ARS with partners will conduct epidemiological studies to identify the risk factors for transmission of virus between farms and biosecurity mitigation steps to reduce transmission. In addition, targeted surveillance of wild birds and poultry at high risk for avian influenza will be conducted to assess risk of introduction to farms.

ARS supports APHIS and poultry industry action programs with epidemiology, molecular virology, pathogenesis research, and technical assistance on AI. ARS is directly assisting APHIS in trade negotiations of poultry products by determining the risk for low and high pathogenicity AI in poultry meat and the ability of pasteurization to inactivate AI in egg products.

The funding for Avian Influenza Disease research for fiscal years 2005, 2006 and 2007 are provided below for the record.

| | Fiscal year 2005 | Fiscal year 2006 | Fiscal year 2007 |
|---|---|---|---|
| Athens, GA | $2,171,200 | [1] $2,344,400 | $5,418,400 |

[1] Does not include the fiscal year 2006 supplemental funding of $7 million.

RENEWABLE ENERGY RESEARCH

*Question.* Please provide information on all current USDA research on renewable energy. Please provide a brief description on the research topic, where it is being performed, and the funding history by fiscal year.

Answer. Both the Agricultural Research Service (ARS) and the Cooperative State Research, Education, and Extension Service (CSREES) support renewable energy research. ARS, as the Department of Agriculture's in-house research agency, has a nationwide network of facilities and research scientists who conduct basic and applied research for the purpose of solving problems associated with regional and national high priority issues, including renewable fuels, affecting producers and consumers of U.S. agricultural products ARS cooperates closely with the Cooperative State Research, Education, and Extension Service (CSREES) and the university system.

ARS conducts a national Bioenergy and Energy Alternatives Research Program (http://www.ars.usda.gov/research/programs/programs.htm?NP__CODE=307), with the vision of meeting America's energy needs with renewable resources. The mission of this research addresses national goals of improving energy security, environmental quality, and the economy, with an emphasis on the rural economy. Major program goals include:

—Sustainable energy from agriculture that is energy efficient and economic.
—Understanding the recalcitrance of biomass.
—Exploiting the potential of molecular biology to improve quantity and quality of agricultural biomass feedstocks and to improve the effectiveness of conversion organisms.
—Matching the characteristics of biomass feedstocks with the requirements of conversion organisms.
—Devising value-added biofuel coproducts.
—Meeting on-farm and rural community energy needs for liquid fuel, electricity, and heat.
—Reduce energy cost for agricultural operations.

To achieve these goals, research is conducted from feedstock, including crops, crop residues, byproducts, and wastes, to fuel, including ethanol, biodiesel, biogas, and hydrogen. Examples include:

—Genetic modification of plants to improve the quality characteristics and increase the quantity of feedstock produced.
—Technology to sustainably produce and harvest the biomass, to efficiently handle, add value, store, and deliver the feedstock, and to quickly measure its quality at any point in the process.
—Technology for biological or thermochemical conversion of feedstock to fuel and coproducts. This includes processes, organisms, and product separation for energy efficient and economical application for use on-farm, in local community size plants, and in large biorefineries.
—Technology to improve quality, performance, and ease of using the biofuels produced.

Successful completion of the proposed work will promote the enhanced use of agricultural commodities by providing additional markets for farmers and for fuel producers. The public will benefit from reduced environmental pollution and enhanced energy security associated with using a domestic resource that reduces dependence on imported petroleum and improves the balance of trade. Outcomes and impact include:

—Successful and sustainable systems of bioenergy production
—Energy crops with greater yield and more desirable properties
—Energy efficient conversion of herbaceous crops and crop residue to ethanol
—Biodiesel with reduced emissions and better performance
—Less costly biofuels
—Distributed rural energy production for farm, rural community, and national needs
—Enhanced rural economy

With its nationwide capabilities in natural resources and sustainable agricultural systems, in quality and utilization of agricultural products, in crop production and management, and in animal production and management, ARS has the research capacity and is well positioned to lead and to partner with other Federal agencies,

States and private interests to develop energy efficient, economical, sustainable, and socially acceptable technologies to make agriculture energy independent and for agriculture to be a major supplier of energy for the Nation.

Components of ARS Bioenergy and Energy Alternatives Research are conducted at the following locations:

—Energy Crop research:
  —Western Regional Research Center, Albany, California:
    —Genetic manipulation to develop crops more easily converted to ethanol.
—Lincoln, Nebraska:
  —Grasses with improved biomass yield and quality and sustainable grass production management practices.
—St. Paul, Minnesota:
  —Legumes with improved biomass yield and quality and sustainable legume production management practices.
—Corvallis, Oregon; El Reno, Oklahoma; Mandan, North Dakota; Tifton, Georgia; and University Park, Pennsylvania:
  —Germplasm, physiology, and management technology for herbaceous energy crop production on agricultural lands managed for conservation.
—Madison, Wisconsin:
  —Harvesting, handling, storage, and characterizing quality of energy crops and plant residues.
—Ethanol research:
—Eastern Regional Research Center, Wyndmoor, Pennsylvania:
  —Process technologies and systems that reduce cost of ethanol production.
  —Environmentally sustainable processes to maximize ethanol yield from starch.
  —Processes for generating high value products from parts of corn not converted to ethanol.
  —Processes to integrate production of ethanol from stover and from grain.
—National Center for Agricultural Utilization Research, Peoria, Illinois:
  —Development of superior microbes and enzymes for conversion of agricultural commodities to ethanol.
  —Processes for conversion of cellulosic agricultural materials to ethanol.
  —Technologies to recover valuable coproducts during ethanol production.
—Western Regional Research Center, Albany, California:
  —Integration of plant molecular biology, genomics, bioinformatics, and plant transformation to produce ethanol from cereal crops.
  —Enzymes, which work at lower temperatures, to improve energy efficiency.
  —Biomaterial membranes that improve separation of water and ethanol.
—Richard B. Russell Research Center, Athens, Georgia:
  —Characterization of herbaceous plant parts suitable for conversion to ethanol.
  —Methods to evaluate plant material composition.
  —Enzymatic processes to extract carbohydrates from corn stover.
—Brookings, South Dakota:
  —Processes and products to enhance value of distillers dried grains.
  —Converting cellulosic ethanol by-products into value-added coproducts.
  —Processes that add value to cellulosic feedstocks on the farm.
—Biodiesel research:
—Eastern Regional Research Center, Wyndmoor, Pennsylvania:
  —Enzymatic processes to convert animal fats, vegetable oils and restaurant greases into biodiesel.
  —Burning of fats and oils as heating fuel.
—National Center for Agricultural Utilization Research, Peoria, Illinois:
  —Quality and performance, including storage stability, cold flow, and emissions reduction, of diesel fuels and additives produced from vegetable oils.
  —Use of biodiesel as aviation fuel.
—Bushland, Texas:
  —Performance and emissions of biodiesel as affected by feedstock.
  —On-farm biofuel production.
—Other renewable energy research:
—Beltsville, Maryland:
  —Production of electricity from animal manure via anaerobic digestion and use of the methane produced to generate electricity.
—Wyndmoor, Pennsylvania:
  —Thermo-chemical conversion of plant biomass to hydrogen.
—Peoria, Illinois:
  —Biological production of hydrogen.
—Bushland, Texas:

—Systems to provide renewable energy for on-farm and remote agricultural needs.

CSREES RENEWABLE ENERGY RESEARCH

CSREES with Hatch Act, McIntire-Stennis, Evans-Allen, National Research Initiative, Special Research Grants, and Federal Administration funding supports research projects focused on renewable energy. CSREES is the lead agency for the USDA Small Business Innovation Research Program. Funding for this program comes from CSREES and other USDA agencies and also supports projects on renewable energy. The majority of projects address technical obstacles to the cost-effective conversion biomass to energy. The majority of conversion technologies are biological or thermo/chemical conversion of vegetable oils, starches and lignocellulosic materials into biofuels. The information that is requested is listed below according to the funding authority.

*I. Competitive awards through the National Research Initiative*

(1) NOVEL BIOMASS PROCESSING CHEMISTRY
START: 01 September 2003.
COMPLETION DATE: 31 August 2006.
TOTAL BUDGET: $175,000.
PROJECT LOCATION: Institute of Paper Science And Technology, Atlanta, Georgia.
OBJECTIVES: The objective of this program is directed at using ionic liquid-based systems to develop novel oxidative/reductive chemistry that will fragment and convert lignin into high-value, low molecular weight chemicals that could be employed as a feedstock for the plastic and chemical industries. This research program will take advantage of recent advances in ionic liquids to develop new chemical reactions that will convert waste biomass lignin into high-value chemical components including phenol derivatives for adhesive/polymer industry, polycarboxylate derivatives that will be employed by the detergent and metal chelant industry and/or lignin fragments for polymer synthesis.

(2) PROCESS FOR XANTHOPHYLLS FROM CORN
START: November 2003.
COMPLETION DATE: 14 November 2006.
TOTAL BUDGET: $142,000.
PROJECT LOCATION: University of Illinois, Urbana, Illinois.
OBJECTIVES: The overall objective is to develop a process for the production of xanthophylls from corn using a combination of solvent extraction, membrane technology and chromatography. There are two specific objectives in this proposed research: (1) Screen membranes for their separation characteristics and stability in organic solvents, and optimize performance parameters of selected membranes for the concentration of xanthophylls extracted from corn. (2) Develop a method for producing high-purity xanthophylls by chromatography. This project benefits human health by creating a low-cost source of lutein and zeaxanthin. It also benefits the dry-grind ethanol industry by creating a high-value coproduct that can offset the need for tax waivers and subsidies. Xanthophylls can generate an income of $1–2 per bushel of corn which is 25–33 percent increase in net revenue with no additional materials coming in to the plant.

(3) GENETIC ENGINEERING OF YEAST FOR CO-FERMENTING ALL FIVE CELLULOSIC SUGARS TO ETHANOL
START: 01 September 2003.
COMPLETION DATE: 31 August 2005.
TOTAL BUDGET: $227,003.
PROJECT LOCATION: Purdue University, West Lafayette, Indiana.
OBJECTIVES: Researchers have developed recombinant Saccharomyces yeast that can effectively ferment xylose, a major sugar molecule in cellulosic biomass, to ethanol. The objective of this project is to make the yeast also able to effectively ferment other sugars in cellulosic biomass so that the engineered yeast can be more effective in using this ideal feedstock to produce fuel ethanol.

(4) SORGHUM AS A VIABLE RENEWABLE RESOURCE FOR BIOFUELS AND BIOBASED PRODUCTS—SHORT TITLE: SORGHUM BIOCONVERSION RESEARCH (SBR)
START: 01 September 2004.
COMPLETION DATE: 31 August 2007.
TOTAL BUDGET: $450,000.
PROJECT LOCATION: Kansas State University, Manhattan, Kansas.

OBJECTIVES: Identify hybrids, and elite germplasm, with genetic variation for a range of selected compositional characteristics (starch, starch type, hardness, protein, grain phenotype, etc). Develop a coordinated understanding of the relationship among composition, chemical structure, physical features, and the availability of fermentable/usable-stored glucose (starch). Expand a demonstrated micro-fermentation system to allow higher-throughout screening of test samples, and test conditions, for the production of ethanol and lactic acid. Integrate the results from the above experiments to determine the impact of compositional, structural, and physical factors on the efficiency of bioprocessing, and to identify the key interactions impacting fermentation yield from sorghum grain. Create an Energy Life Cycle Analysis Model to quantify and prioritize the savings potential from factors identified in the above research, based on both energy and economics.

(5) PROTEOMIC ANALYSIS OF ETHANOL SENSITIVITY AND TOLERANCE IN THERMOPHILIC AND ANAEROBIC BACTERIA
START: 01 September 2004.
COMPLETION DATE: 31 August 2006.
TOTAL BUDGET: $330,000.
PROJECT LOCATION: University Of Kentucky, Lexington, Kentucky.
OBJECTIVES: The specific objectives are to: Characterize alterations in the proteomic profile of C. thermocellum and T. ethanolicus in response to ethanol challenge. Determine the proteomic profile of ethanol resistant strains. Examine if proteomic changes elicited by ethanol are similar to those caused by environmental stresses including temperature, pH, and organic solvents. Evaluate alternative approaches to identify and quantify changes in proteomes of thermophilic bacteria.

(6) AN INTEGRATED APPROACH TO REDUCED RISK OF PHOSPHORUS POLLUTION OF SURFACE WATERS IN CROP-LIVESTOCK BASED MANAGED ECOSYSTEMS OF THE MIDWEST
START: 15 August 2005.
COMPLETION DATE: 14 August 2009.
TOTAL BUDGET: $490,000.
PROJECT LOCATION: Nebraska Corn Development, Utilization and Marketing Board Lincoln, Nebraska
OBJECTIVES: Develop methods for removing phosphorus (P) from corn milling by-products, or improving P availability through while minimizing the loss of feed value for ruminants and for enzymatic degradation of phytate to P to produce value added products such as inositol, inositol phosphates and struvites. Develop a decision tool on the cost effectiveness of composting livestock manure to improve the economics of transporting manure greater distances to more land for agronomically and environmental sound application rates. Determine the effects of manure applied several years previously, of deep incorporation of surface soil with excessively high soil P, and the effects of setback alternatives on the potential for P delivery to surface waters. Validate and calibrate a watershed characterization model and two P-indexes for assessment of the potential for P delivery to surface waters. Provide education to various stake-holders on P related issues.

(7) LIGNIN BLOCKERS FOR LOWER COST ENZYMATIC HYDROLYSIS OF PRETREATED CELLULOSE
START: 01 September 2004.
COMPLETION DATE: 31 August 2007.
TOTAL BUDGET: $401,000.
PROJECT LOCATION: Thayer School of Engineering, Hanover, New Hampshire.
OBJECTIVES: The primary goal is to more fully develop lignin blocker technology for biological conversion of pretreated cellulosic biomass to glucose that can be converted to ethanol and a range of other products either biologically or chemically. In particular, to understand and apply lignin blockers to reduce enzyme loadings and costs for enzymatic digestion of pretreated cellulose to glucose. The first objective of the research is to screen different soluble proteins and other promising compounds not yet considered with pretreated biomass to define a library of promising lignin blockers that could reduce cellulase loadings and costs. The second objective is to measure cellulase and blocker adsorption and desorption when applied with different lignin blockers and cellulase addition strategies and pretreatment conditions. The third objective is to define the impact of the most promising lignin blockers on enzymatic hydrolysis of pretreated cellulose to determine how performance of the system is influenced by amounts of lignin blocker, cellulase, cellulose, and lignin; temperature; pH; glucose accumulation; beta-glucosidase supplementation; and ingredient addition strategies. The fourth objective is to investigate the performance of the most promising lignin blockers when used with pretreated cel-

lulose in simultaneous saccharification and fermentation (SSF) to define the impact on performance versus cellulase use because SSF eliminates equipment and speeds rates, yields, and concentrations of ethanol production while inhibiting invasion by unwanted organisms. The final objective is to develop models to relate enzymatic hydrolysis rates and yields to concentrations of lignin blockers and cellulase; the cellulose, lignin, and other component content of pretreated biomass; process conditions; and the use of other ingredients (e.g., supplemental beta-glucosidase). This research element will focus on improving the understanding of how adsorption and desorption of lignin blockers and cellulase are influenced by processing conditions and how they in turn affect the performance of hydrolysis systems and use that information to project pathways to further improve performance

(8) NOVEL MEMBRANE TECHNOLOGY FOR VOLATILE BIOPRODUCT RECOVERY FROM FERMENTATION BROTHS
START: 01 September 2003.
COMPLETION DATE: 31 August 2006.
TOTAL BUDGET: $168,700.
PROJECT LOCATION: New Jersey Institute of Technology, Newark, New Jersey.
OBJECTIVES: Develop a novel composite membrane system from surface modified porous hydrophobic polypropylene (PP) hollow fibers and an appropriate liquid membrane in the macropores of the PP hollow fibers and determine their separation performances from model solutions of individual bioproducts, such as butanol, ethanol, acetic acid, propionic acid and butyric acid under the influence of permeate side vacuum. Study a batch fermentation system externally coupled with the novel membrane device and total broth recycle for the production and recovery of acetone, butanol and ethanol (ABE) from Clostridium acetobutylicum. Study batch fermentation also with total broth recycle for the production and recovery of propionic acid.

(9) BEYOND THE BARRIER: ETHANOL FROM LIGNOCELLULOSIC BIOMASS USING METABOLIC ENGINEERING
START: 01 SEP 2004.
COMPLETION DATE: 31 AUG 2007.
TOTAL BUDGET: $451,000.
PROJECT LOCATION: North Carolina State University, Raleigh, North Carolina.
OBJECTIVES: The main objective is to use genetically engineered lignocellulosics as the feedstock for fuel ethanol production. Produce desirable transgenic trees for ethanol conversion. Establish systems for high throughput, micro-scale component analysis of treatment streams. Determine the chemical and enzymatic digestibility of the transgenic materials and their ability to ferment ethanol, with the emphasis of using Novozyme's efficient, low cost cellulase cocktail. Perform cost versus performance studies of sugar/ethanol production from transgenics with diminished recalcitrance.

(10) ECONOMIC IMPACTS FROM INCREASED COMPETING DEMANDS FOR AGRICULTURAL FEEDSTOCKS TO PRODUCE BIOENERGY & BIOPRODUCTS
START: 15 August 2003.
COMPLETION DATE: 31 August 2006.
TOTAL BUDGET: $136,000.
PROJECT LOCATION: University of Tennessee, Knoxville, Tennessee.
OBJECTIVES: The overall objective of this proposed project is to develop a national bioenergy and bioproduct expansion curve. As bioenergy and bioproduct production increases, demand for, and price of agricultural products will increase. This analysis will quantify these expected increases considering various demand quantities of bioenergy and bioproducts.

(11) REGULATION OF N-ACYLETHANOLAMINE METABOLISM IN SEEDS
START: 01 September 2002.
COMPLETION DATE: 30 September 2006.
TOTAL BUDGET: $145,000.
PROJECT LOCATION: University of North Texas, Denton, Texas.
OBJECTIVES: We propose to continue our efforts to examine the catabolism of N-acylphosphatidylethanolamine (NAPE) and N-acylethanolamine (NAE) in plants. Our approach is targeted toward the functional characterization of candidate NAE amidohydrolase(s) from several plant sources (Arabidopsis thaliana, Medicago truncatula and cotton) as well as a detailed characterization of several putative NAPE-phospholipase D(s) identified in germinated cottonseeds. The overall goal will be to place this new biochemical and molecular information into the physiological context of seed development, germination and seedling growth, stages determined previously to be active in NAPE/NAE metabolism, in an effort to improve our under-

standing of the role(s) of this pathway in plants. Specifically, to (1) functionally identify and biochemically characterize plant NAE amidohydrolase(s) (or fatty acid amide hydrolase, FAAH), (2) functionally identify and biochemically characterize seed-derived NAPE-phospholipase D(s), and (3) evaluate NAE amidohydrolase and NAPE-phospholipase D expression during seed development, desiccation, imbibition, germination, and seedling growth.

(12) VAPOR PHASE BIOREACTORS TO TREAT AIR POLLUTANTS EMITTED FROM CORN-BASED ETHANOL PRODUCTION FACILITIES
START: 01 September 2003.
COMPLETION DATE: 31 August 2006.
TOTAL BUDGET: $178,500.
PROJECT LOCATION: University of Texas, Austin, Texas.
OBJECTIVES: The primary objective of the project is to develop a vapor phase bioreactor system specifically optimized to treat the hazardous air pollutants (HAPs) and volatile organic compounds (VOCs) emitted from corn-derived ethanol production facilities. Specific objectives include: (1) Assess the biodegradability of VOC/HAP mixtures representative of those emitted from ethanol production facilities; (2) Evaluate the effect of key operating parameters on pollutant removal in vapor phase bioreactors treating ethanol plant emissions; (3) Evaluate the feasibility of using a hybrid biofilter/biotrickling filter system to treat plant emissions.

(13) QUANTITATIVE ASSESSMENT OF CARBOHYDRATE, LIGNIN AND EXTRACTIVE DEGRADATION PRODUCTS IN PRETREATED LIGNOCELLULOSE
START: 01 September 2003.
COMPLETION DATE: 31 August 2006.
TOTAL BUDGET: $175,000.
PROJECT LOCATION: Baylor University, Waco, Texas.
OBJECTIVES: The overall project goal is to improve fundamental quantitative understanding of the effect of pretreatment conditions on the production of a wide range of hydrolysate degradation products. Objectives to achieve this goal are to: (1) Develop a Liquid Chromatography-Mass Spectrometry method that will quantify diverse biomass degradation products and (2) Correlate product concentrations with pretreatment conditions of temperature, reaction time, pH, severity, and combined severity.

(14) CELLULASES FOR BIOMASS CONVERSION FROM TRANSPLATOMIC PLANTS
START: 01 September 2005.
COMPLETION DATE: 31 August 2008.
TOTAL BUDGET: $399,963.
PROJECT LOCATION: University of Wisconsin, Madison, Wisconsin.
OBJECTIVES: Enhance translation efficiency leading to higher expression levels through N-terminal extension addition to three different cellobiohydrolases. Compare the efficiency of expression of the three enzymes at the trnI/A locus and trnG/fM locus. Combine chloroplast-derived cellobiohydrolase expression with existing nuclear-derived E1cd endoglucanase expression through breeding.

(15) PHOTOSYSTEM I NANOSCALE PHOTODIODES FOR CREATING PHOTOELECTROCHEMICAL DEVICES
START: 01 December 2004.
COMPLETION DATE: 30 November 2006.
TOTAL BUDGET: $165,000.
PROJECT LOCATION: Vanderbilt University, Nashville, Tennessee.
OBJECTIVES: This project will utilize nanoscale components from green plants for solar energy conversion, exemplifying the use of natural resources to promote responsible environmental stewardship by providing alternative, biobased energy resources for our society. The overall objective of this project is to create an environmentally clean and biologically inspired photoelectrochemical device that incorporates one of nature's optimized nanoscale photodiodes, the Photosystem I (PSI) reaction center.

*II. Competitive awards through the Small Business Innovative Research Program*

*Processing of Poultry Manure for Fuel Gas Production.*—Advanced Fuel Research, Inc., East Hartford, CT, $79,849/6 months. The objective of this phase I research is to convert poultry manure into a usable syngas fuel. Project completed, received phase II in 2005.

*Modified Soybean Oil as a Deposit Control Fuel Additive.*—Mountain View Systems, LLC, Canfield, OH, $80,000/6 months. This phase I project seeks to produce

a fuel additive from soybean oil that will enhance the performance of biofuels by reducing deleterious deposits formed by biofuel combustion in engines. Project is ongoing with an extension.

*Improved Quality Soy-oil Based Biodiesel Fuel.*—BioPlastic Polymers and Composites, LLC, Midland, MI, $40,000/6 months. The goal of this phase I project is to improve the process for converting soybean oil into biodiesel fuel. Project completed, received Phase II in 2005.

*Cellulases for Biomass Conversion from the Transgenic Maize System.*—Prodigene, Inc., College Station, TX, $296,000/24 months. The enzymatic conversion of biomass is limited by the availability and expense of enzymatic catalysts. This phase II project seeks to develop an economically feasible method for producing cellulases in industrial scale quantities with reduced cost. Project is ongoing.

Fiscal year 2005 projects:

*Biosolids for Biodiesel.*—Emerald Ranches, Sunnyside, WA, $295,606/24 months. The goal of this Phase II project is to set up a facility that is capable of extracting oil from canola seed and transforming the oil into biodiesel fuel through a base catalyzed esterification reaction. Project is ongoing.

*A New Process for Biodiesel Production Based on Waste Cooking Oils and Heterogeneous Catalysts.*—United Environment & Energy, LLC, Orchard Park, NY, $80,000/8 months. The overall objective of this Phase I project is to study the feasibility of a proposed new process for cost-effective production of high value biodiesel from waste cooking oils. Project completed, applied for Phase II in 2006, pending.

*Improved Quality Soy-Oil Based Biodiesel Fuel.*—Bioplastic Polymers & Composites, LLC, Midland, MI, $296,000/24 months. The overall objective of this Phase II project is to produce biodiesel from fats and vegetable oils that has better low temperatures flow properties, such as lower viscosity, is more volatile, and is more resistant to thermal breakdown than current biodiesels. Project is ongoing.

*Lignin-based Polymeric Materials from Byproduct of Biomass Conversion.*—NaSource Company, Newbury Park, CA, $80,000/8 months. The conversion of agricultural biomass to biofuels produces a waste stream of materials that require further conversion to create value-added products and improve the economics of fuel production. The objective of this Phase I project is to chemically modify certain waste stream components to produce lignin-based plastics. Project is ongoing with an extension.

*Processing of Poultry Manure for Fuel Gas Production.*—Advanced Fuel Research, Inc., East Hartford, CT, $296,000/24 months. The objective of this Phase II project is to develop the technology for converting poultry manure into combustible gases that can be integrated with various electrical power generation devices and have widespread agricultural use for poultry manure removal, resource recovery, and power generation. Project is ongoing.

*Improved Anaerobic Digestion of Dairy Manure for Energy and High-value Co-products.*—Andgar Corporation Ferndale, WA, $80,000/8 months. This Phase I project seeks to develop the anaerobic digestion technology to convert manure produced by dairy cows into biogas and high-quality, value-added fiber. Project is ongoing with an extension.

*Camelina Sativa.*—A Multiuse Oil Crop for Biofuel, Omega-3 Cooking Oil, and Protein/oil Source for Animal Feed: Great Northern Growers Cooperative, Sunburst, MT, $80,000/8 months. The objective of this Phase I project is to evaluate a new crop for the Northern Plains States that is suitable for economic conversion into biodiesel, biolubricants, and an omega-3 fatty acid-rich cooking oil for human consumption. Project is completed, applied for Phase II in 2006, and is pending.

—*High Yield, High Efficiency Bio-refining.*—Advanced Materials and Processes, San Marcos, TX, $79,966/8 months. The objective of this Phase I project is to develop technology to improve yields in vegetable oil processing by extracting fatty acids from vegetable oils and biodiesel without creating emulsions. Project is completed, applied for Phase II in 2006, and is pending.

—*Ultra-Clean Mobile Incinerator for Chicken Litter/Waste Disposal.*—Mel McLaughlin Company, Upper Marlboro, MD, $80,000/8 months, The objective of this phase I is to validate the feasibility of the ultra-clean mobile incinerator for chicken litter/waste disposal. Project is completed, applied for Phase II in 2006, and is pending.

—*Cost Effective and Reliable Anaerobic Digestion for Agricultural Byproducts.*—Hansen Energy and Environmental, East Garland, UT, $80,000/8 months. The objective of this phase I project is to study an anaerobic induced blanket reactor (IBR) system and verify performance for treating manure and food waste economically. Project is completed, applied for Phase II in 2006, and is pending.

*III. Special Research Grants and Federal Administration Research grants*

(1) IOWA BIOTECHNOLOGY CONSORTIUM

The primary goal of this project is to conduct fundamental and applied research aimed at enhancing the recovery and utilization of by-product materials from new and emerging biotechnology industries, with emphasis on agribusiness. Grants have been awarded from funds appropriated as follows: fiscal year 1989, $1,225,000; fiscal year 1990, $1,593,000; fiscal year 1991, $1,756,000; fiscal year 1992, $1,953,000; fiscal year 1993, $2,000,000; fiscal year 1994, $1,880,000; fiscal years 1995–1996, $1,792,000 each year; fiscal year 1997, $1,738,000; fiscal years 1998–2000, $1,564,000 each year; fiscal year 2001, $1,560,559; fiscal year 2002, $1,530,000; fiscal year 2003, $1,753,528; fiscal year 2004, $1,789,380; fiscal year 2005, $1,774,688; and fiscal year 2006, $1,757,250. A total of $30,586,405 has been appropriated. Research is being conducted at Iowa State University, the University of Iowa, and various sites throughout Iowa.

(2) FEEDSTOCK CONVERSION

The original goal of this research was to develop the mission of the Sun Grant Initiative, to identify five leading universities as regional centers, to plan individual and collaborative activities at each center, and to establish a working relationship between these universities and Federal agencies. The work supported by this grant began in fiscal year 2002, and the appropriation was $560,000 in fiscal year 2002; $556,360 in fiscal year 2003; $671,017 in fiscal year 2004; $667,616 in fiscal years 2005; and $668,250 in fiscal year 2006. A total of $3,123,243 has been appropriated. Research is conducted at South Dakota State University at Brookings, Cornell University at Ithaca, University of Tennessee at Knoxville, Oklahoma State University at Stillwater, and Oregon State University at Corvallis. The anticipated completion date for fiscal year 2005 funds is September 30, 2006.

(3) BIODESIGN AND PROCESSING RESEARCH CENTER

The Center will address economic viability of farmers, and will include conversion of agricultural wastes to value-added products. The Center will also provide educational and outreach programming for students, farmers, woodland owners and processors in the region. During the first year of this project, research will focus on converting animal waste to energy, as a strategy for animal waste management. The appropriation for fiscal year 2006 is $940,500. The Center is located at Virginia Polytechnic Institute and State University, Blacksburg, Virginia. This project will be completed in fiscal year 2009.

(4) BIOMASS-BASED ENERGY RESEARCH

This research addresses conversion of biomass to ethanol, and chemicals. Through an Oklahoma State University, University of Oklahoma, and Mississippi State University Consortium, the three universities are developing an ethanol gasification-bioconversion process that utilizes all of the plant biomass, including the lignin. While making the process more cost efficient than other methods of ethanol production, this process utilizes all portions of a variety of biomass and feedstock material that includes grasses, crop residues, and processing plant byproducts. The primary goal is to develop a cost-effective biomass conversion-to-ethanol production system utilizing a unique gasification-fermentation process. The work supported by this grant began in fiscal year 2001, and the appropriation for fiscal year 2001 was $900,016; for fiscal year 2002, $960,000; for fiscal year 2003, $1,142,525; for fiscal year 2004, $1,022,929; for fiscal year 2005, $1,014,816; for fiscal year 2006, $1,188,000. The total amount appropriated is $6,228,286. This work is carried out at Oklahoma State University, University of Oklahoma, and Mississippi State University. This project is expected to be completed in 3 years.

(5) INSTITUTE FOR BIOBASED PRODUCTS AND FOOD SCIENCE

The Biobased Institute funds research projects that increase profitability of agriculture, enhance human health through improved nutrition, and reduce reliance on non-renewable energy by production of biofuels, ethanol and biolubricants. Research activities include producing ethanol from biomass, and reducing the cost of producing biodiesel. Technology transfer collaborations have been set up to ensure efficient transfer to the marketplace for all products under development at the Institute. The funding for this project began in fiscal year 2003, and $596,100 was appropriated for fiscal year 2003; $532,838 for fiscal year 2004; $562,464 for fiscal year 2005; $557,370 for fiscal year 2006. A total of $2,248,772 has been appropriated. Currently this work is being carried out at Montana State University.

(6) ALTERNATIVE FUELS CHARACTERIZATION LABORATORY

Through a national collaboration, the National Alternative Fuels Laboratory matches about half of its Federal funding with non-Federal money to work on industry fuel relevant research. The National Alternative Fuels Laboratory has developed a Federal Aviation Administration-certified lead-free ethanol- and biodiesel-containing alternative to leaded aviation gasoline. The fuel is now commercially available in South Dakota and will be introduced at airports throughout the United States in response to increasing demand. They have resolved ethanol-in-gasoline performance and environmental issues to accelerate the use of ethanol, and they have initiated new biomass fuel developments, including processes, to produce Environmental Protection Agency-approved, high-octane, emission-clean gasoline additives from agricultural resources. In addition, they have initiated and coordinated a 27-member Red River Valley Clean Cities Coalition to increase the number of alternative fuel vehicles in regional public and private fleets and have built refueling sites for disbursing fuels containing 85 percent of ethanol in North Dakota. The primary goal was to develop a database of at-the-pump-sampled conventional, reformulated, and alternative transportation fuels sold in the upper Midwest and throughout the United States to enable comparison of current and historical fuels on the basis of chemical and physical properties. This fuel database has been expanded to include how gasoline chemistry affects air quality and fuel performance. The goal of developing nonfuel products derivable from bio-oils generated via fast pyrolysis of lignocellulosic biomass was achieved during fiscal year 2005. Another original goal was to provide information on conversion of crop residues, agriculture processing wastes, high-cellulose-content municipal wastes, and other biomass materials to alternative fuels. The National Alternative Fuels Laboratory program supported the Red River Valley Clean Cities Coalition, conducted chassis dynamometer tests comparing three major brand E10 gasoline and one E8 fuel, and collaborated with the American Lung Association of Minnesota to assess the greenhouse gas reduction potential of E85 fuel.

The National Alternative Fuels Laboratory began in fiscal year 1991 and was, in part, sponsored by this grant. Federal appropriations in fiscal year 1991 through fiscal year 1993 were $250,000 per year. Later awards were $235,000 in fiscal year 1994; $204,000 in fiscal year 1995; $218,000 per year in fiscal years 1996 through 2000; $258,430 in fiscal year 2001; $294,000 in fiscal year 2002; $300,037 in fiscal year 2003; $268,407 for fiscal year 2004; $281,728 in fiscal year 2005; and $279,180 in fiscal year 2006. A total of $3,960,782 has been appropriated. The work is performed at the University of North Dakota Energy and Environmental Research Center in Grand Forks.

(7) AGRICULTURE WASTE UTILIZATION

The original goal was to determine the applicability of anaerobic digestion to convert organic waste materials to energy in the form of biogas, thereby reducing the amount of organic matter for disposal. The goal has gone beyond the testing of waste materials in the digester and proceeded with a program to determine pathogen reduction by anaerobic digestion and to economically use the digested sludge. The subsequent goal is to manage the remaining solids from anaerobic digestion in an environmentally-sound manner. This research indicates that for at least cryptosporidium parvum, the thermophilic temperature and the anaerobic digestion process are critical in the inactivation of the organism. Field trials of using digester solids for potatoes and broccoli showed significant increases in growth over the control experiment. The work supported by this grant began in fiscal year 1998, and the appropriation for fiscal year 1998 was $360,000; for fiscal year 1999, $250,000; for fiscal year 2000, $425,000; for fiscal year 2001, $494,909; for fiscal year 2002, $600,000; for fiscal year 2003, $685,515; for fiscal year 2004, $617,336; for fiscal year 2005, $648,768; and for fiscal year 2006, $683,100. A total of $4,764,628 has been appropriated. Research is conducted at West Virginia State College, Institute. The principal researchers anticipate the work for this project will be completed in 2006.

(8) MICHIGAN BIOTECHNOLGY INSTITUTE

The goal of this research is to select and develop market-viable technologies for the production of industrial products from agricultural raw materials, and to accelerate development of product and related technologies that are critical to the sustainability of the agricultural and rural economy. Accomplishments for 2005 include optimization of Ammonia Fiber Explosion treatment for conversion of crop residues for maximum recovery of glucose and xylose sugars, improved extraction of protein from distillers grains and switchgrass using an aqueous ammonia process; and identification and cloning of two genes for enhancing succinic acid production from glyc-

erol-containing waste streams. Demonstrations of technology occur throughout the United States. The work supported by this grant began in fiscal year 1989, and the following amounts have been appropriated: in fiscal year 1989, $1,750,000; in fiscal year 1990, $2,160,000; in fiscal year 1991, $2,246,000; in fiscal years 1992–1993, $2,358,000 per year; in fiscal year 1994, $2,217,000; in fiscal year 1995, $1,995,000; in fiscal years 1996 and 1997, $750,000 per year; in fiscal years 1998–2000, $675,000 per year; in fiscal year 2001, $723,405; in fiscal year 2002, $481,000, in fiscal year 2003, $623,918; in fiscal year 2004, $558,684; in fiscal year 2005, $554,528; and in fiscal year 2006, $549,450. A total of $22,099,985 has been appropriated. The research is being conducted on the campus of Michigan State University and at the Michigan Biotechnology Institute. Current objectives are expected to be completed in fiscal year 2007.

*IV. Hatch Act, McIntire-Stennis, and Evans-Allen Projects, the formula funded projects include about 40 projects with a renewable energy component for a total amount of approximately $1.3 million for fiscal year 2005. However, the fifteen projects described below were selected for their innovative and cutting edge technologies that complement the portfolio of projects supported through competitive grant programs.*

*A. FUEL CELLS, HYDROGEN*

(1) SYSTEMS FOR BIOLOGICAL PRODUCTION OF HYDROGEN GAS, fiscal years 2004–2008, Oregon State University, Corvallis, Oregon:

The purpose of this project is to develop bacterial strains to produce hydrogen efficiently and sustainably at high rates. Mutant strains of Clostridium acetobutylicum and a hydrogen detection method have been developed. Using microorganisms to produce hydrogen from water, using sunlight as an energy source, or from renewable carbonaceous materials, can contribute to meeting

(2) HYDROGEN FUEL PATHWAYS FOR TRANSPORTATION IN CALIFORNIA, fiscal years 2003–2008, University of California, Davis, California:

Decisions on how to proceed with the use of hydrogen as the fuel of the future, will have profound implications for the economy and for society. This project addresses decision-making based on sound knowledge from a wide variety of disciplines. The primary focus is the manufacture, storage and distribution of hydrogen for use in fuel cell vehicles. On-going research includes developing lifecycle environmental analysis models, innovative approaches to measure potential demand for hydrogen vehicles and designs for hydrogen energy stations. The outcome will be a set of tools and a body of knowledge to inform public sector debates and private sector investments.

(3) BIOENERGY BASED ELECTRICAL SYSTEMS AND THEIR SAFE, EFFICIENT APPLICATIONS, fiscal years 2003–2008, Michigan State University, East Lansing, Michigan:

The purpose of this study is to develop specifications for installation and economic analysis of alternative systems to convert biogas to electrical energy. A coalition of organizations has been formed to address the conversion of livestock biomass to energy in stationary fuel cells. Proposals have been submitted to the National Electrical Code to address inadequate rules for the installation of the direct current portion of renewable energy production systems. If proposals are accepted, the result will be practical and safe rules.

(4) FEASIBILITY STUDY TO ANALYZE THE ECONOMIC VALUE PROPOSAITON AND RELATED MARKETING STRATEGY FOR A MODULAR, PRESSURIZED ANAEROBIC DIGESTION, fiscal years 2004–2005, Cornell University, Ithaca, New York:

Biogas, i.e. methane, from traditional anaerobic digestion technology is typically produced at atmospheric pressure, with little attempt made to harness this energy source for compressed natural gas or for application to fuel cells for stationary power generation. A novel design for producing biogas has been developed that delivers pure and compressed biogas that is promising for these applications. The current focus is on evaluating the commercial potential of this new technology for New York State dairy farms, and for farming economics and public policy. This technology offers a sustainable strategy to problems associated with animal manure management.

*B. AGRICULTURAL RESIDUES, WASTES*

(1) BIOFUELS PRODUCTION FROM COTTON GIN WASTE AND RECYCLED PAPER SLUDGE, fiscal years 2005–2010, Virginia Polytechnic Institute, Blacksburg, VA:

Cotton gin waste can potentially be used ethanol production. Unlike other lignocellulosic feedstocks, this material is concentrated at the processing sites and therefore harvesting and transportation costs are considerably less than those for other agricultural and forestry residues. This project is developing an in situ detoxification process for the bioconversion of cotton gin waste and recycled paper sludge mixture into ethanol at high yields. Processing of agricultural residues is a value-added activity and will assist in implementing new ethanol production capacity in the southern United States.

(2) BIOLOGICAL CONVERSION OF CROP RESIDUES TO FUELS AND CHEMICALS, fiscal years 2005–2008, North Carolina A&T State University, Greensboro, North Carolina:

This project addresses the biological conversion of crop residues to ethanol, hydrogen and succinic acid. Pretreatment steps include physical and chemical treatment followed by enzymatic hydrolysis and anaerobic fermentation. Economic and environmental evaluations will be conducted to validate commercialization potential.

(3) ANEROBIC DIGESTION OF AGRICULTURAL AND FOOD WASTE BIOMASS FOR THE EFFICIENT PRODUCTION OF HIGH QUALITY BIOGAS, fiscal years 2004–2008, Ohio State University, Wooster, Ohio:

This research is developing a laboratory scale anaerobic digestion system to determine the metabolic and nutritional requirement of digesters for efficient conversion of diverse biomass feedstocks to biogas energy. Feedstocks used include dairy cattle manure, corn and potato based snack foods and corn silage. Biogas production must be clean and reliable for process heat, combustion or turbine engines, or solid-oxide fuel cells. A closed anaerobic digestion system of agricultural wastes offer the opportunity to produce a clean form of fuel, methane and/or hydrogen, with minimal environmental emissions of ammonia, methane and fossil fuel based carbon dioxide.

(4) PROCESSING OF NON-TRADITIONAL AGRICULTURAL MATERIALS FOR VALUE-ADDED UTILIZATION, fiscal years 2004–2009, Auburn University, Auburn Alabama:

The purpose of this project is to develop procedure and methodology for the pelleting of poultry litter and energy crops, and to quantify the storage and handling of the manufactured pellets. This project is also testing the pelleted materials as a biofuel in a pellet furnace. Results to date indicate that energy saving up to 30 percent can be obtained with the use of a biofuel furnace in a greenhouse. The ash obtained from pellet combustion has value as s substrate component. Pelleted biofuels provide obvious environmental benefits such as use of wastes from agro-processing, reduced greenhouse gas emissions and potential on-site generation of fuel.

(5) MICROBIAL CONVERSION OF AGRICULTURAL WASTES TO ELECTRICITY, fiscal years 2003–2004, University of Massachusetts, Amherst, Massachusetts:

The purpose of this study is to determine whether a microbe-electrode system could be used to degrade compounds that are an odor or environmental concern in animal wastes and at the same time provide electrical power that could be applied to farm operations. Fuel cells inoculated with swine waste have been shown to produce less methane and to eliminate butyrate faster than controls. Ongoing research will define under what conditions organic loads are lessened by the presence of electrodes in both fuel cell and potentiostat mode. In addition, analysis of the microbial community associated with the graphite electrodes will provide further insight into the mechanism of swine waste treatment.

*C. NEW ENERGY CROPS*

(1) CARBON AND NITROGEN CYCLING AND MANAGEMENT IN ALTERNATIVE CROPPING SYSTEMS, fiscal years 2004–2007, Washington State University, Pullman, Washington:

Agricultural activities impact nitrate contamination of groundwater and particulate emissions. Alternative cropping systems can lessen negative impacts and expand environmental benefits. This project includes determining the biomass production and partitioning of Giant Reed, Arundo donax, at rain-fed and irrigated locations in Washington State. Results to date show biomass production potential great-

er than 20 dry tons per acre in the second year, with hemicellulose and cellulose contents similar to other grasses. Variations in wheat cultivars and exotic species are being evaluated to identify economically and environmentally sound cropping options for supplying bioenergy feedstocks.

(2) AGRICULTURAL AND ENVIRONMENTAL BENEFITS FROM ENERGY, FIBER AND FORAGE CROPS IN ALABAMA, fiscal years 2003–2008, Auburn University, Auburn, Alabama:

This project addresses biomass crops and cropping-livestock production systems to realize agricultural and environmental benefits for the southeastern United States. Small plot experiments are underway and include switchgrass, mimosa, giant reed, fescue, ryegrass, and a comparison of productivity of goats and stocker cattle. This research will lead to commercialization of bioenergy in Alabama, especially co-firing biomass with coal to produce electricity.

(3) SUGARCANE IMPROVEMENT FOR ARID, ALKALINE ENVIRONMENTS, fiscal years 2000–2006, Texas A&M University, College Station, Texas:

This project is developing sugarcane as an energy crop through a conventional breeding and genetic engineering program. Sugarcane has been crossed with Miscanthus, a perennial grass that is promising as an energy crop, and has cold resistance and good fiber quality. New sugarcane varieties will allow the grower to increase production, reduce costs, and expand into the renewable energy market.

*D. COMMODITY ENERGY CROPS*

(1) VALUE-ADDED PRODUCTS FORM AGRICULTURAL COMMODITIES, fiscal years 2004–2009, Purdue University, West Lafayette, Indiana:

This research is addressing the use of mixtures of soybean methyl esters, i.e. biodiesel, with jet fuel, quantifying the physical properties and measuring turbine jet engine combustion performance and emissions. Aviation jet fuels are a unique energy fuel market due to the critical nature of fuel weight/energy density required for jet flight. A key performance limitation of soy methyl esters is the very low freezing point required for jet fuel. This project has developed a fractionation technology that removes the saturated components to produce workable fuel blends with existing jet fuels. The byproduct of biodiesel production is glycerin. This project is also evaluating the use of glycerin for aviation deicers to replace ethylene/propylene glycol deicers. The fractionation process and glycerin deicer product are being patented and Purdue is working with industrial partners to commercialize the technologies.

*E. ECONOMICS*

(1) ECONOMIC ASSESSMENT OF CHANGES IN TRADE ARRANGEMENTS, BIOTERRORISM THREATS AND RENEWBLE FUELS RQUIREMENT IN THE U.S. GRAIN AND OILSEED SECTOR, fiscal years 2004–2009, Iowa State University, Ames, Iowa:

This project includes analyzing the effect of U.S. renewable energy programs as one of several factors that affect international trade and markets for corn, soybeans, and wheat. The impacts of energy policy changes on grain and byproduct markets that include gluten feed and distillers' grain are being addressed, along with the effects of the expanding bioenergy industry on the organization and performance of local and international grains markets. Specific studies include pricing in local and international grain markets, and international competitiveness of the ethanol industry compared to Brazil and the appropriate scale and organization of value-added processing. Improved private investment and public policy decisions will result from better information about the bioenergy industry.

(2) RURAL COMMUNITIIES, RURAL LABOR MARKETS AND PUBLIC POLICY, fiscal years 2002–2007, Virginia Polytechnic Institute, Blacksburg, Virginia:

Rural America is experiencing substantial demographic and economic change and its future depends on solid policy analysis. This project examines how rural markets adjust to economic change and how policy can be formulated assist in these adjustments. Findings indicate that several sources of renewable fuels could be viable in Virginia. Biomass, particularly electricity generation through switchgrass and wood chips has more widespread viability than wind or solar technologies. Biofuels could provide additional incomes to land owners in depressed areas, but overall economic impacts are likely to be modest. Further research is needed to overcome persisting technical problems with switchgrass transport and processing leading to higher costs and lower competitiveness. It is estimated that a single 600 megawatt coal-fired power plant that co-fires with 5 percent switchgrass could improve the finan-

cial viability of 140 families and have total economic impacts of more than $2 million per year.

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QUESTIONS SUBMITTED BY SENATOR ARLEN SPECTER

*Question.* With the dairy industry responsible for cash receipts of $27,367,857,000 (2004) representing 11.3 percent of total agriculture cash receipts for the Nation, why is the Agricultural Research Service terminating the Dairy processing and products Research Unit located at Wyndmoor, Pennsylvania, when this is the only USDA laboratory conducting research on dairy processing and products? In addition, it is my understanding that the scientists assigned to this laboratory have the capability of addressing the issue of bio-security research to help prevent the intentional contamination of the milk supply and support the dairy industry with research on prevention and removal of threat agents from the milk supply. How will this crucial research be accomplished if this program is eliminated?

Answer. The consideration to close the lab was based on the fact that the unit has largely met its objectives and the return on investment was lower than for other high priority areas of research. As mentioned, the need for the research is reduced due to improvements in milk processing, much of which has been developed by the lab. If additional work in the area of dairy processing does arise, such work could and has been done in the past at the ARS Beltsville Agricultural Research Center (Beltsville, Maryland) or the National Animal Disease Center (Ames, Iowa).

PEST MANAGEMENT ALTERNATIVES

*Question.* This question is directed to Under Secretary Jen regarding a letter that Sen. Rick Santorum and I sent to you on February 17, 2006. Pennsylvania is the Nation's number one producer of mushrooms, producing 59 percent of all pounds grown and valued at more than $420 million. Trichoderma green mold remains the most serious disease faced by mushroom growers, as crop losses can quickly reach epidemic levels. Both Sen. Santorum and I urge you to strongly support the research proposal, "Resistance Management Program for Trichoderma Green Mold on Mushrooms," submitted by Drs. Peter Romaine and Daniel Royse, at The Pennsylvania State University, under the Special Grants Program—Pest Management Alternatives. This was all detailed in our February 17 letter.

Are you taking this research proposal under serious consideration and when can we expect a response to our letter?

Answer. In his response dated April 3rd, 2006, former Under Secretary Jen indicated that funds appropriated for the Pest Management Alternatives Program, which is administered by the Cooperative State Research, Education, and Extension Service, are distributed through a peer review competitive grants process. Priorities for the program are developed in consultation with stakeholders and land-grant university partners through the Regional Integrated Pest Management Centers. A major emphasis of this program is cropping systems where the loss of pest management alternatives has led to a loss of pest control or the development of pest resistance to the alternatives. The proposal from the Pennsylvania State University received full and fair consideration by the peer review panel. Applicants will be notified in the coming weeks of final funding decisions under the fiscal year 2006 Pest Management Alternatives Program.

COUNTY OFFICE RESTRUCTURING

*Question.* The Farm Service Agency (FSA) had intended to implement "FSA Tomorrow" last Fall. This plan intended to reduce the number of FSA county offices throughout the entire Nation through consolidation. Across the United States, 713 county offices were planned to be consolidated, in Pennsylvania alone 14 offices were planned to be consolidated bringing the number of offices to 32. While I understand the importance of efficiency, farmers work hard all day and to require them to drive long distances to see their FSA office puts further strain on their work. Under Secretary Penn, the FSA fiscal year 2007 Budget request is $33,891,000, down from the fiscal year 2006 budget estimate of $36,797,000; a decrease of about 8 percent.

Does the Department of Agriculture intend to implement a consolidation plan in light of the reductions in the President's fiscal year 2007 Budget request?

Answer. FSA has asked our State Executive Directors (SEDs) to conduct an independent, local-level review of the efficiency and effectiveness of FSA offices in their State. Each State's SED and State Committee will form a review team to identify

the State's optimum network of FSA facilities, staffing, training, and technology within existing budgetary resources and staffing ceilings.

There is no comprehensive national plan or formula for the ideal field structure. Each State will review its own county office system and submit a plan for the best distribution of resources.

Each SED is exploring potential joint-effort opportunities with the Natural Resources Conservation Service (NRCS) and other Department of Agriculture (USDA) agencies. State Food and Agriculture Councils (SFACs) are the primary vehicles for coordinating programs at the local level. SFACs provide a policy-level, cross-agency, decision-making and communication forum to achieve USDA's goals and objectives. In accordance with the SFAC mission, FSA, NRCS, and other agencies will work together to develop the plan for the most effective mix of local offices, staffing, training and technology.

If FSA county office closures create a disadvantage for some producers in accessing services, those producers may request a new administrative county office if there is one that will be more convenient. The flexibility of producer choice is an important part of consolidation efforts. FSA is committed to delivering farm program services through the Service Center model.

*Question.* If so, does the Department plan on bringing this to the attention of Congress before any implementation takes place?

Answer. After recommendations are received from a State and validated by FSA's Deputy Administrator for Field Operations, any consolidation recommendations will be shared with the potentially affected Congressional delegation. The Agency will hold public hearings and coordinate communications efforts with area farmers, ranchers, and other stakeholders. Where a decision is made to consolidate offices, Congress will be notified 120 days before a closure takes place. FSA is committed to a continued dialogue with congressional delegations and State leaders as to how best to modernize the FSA county office system.

MUSHROOM SPAWN

*Question.* I have been contacted by mushroom spawn manufacturers in my state regarding their difficulties in exporting mushroom spawn to certain countries which require phytosanitary certificates, for which mushrooms spawn is apparently ineligible. It is my understanding that many countries require U.S.-exported spawn to be accompanied by APHIS-issued phytosanitary certificates; however APHIS cannot issue certificates for this product. This situation is especially problematic since governments of foreign competitors are willing to issue such certificates. Therefore, American spawn manufactures are unable to obtain the necessary phytosanitary certificates, whereas foreign competitors can obtain them. As a result, our Nation's mushroom spawn exporters are in danger of losing access to some of their most valuable export markets, valued at more than $8.7 million. Maintaining access to export markets is vital to the spawn industry in Pennsylvania and across the country.

How do you intend to resolve this problem and when can constituents in my home State expect a solution?

Answer. As you indicate, several countries require phytosanitary certificates for mushroom spawn. However, the countries in question (including China, Oman, and several others) have not provided information on what pests are associated with mushroom spawn that are of concern to them or of quarantine significance. Phytosanitary certificates are generally used to provide assurance that a shipment or product is free of specified pests, usually a list of quarantine pests provided by the importing country. Accordingly, APHIS is not able to issue phytosanitary certificates for this product since it is essentially grain inoculated with a fungus and there are no known quarantine pests associated with it. Our officials sent letters to the countries explaining that we cannot issue phytosanitary certificates without knowing what to certify the product for. We also explained APHIS policy regarding the import of mushroom spawn into the United States (the genus and species must be identified on the commercial invoice and the shipment must be free of soil) and officially requested that they adopt equivalent policies. In late March 2006, officials from APHIS and USDA's Foreign Agricultural Service met with the American Mushroom Institute to discuss this situation. We believe that the importing countries are more concerned with product quality than with plant health risk. In addition to working with our counterparts in the importing countries regarding their requirements, we are also working with USDA's Agricultural Marketing Service to find an alternative to phytosanitary certificates for mushroom spawn exports.

## QUESTIONS SUBMITTED BY SENATOR HERB KOHL

### SIMPLIFIED SUMMER FOOD PROGRAM

*Question.* Mr. Bost, as you know, the Simplified Summer Food Program is currently available in half of the States, including my home State of Wisconsin. Have States that participated in this program attracted more program sponsors, operated more program sites and served more low-income children than those States not participating in the program? Would USDA consider this program a success? Would USDA be supportive of expanding this program to additional States?

Answer. States participating in the Simplified Summer Food Program have shown an increase in participation as measured by sponsors, sites, and meals served to eligible children during the summer months. During the same time, those States not participating in the program have experienced a decrease in each of the corresponding categories. However, since the inception of the Simplified Summer Food Program, many States have also had the opportunity to operate a seamless summer feeding program through the National School Lunch Program (NSLP). Because these two initiatives have operated concurrently in these States, we are not able to identify the extent to which changes in sponsors, sites, and children result from the Simplified Summer Food Program, from the NSLP seamless summer feeding program, or from a combination of both.

Although modest, there are costs associated with expanding the program to additional States. Assuming appropriate offsets could be found, USDA would support expansion of the program because it reduces paperwork burden on sponsors and aligns the program's meal reimbursement procedures with our school-based and day care-based Child Nutrition Programs.

### NSA GRANTS

*Question.* Mr. Bost, one of the hallmarks of the WIC program is that it goes beyond providing healthy foods to provide participants with nutrition education, breastfeeding support, and health care referrals. These services are a critical complement to the WIC food package and they are all funded with NSA grants. The WIC program has also achieved extremely effective cost-containment, particularly with regard to infant formula costs. The administrative costs associated with these accomplishments are funded with NSA grants.

In a 2001 report, the GAO found that since the late 1980s important new nutrition services and administrative demands have been placed on State and local WIC agencies without accompanying increases in NSA funds. Isn't it the case that under WIC's authorizing statute NSA grants per-participant have remained at the same inflation-adjusted level for the past 19 years? If this proposal is not adopted, will your request level for WIC still be adequate? What effect do you believe this administrative proposal will have on cost-containment?

Answer. In 1990 the guaranteed per participant nutrition services and administration (NSA) grant was $9.32. Adjusting the grant for inflation resulted in a guaranteed NSA grant of $14.12 in fiscal year 2006.

If this proposal is not adopted, the funds requested in the budget for food will be approximately $152 million less than the estimated amount needed to provide food benefits to a monthly average of 8.2 million WIC participants in fiscal year 2007.

We believe this proposal will encourage State agencies to seek cost saving practices and efficiencies in program management and in providing participant services funded with NSA grants.

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

*Question.* Mr. Bost, another legislative proposal included in the WIC account will prevent any State from allowing participation in the WIC program to anyone whose family income is more than 250 percent of poverty. How many States will this affect? Will it save any money? Is it true that the affected States, because their WIC participants are automatically deemed eligible, will have to re-check the eligibility of all of their participants? How many individuals would lose eligibility for WIC if the Administration's proposal to limit Medicaid adjunct eligibility were adopted? Do you intend to provide additional administrative funding for these States to conduct these eligibility exercises, or is the intent that they perform this function under the proposed new administrative limitations as well?

Answer. The President's fiscal year 2007 budget prohibits the use of funds to provide WIC benefits to individuals who receive Medicaid or who are members of a family in which a pregnant woman or infant receives such assistance unless the family income is below 250 percent of the poverty guidelines. Six States (Maryland,

Minnesota, Missouri, New Hampshire, Rhode Island and Vermont) have income eligibility cut-offs for Medicaid that are 250 percent or above for some or all categories of potential WIC participants.

Based on the estimated per-person cost in fiscal year 2007 ($52.67), it is estimated that this proposal will result in a savings of $2.9 million. The States affected by this proposal and the estimated savings per State are shown in the table below.

| State | Number of Persons Affected | Estimated Savings (in thousands) |
|---|---|---|
| Maryland | 859 | $543 |
| Minnesota | 2,434 | 1,538 |
| Missouri | 573 | 362 |
| New Hampshire | 143 | 90 |
| Rhode Island | 286 | 181 |
| Vermont | 286 | 181 |
| Total | 4,581 | 2,895 |

The President's budget proposal would continue to provide automatic (adjunctive) income eligibility based on participation in Medicaid to the vast majority of WIC participants certified in this manner. Any mother, infant, or child who can currently be certified as income eligible for WIC through Medicaid, will still be income eligible for WIC if their household income is below 250 percent of poverty. For those State agencies affected by the proposal, they will have to modify their procedures to determine the income eligibility of individuals who would have otherwise been automatically income eligible to participate in the WIC Program based on their participation in Medicaid. Based on data from the 2004 Report on WIC Participant and Program Characteristics, we estimate that approximately 4,600 individuals will be affected by the proposal to limit automatic eligibility based on participation in Medicaid to those individuals with an income level that is below 250 percent of Federal poverty guidelines.

Affected States may incur a modest increase in the needed administrative resources associated with eligibility determinations and will have to re-allocate their nutrition services and administration (NSA) funds accordingly. The proposal will not increase Federal expenditures on NSA.

WIC MANAGEMENT INFORMATION SYSTEM

*Question.* Last year, we provided $20 million for a new WIC Management Information System, which we have heard for several years is desperately needed. We made the money contingent on WIC caseload being met, and it seems as though that requirement will be met this year. Has USDA yet, or do you plan to, release this money this year?

Answer. The fiscal year 2006 appropriation provided $19.8 million (after the 1 percent rescission) for management information systems (MIS) if it was determined that adequate funds were available to meet caseload requirements without the use of contingency funds. Based on current projections of both food package costs and participation for the remainder of fiscal year 2006, we do not anticipate the need to use contingency funds to support WIC caseload. Therefore, we fully intend to allocate the $19.8 million in MIS funding during fiscal years 2006 and 2007 to WIC State agencies for critical MIS projects.

CSFP

*Question.* Mr. Bost, as you know, the CSFP program is slated for elimination under the President's budget. Reasons USDA believes this is appropriate, as explained by Secretary Johanns, include the fact that seniors can move to Food Stamps, there simply isn't enough money, and the program operates only in a limited number of States. Is CSFP the only nutrition program that operates in a limited number of States? How many States currently have CSFP programs? How many, and which States have approved plans and would join if there was funding available? Is it fair to say that this program has limited participation by States because of funding, and not because States don't want it?

Answer. The CSFP is not the only nutrition assistance program that operates in a limited number of States. The Fresh Fruit and Vegetable Program (FFVP) and the WIC Farmers' Market Nutrition Program (FMNP) also operate in a limited number of States. The FFVP is currently authorized to operate in a limited number of schools in limited number of States and Indian Tribal Organizations (ITOs); cur-

rently 14 States and 3 ITOs. Funding is commensurate with the number of participating States and ITOs. The FMNP operates in 45 locations (37 States, D.C., Puerto Rico, Guam and 5 ITOs). While new State agencies may apply to participate, appropriations have been commensurate with the number of currently participating States which precludes the expansion of the program to new States.

CSFP currently operates in limited areas of 32 States, two Indian reservations, and the District of Columbia. Five States have approved plans for CSFP but are not yet participating: Delaware, Arkansas, Oklahoma, New Jersey, and Utah. CSFP's participation by States is currently limited because of funding.

*Question.* Mr. Bost, I understand that under the Commodity Supplemental Food Program, States are required to order their food several months in advance. Do you plan to allow States to go ahead and place orders for food for next year? What does USDA plan to do if there is a continuing resolution? If the entitlement purchases from farmers that currently go to the CSFP program end, is it safe to assume that farmers will lose money?

Answer. While the President's fiscal year 2007 budget request does not include funding for the CSFP, the program will continue to be administered in a manner that ensures program continuity until such time that Congress decides not to fund the program. Should Congress choose to adopt the President's fiscal year 2007 budget request, commodities remaining in CSFP inventories next fiscal year will be redonated for use in other programs, including the Emergency Food Assistance Program.

We anticipate no impact on the agriculture sector from the elimination of CSFP. Food purchases that result from agricultural support activities will be maintained, but distributed through other channels.

WIC MORATORIUM

*Question.* Mr. Bost, last year's reauthorization legislation included measures to contain costs in these and other high-priced stores. We knew, however, it would take time for those provisions to be implemented. To contain costs in the meantime we included in last year's appropriation law a moratorium on the approval of any new WIC-only stores. We considered such a measure critical; in its absence, this committee would have faced even greater pressure on our limited resources. Can you please tell us whether this moratorium has helped contain WIC food costs and whether extending the moratorium will help to contain food costs next year? Why do you believe it is necessary to maintain the moratorium again this year, since the cost containment regulations have been in place for several months?

Answer. We proposed a moratorium to provide States with adequate time to implement the newly enacted cost containment provisions of the Child Nutrition Act. It is difficult to know for certain how the moratorium has affected food costs due to limitations on the data we have available and the multiple factors that influence State agency food expenditures in any given year. Although the reasons for changes in average food package costs are complex, it is likely that the moratorium contributed to holding food costs down in fiscal year 2005. We know that the 6 State agencies with the largest number of WIC-only stores experienced food package cost increases ranging from 3.5 percent to 14.2 percent between fiscal year 2003 and fiscal year 2004. Between fiscal year 2004 and fiscal year 2005, 3 of these State agencies experienced a decrease in the average food package cost, and three had a lower rate of increase than in the previous year.

At present we are optimistic that all State agencies that require certification will submit requests before September 30, 2006, and that all or most will receive certification by this date. Progress toward this goal was delayed for several months following the publication of the WIC Vendor Cost Containment Interim Rule on November 29, 2005. This rule implements the vendor cost containment certification requirement found in section 17(h)(11) of the Child Nutrition Act. From December 28, 2005 through February 23, 2006, FNS was under a temporary restraining order (TRO) due to a lawsuit filed by the National Women, Infants and Children Grocers' Association and other plaintiffs to prevent implementation of the Interim Rule. The TRO interrupted State agency submission of requests for certification and FNS decisions on certification. Since the dismissal of the lawsuit on February 23, 2006, FNS has moved expeditiously to certify the State agencies that meet the certification requirements, and to provide technical assistance to others that are still in the planning process. In addition to the requests for certification that are currently being reviewed, FNS expects to receive nearly a dozen more between mid-April and the end of September 2006 (including California's, the State with the largest number of WIC-only stores). We are making every effort to certify State agencies before the end of the fiscal year. Extension of the current moratorium prohibiting the approval

of new "WIC-only" stores until a State agency receives certification would ensure that the number of such vendors does not increase before State agencies implement improved cost containment methods.

WIC REAUTHORIZATION LEGISLATIVE PROPOSAL

*Question.* The 2004 reauthorization legislation added section 9(b)(8) to the Richard B. Russell National School Lunch Act, which specifies that all communications with households regarding certification or verification for free or reduced price meals must be in an understandable and uniform format and, to the maximum extent practicable, in a language that parents can understand. FNS has already provided model application and verification materials that reflect the changes to the certification and verification processes made by reauthorization in English and Spanish. In which additional languages will translations be provided and when will they be available?

Answer. The household application is already published in English and has been translated into Spanish. Both are available on our Web site found at http://www.fns.usda.gov/cnd/FRP/frp.process.htm. The next round of translations will include: Russian, Vietnamese, Chinese (Mandarin), Japanese, Serbo-Croatian, Arabic, Korean, Somali, Cambodian/Khmer, French, Hmong, Haitian Creole, Laotian, Polish, Portuguese, Sudanese, Thai, Urdu, Hindi, Kurdish, Farsi, Greek, Samoan, and Tagalog. All 25 translations of the English version of the application are expected to be finished in time for use in the 2006–2007 school year.

*Question.* We are aware that FNS has issued general guidance alerting States and school districts to this new provision. We are also aware that many households never respond to the request for eligibility verification and we want to be sure that families get the information they need to comply with the verification process. Please describe any manuals or other technical assistance materials that FNS has provided to local school districts clarifying the kinds of steps they are expected to take during the certification and verification processes to comply with section 9(b)(8). Has FNS reviewed materials in use by States and school districts to assess whether they comply with this provision and provide them with the assistance they need to come into compliance?

Answer. FNS has issued 14 guidance memos to the State agencies concerning the National School Lunch Program (NSLP) free and reduced price applications, certification and verification, eight of which specifically deal with verification. The goal of each of these memos is to ensure that school food authorities are fully aware of the new provision, understand completely the requirement to follow-up when a request for verification goes unanswered, and that schools and families have the necessary information in order to comply with verification requests.

FNS has updated its Guidance for Coordinated Management Evaluations of State Agency Operations to include the new provisions in the Reauthorization Act, including the new verification procedures as required by the Child Nutrition and WIC Reauthorization Act of 2004. As part of the management evaluation process, FNS reviews State agencies and the materials they use in their review of school food authorities to ensure that they comply with the new verification requirements.

FARMERS' MARKET NUTRITION PROGRAM

*Question.* It is my understanding that States grants for the Farmers Market Nutrition Program have decreased this year. Is this accurate, and if so, why, considering the appropriated amount did not decrease? How much will the carryover be for the Farmer's Market Nutrition Program this year? How does this compare to the past 3 years?

Answer. It is important to include the effect of prior year unspent funds when analyzing funding for the WIC FMNP. We anticipate approximately $3–4 million in unspent fiscal year 2005 funds will become available after closeout is completed which can supplement the appropriated funds, thus bringing State agencies close to their actual expenditure levels in fiscal year 2005.

In fiscal year 2005, in addition to appropriated funds, we had available unspent prior year funds that were allocated to State agencies at the beginning of the fiscal year. Subsequently in fiscal year 2005, additional unspent prior year funds became available that were allocated to State agencies. For FMNP base grants for fiscal year 2006, only available appropriated funds have been made available. Additional funds recovered from 2005 should be made available by early summer, 2006.

In fiscal year 2005, $8.4 million in unspent funds were available to supplement the appropriation of $19.8 million. In fiscal year 2004, $5 million in unspent funds were available to supplement the $22.8 million appropriation.

FRUIT AND VEGETABLE PILOT PROGRAM

*Question.* As you know, last year we provided funding for an additional 6 States to join the Fruit and Vegetable Pilot Program. How much money would be required to extend the participation by these States through the next school year?

Answer. No funding will be needed to extend the program to these States through school year 2006–2007 because the extension will be covered by existing funds appropriated on November 10, 2005, for the period January 30, 2006 through June 30, 2007. After June 30, 2007, however, funds will be needed should Congress wish to continue the program in these 6 States.

WILDLIFE SERVICES

*Question.* What is APHIS Wildlife Services currently doing to reduce the effects the double-crested cormorant has on the Great Lakes fishery and how can we get them to expand their work to other highly impacted areas in the State?

Answer. APHIS is currently conducting double-crested cormorant damage management activities in the Great Lake States of Michigan, Minnesota, New York, and Ohio. We are also conducting an environmental analysis in Wisconsin to determine the potential impacts of expanding our activities to that State. In addition, we are cooperating with several State, Federal, tribal, and Canadian agencies to survey Great Lakes breeding populations. The breeding population of Double-crested Cormorants on the Great Lakes has increased dramatically—from 89 in 1970 to approximately 115,000 pairs in 2005. Also, APHIS continues to cooperate in satellite telemetry to monitor and assess regional movements in conjunction with diet and foraging studies.

*Question.* Would increasing control in the Great Lakes, a prime breeding ground for the double-crested cormorant, help reduce the number of cormorants currently decimating aquaculture facilities in the southern United States?

Answer. Yes, increasing control in the Great Lakes would help reduce the number of cormorants currently decimating aquaculture facilities in the southern United States. We have assessed the migratory path of double-crested cormorants. Using satellite telemetry and band recovery data, we observed the winter movement of these birds from the Great Lake Region to aquaculture facilities in Alabama, Arkansas, Louisiana, and Mississippi. We do expect that increased control activities in the Great Lakes would reduce the wintering population in the South and lessen the impact to the aquaculture industry and the environment.

*Question.* Does APHIS Wildlife Services have enough resources to successfully control the Great Lakes breeding population of double-crested cormorants?

Answer. Our current resources allow us to respond to the immediate short-term needs of States and industry—such as removing birds from a site.

STANDARDIZATION

*Question.* On January 26, I wrote to Secretary Johanns encouraging the UDSA to act expeditiously to establish a grass-fed label standard for red meat. This proposal has been in the works for some time.

When can we expect the Department to act on this proposal?

What steps can the Department take to make sure that the program is affordable for producers?

Answer. Developing a label standard for the grass-fed marketing claim is a priority of the Agricultural Marketing Service (AMS) and we have been working closely with the industry to develop a workable and usable standard that would serve the grass-fed market. AMS has obtained input from a number of individual experts within government, industry, and academia while drafting the revised proposed standard and its corresponding threshold. We have finalized the development of the revised standard, and it is expected to be published in the Federal Register this spring.

Every effort will be made to administer this voluntary program cost-effectively. To validate the marketing claim associated with this production activity, AMS will conduct verification activities in accordance with procedures that are contained in Part 36 of Title 7 of the Code of Federal Regulations for Processed Verified Programs. This approach to verification of marketing claims makes for the best utilization of government resources on a cost recovery basis while providing for integrity of the program.

NATIONAL VETERINARY MEDICAL SERVICES ACT

*Question.* The National Veterinary Medical Services Act (Public Law 108–161) was funded in the fiscal year 2006 Agriculture Appropriations bill. What steps have

been taken to implement this program? When can we expect those steps to be completed?

Answer. USDA is exploring potential financial management strategies both within the Department and in collaboration with other Federal agencies in order to effectively run a loan repayment program. To evaluate these and other programmatic issues presented by the National Veterinary Medical Services Act—NVMSA, CSREES has constituted the NVMSA working group to develop potential program management strategies. The working group has met on four occasions and is exploring alternative strategies for managing the NVMSA. A draft program management proposal is presently being reviewed. We are working to ensure a well thought-out program plan which includes collaborations with veterinary schools and other stakeholders to develop research-based consensus regarding the candidate eligibility requirements, and metrics to support prioritized and weighted needs within the veterinary need areas identified within the Act.

AVIAN INFLUENZA

*Question.* Late last year, you were provided more than $90 million in supplemental funds to prepare against avian flu, a small part of the total avian flu supplemental.

It is apparent this is both a public health and an agricultural issue. Do you think USDA should have more of a leading role in protecting against this disease?

Answer. USDA has taken an important role in preparing for and protecting against an incursion of high pathogenicity avian influenza (HPAI). We initiated the National Domestic H5/H7 Low Pathogenicity Avian Influenza (LPAI) Prevention and Control program in 2004 to conduct surveillance on the subtypes of LPAI that can mutate to dangerous forms. We have effective trade restrictions to prevent the introduction of HPAI through imported poultry and poultry products. Our preparation for a possible outbreak includes development of USDA responses as well as coordination with other Government agencies to protect both human and animal health. Internationally, we support capacity building, which allows APHIS to go into countries where the disease exists and assist in control efforts by providing technical training and advice.

*Question.* In what ways are you working with U.S. producers, large and small, to make sure they have all the tools possible to protect against this disease? What are producers asking you to do?

Answer. USDA has several cooperative programs to work with producers. The National Poultry Improvement Plan is a cooperative Industry-State-Federal program through which new technology can be effectively applied to the improvement of poultry and poultry products throughout the country. The program's provisions were developed jointly by industry members and State and Federal officials to establish standards for poultry breeding stock and hatchery products with respect to freedom from certain diseases and thereby provide certification of poultry and poultry products for interstate and international shipment.

As the avian influenza surveillance program widens, producers are often concerned about indemnification for flocks that test positive. Both the NPIP General Conference Committee, which represents poultry industry stakeholders, and the States have recommended 100 percent indemnity for participants of the NPIP H5/H7 avian influenza monitoring program.

In addition to publishing rules and uniform standards, USDA has focused on outreach and education through its Biosecurity for the Birds advertising campaign, professional development training, and other media. The advertising campaign, which provides basic information to promote avian health through biosecurity, began in July 2004 and has reached a circulation of over 125 million. Various training courses have been provided to State and Federal animal health technicians, veterinary medical officers, and other stakeholders working with the H5/H7 LPAI live bird marketing system program. These training sessions have included comprehensive information about poultry diseases, laboratory testing, biosecurity, personal protective equipment, State regulations, and risk assessments, among other things. USDA is also expanding outreach to the commercial poultry industry, especially those involved in the NPIP program, by updating an interactive CD to provide new information about poultry biosecurity for feed mills, hatcheries, slaughter plants, vaccine crews, live haulers, and service personnel.

*Question.* I understand that you plan to use $3 million from last year's supplemental for avian flu vaccines and immunizations. However, there are some concerns that vaccinations will make it difficult to determine if flocks are actually infected with the virus after they are vaccinated. Do you favor a vaccination program for U.S. poultry?

Answer. Vaccination does have the potential to negatively impact our trade of poultry and poultry products, but the vaccination of domestic poultry for H5 Avian Influenza (AI) strains can be valuable as part of an official control and eradication program. If appropriate, USDA is prepared to vaccinate domestic poultry, and maintains a vaccine bank. Approximately 40 million doses of vaccine were manufactured in 2004 (H5N2, H5N9, H7N2, and H7N3) and are stored as frozen bulk viral fluid antigens. In 2005, the bank was expanded by approximately 30 million doses. The stockpiled H5 vaccines are effective against the current Asian strain of AI.

APHIS's Center for Veterinary Biologics (CVB) regulates the sale and distribution of veterinary vaccines. CVB controls the distribution of AI vaccines through a license restriction that places constraints on when, and under what conditions, manufacturers can sell AI vaccines domestically.

*Question.* Although the President's 2007 request includes a significant increase for avian flu, this bill won't be passed until October at the very earliest, and this disease is spreading more quickly than many have anticipated. Do you think the funding request in the 2007 budget is adequate to deal with avian flu or do you think you will need additional funds this year?

Answer. Currently, APHIS has sufficient funding to carry out its national domestic surveillance H5/H7 Low Pathogenicity Avian Influenza program and initiate additional surveillance and preparedness activities against an incursion of High Pathogenicity Avian Influenza. If we were to receive the entire amount requested in the fiscal year 2007 President's Budget and the disease situation did not change from its current status, we would not need additional funds to carry out our stated objectives. However, if there were a widespread outbreak or another domestic emergency related to avian influenza, we would need to reassess our available resources and consider adjustments to our spending plans at that time.

*Question.* While there has been much attention to transmission by migratory birds, there is also evidence that a bigger threat may be through the shipment of poultry-related products and that the disease might even be carried by containers in which infected birds had been kept.

Just how much do we really know about the transmission of this disease? For example, do we know that if all U.S. poultry flocks were kept inside buildings that they will be safe? Do you think we have enough information to control this threat?

Answer. Poultry scientists have studied how avian influenza (AI) and other virulent poultry diseases are transmitted. From this research, they have developed effective procedures to help prevent transmission from occurring. USDA has been publicizing these biosecurity measures, and we believe that by implementing them, producers themselves are helping us reduce the threat of widespread disease transmission.

AI is primarily spread by direct contact between healthy birds and infected birds, and through indirect contact with contaminated equipment and materials. The virus is excreted through the feces of infected birds and through secretions from the nose, mouth and eyes. Contact with infected fecal material is the most common method of bird-to-bird transmission.

Wild ducks often introduce low pathogenicity virus into domestic flocks raised on range or in open flight pens through fecal contamination. Because game birds and migratory waterfowl can introduce disease into domestic flocks, USDA and the poultry industries recommend preventing these avian populations from coming into contact with each other.

Within a poultry house, transfer of the highly pathogenic avian influenza (HPAI) virus between birds can occur via airborne secretions. The spread of avian influenza between poultry premises almost always follows the movement of contaminated people and equipment. AI also can be found on the outer surfaces of egg shells. Transfer of eggs, therefore, is a potential means of AI transmission. Airborne transmission of virus from farm to farm is highly unlikely under usual circumstances.

It is important to remember that a detection of H5N1 HPAI in wild birds would not mean that commercial poultry would be affected. The U.S. poultry industry is well equipped to prevent AI. First, chickens, turkeys, and eggs produced for human consumption are generally raised in very controlled environments. Secondly, biosecurity practices have been a part of the business of raising poultry in the United States for decades. The vast majority of our commercial poultry producers raise their chickens and turkeys in covered structures with controlled access.

In addition to carrying out surveillance and preparedness activities, USDA maintains trade restrictions on the importation of poultry and poultry products from countries currently affected by H5N1 HPAI. We would emphasize that there is no evidence that HPAI currently exists in the United States.

*Question.* If we ever have an outbreak of avian flu in this country, what kind of contingency plan do you have in place? Do you have cost estimates, including who will pay for it and where will the money come from?

Answer. If there were an outbreak of avian influenza (AI) in this country, our response would depend on the nature and extent of the outbreak and may require coordinated action with other Federal, State, and local agencies, as well as other segments of society. "The National Strategy for Pandemic Influenza" guides the national preparedness and response to an influenza pandemic, with the intent of (1) stopping, slowing or otherwise limiting the spread of a pandemic to the United States; (2) limiting the domestic spread of a pandemic, and mitigating disease, suffering and death; and (3) sustaining infrastructure and mitigating impact to the economy and the functioning of society. The Strategy provides a framework for future U.S. Government planning efforts that is consistent with the National Security Strategy and the National Strategy for Homeland Security. It recognizes that preparing for and responding to a pandemic cannot be viewed as a purely Federal responsibility, and that the Nation must have a system of plans at all levels of government and in all sectors outside of government that can be integrated to address the pandemic threat. APHIS has developed a response plan for AI. This plan provides greater detail on how APHIS will respond to an outbreak of AI and define activities that will be required to address the control, containment, and eradication of the disease. Additionally, APHIS has developed a playbook that acts as a direct link to the National Strategy for Pandemic Influenza, such that if the scope of an outbreak in animals surpasses APHIS and its partner's capacity, other resources can be activated in a standardized manner.

In the event of an HPAI outbreak that is within the scope of APHIS' response capabilities, APHIS has the Foreign Animal Disease management infrastructure to conduct an emergency response that would occur at the local level, in accordance with the National Animal Health Emergency Management System's guidelines for HPAI. Should the disease be detected in commercial flocks or in back yard flocks, affected flocks would be quickly quarantined to prevent spread. Sick and exposed birds would be euthanized and the premises cleaned and disinfected to stamp out the disease. USDA would conduct epidemiology investigations to determine the source of the virus, and to track the movement of birds to contain spread.

To ensure immediate deployment of supplies necessary to contain, control, and eradicate an HPAI outbreak, APHIS is building a stockpile of needed vaccines; diagnostic products including reagents; disinfectants; and equipment that would be required to support operations until normal supply lines can be established for protracted operations. APHIS is developing models of the potential impacts of AI outbreak in the United States and alternative control strategies. These models will enable APHIS to test preparedness and response capabilities through conducting simulated exercises specific to AI. The information gathered through the simulations and the exercises will enable APHIS to assess resource requirements in many different outbreak scenarios.

If the scope of the HPAI outbreak is beyond APHIS' and the affected State's immediate resource capabilities, additional resources can be obtained through the following mechanisms: the National Response Plan's Emergency Support Function #11 ensuring that animal-health emergencies are supported in coordination with the emergency support function that covers public health and medical services; and the National Animal Health Emergency Response Corps and various State response corps can be activated. These private veterinarians and animal health technicians are ready to assist on short notice.

Currently, APHIS has sufficient funding to carry out its national domestic surveillance H5/H7 LPAI program and initiate additional surveillance and preparedness activities against an incursion of HPAI. If we were to receive the entire amount requested in the fiscal year 2007 President's Budget and the disease situation did not change from its current status, we would not need additional funds to carry out our stated objectives. However, if there were a widespread outbreak or other emergency related to AI, we would need to reassess our available resources and consider adjustments to our spending plans based on the nature and extent of the outbreak.

USDA's current LPAI funding supports cooperative agreements with States; diagnostic work at the National Veterinary Services Laboratories; program personnel and their associated support costs; vaccine stockpiling; outreach and education; training; information technology/database architecture; and investigative and enforcement services efforts, among other things. A certain level of indemnity funding is available from fiscal year 2005 carry-over funding to allow rapid response to occasional LPAI introductions into domestic poultry flocks.

USDA's current HPAI funding supports the expansion of AI surveillance in the commercial industry and live bird market system to all appropriate States. In addi-

tion, the HPAI program will allow for surveillance in upland game premises, commercial/backyard flocks, and other high-risk populations that have not been covered under the national domestic program. The HPAI program will support preparedness activities such as data modeling, simulated exercises specific to AI, and planning for the immediate deployment of the supplies necessary to contain, control, and eradicate an AI outbreak. The program will also expand the "Biosecurity for the Birds" outreach campaign, as well as anti-smuggling and risk management activities. Internationally, the HPAI program will support capacity building, which allows APHIS to go into countries where the disease exists and assist in control efforts by providing technical training and advice. This will create a more comprehensive approach to AI by looking at it internationally, monitoring the multiple ways that AI might get into the country, and preparing for the possibility of a H5N1 outbreak.

FOOD SAFETY INSPECTORS

*Question.* Dr. Raymond, how many food safety inspectors will FSIS employ this year? Do you have a breakdown of "off-line" and "online" inspectors? How does this compare to last year? Are inspectors who quit or retire being replaced?

Answer. There are approximately 7,600 in-plant food safety inspection program personnel, including field import inspectors and compliance officers. The in-plant personnel includes 7,190 food safety inspectors. Of the total food safety inspectors 3,171 are "on-line" and 4,019 are "off-line." This represents a slight decline in the number of in-plant food safety inspection program personnel due to difficulty finding qualified personnel to fill the positions. In-plant employees make up the overwhelming majority of the field inspection force and are the only ones designated as "on-line" and "off-line." Other "front-line" inspection employees are not identified by these terms. Open positions are filled as quickly as possible with qualified people. Each year, FSIS hires on average approximately 300 entry-level Food Inspectors and approximately 75 Public Health Veterinarians.

*Question.* I understand that the number of plants has decreased, but what about the number of animals processed? How do you do a good job with fewer inspectors doing more work?

Answer. As required by the Poultry Products Inspection Act and the Federal Meat Inspection Act, respectively, each poultry carcass and 100 percent of livestock carcasses presented for slaughter are inspected by FSIS. Over the last decade, the number of poultry carcasses inspected per fiscal year has significantly decreased; however, the number of livestock inspected per fiscal year has increased.

The current number of FSIS inspection program personnel allows the agency to perform its public health functions. FSIS inspection program personnel provide inspection services for all establishments under its jurisdiction by employing alternative staffing strategies and fully utilizing available field inspection employees to address the demands of each particular area.

HUMANE ACTIVITIES TRACKING (HAT) SYSTEM

*Question.* How much funding will be required to complete connection of the HAT system to the FAIM architecture within FSIS? Please provide detailed information.

Answer. The total amount of $7 million available from fiscal year 2005 and fiscal year 2006 will be sufficient to complete connection of the Humane Activities Tracking (HAT) system to the Field Automation and Information Management (FAIM) architecture within FSIS. In order to ensure that the field work force is able to instantly transmit public health and humane handling data to headquarters, $5.5 million of the $7 million is being used to install new high-speed connections in approximately 1,500 of 2,300 "base plants," which are establishments from which inspection program personnel, including patrol inspectors, operate on a daily basis. Reflected in these costs are equipment, initiating services, and monthly charges for 1 year after the service is initiated. The agency hopes to have high-speed connections completed on these 1,500 base plants by February 2007, and is evaluating alternatives for the remaining 800 sites for which DSL/Cable Broadband is currently unavailable or have other connectivity issues. By replacing dial-up connections with high-speed access at all base plants, FSIS will be equipped with a fully-integrated, real-time communications infrastructure that gives the agency the ability to instantly detect and respond to abnormalities or weaknesses in the system to best monitor humane handling and slaughter enforcement, safeguard public health, and ensure food safety and food defense.

The agency will also continue its development of a reporting tool which will link the HAT system to other agency databases through a web-based system, for which the remaining $1.5 million is earmarked. As part of the agency's communications infrastructure, this reporting tool will allow inspection program personnel in the

District Offices and headquarters to access HAT data along with other food safety verification data, thereby providing the agency with a powerful management control tool for improved and consistent enforcement of the Humane Methods of Slaughter Act (HMSA).

*Question.* How much funding is required to maintain this technology?

Answer. Ongoing charges for the 1,500 broadband locations are expected to be $3 million of base funding annually. USDA is currently evaluating connectivity alternatives for the remaining 800 base plant sites, so funding estimates are unavailable at this time.

COOPERATIVE SERVICES

*Question.* You commissioned an outside review of the programs and services provided by Cooperative Services at the Rural Business-Cooperative Services agency. Can you discuss the results of the review?

In addition, what steps will USDA take to ensure the unique structural and economic advantages of member-owned and controlled cooperatives will continue to be supported by USDA and its programs?

To support cooperatives, what steps have you taken to fill positions in the field at Co-op Services that are for cooperative development?

Answer. The Administration contracted for an outside program review of Cooperative Programs. The review was conducted by a committee comprised of industry leaders and members of academia and was charged with identifying improvements or changes that would assist today's rural cooperatives and promote opportunities for leveraging the current Cooperative Programs' programs and capacity to support a broader range of cooperative strategies and approaches to building economic vitality in rural areas.

The committee's recommendations focused on three primary areas—the expansion of the Cooperative Program's mission, the need for an infusion of new intellectual capital, and the adoption of a regional approach for providing cooperative services in rural communities. The committee recommended that Cooperative Program's mission be expanded to include alternative cooperative models and organizations, as well as non-agricultural cooperatives. The traditional cooperative model was seen as too restrictive, and the recommendation was made to include new generation cooperatives, LLCs, and other innovative "self-help" business models. The committee also found that cooperatives and other "self-help" organizations that focus on housing, consumer services, health care, consumer goods, employer-ownership, small business purchasing, and other areas could be useful and important tools for rural economic development and improving the quality of life in rural areas. Finally, the committee recommended a partnership between regional Rural Development offices and rural cooperative development centers to provide information, education, and legal and development assistance. Rural Development is taking these recommendations under review.

Rural Development's cooperative programs (CP) include the Value-Added Producer Grant (VAPG), the Rural Cooperative Development Grant (RCDG), and the Agricultural Marketing Resource Center (AgMRC) programs that devote major parts of their programs supporting and developing member-owned cooperatives. The RCDG program is budgeted at $4.95 million for fiscal year 2007. Rural Cooperative Development Centers are awarded funds for the purpose of providing assistance to groups wishing to form cooperatives, as well as for providing assistance to existing cooperatives in rural areas. Member-owned cooperatives are encouraged and made specifically eligible for the VAPG program. However, the VAPG program is a competitive program that does not set aside specific support for cooperatives or any other type of applicant. In addition, CP provides support to member-owned and controlled cooperatives through the Rural Development Salaries and Expenses account by researching cooperative issues, by providing cooperative development technical assistance, by providing cooperative education and other technical advisory services, and by reporting on the financial health of the agricultural cooperative sector. Rural Development is taking these recommendations under review.

*Question.* Mr. Dorr, you have recently stated that Persian Gulf countries are showing an interest in investing in U.S. ethanol plants and you have said, "If you don't own [these plants] as agricultural producers, someone else will and you're going to be working for them".

Do you think that agricultural producers and rural cooperatives have a roll in producing renewable fuels or have they already lost out to the large corporate interests? Have your dire warnings come too late?

Answer. Renewable energy is, and will continue to be a big part of America's energy solution. From 2001 through 2005 ethanol production more than doubled from

under 2 billion gallons per year to about 4 billion gallons per year. Government investment, especially in recent years, has helped agricultural producers and rural cooperatives play a major roll in production of renewable fuels and will continue to assist in the growth of the renewable fuels sector. For example, from fiscal years 2001 through 2005, USDA Rural Development invested nearly $84 million in 89 guaranteed loans and grants to assist with development of ethanol facilities throughout rural America. Many of these facilities are owned and operated by agricultural producers and by cooperatively organized entities.

We sincerely hope that agricultural producers, rural cooperatives, and rural residents will continue to be major sources of investment in renewable fuels. We want the people and businesses in rural communities to share in the returns to investment and the local development that is stimulated by local business ownership. As we look at the projects being started across the country we see that local money is still flowing in. What we are seeing as well, however, is that the big institutional investor, domestic and foreign, is seeing those high returns too. We would like to see that institutional interest in renewables serve as a tremendous way to leverage local investment.

*Question.* Mr. Dorr, your mission is to support Rural America and rural interests and, I think you agree, not large multi-national or foreign corporations.

Do you think that the budget proposal will provide adequate capital to small producers or cooperatives to move into the renewable fuels industry?

Answer. USDA Rural Development has several funding tools and opportunities, including direct and guaranteed loans and grants, to support investment by small agricultural producers and rural cooperatives and help move these entities into the renewable fuels industry. Most of these programs are relatively small in terms of budget authority. Collectively, however, they provide a highly flexible portfolio of management strategies and funding options with which to address the unique circumstances of agricultural producers and cooperatives we serve. The Renewable Energy/Energy Efficiency Loan and Grant Program (Section 9006) provides financial assistance specifically targeted to the industry. In order to ensure adequate capital for small producers under this program, the Section 9006 final rule, published in July of 2005, calls for the provision of priority selection points for small agricultural producers.

*Question.* Do you think the mix of grants-to-loans that you propose will be enough to make sure these groups can get a fair shake in this growing industry?

Answer. Rural Development will continue to extend support to agricultural producers and cooperatives for the development of renewable fuels from the full range of our business lending and investment programs. These funding programs, coupled with private sector leverage, will continue to assist rural small businesses and small agricultural producers in increasing their access to the growing renewable energy industry. In addition, continued simplification of application processes for small entities will encourage increased participation from that sector. Finally, as mentioned above, we have placed increased emphasis on supporting small agricultural producers through the priority selection process.

*Question.* How do you justify the reductions you propose when the opportunities, and the stakes, are so great?

Answer. One of USDA Rural Development's primary roles in nurturing the renewable fuels industry will be to encourage private sector investment to maximize the benefit of Federal funding. By leveraging Federal dollars with private investments, we can spread resources. By fostering partnerships with State, local, and tribal governments, community development organizations, and for-profit and not-for-profit companies, Rural Development can help to grow State and local renewable energy policies that will support further investment. To ensure that small projects are not overlooked, we will continue to emphasize the use of grants when they are needed and to increase utilization of loan guarantees when possible. This will continue to allow us to serve the neediest entities while increasing loan-based financial assistance to the target market. In fiscal year 2007, we will be looking for ways to better target all available program resources to meet the growing demand in the renewable fuels industry.

*Question.* Please provide us a breakdown, by program, for all the funds under your mission area for fiscal year 2007 that can be used to support renewable fuels development by farm organizations and rural cooperatives.

Answer.

[The information follows:]

FISCAL YEAR 2007 PROPOSED FUNDING TO SUPPORT RENEWABLE FUELS DEVELOPMENT

| Loan/grant description | Fiscal year 2007 projected funding levels | Fiscal year 2007 Projected Funding Activities for Renewable Energy |
|---|---|---|
| Business and Industry Guaranteed Loan (B&I) | $990,000,000 | $16,000,000 |
| Rural Economic Development Loan | 34,600,000 | 400,000 |
| Rural Economic Development Grant | 10,000,000 | 400,000 |
| Value Added Producer Grants | 19,280,000 | 2,500,000 |
| Section 9006 Renewable Energy Grants and Guaranteed Loans | 7,920,000 | 7,920,000 |
| Section 9006 Renewable Energy Guaranteed Loan | 34,600,000 | 34,600,000 |
| Section 9008 Biomass R&D Grants | 12,000,000 | 12,000,000 |
| Electric Program Loans | 700,000,000 | 200,000,000 |
| TOTAL | 1,732,420,000 | 273,820,000 |

*Question.* Mr. Dorr, USDA has a long history of running a well-managed guaranteed rural homeownership program through a private-public partnership with over 2,000 lenders. In fact, in fiscal year 2005, over $100 million in housing loans were provided in the rural areas of my home State. Of that amount, 32 percent benefited low and very-low income families.

I now see you are raising the origination fee for these loans from 2 percent to 3 percent, while interest rates are rising, and I must admit I am puzzled. An origination fee of 3 percent is extraordinarily high for this targeted market and almost unheard of in the housing industry. For fiscal year 2003, you stated you were lowering this fee from 2 percent to 1.5 percent to lower the so called "barriers" to achieve the President's Initiative of increasing minority homeownership.

Why was it considered a "barrier" then and not now, and how do you justify increasing what you personally identified as a "barrier" to an unprecedented level?

How will your increased fee with rising interest rates help you meet or exceed the President's goal of providing increased homeownership rates to low and very low-income families, especially minorities?

Answer. Homeownership, particularly minority homeownership, is still a key Administration objective. In fiscal year 2003, fees presented a barrier to homeownership for some prospective minority borrowers because they had to pay the fees at closing. We helped eliminate that barrier by allowing the entire fee to be financed into the loan by increasing the amount we can lend up to 103 percent of the appraised value of the home.

Additionally, we have no requirements for down payment or mortgage insurance, so even with the fees, monthly payments remain reasonable. The higher fee would only result in a $6 increase in the average monthly payment for most customers. We closely monitor the other fees charged by participating lenders in our SFH guarantee program to ensure that fees charged are reasonable.

Raising the guarantee fee saves approximately $35 million in Budget Authority for fiscal year 2007. This is a significant savings. Realizing savings like this while at the same time maintaining effective programs like 502 guaranteed loans is the balance USDA Rural Development is trying to achieve.

THE USDA LOAN PROGRAM

*Question.* Also as part of your request, you are asking lenders to certify they would not make a loan to a borrower using any other Federal housing program, including FHA, before making a USDA loan. The USDA program serves a rural based, lower-income population and is limited to a primary home, unlike FHA.

What data do you have that shows these programs overlap?

Wouldn't this requirement add another layer or layers of bureaucracy and most likely confuse participating lenders and drive up the originator's costs that will be passed on the borrower?

What have you heard from the lending community on both of these proposals, because, to be honest, we have heard a great deal from lenders, underwriters and national lending associations from around the country all of which were very critical of these efforts?

Answer. The Office of Management and Budget's (OMB's) Program Assessment Rating Tool (PART) indicates that the 502 guaranteed program may overlap other Federal housing programs, and may at times serve customers that could have received loans through the Federal Housing Authority or Veterans Administration.

This general provision has been proposed to preclude the potential overlap of Federal programs.

Currently, a lender must certify that they would not provide the proposed loan without a Rural Development guarantee. The proposed provision would require a lender certify that a borrower was not eligible for another Federal insured or guaranteed housing program. If the lending institution normally does not offer another Federal program, they would not be bound by this proposal.

The reaction from the lending community on the fee increase and the new certification proposal has not been positive. Higher fees and additional paperwork are not popular concepts. However, given the cost savings that would be realized from the fee increase and the elimination of potential Federal program overlaps, it is felt that benefits from these proposals are significant, can be successfully implemented, and make good program management sense.

STRENGTHENING AMERICA'S COMMUNITIES INITIATIVE

*Question.* In its fiscal year 2007 Budget, the Administration again proposes to eliminate four programs within the Department of Agriculture and consolidate those activities in the Department of Commerce with thirteen other programs from four other departments under the "Strengthening America's Communities Initiative." The four USDA programs are Rural Business Enterprise Grants, Rural Business Opportunity Grants, Economic Impact Grants, and Rural Empowerment Zones/Enterprise Communities, which annually have provided over $72 million to Rural America's most underserved communities for several years.

What assurances can you provide that rural communities will continue to receive the same level of support for these specific programs under this consolidation?

Answer. The President's Strengthening America's Communities Initiative will include eligibility criteria that will ensure funds are directed to those communities most in need of development assistance. We feel confident that rural communities will fare well when these criteria are used. USDA Rural Development has offered our expertise, assistance, and experience in program delivery in rural areas through our 800 local offices and 6,800 employees. We will continue to work with the Department of Commerce and the Department of Housing and Urban Development on the technical details of program delivery, particularly as it affects rural areas.

*Question.* What studies indicate that this initiative will more effectively deliver these specific programs?

Answer. The initiative is designed to streamline a number of programs that provide regional economic assistance to communities, and will include eligibility criteria that will ensure funds are directed to those communities most in need of development assistance. While Rural Development has not conducted any studies of the initiative, we are confident that rural communities will fare well when these criteria are used. USDA Rural Development has offered our expertise, assistance, and experience in program delivery in rural areas.

*Question.* If any of these four programs will experience any funding reduction under this consolidation, please indicate the amount of the reduction and provide detailed justification for each reduction.

Answer. A total of $327 million is proposed for the economic development component of the restructured Initiative. Further distributions of funding by program area have yet to be determined. Again, we believe rural America will be well served as the eligibility criteria will direct resources to those rural communities most in need of assistance, and USDA Rural Development expects to be heavily engaged in program development, implementation, and delivery.

SECTION 515

*Question.* The budget eliminates the section 515 rural rental housing program. Since 1963, the Agriculture Department has made loans for affordable rental housing in rural areas. The section 515 program is the only Federal program providing direct, subsidized loans (1 percent) to finance rural rental housing. According to a recent USDA report, there is a substantial need to repair and renovate section 515 housing. The portfolio contains 450,000 rented apartments in section 515 developments. The average 515 tenant income is little more than $9,000, which is equal to only 30 percent of the Nation's rural median household income. Sixty percent of the tenants are elderly or disabled and one-quarter are minority. The existing Section 515 portfolio is aging. Of the 17,000 developments across the country, close to 10,000 are more than 20 years old. To maintain this stock, it will take a commitment of Federal funds for restoration. It's hard to argue that rural America does have a housing crisis. According to the 2000 Census, there are 106 million housing units in the United States. Of that, 23 million, or 23 percent, are located in non-

metro areas. Many non-metro households lack the income for affordable housing. The 2000 Census reveals that 7.8 million of the non-metro population is poor, 5.5 million, or one-quarter of the non-metro population, face cost overburden, and 1.6 million of non-metro housing units are either moderately or severely substandard.

Why has the Administration proposed to end a program that for over 40 years has financed over 500,000 units of affordable housing with very few delinquencies or defaults and why is RHS giving up on providing affordable rental housing for over seniors and families?

Answer. Rural Development has not given up on providing affordable rental housing. The President's fiscal year 2007 budget proposes $74 million to continue the new vision for Multi-Family Housing programs.

The Administration proposes to create a new source of funding to rehabilitate 515 properties. The Comprehensive Property Assessment (CPA) found that 90 percent of the properties lacked sufficient cash and reserves to prevent economic obsolescence.

Already, over 100 properties are lost from the program each year. This number will rise quickly in coming years as deferred maintenance overtakes the 17,000 remaining properties in the portfolio. This is a much bigger threat to the portfolio than prepayment. Furthermore, in a few years loans will begin maturing; unless 515 property owners have equity in their property, many may be lost to the private market.

The Administration's multi-family housing proposal allows property owners to restructure their loans. With this restructuring USDA will exchange debt service payments on the loan to provide cash for rehabilitation, and the property owner will sign up for another 20 years providing affordable housing.

The new restructuring tools that are key components in our proposed revitalization legislation will allow us to assure that resources are available to revitalize the vast majority of properties in our portfolio where the owner elects to stay in the program. These restructuring tools, primarily the use of debt deferral, will create the opportunity to add additional debt to take care of immediate rehabilitation needs.

One way to look at this restructuring process is to view it as a "fix-up vs. build" decision: it costs $85,000 on average to build a new affordable housing unit, but only $20,000 per unit to rehabilitate what we currently have. The vision, then, is to secure the valuable national asset of a large affordable rural rental housing portfolio, for the longest period, at the lowest cost to the government, at the greatest benefit to tenants, owners, and communities.

The Administration's fiscal year 2007 Budget proposes more new construction for multi-family housing. It does this by doubling funds for Section 538 guaranteed loans, thereby increasing dramatically the loan amounts available. The section 538 program works in partnership with other financing entities to create affordable housing. More than 80 percent of the closed loans in the portfolio have 9 percent tax credit dollars. Many tenants in section 538 properties have section 8 vouchers which assist the tenants in keeping section 538 housing affordable. The program also offers interest credit subsidies that assist in lowering the interest rate throughout the term of the loan. The subsidized interest rate keeps rents low for tenants.

*Question.* According to the Department's Comprehensive Property Assessment, repair and renovation of the section 515 portfolio is a far greater problem—in terms of number of units—than prepayment. The Comprehensive Property Assessment indicated the need for some 50,000 vouchers for families unlikely to be displaced by sale of certain section 515 development and estimated over $2 billion was needed to repair and restore the existing portfolio. Rural Housing Service (RHS) has used section 515 to finance this sort of repair and renovation activity. In fiscal year 2006, RHS will commit at least $50 million to repair and restore the existing portfolio.

How many 515 projects have been repaired using the 538 program and how many projects would you predict would be rehabilitated with the 538 program at the President's budget request?

What statutory barriers exist for the 538 program to refinance and/or repair a 515 project with HUD or USDA rental assistance attached to it?

Answer. This is the first year of using 538 financing to renovate existing 515 properties. Currently, we estimate that in fiscal year 2006, 10 properties in the 515 portfolio will receive lender provided funds with a 538 guarantee. At the fiscal year 2007 President's budget request amount of $198 million, we expect to finance approximately 20 to 30 existing 515 properties.

There are no statutory barriers which would preclude section 538 financing on an existing 515 project. However, section 515 owners do not have to refinance their loans in order to finance repairs or to restore their developments. If a section 515 owner wants to finance repairs with a 538 loan guarantee, the section 538 program provides an interest credit down to the applicable Federal rate at the time the loan

closes (currently approximately 4.6 percent). The interest rate difference is only part of the story. The cost of making section 538 funds available is significantly less to the Federal Government than through the Section 515 program. We would also consider the section 538 guaranteed funds to be only one of many sources of funding for rehabilitation purposes that can be made available to existing 515 projects.

VOUCHERS

*Question.* The fiscal year 2007 budget proposes $74 million for vouchers and indicated that some of this money will be used for portfolio restructuring.

What is the planned breakout between expenditures for restructuring and vouchers—in both dollars and units?

Answer. The 2007 Budget addresses the displaced tenant issue with the funding of vouchers and hopes to be able to address the dilapidation issue if the restructuring authorization is passed. The 2007 Budget includes $74 million to continue the multi-family housing revitalization proposal that was initially proposed in the 2006 Budget. This funding will be used primarily for housing vouchers, good for 12 months, for residents of projects whose sponsors prepay their outstanding indebtedness on USDA loans and leave the program. The specific dollar amount and number of tenants is dependent on the number of properties that pre-pay, their location, and the market conditions at the time. In addition, the Administration is proposing that 2007 appropriation language provide the flexibility to use the $74 million for debt restructuring and other revitalization incentives that we expect to be authorized before or during 2007.

*Question.* The fiscal year 2006 budget requested $214 billion for vouchers alone. The fiscal year 2007 budget requests much less for vouchers—$74 million—and proposes to use some of that for restructuring.

What has changed in the last year so that the administration can request only about one-third of the fiscal year 2006 budget for vouchers?

Answer. The Comprehensive Property Assessment (CPA) found that 10 percent of the properties (approximately 1,700) could be economically viable to prepay if permitted. This is estimated to be about 46,000 units, with approximately one-third of the prepayments occurring in each of the first three years. The fiscal year 2006 budget reflected vouchers needed in the first year funded under the assumption they would last 3 to 4 years and provided administrative funds to establish the Office of Portfolio Revitalization. The fiscal year 2007 budget reflects vouchers needed in the first year funded at a 1-year level.

RENTAL ASSISTANCE

*Question.* The budget proposes to reduce the term on rural rental assistance contracts from 4 years to 2 years.

If this is not approved, what is the total needed to continue all expiring contracts? If this is approved, what is the projected total needed for contract renewals for fiscal year 2008?

Answer.

[The information follows:]

RENTAL ASSISTANCE PROJECTIONS

| YEAR | 4 YR RENEWALS | |
|---|---|---|
| | Number | Dollars in Thousands |
| 2006 | 66,799 | $639,126 |
| 2007 | 85,756 | 987,000 |
| 2008 | 78,567 | 1,284,564 |
| 2009 | 60,524 | 1,204,900 |
| 2010 | 73,531 | 950,000 |

RENTAL ASSISTANCE PROJECTIONS

| YEAR | 2 YR RENEWALS | |
|---|---|---|
| | Number | Dollars in Thousands |
| 2007 | 66,799 | $477,000 |
| 2008 | 85,756 | 628,000 |

RENTAL ASSISTANCE PROJECTIONS—Continued

| YEAR | 2 YR RENEWALS | |
|---|---|---|
| | Number | Dollars in Thousands |
| 2009 | 145,366 | 1,089,000 |
| 2010 | 146,280 | 1,121,000 |
| 2011 | 152,098 | 1,194,000 |

*Question.* The Administration proposes to continue new construction for farm labor housing. These units need rental assistance in order to be affordable to eligible farmworkers housing households.

Is there rental assistance for farmworker housing included in the budget request?

Answer. Yes, Rural Development's rental assistance request includes units for farm labor housing.

WATER AND SEWER GRANTS

*Question.* The budget includes a reduction in the interest rate charged to poverty level communities, which is offset by a reduction in water/sewer grants. For most rural communities, grant funds are the key to financing new systems and system improvements. These communities have the most significant problems with their water-sewer systems and lack the capacity in terms of income and population to spread the costs for improvements. It is likely that a reduction in the amount of available grant assistance will limit the ability of the communities with the greatest need to afford RUS assistance. The RUS system allows for up to 75 percent grant financing for water or sewer systems, yet typically communities only get 35–40 percent grant.

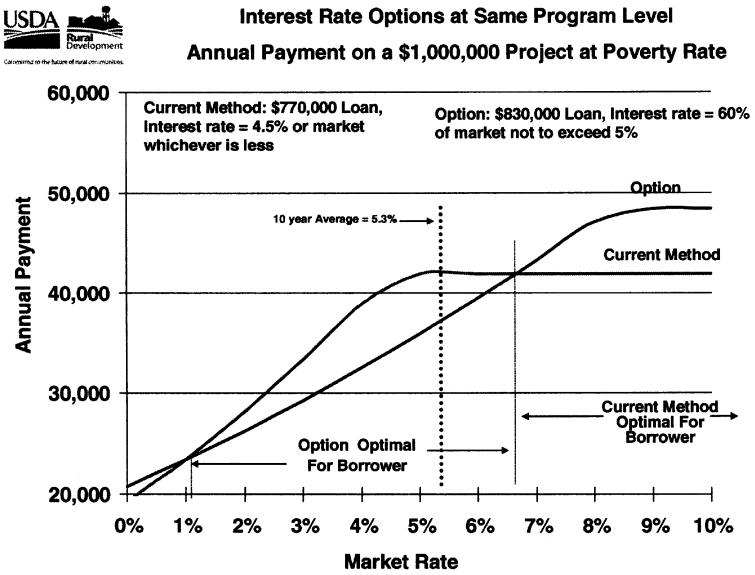
What assurance can you give the Committee that this proposal will not result in small poor communities being left out of the program or increasing the debt servicing that will have a negative impact on increased average user water and sewer bills?

Did you conduct analysis on small low-income rural communities and can you share this information with the Committee?

Answer. An applicant's debt repayment capacity is evaluated independently of the loan interest rate and based on maintaining reasonable user fees. The applicant's loan capacity is then determined based on its repayment capacity and the interest rates and terms available at the time the project is approved. With the proposed reduction in interest rates, it expects to increase most applicants' loan capacity. Grant funds will continue to be used to assist borrowers in maintaining reasonable user rates where their borrowing capacity is less than the project cost. Priority for funding will continue to be based on small communities with low income levels that must make system improvement to meet health standards.

The chart below describes our analysis of the revised interest rate structure in funding a loan and grant project with the same level of budget authority. Using data available at the time the President's budget was being developed, the chart shows the market rate range where the revised interest rate structure will result in lower annual loan payments. Since the historic market rate falls within that range, we concluded our revised interest rate structure would better serve our borrowers in maintaining reasonable user fees. Rural Development has determined that because this assists all communities, it will help the small low-income rural communities as much or more than those between 5,000 to 10,000 populations.

[The information follows:]




ORGANIC RESEARCH

*Question.* The 2002 Farm Bill established the Organic Research and Extension Initiative to fund organic agricultural research at the level of $3 million for each of the subsequent 5 years. When combined with the Organic Transitions Program, this joint Integrated Organic Program has been disbursing about $4.5 million to fund organic research annually.

How does the competitiveness of this program compare to other of the integrated grant programs (e.g. section 406 grants)?

Answer. In 2005, the Integrated Organic Program received 82 proposals requesting $39 million and the competitive review panel deemed 42 of the proposals requesting $23 million as high quality and fundable. To stay within the approximately $4.7 million available to the program, 8 proposals were recommended for funding, which represents 10 percent of all submitted and 19 percent of those that were determined to be fundable.

In 2005, the Crops at Risk Program received 22 proposals requesting $7.4 million and the competitive review panel deemed 9 of the proposals requesting $3.4 million as high quality and fundable. To stay within the $1.3 million available to the program, 5 proposals were recommended for funding, which represents 23 percent of those that were determined to be fundable.

In 2005, the FQPA Risk Avoidance & Mitigation Program received 18 proposals requesting $25.6 million and the competitive review panel deemed 12 of the proposals requesting $17.6 million as high quality and fundable. To stay within the $4.2 million available to the program, 4 proposals were recommended for funding, which represents 22 percent of those that were determined to be fundable.

In 2005, the Methyl Bromide Transitions Program received 19 proposals requesting $6 million and the competitive review panel deemed 11 of the proposals requesting $3.9 million as high quality and fundable. To stay within the $2.9 million available to the program, 9 proposals were recommended for funding, which represents 47 percent of those that were determined to be fundable.

*Question.* Please describe any plans CSREES has to increase its level of support for organic agricultural research.

Answer. The quality of proposals being funded through the Integrated Organic Program and low percentage of high quality proposals funded suggest that increased funding for the Integrated Organic Program would be effectively used. In the 2007 President's budget, the program is funded under the NRI. The agency is assessing

how organic research is currently supported through allied programs and how this support could be increased, if appropriate. For example, a number of National Research Initiative programs support basic and applied research directly and indirectly related to organic production, marketing and environmental interdependencies. It may be possible to increase support for organic agricultural research by increasing staff awareness of organic research needs and by adapting Requests for Applications to reflect the increasing interest of the USDA in organic production and marketing systems, as well as potential implications to the environment, rural communities and long term competitiveness in the United States products.

ORGANIC AGRICULTURE

*Question.* The 2002 agricultural census contained only 2 questions on organic operations, providing little information about the scope of the industry. What is NASS's plan to gather more information to document demographic and economic trends in the organic sector?

Answer. NASS has expanded the Organic Section for the 2007 Census of Agriculture. NASS staff consulted with other USDA agencies and organic grower organizations to develop a more comprehensive Organic Section that will better address the needs of the data user community. This data will allow NASS to publish the organic data in conjunction with the economic and demographic data already collected on the census. The result will be a more complete picture of the organic sector of American agriculture.

*Question.* We understand that NASS has suggested they could better address data on the organic industry by doing a follow up survey to the 2007 census sent only to certified organic operations. Is it possible to include this organic survey as an addendum (included with) the main agricultural census?

Answer. The 2007 Census of Agriculture will collect information on certified, transitional, and non-certified organic agriculture. In combination with other data collected in the census of agriculture, NASS will be able to produce cross tabulations providing the most comprehensive data set available on the organic sector.

The main barrier to inserting an addendum into the 2007 Census of Agriculture is the inability to easily pre-identify the producers in all sectors of organic agriculture. Industry experts have indicated information is needed on certified, transitional, and non-certified organic producers. While it may be possible to pre-identify certified producers, it would be virtually impossible to pre-identify the others.

*Question.* Of 15 project areas in the NRI competitive grants program, I have been informed that only 2 of them have funded projects that contain an organic agriculture element within them. These are Managed Ecosystems and Agricultural Prosperity for Small and Medium-Sized Farms. However, I have also been informed that since 2003, there have been no grants made that specifically fund organic production research, though five projects that had some aspect pertaining to organic marketing were funded through the Agricultural Prosperity program in 2005. How could organic be better represented through more program areas of the NRI?

Answer. Organic research, extension, and educational issues are applicable to the majority of the NRI competitive grants programs. In the past, the majority of projects funded have been through the Managed Ecosystem program and its predecessor, the Agricultural Systems program. Between the fiscal years 2003 and 2006, six projects have been funded through the Managed Ecosystem program for an award amount of $1,976,127. Three of these projects are related to increasing production in cropping systems through more efficient cycling of nutrients and better understanding of soil biological processes. Two projects compared apple production systems between organic, conventional, and integrated systems. Results from the apple projects were published in an article in Science.

As you mentioned, the new Agricultural Prosperity for Small & Medium-Sized Farms program funded two projects on organic agriculture during its first year. One project was from a social perspective looking at the role of women farmers in sustaining small farms and rural communities. The second project was on production systems transitioning to conservation tillage practices. The 2006 fiscal year projects have not been announced, but we anticipate additional projects related to organic agriculture will be funded.

In addition to the Managed Ecosystem and the Small Farms program, six other programs have been involved in funding organic agriculture projects between fiscal years 2001 and 2006. These programs illustrate the diversity of topics that can support organic research interests through NRI programs. Programs that have funded projects directly related to organic agriculture are the Biology of Plant-Microbe Associations, Soil Processes, Biologically Based Pest Management, Biology of Plant-Microbe Associations, Agricultural Markets and Trade, and Rural Development. Re-

search questions being addressed under these programs range from "Population Migrations of Phytophthora Infestans in Organic and Conventional Agricultural Production Systems" related to potato blight in the Biology of Plant-Microbe Associations program, "Microbial Community Structure in Relation to Organic and Conventionally Farmed Desert Soils" related to soil health in the Soil Processes program, "Dispersal of Phytophthora capsici in Soils from Conventional and Organic Agroecosytems" looking at how organic practices can control disease in the Biologically Based Pest Management program, "Population Migrations of Phytophthora Infestans in Organic and Conventional Agricultural Production Systems" in the Biology of Plant-Microbe Associations program. Social and economic issues can be addressed through the Agricultural Markets and Trade and Rural Development programs. Examples of funded topic are "Experimental Investigation of Interactions in Willingness to Pay for Certified Organic and Non-Genetically Modified Foods", "The Demand for Alternative Foods: Perceptions and Characteristics of U.S. Shoppers", and "Generational Transfer of Alternative Farms as Rural Development in the Northern Great Plains Region".

Projects can impact or inform organic producers, but may not be directly identified as an organic research project. These projects provide examples of the breath of issues that are facing the organic producer, which can be addressed through NRI programs. There were 16 NRI programs that funded projects that are potentially relevant to organic research in fiscal years 2004 and 2005. The areas of research vary from use and management of manures, growth and health of animals, weed dynamics, soil biological processes and nutrient cycles, air quality from animal systems, bio-control of insects, biodiversity of systems, to health aspects encouraging vegetable consumption. NRI funding for these projects was at a level of $16,691,097.

An emerging area of interest for the organic producer is in being able to use generally accepted practices of conservation, enhancing biodiversity, soil enrichment, and recycling on inputs to increase the economic value of organic production practices. Several programs in the NRI are expanding our focus on ecosystem services and market valuation of these practices. For example the Markets and Trade and Managed Ecosystem programs have funded 10 projects that will lead to adoptions of conservation practices or evaluate market potentials for ecosystem services. This is a new opportunity for research, extension, and educational activities in support of organic agriculture.

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## QUESTIONS SUBMITTED BY SENATOR TOM HARKIN

### RISK MANAGEMENT AGENCY

*Question.* In your written testimony, you referred to the President's request to fund 15 additional staff years for the Risk Management Agency to provide better oversight of the crop insurance program so as to avoid problems such as those that resulted in the failure of the American-Agrisurance insurance company in 2002. Please describe in greater detail what functions those additional staff would perform that would have such an impact?

Answer. RMA has requested the additional staff for the Compliance offices to provide more effective program oversight, strengthen the front-end reviews of approved insurance providers, and to address outstanding OIG recommendations to improve company oversight and internal controls.

Increased staffing will assist Compliance with ongoing efforts pertaining to quality control and assurance requirements and the increased workload associated with increases in program size and complexity. These efforts will clearly improve RMA's ability to deter waste, fraud, and abuse through better internal controls and monitoring. The ability of the Compliance staff to maximize automation and other efficiencies to offset limited personnel resources has reached a peak, and it is necessary to increase actual numbers of people at this time or alternately reduce some activities. Reducing any of our ongoing activity would be a hard choice since every activity Compliance engages in is based on statutory or approved program requirements. Compliance uses various methodologies to limit the number of policies selected for review (dollar thresholds, etc.) and refers complaints and other related issues back to the Approved Insurance Providers for their review and response. However, accomplishing more of this work with RMA Compliance staff would provide greater assurance and control over the results.

The addition of two staff to each of the six Regional Compliance Offices is intended to assist with the additional workloads associated with performing random policy reviews associated with determining a program error rate under the Improper Payments and Information Act of 2002 (IPIA). During the last decade, Compliance

greatly reduced the numbers of random policy reviews it performed. Requirements in the previous Standard Reinsurance Agreement for the companies to randomly review policies annually, provided mixed and/or wholly unusable results that RMA deemed unsatisfactory, especially for establishing the required Program Error Rate. Presently, Compliance has taken resources away from other review activities to supplement the required IPIA random reviews. The additional staff will permit each office to recover some of the effort in these other areas.

*Question.* For fiscal 2007, the President is seeking $109 million to fund computer upgrades at various agencies in the Department of Agriculture, a recurring request for the last several years. Why is Risk Management Agency the only entity within USDA for which the President is proposing to assess private sector partners the cost of upgrading the Agency's computers, by imposing a half cent fee on every policy sold by crop insurance companies?

Answer. The Federal-Private sector partnership that makes up the Federal crop insurance program is unique among USDA programs. The delivery of the Federal crop insurance program is provided through a network of private sector insurance companies who are reimbursed by the Federal Government for their delivery costs. The companies are also able to earn underwriting gains in years of favorable loss experience. For the 2005 crop year, the total compensation paid to participating insurance companies is expected to approach $1.8 billion and more than $10 billion over the last decade.

While private sector companies deliver the crop insurance program, the USDA Risk Management Agency (RMA) information technology (IT) system is critical to its ongoing operation. The RMA IT system is used to maintain a wide array of vital program information including acreage and production information on about 1.2 million policies, and provides critical internal controls for mitigating program vulnerabilities. The RMA IT system also maintains actuarial data for over 368 crops in over 3,000 counties Nation-wide. The private sector insurance companies need to access the RMA IT system and data on a daily basis in order to conduct business. The existing RMA IT system has been in place for over a decade and is reaching the end of its life expectancy. The system is becoming increasingly difficult and expensive to maintain and recent years have seen increases in computer downtime which threaten the operation and security of the Federal crop insurance program.

The Administration's proposal recognizes the urgency of RMA IT funding needs in light of previous budget requests that have gone unfunded. The Administration believes the private insurance companies are a primary beneficiary of efficient, effective and more advanced computer systems, and thus it is not unreasonable to have the companies contribute to the modernization and maintenance of the IT systems which they rely upon to accrue considerable financial benefits. In addition, the new IT systems will likely contribute to improved and more efficient compliance with Congressional mandates pertaining to data mining and data reconciliation/data sharing, which has a direct impact and associated cost to the insurance companies.

MARKET ACCESS PROGRAM

*Question.* Why does the President's budget propose to reduce funding for the Market Access Program (MAP) by 50 percent?

Answer. The proposal to limit funding for MAP in 2007 reflects the Administration's efforts to reduce the Federal deficit. It should be noted that even if the program is limited to $100 million in 2007, that level is still higher than the $90 million program level that was authorized for MAP prior to the 2002 Farm Bill. Reducing the deficit is a key component of the President's economic plan and will help to strengthen the economy and create more jobs. Farmers, ranchers, and other residents of rural America understand the importance of a healthy economy, which raises incomes and increases demand for their products. This and other deficit reduction measures will contribute to a more prosperous future for our citizens.

*Question.* Has some problem been detected with the program, or has it been determined that it is no longer necessary to assist U.S. agricultural exporters?

Answer. Expanding overseas markets for agricultural products is critical to the long-term health and prosperity of the U.S. farm community. This Administration is convinced that, given our advantages in agricultural productivity and low cost of production vis-a-vis the rest of the world, the future of our farmers and ranchers lies in the export market. FAS' international activities, including MAP, play a critical role in helping open new markets, pursuing the emerging growth markets of tomorrow, and maximizing the opportunities offered by trade liberalization and growth in global food demand. FAS' market development programs were reviewed in accordance with the Office of Management and Budget's Program Assessment Rating Tool in 2005 and received a score of 75 with a "Moderately Effective" rating.

The current budget situation requires hard choices and the setting of priorities. We believe that $100 million is an appropriate level for the program in light of the fiscal discipline that is absolutely necessary in times of deficit spending. It is also important to understand that, while funding for MAP is reduced, funding for all other USDA market development activities, including the Foreign Market Development Program, remains unchanged from this year's level.

WORLD TRADE ORGANIZATION

*Question.* In the Doha Round negotiations, the European Union has pushed hard to require that all international food aid be provided only on a cash basis, rather than through commodity donations as is done in U.S. programs. I find the EU proposal on food aid to be unacceptable, as do most other members of the Senate. Where do the negotiations stand on this issue?

Answer. Recently, the Agriculture Negotiations Chair, Crawford Falconer, issued a Food Aid Reference Paper, which essentially summarized the state of play on various food aid issues. The purpose of the paper is to help focus discussions on key issues in upcoming meetings. We are encouraged by the Chair's paper as it allows for in-kind, or commodity, food aid. Earlier this year, the African and Least Developed Countries (LDC) groups, which are the recipients of food aid, issued a joint submission on food aid. This paper, too, suggested that food aid disciplines should leave the door open for in-kind donations. These are encouraging developments in the food aid negotiations.

AGRICULTURAL TRADE

*Question.* Many of the bilateral disputes that have emerged in recent years in agricultural trade are highly technical in nature, typically having to do with unscientific sanitary or phytosanitary (SPS) rules or cumbersome customs or distribution requirements. What steps is USDA taking to make sure that potentially problematic rules of this kind are identified early and addressed before they hinder access for U.S. agricultural exports?

Answer. On a weekly basis FAS and U.S. food safety agencies meet to review new or revised foreign SPS regulations and assess their potential impact on U.S. exports. In 2005, USDA's World Trade Organization (WTO) Enquiry Point led a U.S. interagency process that reviewed over 600 foreign SPS regulations notified to the WTO. Based on an interagency analysis, the Enquiry Point drafted and submitted official comments on 62 foreign measures to reduce their impact on U.S. exports. In addition to the numbers above, FAS and U.S. food safety agencies also collaborated to prepare an additional dozen formal comments addressing barriers to market access for measures that were not notified to the WTO, including a number of measures implemented by China and India. FAS' overseas staff also actively monitor local government's SPS-related regulations and notify the U.S. industry and the Enquiry Point of potentially problematic regulations for further action.

FAS uses the rules of the WTO SPS Agreement to exert pressure on countries such as India and China to increase the transparency of their import regulations, thereby, allowing the United States and other countries to expose and then resolve unfair SPS import barriers. In 2005, these actions caused China to change import regulations on meat, wines, spirits, and fresh fruits. U.S. exports to China of these products grew from $142 million in fiscal year 2004 to $252 million in fiscal year 2005. Similarly, India relaxed import requirements that could have blocked U.S. exports of almonds, pulses (chick peas, lentils, and peas), and other horticultural exports. Almond shipments, the top U.S. agricultural export to India, increased from $95 million in fiscal year 2004 to $118 million in fiscal year 2005. U.S. exports of pulses to India increased from $500,000 in fiscal year 2004 to over $3 million in fiscal year 2005.

FARM LOAN PROGRAMS

*Question.* I have heard from constituents that the emergency loan program is unnecessarily complex and, for many farmers, too restrictive to meet their legitimate needs. I note that FSA is continuing its project to streamline all farm loan program regulations, handbooks, and information collections. I believe that it is essential to complete this project and reduce the paperwork burden for all loan applicants and FSA employees as quickly as possible. How soon can borrowers expect improved loan processing procedures?

Answer. FSA has re-engineered and streamlined the guaranteed and emergency (EM) loan processes, and is in the process of streamlining the remaining direct loan making regulations and processes. These streamlined regulations will reduce the paperwork required for a loan and shorten the time it takes to process a loan. The

final rule implementing these regulations is currently in the clearance process, and we expect the regulations to be implemented in the field in early 2007. In the case of EM loans, the submission requirements have been reduced and flexibility added to the process. However, the Agency still must determine an applicant's eligibility for an EM loan, make decisions regarding loan feasibility and adequacy of collateral for the proposed loan, and comply with Federal environmental and credit policy requirements. We have endeavored to make this as easy as possible for the applicant, but these determinations require information that some applicants may find burdensome to provide.

FSA also utilizes technology to ease the application process. Applicants can access all forms necessary to apply for a loan via the internet. They may also complete and submit loan applications on-line. The Agency recently implemented a state-of-the-art business planning system that has improved loan processing response times.

*Question.* What more can FSA do to make emergency loans available to those who have suffered crop, livestock or property damage as a result of natural disasters?

Answer. FSA re-engineered the EM loan regulations and procedures in 2002. The changes made it easier for producers, particularly livestock producers, to apply for and receive EM loans. Any livestock loss, whether it is reduced production or loss of animals, is now considered a qualifying loss for EM loans. If a producer meets the statutory eligibility requirements and has suffered any property damage, they now may qualify. Additional changes were made to the method used for calculating a qualifying loss for crop producers. These changes have streamlined the application process and made EM loans more accessible to crop producers. FSA also uses available crop insurance data to expedite and reduce the burden on applicants. The new regulations allow FSA to provide EM assistance to more producers in an efficient and expeditious manner and comply with statutory requirements.

*Question.* I am going to read from the USDA Budget Summary: "The farm credit programs provide an important safety net for America's farmers by providing a source of credit when they are temporarily unable to obtain credit from commercial sources."

I fully agree with this statement, but would expand it to include the guaranteed loan programs which facilitate loans from private lenders, so I am particularly concerned that the Administration intends to shift $30 million of the cost of the guaranteed credit to the very farmers who are least able to afford the additional cost.

The Administration proposal refers to a modest increase in the fee required to obtain guaranteed loans. In fact, upfront fees for all guaranteed loans will be increased 50 percent. In addition, a proposed annual fee for multi-year farm operating loans will significantly increase the cost of credit for those farmers who obtain guaranteed unsubsidized credit lines. For some farmers the annual fee may make the difference between the ability to cash flow and the decision to quit farming. What makes this proposal even more distressing is that interest rates are rising, so farmers will face higher credit costs even before the fees are imposed.

What legal authority are you relying on to impose these fees?

Answer. The Consolidated Farm and Rural Development Act, § 307(b) [7 U.S.C. 1927], authorizes fees on farm ownership loans. The fees are not statutorily limited but are "as the Secretary may require." In the case of operating loans, Title V of the Independent Offices Appropriations Act of 1952 [31 U.S.C. 9701] authorizes fees for services or things of value provided by the Government. The statute requires that the fees or charges be based upon what is fair and on the costs to the Government.

*Question.* The budget assumes a decrease of $186,000,000 for guaranteed farm ownership loans and a decrease of $112,890,000 for guaranteed farm operating unsubsidized loans. The justification for these significant decreases is a decline in demand for the program.

To what extent do the proposed user fees contribute to the decline in program demand?

Answer. We do not anticipate that imposition of fees will have a material impact on the program demand. Historically, program demand has reacted to trends in the agricultural and general economies. Guaranteed operating loan demand has actually increased to date in fiscal year 2006 as higher energy prices, which were unforeseen during the development of the budget, have increased production costs. The demand for guaranteed farm ownership loans has declined slightly, as refinancing activity has slowed with rising interest rates.

*Question.* How many borrowers are expected to forgo guaranteed loans because of the additional and new fees?

Answer. We anticipate that very few borrowers will be forced to forgo guaranteed loans because of the additional and new fees. The amount of the fees is relatively minor as compared to the total expenses and overall borrowing of a typical bor-

rower; therefore, very few borrowers are likely to be unable to cash flow because of the increased fees.

*Question.* Has FSA conducted an economic assessment of the proposed fees on borrowers and rural lenders? If so, what are the key findings of the assessment?

Answer. FSA did not conduct a formal economic assessment of the proposed fees. However, FSA reviewed the impacts of fee increases in the Small Business Administration and USDA Rural Development programs. Fee increases on guaranteed loans from those agencies have not materially impacted the use of the programs.

*Question.* Are there adequate funds available to offer subsidized guaranteed loans or direct loans to borrowers who will be unable to cash flow guaranteed loans because of the additional fees?

Answer. We anticipate that there will be adequate funds to meet the needs of the few borrowers likely to be in that situation. Because the amount of the fees is small compared to the total expenses and overall borrowing of most guaranteed loan applicants, we anticipate that few will need to move to subsidized or direct loans as a result of the fees.

SECTION 9006 OF THE 2002 FARM BILL

*Question.* As you know, section 9006 of the farm bill's energy title, which I authored, provides grants and loans to farmers and rural small businesses for renewable energy projects and to make energy efficiency improvements. The program is very popular, and already well oversubscribed. Of course, I strongly disagree with the Administration's budget proposal to cut this program's funding by more than half. In 2004 less than 3 percent of applications for small wind and solar projects were approved and funded. What I have heard is that the scoring system USDA and DOE have established puts smaller scale distributed generation projected at a significant disadvantage to larger projects.

Why are so few small-scale renewable energy projects and such a negligible percentage of such applications for grants receiving funds?

Are you looking into ways to alter the program to give small-scale renewable energy projects a greater opportunity to participate?

Would you supply data as to how much projects have been funded the past several years, by energy category, and by the size or scale of those projects?

Answer. The Section 9006 regulation published on July 18, 2006, included a simplified and streamlined application process for small projects of $200,000 or less. To increase accessibility for smaller projects and applicants, we expanded priority points for small agricultural producers and small rural businesses. We are in the process of developing application worksheets to help guide smaller applicants through the process and provide them with tools to help improve the quality of applications. In fiscal year 2007, we are looking for ways to better target the resources to give small scale projects a greater opportunity to participate.

SECTION 9006 AWARDS, FISCAL YEAR 2003–2005

| | Small Projects [1] | | Large Projects [2] | |
|---|---|---|---|---|
| | Award ($) | Number | Award ($) | Number |
| Grants: | | | | |
| Anaerobic Digester | ..... | ..... | 21,973,493 | 82 |
| Bioenergy | 233,521 | 10 | 7,547,719 | 27 |
| Energy Efficiency | 2,068,455 | 132 | 2,861,488 | 33 |
| Geothermal | 130,848 | 3 | 249,435 | 1 |
| Hybrid | 26,457 | 2 | 2,413,375 | 7 |
| Hydrogen | ..... | ..... | ..... | ..... |
| Solar | 229,883 | 12 | 1,212,360 | 5 |
| Wind | 434,712 | 24 | 27,374,804 | 97 |
| Grant Totals | 3,123,876 | 183 | 63,632,674 | 252 |
| Guaranteed Loans: | | | | |
| Bioenergy | 100,000 | 1 | 10,000,000 | 1 |
| Loan Totals | 100,000 | 1 | 10,000,000 | 1 |
| Total Number | 437 | | | |

SECTION 9006 AWARDS, FISCAL YEAR 2003–2005—Continued

| | Small Projects [1] | | Large Projects [2] | |
|---|---|---|---|---|
| | Award ($) | Number | Award ($) | Number |
| Total Awards ($) | 76,856,550 | | | |

[1] Small Projects=projects with total eligible project cost of $200K or less.
[2] Large Projects=projects with total eligible project cost greater than $200K.

Value-added Producer Grant (VAPG) applications, especially those seeking funds for planning purposes, do not necessarily indicate size or scale of the proposed project. Therefore, an accurate measure of the number applicants proposing small-scale energy projects is not available.

Beginning in 2006, VAPG evaluation criteria provide for priority points to be awarded to farm-based renewable energy project applications.

Following is a breakdown of VAPG-funded energy projects by number of projects, amount funded, and category for 2001–2005.

VAPG-FUNDED ENERGY PROJECTS

| Project | Fiscal year 2001 | | Fiscal year 2002 | | Fiscal year 2003 | | Fiscal year 2004 | | Fiscal year 2005 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | No. | Amount | No. | Amount | No. | Amount | No. | Amount | No. | Amount |
| Ethanol | 9 | $3,461,704 | 22 | $4,824,323 | 11 | $1,849,620 | 6 | $988,986 | 14 | $1,519,500 |
| Biodiesel | 2 | 1,000,000 | 4 | 1,246,000 | 9 | 1,783,225 | 4 | 621,099 | 9 | 789,377 |
| Solid fuel | 1 | 470,000 | 4 | 272,567 | 1 | 50,000 | ..... | ..... | 1 | 110,000 |
| Anaerobic | ..... | ..... | 1 | 65,429 | ..... | ..... | 2 | 135,000 | 3 | 188,975 |
| Wind | ..... | ..... | 2 | 298,000 | 2 | 14,812 | 1 | 128,000 | ..... | ..... |
| Solar | ..... | ..... | ..... | ..... | ..... | ..... | 1 | 73,332 | | |
| Other | ..... | ..... | 1 | 250,000 | 1 | 101,920 | ..... | 3 | 358,435 | ..... |
| Total | 12 | 4,931,704 | 34 | 6,956,319 | 24 | 3,799,577 | 14 | 1,946,417 | 30 | 2,966,287 |

SECTION 9002 BIOBASED PRODUCTS

*Question.* As you know I talked with the Secretary about the biobased products rule coming out a few weeks ago. We had a good conversation. I want to thank you as I did the Secretary for getting to this point. Specifically how many items do you expect to designate for preferred procurement by the end of this calendar year?

Answer. We currently have six items designated by final rule for preferred procurement. These six items account for at least 120 specific products from 58 different manufacturers. We expect to have four additional proposed rules, with ten items each, in the clearance process or published in the Federal Register by the end of calendar 2006. When finalized, the first five rules will account for over 1,000 specific products from more than 300 manufacturers within the 46 items. USDA will continue to designate additional items as further market research and test data is obtained.

RURAL DEVELOPMENT GRANTS

*Question.* Please provide a list of Rural Development grants (including the amount granted) made in fiscal year 2004 and fiscal year 2005 to communities on the list published in the Federal Register on January 4, 2001 (66 Fed. Reg. 751) for the purpose of building rural businesses infrastructures to utilize and market products from forest hazardous fuel reduction projects.

Answer. Our research indicates that no Rural Development grants were made to organizations in the communities listed for the purpose of building rural business infrastructure to utilize and market products from forest hazardous fuel reduction projects.

IMPLEMENTATION OF TEXAS INTEGRATED ELIGIBILITY CONTRACT

*Question.* Under Secretary Bost, as you know, I have had some concerns about turning over core Food Stamp Program functions to private contractors, specifically the recent decision by the State of Texas to turn over large areas of program administration to private entities.

As you know, at the end of January, Texas began to roll out the first stage of its integrated eligibility contract in two counties surrounding the Austin area on a pilot basis. I have had a chance to review several of the site and implementation reports from this contract phase and based upon my review, I have several reasons for considerable concern.

The Weekly Post transition Status Report from the Texas Access alliance for the reporting period of 3/6/06 through 3/12/06 shows that individuals seeking assistance over the telephone are encountering major problems. This report indicates call abandonment rates of almost 55 percent and average waiting time of over 21 minutes. Given that these are average waiting times, it is obvious that many individuals are waiting longer to speak with customer service representatives.

Under Secretary Bost, what is being done to ameliorate these problems and, more importantly, please indicate what levels of telephone service you believe are acceptable. You have assured me several times, and I take you at your word, that FNS will not approve the rollout of additional project phases unless you are satisfied with the contractor performance in the previous contract phase. Under what conditions would you not approve the next contract phase? Is a 20 minute waiting time with more than half of callers giving up acceptable? What are the criteria and standards that you will use to make a decision regarding approval of the next phase of the contract?

Answer. Implementation of Texas' new system is intended to allow the State to realize the customer service improvements and potential savings that its new business model offers. USDA/FNS stewardship responsibilities require assurance that basic program standards are maintained. Our overriding issues for continuing project expansion are sustaining program access and integrity to ensure that applicants and recipients get fair, timely, and accurate service.

We recognize that any new system is likely to encounter problems during implementation, many of which can be addressed as rollout continues. Our concern is that the project not expand in the face of major problems which jeopardize access or integrity, or which warrant immediate correction. We intend to continue funding and working with the State to resolve problems and will only halt funding in the face of serious deficiencies.

Texas' recent call center performance has not been acceptable, but it has been improving. The data from the weekly status report for the week ending April 9, 2006, indicates that the call abandonment rate is 3.86 percent and the call wait time is 66 seconds. The data from the week ending March 12, 2006—approximately 1

month earlier—had a call abandonment rate of 54.5 percent and the call wait time was 1,276 seconds. Therefore, based on our monitoring of this project, we know that steps are being taken which have already resulted in improved call center operations.

USDA/FNS has developed a list of performance elements which we consider critical and appropriate for use in considering the success of initial rollouts of the Texas project. While we will be monitoring many aspects of project implementation, we will focus on these components which include: System Functionality, Customer Service, and Application Timeliness. Findings from our recent reviews found: long call wait times, high call abandonment rates, and call operators providing misinformation; as well as backlogs in data entry, and a high percentage of cases returned to the vendor due to missing or inaccurate information. We also learned that there is insufficient system testing and risk assessment. While these items may not in and of themselves be critical, taken together their cumulative effect caused us to question the readiness of the system to expand.

The decisions on the pace of rollout are complex and dynamic and must include assessment of the risks of identified problems and the availability of remedies to these problems. These must be weighed against the cost and risks of delayed implementation. Accordingly, we are not setting specific numerical standards but are reviewing and monitoring the overall functionality and capacity of the system. Based on its own assessment of readiness, the State announced a delay in its rollout to resolve fundamental operating concerns. We agree with the State's decision and continue to work closely with the State to monitor project implementation.

Note: Under Secretary Bost and Deputy Under Secretary Kate Coler traveled to Texas on May 16, 2006 to state clearly the FNS expectation that further rollout should be delayed until identified issues have been addressed. Texas stated they will not rollout the system to additional areas in the State until issues of access and integrity have been resolved. No date for future rollout has been established at this time.

IMPACT OF TEXAS ELIGIBILITY SYSTEM ON VULNERABLE GROUPS

*Question.* As you know from our prior correspondence on this matter, I have been particularly concerned about the disparate impact of the new eligibility systems for persons with low levels of literacy, persons with limited English proficiency, the elderly, and persons with disabilities.

In my previous correspondence with you, I have raised these issues several times. In a recent letter to me you responded that, "we are working to monitor the project's impact on such persons and ensure the State's continued compliance with applicable civil rights laws." Are you tracking the extent to which the new eligibility process and systems impact these vulnerable groups compared to other individuals? Please tell me specifically how you are monitoring these things. Can you provide me with any data about differential impacts of the new system on these vulnerable groups? Are you collecting any data on this at all?

Answer. Access to program benefits for all eligible persons is a priority of USDA/FNS, however vulnerable populations such as the elderly, disabled, and others with barriers to participation are of specific concern. For this reason, USDA/FNS is carefully watching for negative impacts on especially vulnerable populations. In addition, the USDA/FNS Program Access Review process includes contacting advocacy organizations, which represent the interests of a variety of vulnerable populations, to obtain their feedback on the service they have received during the food stamp application process.

USDA/FNS is conducting on-site monitoring of local offices and call centers, participating in project meetings and conference calls, and performing an ongoing review of performance reports and contractor deliverables.

USDA/FNS is monitoring Texas' project implementation in affected counties on a monthly basis. However, given the normal State reporting mechanisms, which include time needed for review of the data, the number of cases processed at the State level during the first month of project implementation in January 2006 will not be available until June 2006. County level data is normally reported only for the months of January and July; thus county data for January will be available in June/July.

FNS does not impose higher standards on Texas than exist for other States administering the Food Stamp Program, such as reporting or collecting data not normally collected as a part of routine program operations. However, we are monitoring these issues closely, in lieu of actual additional data collection. Thus far, it could be concluded that Texas' new business model actually has the potential to improve

access for special populations. We will continue to watch this aspect carefully, as Texas proceeds with its project.

NATIONAL ANIMAL IDENTIFICATION SYSTEM

*Question.* USDA expedited its plans to implement a national animal identification system after BSE was discovered in a cow in Washington State. A system such as this is extremely important to trace back the origin of animals in the event of a disease outbreak, but also to determine its exact age. In a recent BSE case in Alabama, the age of the cow has been a key issue in order to determine the effectiveness of FDA's ruminant-to-ruminant feed ban and for restoring beef trade. South Korea made it clear that it wanted certainty that the cow that tested positive for BSE in Alabama was in fact born before FDA's ruminant-to-ruminant feed ban.

Recent press accounts indicate that the national animal identification system will only track animal movements and not the age of animals. Is this correct?

Answer. Implementation of NAIS will support State and Federal animal disease monitoring and surveillance through the rapid tracing of infected and exposed animals during animal disease outbreaks. The ultimate long-term goal of NAIS is to provide animal health officials with the capability to identify all animals and premises that have had direct contact with a disease of concern within 48 hours after discovery. While age is not required to track an animal to its origin, its value in an epidemiologic investigation can be significant and producers are encouraged to report such information to the private and State databases. However, it is important that the "required" data elements be restricted to the most basic information needed to trace an animal back to its premises of origin.

What is USDA's justification for only tracking animal movements and not incorporating animal age into the system?

Answer. Producers are very much aware of the value of having records to document the age of their animals and may elect to input such data in private tracking data systems. While age is not required to track an animal to its origin, its value in an epidemiologic investigation can be significant and producers are encouraged to report such information to the private and State databases. However, it is important that the "required" data elements be restricted to the most basic information needed to trace an animal back to its premises of origin. USDA wants this system to be as easy as possible to allow for producer participation. Increasing the amount of information producers must submit could discourage the number of participants.

Why does USDA not want to know the age of animals for tracking purposes when it would provide critical information for restoring or maintaining beef trade?

Answer. The ultimate long-term goal of NAIS is to provide animal health officials with the capability to identify all animals and premises that have had direct contact with a disease of concern within 48 hours after discovery. While age is not required to track an animal to its origin, its value in an epidemiologic investigation can be significant and producers are encouraged to report such information to the private and State databases. However, it is important that the "required" data elements be restricted to the most basic information needed to trace an animal back to its premises of origin. USDA wants this system to be as easy as possible to allow for producer participation. Increasing the amount of information producers must submit could discourage the number of participants. Again, market demands will drive the reporting of additional information and will be better accepted by the affected producers.

*Question.* On January 10, of this year, a non-profit U.S. Animal Identification Organization (USAIO) was formed, at the behest of USDA, to implement and operate the animal movement database. USAIO submitted a Memorandum of Understand (MOU) to USDA to develop a strategic partnership.

Has USDA approved the MOU?

Answer. USDA has received a proposed memorandum of understanding from USAIO. USDA since published the document detailing our plan for the integration of private animal tracking databases with the National Animal Identification System (NAIS). This plan includes a draft cooperative agreement that, when finalized, will be used to establish the arrangement of all participating organizations. USDA plans to have all agreements signed in June 2006.

Will USDA exercise authority to approve or disapprove decisions made by the USAIO regarding the management and operation of the national animal tracking database.

Answer. Animal tracking databases will be managed and owned by the industry and States. As envisioned and outlined in our strategic documents, the NAIS will integrate with more than one of these private animal tracking databases. On April 6, 2006, USDA released the general technical standards that animal tracking data-

bases will need to comply with to enable their integration with the NAIS. Private database owners or those involved with the development of private databases, such as USAIO, have been invited to submit applications for system evaluation to USDA and offer feedback as the final technical requirements are established.

Should USDA find that the defined data elements are compliant with the NAIS standards, the technology architecture meets the technical requirements, and the proposed databases submitted for review meet all the other criteria, we would initiate a formal agreement with each entity responsible for compliant databases. The agreement would also detail access rights, as well as safeguards for preserving historic data if the organization discontinues operation of the database or ceases business. If and when the agreement is finalized, those databases would be noted as an authorized or compliant animal tracking system in the NAIS. The application for system evaluation and a draft cooperative agreement are available on the NAIS Web site at www.usda.gov/nais.

By early 2007, USDA expects to have the technology in place, called the "Animal Trace Processing System" or commonly known as the "metadata system," that will allow State and Federal animal health officials to query the NAIS and private databases during a disease investigation. The animal tracking databases will record and store animal movement tracking information for livestock that State and Federal animal health officials will query for animals of interest in a disease investigation.

If there is a disease outbreak, and there is an inability of USAIO to provide the necessary tracking information to USDA due to poor management decisions or technology flaws, who will be held accountable?

Answer. USDA has released the general technical standards that animal tracking databases will need to comply with to enable their integration with the NAIS. Private database owners or those involved with the development of private databases, such as USAIO, have been invited to submit applications for system evaluation to USDA and offer feedback as the final technical requirements are established.

Should USDA find that the defined data elements are compliant with the NAIS standards, the technology architecture meets the technical requirements, and the proposed databases submitted for review meet all the other criteria, we would initiate a formal agreement with each entity responsible for compliant databases. The agreement would also detail access rights, performance measures such as availability of the system, and requirements for redundancy and back-ups to ensure data is available on an as-needed basis. Also, safeguards for preserving historic data if the organization discontinues operation of the database or ceases business will be part of the agreement. If and when the agreement is finalized, those databases would be noted as an authorized or compliant animal tracking system in the NAIS. If USDA is unable to access necessary data from a compliant entity during a disease investigation, USDA may either revoke their status as a compliant entity (therefore affecting the system's marketability to producers) or take some other corrective action.

*Question.* In June 2004, I wrote Secretary Veneman expressing concern that the implementation and infrastructure of the planned national animal identification system appeared to be geared towards cattle to the exclusion of other animal species. Currently, the USDAIO is made up of only cattle or bison representatives and the database appears to not be suited for poultry or hogs.

What is USDA doing to remedy this problem to ensure that the database is least burdensome to producers and tailored to the daily functioning for operations of all animal species?

Answer. Throughout the establishment and implementation of the NAIS, USDA has engaged in extensive dialogue with producers and industry organizations across the country to gauge their views on animal identification. In April 2005, USDA published a draft strategic plan and draft program standards for the NAIS and invited public comments on those documents. Industry-specific working groups have also been studying the issue of animal identification and will be making recommendations to USDA through an established advisory committee on how best to tailor the program to meet their industry-specific needs. NAIS working groups have been established for both the poultry and swine industries, and they have been providing input throughout the developmental process.

On April 6, 2006, USDA released the general technical standards for animal tracking databases that will enable integration of private systems with the NAIS. Those involved in the development of private databases, such as the U.S. Animal Identification Organization (USAIO), were invited to submit applications for system evaluation to USDA and offer feedback as the final technical requirements are established. USDA plans to enter into cooperative agreements with organizations responsible for the databases that meet the standards. The application for system evaluation and a draft cooperative agreement are available on the NAIS website.

More than one private animal tracking database can be integrated into the overall NAIS, including those that might be species-specific.

By early 2007, USDA expects to have the technology in place, called the "Animal Trace Processing System" or commonly known as the "metadata system," that will allow State and Federal animal health officials to query the NAIS and private databases during a disease investigation. The animal tracking databases will record and store animal movement tracking information for livestock that State and Federal animal health officials will query for animals of interest in a disease investigation.

Once the entire system is designed and implemented, the market will determine which technologies are the most appropriate to meet the needs of the system. Sale barns, feedlots, and others will help determine which methods are most cost-efficient and effective. In developing the system, USDA has been accepting input from both species-specific working groups and a markets and processors working group.

Will USDA, in partnership with USAIO, be incorporating the principles and practices of existing USDA disease eradication programs into the structure and operation of the national animal identification system?

Answer. The primary objective of the NAIS is to develop and implement a comprehensive information system that will support ongoing animal disease programs and enable State and Federal animal health officials to respond rapidly and effectively to animal health emergencies such as foreign animal disease outbreaks or emerging domestic diseases. The faster animal health officials can respond to, contain, and eradicate disease concerns, the sooner affected producers can resume business as usual. USDA has been developing data standards to align with this overall concept.

GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION (GIPSA)

*Question.* On March 9, during a hearing of the Committee on Agriculture, Nutrition, and Forestry to review GIPSA's enforcement of the Packers and Stockyards Act, I asked GIPSA Administrator James Link why there had been no governmental oversight or corrective action given the high rate of staff turnover, management preventing employees from doing their jobs and management demanding that staff inflate the number of investigations listed in annual reports at GIPSA. These problems continued over the course of 5 years. James Link stated he did not know why USDA failed to take corrective action because he was not employed by USDA during that time. You have served as USDA's Deputy Under Secretary for Marketing and Regulatory programs since December 2002. You have also served as acting Under Secretary since last year. How is it possible that GIPSA was in complete disarray for so many years, yet you did not take corrective action?

Answer. Prior to my appointment with USDA, I served as the Chief Economist for the National Cattlemen's Beef Association. Due to my past connection with the cattle industry, I was recused from issues that had a direct connection to my previous employer for a period of 1 year. After this recusal period ended, I continued to distance myself from Packers and Stockyard Program issues due to a perceived conflict of interest. However, upon Under Secretary Hawks retirement and assuming the role of Acting Under Secretary, followed shortly by Jim Link's appointment as GIPSA Administrator, I worked with USDA ethics experts to assure that by inserting myself into GIPSA management that I was not crossing ethical boundaries. At such time corrective actions were taken to begin addressing the matters that have been outlined in the OIG's report.

*Question.* During your time as Deputy Under Secretary, what was your role in and responsibility for communicating with the Under Secretary and Secretary concerning GIPSA's mission and daily operations relating to enforcement of the PSA against anti-competition practices?

Answer. Prior to my appointment with USDA, I served as the Chief Economist for the National Cattlemen's Beef Association. Due to my past connection with the cattle industry, I was recused from issues that had a direct connection to my previous employer for a period of 1 year. After this recusal period ended, I continued to distance myself from Packers and Stockyard Program issues due to a perceived conflict of interest. However, upon Under Secretary Hawks retirement and assuming the role of Acting Under Secretary, followed shortly by Jim Link's appointment as GIPSA Administrator, I

worked with USDA ethics experts to assure that by inserting myself into GIPSA management that I was not crossing ethical boundaries. At such time corrective actions were taken to begin addressing the matters that have been outlined in the OIG's report.

*Question.* What will you do to make sure that the Secretary or the new Under Secretary knows what GIPSA is doing in regard to anti-competitive practices?

Answer. Both the Secretary and I have an open door policy with GIPSA. I meet weekly with the Administrator to discuss issues ongoing within the agency. These discussions involve all types of Packer and Stockyards cases, including financial, trade practice, and competition issues. Also, weekly activity reports are submitted by GIPSA and reviewed by the Secretary's and Under Secretary's office. This report includes all important issues ongoing within GIPSA. As needed, GIPSA's Administrator briefs my office, as well as the Secretary on investigations that may have a large economic impact. I am committed to maintaining open lines of communications between GIPSA and the Under Secretary's office for Marketing and Regulatory Programs.

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## QUESTIONS SUBMITTED BY SENATOR RICHARD J. DURBIN

### SIMPLIFIED SUMMER FOOD PROGRAM

*Question.* The Simplified Summer Food Program, started as the Lugar pilot program, was expanded to now include 25 states. In Illinois, we know there are many children who are eligible for free or reduced price lunch during the school year who are not participating in a summer food program. I'm told sponsors are hard to come by because the paperwork and accounting requirements are onerous. The nutrition and anti-hunger community in Illinois expects to see a dramatic increase in summer food programs when Illinois is able to participate in the Simplified Summer Food Program. Have States participating in the Simplified Summer Food Program seen increases of this type? Have States that participated in this program attracted more program sponsors, operated more program sites and served more low-income children than those States not participating in the program?

Answer. States participating in the Simplified Summer Food Program have shown an increase in participation as measured by sponsors, sites, and meals served to eligible children during the summer months. During the same time, those States not participating in the program have experienced a decrease in each of the corresponding categories. However, since the inception of the Simplified Summer Food Program, many States have also had the opportunity to operate a seamless summer feeding program through the National School Lunch Program (NSLP). Because these two initiatives have operated concurrently in these States, we are not able to identify the extent to which changes in sponsors, sites, and children result from the Simplified Summer Food Program, from the NSLP seamless summer feeding program, or from a combination of both.

### WIC FOOD PACKAGE

*Question.* Last year, the Institutes of Medicine released recommendations for improving the nutritional profile of the WIC food package, including adding whole grain foods, fresh produce and incentives for breast feeding. Given the growing rates of overweight and obese children, these recommendations for an updated food package also could help start children on the right path to nutritious and lower fat dietary habits makes. What are the USDA's plans for incorporating IOM recommended changes to the WIC food package?

Answer. USDA is proceeding with a rule making process that will afford opportunity for public comment on all of the proposed changes to the WIC food packages before the rule is finalized. The proposed revisions to the WIC food packages largely reflect the recommendations of the Institute of Medicine (IOM) in its 2005 Report WIC Food Packages: Time for a Change. The proposed rule was sent to the Office of Management and Budget this spring. We are hopeful that a proposed rule can be published by summer 2006. However, affording opportunity for a full 90-day public comment period for this important rule may preclude issuing an interim final rule within the 18-month statutory deadline.

### CSFP CASELOAD

*Question.* Low-income Illinois seniors rely heavily on the Commodity Supplemental Food Program to supplement what they are able to purchase at the grocery store or obtain through a food bank. I recognize the program is under stress as commodity prices have grown faster than program funding. What plans does the agency have to ensure that current caseload demand can be met?

Answer. All available resources are being utilized to support the program, but total estimated resources are insufficient to support 2006 nationwide caseload at the 2005 level.

In addition to cash resources, CSFP commodity inventory maintained at Federal, State, and local levels and those commodities obtained under agriculture support

programs (surplus commodities) that are appropriate for inclusion in the CSFP food package are being used to support the program. The types and amounts of surplus commodities depend on agricultural market conditions.

On December 29, 2005, we assigned tentative caseload and administrative grants for 2006 based on the level of resources expected to be available to support the program. While all available resources were included in our calculations, total estimated resources available were sufficient to support about 477,000 tentative caseload slots, representing a reduction of approximately 11 percent from the 2005 caseload level. Final caseload and administrative grants were allocated on March 27, 2006. The final caseload level increased to over 492,000 slots due to an expected increase in the level of surplus commodities available for use in the CSFP food package and lower caseload use by Louisiana early in the year due to the disruption caused by the recent hurricanes. Both of these factors served to free available cash resources to support more caseload slots nationwide without negatively impacting Louisiana. However, CSFP States were subject to at least a 6 percent reduction in final caseload from 2005 levels, and consistent with the regulations, States that did not fully utilize caseload in the previous year were subject to further reductions.

FINANCIAL ASSISTANCE PROGRAMS ALLOCATION FORMULAS

*Question.* NRCS administers a host of conservation programs—the Environmental Quality Incentives Program (EQIP), Conservation Security Program (CSP), and others. In my view, the State of Illinois is well-equipped to take advantage of these environmental programs—producers in the State have a long-standing tradition of being at the forefront of conservation, the State is one of the leading producers of agricultural products, and there is a lot of land used for farming—28 million acres or 80 percent of the State's total land. Unfortunately, when compared to States with similar populations or farm sectors or agricultural production statistics, Illinois receives lower conservation technical assistance allotments. These are the multiplier funds that help farmers build expertise and leverage other funding sources. One of my concerns is that there are more than two dozen measures that can be weighted differently to determine State technical assistance allocations. My other concern is that the formulae and criteria that are used to make State allocations are not available on the NRCS website. I would like to know why the State of Illinois received this allocation and I would like to know what NRCS is doing to make these allocation decisions more transparent. Will NRCS publish theses criteria on its website?

Answer. EQIP allocations to States include financial assistance (FA) and technical assistance (TA) dollars. FA is allocated to the States and territories based on 31 base and natural resource factors which are relevant to addressing the EQIP national priorities. The source of the data is generally the Natural Resources Inventory (NRI) data, although some data is based on Environmental Protection Agency (EPA), Ag Census, Bureau of Indian Affairs (BIA), National Oceanographic and Atmospheric Agency (NOAA) and the American Plant Food Control Officials reports. Program Management Performance Incentives, initiated in EQIP in fiscal year 2003, include FA and TA and are part of a State's allocation only if a high level of performance was achieved in administering the prior years funding.

TA funding is used to deliver program-specific services. Technical assistance allocations are based on the NRCS cost-of-programs data and linked directly to a State's FA allocation. There are no weights in TA allocations. For fiscal year 2006, NRCS took into consideration the amount of TA that would be required to service EQIP contracts written in prior years. Nationally, with the prior year workload pulled into the equation, the total workload—represented by FA dollars equaled $1,947,931,838 (prior year $1,094,395,709 plus fiscal year 2006 $662,601,964). EQIP TA was set at $190,934,165 and equals about 9.8 percent of the FA workload. Therefore, each State, including Illinois, received a TA allocation equal to 9.8 percent of the total FA workload—as represented by the prior year and current year FA dollars.

In fiscal year 2005, Illinois received an additional $313,958 EQIP TA allocation to accelerate the writing of Comprehensive Nutrient Management Plans through the use of Technical Service Providers. That same year, the State returned $1.4 million in EQIP FA without the commensurate amount of TA. Fortunately, other States were able to use the FA.

The FA and Performance Incentive formulas are as follows:

FA FORMULA

| | Weight (percent) |
|---|---|
| The base factors (49.3 percent): | |
| Acres of non-irrigated cropland (1997 NRI) | 3.2 |
| Acres of irrigated cropland (1997 NRI) | 4.3 |
| Acres of Federal grazing lands (1992 NRI) | 0.5 |
| Acres of non-Federal grazing lands (1997 NRI) | 4.2 |
| Acres of forestlands (1997 NRI) | 1.1 |
| Acres of specialty crops (1997 NRI) | 3.2 |
| Acres of wetlands and at-risk species habitat (1997 NRI) | 4.5 |
| Acres of water bodies (1997 NRI) | 3.2 |
| Livestock animal units (1992 NRI) | 5.7 |
| Animal waster generation (1992 NRI) | 5.7 |
| Waste management capital cost (1992 NRI) | 3.4 |
| Acres American Indian Tribal Lands (most current BIA acres) | 3.3 |
| Number of Limited Resource Producers (1997 Ag Census) | 4.9 |
| Grazing land lost to conversion (1997 NRI) | 0.8 |
| Revised Air Quality non-attainment areas (EPA) | 1.3 |
| The resource factors (49.3 percent): | |
| Acres of pastureland needing treatment (1992 NRI) | 5.4 |
| Acres of cropland eroding above T (1992 NRI) | 6.1 |
| Acres of Fair and Poor Rangeland (1992 NRI) | 6.1 |
| Acres of Forestlands, eroding above T (1992 NRI) | 1.4 |
| Acres of cropland and pastureland soils affected by saline and/or sodic conditions (1997 NRI) | 2.6 |
| Miles of impaired rivers and streams (EPA) | 3.5 |
| Potential for pesticide and nitrogen leaching (1997 NRCS Report) | 1.3 |
| Potential for pesticide and nitrogen runoff (1997 NRCS Report) | 1.7 |
| Ratio of livestock animal units to cropland (1997 NRCS Report & NRI) | 1.7 |
| Number of CAFO/AFO (1997 Ag Census) | 2.7 |
| Ratio of commercial fertilizers to cropland (1995 American Plant Food Control Officials Report) | 0.8 |
| Wind erosion above T (1997 NRI) | 4.2 |
| Phosphorous runoff potential (1997 NRCS Report) | 3.9 |
| Riparian areas (1997 NRCS Report) | 0.8 |
| Carbon sequestration (1992 & 1997 NRCS Reports) | 3.5 |
| Coastal zone (1992 NOAA Report) | 3.6 |

Note: Financial Assistance allocations to entities (Alaska, Hawaii, Pacific Basin, and Puerto Rico) without reliable base and resource factors account for 1.4 percent of total FA.
Total of FA factors (100 percent).

Program Management Performance Incentives:

For fiscal year 2006, $38.4 million Program Management Performance Incentives are part of the allocation if a State performed above the cut-off. The following factors were used to compare State performance:

| Performance Factors | Weight (percent) |
|---|---|
| Cost share obligations versus payments for fiscal year 2004 and fiscal year 2005 | 15 |
| FA to TA ratio | 25 |
| TSP obligations and disbursements | 15 |
| Weighted cost-share percentage | 10 |
| Limited Resource Farmers | 10 |
| Livestock-related contracts (CNMP) | 15 |
| Program National Priorities | 10 |
| Total of Performance factors | 100 |

In fiscal year 2006, NRCS will release a request for proposals to evaluate all of the allocation formulas in their entirety. This project will be a comprehensive evaluation of each program allocation formula, to include analysis and findings on each formula's consistency with the new NRCS Strategic Plan; consistency with program statutory authorities and regulatory requirements, and program goals and objectives; technical and analytical defensibility of the formula (parameter and variable selection, formula functional form) and data sources; the efficiency and effectiveness of allocation outcomes as a result of formula. The deliverable will be used to provide guidance for improvement in allocation formulas, as evidence to support NRCS's allocation formulas to interested external parties, to provide a template for which to evaluate future allocation formulas, and finally as a means to assess how allocation

formulas relate to programmatic efficiency and annual/long-term performance measures.

When the evaluation is complete, NRCS will post this information on the website. NRCS is committed to making our processes transparent through our public website.

MARKET ACCESS PROGRAM

*Question.* The Administration's fiscal year 2007 budget cuts the Market Access Program (MAP) program in half from $200 million to $100 million. Overseas markets are critical for our agricultural producers, and this program was an important part of making our products competitive overseas. The State of Illinois alone exports $4 billion annually in agricultural products.

I would like a report on the markets that MAP has helped open up, the commodities the program has assisted since the MAP received funding, and the rate of return on the Map's activities. I would also like to know what alternative programs the Administration hopes will fill the place of MAP as our producers compete against foreign producers supported by export subsidies.

Answer. We are providing a table which identifies more than 40 markets where MAP funds were used to help open the market for some 35 U.S. agricultural, fish, and forestry products. We are also providing a listing of all the current participants in the MAP.

With regard to the rate of return on MAP activities, the Foreign Agricultural Service (FAS) has hired an independent evaluator to assess the effectiveness of two primary market development programs administered by FAS—the MAP and the Foreign Market Development (Cooperator) Program. This work is ongoing, and FAS hopes to receive the results in late summer of 2006. This evaluation will also be used to satisfy the Office of Management and Budget's requirement outlined in the Program Assessment Rating Tool to conduct independent evaluations of government programs.

As for supporting U.S. producers in the export market, the U.S. Government is actively pursuing reform of international trade rules in the World Trade Organization (WTO) so that U.S. exporters will not have to compete with foreign producers who receive export subsidies. In fact, agreement was reached at the Hong Kong Ministerial meeting in December 2005 that all forms of export subsidies should be eliminated by 2013. FAS currently administers four other foreign market development programs that augment the MAP: the Foreign Market Development (Cooperator) Program funded at $34.5 million in fiscal year 2006, the Emerging Markets Program at $10 million, the Technical Assistance for Specialty Crops Program at $2 million, and the Quality Samples Program at $2.5 million.

*Question.* In its January 2006 report, the Office of the Inspector General stated that because of the voluntary nature of the enhanced surveillance program and based on USDA published data that estimated the "distribution of the cattle population, as well as those that died or became nonabulatory," it could not determine whether USDA achieved the desired representation. How does USDA know that it is testing a representative sample and that it is testing animals that are at highest risk such as older, clinically normal cattle? Why hasn't USDA released detailed results of the surveillance program, such as age distribution, geographic locations of the sample, and whether the cows were down, neurologic or clinically normal?

Answer. Experience in Europe (where there has been significant Bovine Spongiform Encephalopathy (BSE) exposure and circulating infectivity in contrast to the United States, where we can assume very limited, if any exposure) has shown that testing a targeted population of cattle—those animals exhibiting some type of clinical abnormality—is the method most likely to identify BSE in the national herd. As an example, from 2001 to 2004, a total of 4,798,764 targeted animals were sampled, with a total of 5,486—or approximately 0.11 percent—of the targeted animals testing positive for BSE. In contrast, during that same time frame, a total of 34,207,597 clinically normal animals were sampled, with a total of 982—or approximately 0.003 percent of the clinically normal animals testing positive. These differences clearly demonstrate the efficiencies of sampling subpopulations where the disease is most likely to be detected if it is present. Therefore, since our surveillance efforts began, USDA has consistently focused on sampling these targeted cattle subpopulations. The targeted population includes cattle that have classic clinical signs of BSE, are nonambulatory, exhibit signs of a central nervous system disorder, or cattle that die for unexplained reasons.

With regard to the geographic distribution of the sample obtained in our enhanced surveillance effort, we are still analyzing this information and will present this to the public when our analysis is complete. USDA's surveillance plan looks at this

issue on a national level. It is most important that our sample is obtained from among the animals in our target populations. European reports have shown clearly that this disease is most likely to be found in downed, dying, dead, and diseased animals, so we go to the facilities where these animals are found, regardless of where the animals originate. We have largely worked with animal disposal facilities. In regions where those don't exist, we have made efforts to conduct other types of collection and are confident that we have obtained a sufficient sample that represents the target populations—those animals where we are most likely to detect the disease—within the United States.

CONCLUSION OF HEARINGS

Senator BENNETT. The subcommittee is recessed.

[Whereupon, at 11:20 a.m., Thursday, March 30, the hearings were concluded, and the subcommittee was recessed, to reconvene subject to the call of the Chair.]