

**Statement by
William T. Hawks
Under Secretary of Agriculture
for Marketing and Regulatory Programs**

**Before the
House Subcommittee on Agriculture, Rural Development,
Food and Drug Administration and Related Agencies
Committee on Appropriations**

March 12, 2003

Mr. Chairman and members of the Committee, I am pleased to appear before you to discuss the activities of the Marketing and Regulatory Programs of the U.S. Department of Agriculture and to present our fiscal year (FY) 2004 budget proposals for the Animal and Plant Health Inspection Service (APHIS), the Grain Inspection, Packers and Stockyards Administration (GIPSA), and the Agricultural Marketing Service (AMS).

With me today are Dr. Charles Lambert, Deputy Under Secretary for MRP; Mr. Bobby Acord, Administrator of APHIS; Mrs. Donna Reifschneider, Administrator of GIPSA, and Mr. A. J. Yates, Administrator of AMS. They have statements for the record and will answer questions regarding specific budget proposals.

Under my leadership, the Marketing and Regulatory Programs have addressed several broad goals and objectives which demonstrate that working together works.

Building Broader Bridges. We strengthened cooperation and strategic partnerships with farmers and ranchers, States, foreign governments, congressional offices, agricultural commodity and industry associations, agricultural scientific groups, and other interested parties. We want to ensure that our policies and programs provide the most benefits they can to the affected people.

Moving More Product. We expanded domestic and international market opportunities for U.S. agriculture products including value enhanced products and products of biotechnology. We have worked closely with the Foreign Agricultural Service and the U.S. Trade Representative to aggressively and creatively resolve sanitary, phytosanitary, biotechnology, grain inspection, commodity grading and other trading issues that limit our potential for growth in international trade.

Investing in Infrastructure. We invested in stronger border security, pest and disease surveillance and monitoring, bricks and mortar such as the National Veterinary Science Lab in Ames, Iowa. We increased market news on export markets, made improvements in e-Government, enhanced investigations of anti-

competitive market practices and provided greater support for biotechnology. Agriculture that is healthy, both biologically and economically, is a marketable agriculture.

Growing Our People. We made a concerted effort to recruit, recognize and reward accomplishment and inspire current and future leaders within MRP. We are making MRP a place where the best and brightest want to be, including promising men and women in diverse fields such as journalism, accounting, and economics. And,

Selling Agriculture as a Profession. We are creatively marketing the vital role that agriculture plays in every American's life to assist our efforts to recruit and retain the highest calibre workforce for MRP and USDA.

Funding Sources

The Marketing and Regulatory Program activities are funded by both the taxpayers and beneficiaries of program services. The budget proposes that they carry out programs costing \$1.2 billion; with \$382 million funded by user fees paid by the beneficiaries of the services.

On the appropriation side, under current law, the Animal and Plant Health Inspection Service is requesting \$694.9 million for salaries and expenses and \$5 million for repair and maintenance of buildings and facilities; the Grain Inspection, Packers and Stockyards Administration is requesting \$41.7 million, and the Agricultural Marketing Service is requesting \$102.9 million.

Legislation will be submitted, which if enacted would recover \$36.5 million more in user fees. This legislation would authorize new license fees to recover the cost of administering the Packers and Stockyards (P&S) Act, additional license fees for facilities regulated under the Animal Welfare Act and additional grain inspection fees for developing grain standards. I will use the remainder of my time to highlight the major activities and their budget requests for the Marketing and Regulatory Programs.

Animal and Plant Health Inspection Service (APHIS)

The fundamental mission of APHIS is to anticipate and respond to issues involving animal and plant health, conflicts with wildlife, environmental stewardship, and animal well-being. Together with their customers and stakeholders, APHIS promotes the health of animal and plant resources to facilitate their movement in the global marketplace and to ensure abundant agricultural products and services for U.S. customers. The APHIS mission satisfies five strategic goals. They include:

- (1) safeguarding plant and animal resources from foreign pests and diseases;

- (2) minimizing production losses and export market disruptions by quickly detecting and responding to outbreaks of agricultural pests and diseases;
- (3) minimizing risks to agricultural production, natural resources, and human health and safety by effectively managing pests and diseases and wildlife damages;
- (4) ensuring the humane care and treatment of animals; and,
- (5) developing safe and effective scientific pest and disease control methods.

APHIS builds bridges by working in concert with its stakeholders—States, industry, and the public—to maintain and expand export market opportunities and to prevent the introduction and/or to respond to new threats of plant and animal pests and diseases. APHIS invests in the agricultural marketing infrastructure that helps protect the agricultural sector from pests and diseases while at the same time helping move more U.S. product.

APHIS' charge is a difficult one to meet and their excellence has been recognized. *Progressive Farmer*, one of America's best known agricultural publications, has always selected an individual as its "Person of the Year." This year, however, *Progressive Farmer* selected 8,700 of them— all the men and women of APHIS—to receive the 2003 People of the Year award. I am proud of their efforts, and appreciate the recognition bestowed upon them.

I would like to highlight some key aspects of the APHIS programs:

Homeland Security and Agricultural Border Protection. Traditionally, APHIS' Agricultural Quarantine Inspection (AQI) program has had responsibility for excluding agricultural health threats. Annually, thousands of inspectors have inspected hundreds of thousands of cargo shipments and tens of millions of passengers' baggage arriving in the United States. They have intercepted tons of materials whose entry could jeopardize the agricultural sector. They have successfully excluded such threats as foot-and-mouth disease (FMD) and bovine spongiform encephalopathy (BSE), which could have devastated not only the agricultural sector, but other sectors of the economy as well.

That responsibility is now shared with the Department of Homeland Security (DHS). While most AQI staff are reassigned to the new Department, USDA retains the responsibility for promulgating regulations related to entry of passengers and commodities into the United States. We intend to work closely with our counterparts in DHS. USDA retains the direct role of ensuring that passengers and cargoes traveling from Hawaii and Puerto Rico comply with specified regulations to protect the health of the agricultural sector on the Mainland, including necessary quarantines. We retain responsibility for collecting the user fees and will be periodically reimbursing DHS for their inspection services.

Emergency Pest and Disease Programs. The Administration is concerned about rising Federal costs of emergency pest and disease control activities, and the budget request assumes cost-sharing for such outbreaks. Cost-sharing levels are set by consideration of several factors applied to specific outbreaks. A proposed rule is expected to be published which will improve the Federal/cooperator partnership by establishing consistent criteria for determining Federal and non-Federal responsibilities, providing a more equitable and justifiable allocation of responsibility among all parties, and permitting State and local governments to better anticipate and plan for future needs. Without additional support on the part of cooperators in some programs, however, program operations could be reduced.

Moving More Product. The Trade Issues Resolution and Management efforts are key to ensuring fair trade of all agricultural products. APHIS' staff negotiates sanitary and phytosanitary (SPS) standards, resolves SPS issues, and provides clarity on regulating imports and certifying exports which improves the infrastructure for a smoothly functioning market in international trade. Ensuring that the rules of trade are based on science helps open markets that have been closed by unsubstantiated SPS concerns. APHIS' efforts contributed to the opening or retention of \$1.1 billion in export markets in FY 2001 by helping resolve individual trade issues abroad. In 2002, APHIS resolved problems facing shipments of about \$52 million of US agricultural products held at ports of entry in foreign countries. This included about \$16 million for fruit; \$10 million for grain; \$10 million for oilseeds and oilseed products; \$5 million for animals and animal products; \$4 million for cotton; \$2 million for vegetables; and \$5 million in other products.

Biotechnology. Recent developments in biotechnology underscore the need for effective regulation to ensure protection of the environment and food supply, reduce market uncertainties, and to encourage development of a technology that holds great promise. APHIS has recently established a new Biotechnology Regulatory Services unit to consolidate and better coordinate our services and activities in this area. The new unit focuses on both plant-based biotechnology and transgenic arthropods. We also will be examining ways to regulate transgenic animals. By consolidating these activities into one unit, we will bring greater focus to our domestic and international policy coordination and development as well as our risk assessment, permitting, and compliance programs.

APHIS' 2004 Budget Request

In a year of many pressing high-priority items for taxpayer dollars, the budget request proposes about \$695 million for salaries and expenses. Notable shifts in budget priorities include:

A total of about \$156 million for Foreign Pest and Disease Exclusion. Efforts will be enhanced to exclude Classical Swine Fever from the United States and to improve our means of tracking animal and animal products entering and leaving the country. Decreases include those in Agricultural Quarantine Inspection activities and, in keeping with cost-sharing provisions, reductions in fruit fly exclusion and detection activities.

A total of about \$142 million for Plant and Animal Health Monitoring. Experience gained from abroad about FMD and BSE highlights the need for rapid detection and response to agricultural health threats. Long-standing efforts have kept those diseases and others out of the United States, and vigilant surveillance and monitoring will still be done by APHIS. Increases would boost the availability of FMD vaccines from 19.5 million doses to 20.75 million doses, and support efforts to address increased incidence of smuggling and other threats from regulatory violations.

A total of \$302 million for pest and disease management programs. Once pests and disease are detected, prompt eradication reduces overall 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 includes a doubling of funding for efforts against chronic wasting disease, and other increases for low-pathogenic avian influenza and golden nematode activities. The budget also proposes a slight increase for wildlife services operations to enhance control over hazardous materials used in wildlife control activities.

Successes in boll weevil eradication and plum pox efforts allow some program reductions. The decrease stems from greater cost-sharing expected to be provided by cooperators and a 35 percent reduction in the estimate of planned program acres. Such cost-sharing would reduce Federal funding by about \$32 million for efforts against Asian Longhorned Beetle, citrus canker, Mediterranean fruit fly (as mentioned above), plum pox virus, scrapie, and tuberculosis. However, the Federal Government would still pay over 50 percent of the cost of these programs.

A total of \$15 million for the Animal Care programs. APHIS will maintain its animal welfare and horse protection programs. The budget includes a proposal, similar to FY 2003, to collect \$7.8 million in additional fees charged to facilities

and establishments required to be registered under the Animal Welfare Act but not currently subject to a fee. This includes research facilities, carriers, and in-transit handlers of animals.

A total of about \$69 million for Scientific and Technical Services. APHIS develops methods and provides diagnostic support to prevent, detect, control, and eradicate agricultural health threats, and to reduce wildlife damages (e.g., coyote predation). It also works to prevent worthless or harmful animal biologics from reaching consumers. The request would enhance biosecurity activities, the national animal health laboratory network, and physical security at select facilities.

Increased funds of \$6.6 million for Biotechnology. The budget includes a crosscutting trade-related and biotechnology proposal in the Office of the Secretary. The Department anticipates a growing demand for trade negotiating efforts and biotechnology activities, including regulatory, market access and removal of trade barriers. Increased APHIS efforts related to biotechnology may be funded from these appropriations.

Grain Inspection. Packers and Stockyards Administration (GIPSA)

GIPSA's mission is to facilitate the marketing of livestock, meat, poultry, cereals, oilseeds, and related agricultural products and to promote fair and competitive trade for the benefit of consumers and American agriculture. It helps move more U.S. product both domestically and abroad by investing in domestic infrastructure that supports marketing within the grain and livestock industry. GIPSA fulfills this through both service and regulatory functions in two programs: the Packers and Stockyards Programs (P&SP) and the Federal Grain Inspection Service (FGIS).

Packers and Stockyards Programs. The strategic goal for the Packers and Stockyards Programs (P&SP) is to promote a fair, open and competitive marketing environment for the livestock, meat, and poultry industries. Currently, with 169 employees, P&SP monitors the livestock, meatpacking, and poultry industries, estimated by the Department of Commerce to have an annual wholesale value of over \$115 billion. Legal specialists and economic, financial, marketing, and weighing experts work together to monitor emerging technology, evolving industry and market structural changes, and other issues affecting the livestock, meatpacking, and poultry industries that the Agency regulates.

We conducted over 1,400 investigations in FY 2002 to enforce the Packers and Stockyards Act for livestock producers and poultry growers. More than 90 percent of identified violations were corrected (or issues resolved) within one year of the investigation's starting date.

The Swine Contract Library, mandated in the 2000 Appropriations Act, is in the final testing stage. The web-based computer system will be capable of receiving

contracts, extracting unique contract provisions and posting summary information. GIPSA is making the necessary revisions to the final rule which would implement the Swine Contract Library, and anticipates publication in the Federal Register in the late spring, 2003. It is a sizable and complex undertaking to assure that the confidentiality requirements of the Act are maintained. For example, a single type of contract, received from less than 10 packers, can include more than 300 unique contract provisions to capture all of the ledger contracts priced off swine or pork market prices.

Federal Grain Inspection Service. GIPSA's Federal Grain Inspection Service (FGIS) facilitates the marketing of U.S. grain and related commodities under the authority of the U.S. Grain Standards Act (USGSA) and the Agricultural Marketing Act of 1946 (AMA). As an impartial, third-party in the market, we advance the orderly and efficient marketing and effective distribution of U.S. grain and other assigned commodities from the Nation's farms to domestic and international buyers. We are part of the infrastructure that undergirds the agricultural sector.

GIPSA created a long-term temporary assignment in Malaysia to assist the Southeast Asian agricultural attaches and cooperator organizations by providing technical assistance and education to customers of U.S. grain which would maintain and expand U.S. grain markets. This and other technical trade assistance, such as that provided to Mexico, facilitate the marketing of U.S. grain exports.

GIPSA works with government and scientific organizations to establish internationally recognized methods and performance criteria and standards to reduce the uncertainty associated with testing for the presence of biotechnology grains and oil seeds.

GIPSA received almost 3,000 comments on the advance notice of proposed rulemaking regarding how USDA can best facilitate the marketing of grains, oilseeds, fruits, vegetables, and nuts in today's evolving marketplace. A Process Verification Program is being considered for applying internationally-recognized quality management standards to verify that a biotech related quality control process has been used to produce a product rather than relying on end product testing. This would allow producers, marketers, suppliers, and processors to assure customers of their processes to provide consistent quality products.

Our efforts to improve and streamline our programs and services are paying off for our customers, both in terms of their bottom lines and in greater customer satisfaction. FGIS' service delivery costs (adjusted for inflation), decreased from \$0.29 per metric ton in fiscal year 1998 to \$0.26 per metric ton in fiscal year 2002. With the USDA export certificates that grain exporters received at this cost, exporters marketed over \$15 billion worth of cereals and oilseeds. Likewise, here at home, buyers and handlers requested over 1.8 million domestic

inspections that facilitated the trading of more than 131 million metric tons of cereals and oilseeds.

One indicator of the success of our outreach and educational initiatives is the number of foreign complaints lodged with FGIS regarding the quality or quantity of U.S. grain exports. In FY 2002, FGIS received only 9 quality complaints and no quantity complaints from importers on grains inspected under the U.S. Grain Standards Act. These involved 197,423 metric tons, or about 0.2 percent by weight, of the total amount of grain exported during the year.

GIPSA's 2004 Budget Request

For 2004, the budget proposes a program level for salaries and expenses of \$41.7 million. Of this amount, about \$18.1 million is devoted to grain inspection activities for standardization, compliance, and methods development and approximately \$23.5 million is for Packers and Stockyards Programs. The 2004 budget includes:

An increase of about \$1 million to implement a new pilot audit program. The P&SP has never audited a large packer. As a pilot, this initiative would audit the top four steer and heifer meatpackers who handle 80 percent of the slaughter. The audits are anticipated to result in substantially better understanding of their financial operations to the regulated industry and lead to better financial protection of producers.

An increase of \$500,000 to enhance compliance and review the Packers and Stockyards Act. Efforts will respond to a GAO recommendation to provide industry participants with clarification of GIPSA's views on competitive activities. Further, given changes in the livestock sector, the P&SP is preparing to undertake a complete review of the Packers and Stockyards Act and its regulations. These activities may result in a future increase in the number of investigations conducted and monies recovered or returned to the regulated industries.

Biotechnology Funds. Some of the \$6.6 million requested to support crosscutting trade and biotechnology activities in the Office of the Secretary may be applied to GIPSA's trade and biotechnology efforts.

New user fees. New user fees, similar to those proposed for FY 2003, would be charged to recover the costs of developing, reviewing, and maintaining official U.S. grain standards used by the grain industry. Those who receive, ship, store, or process grain would be charged fees estimated to total about \$5 million to cover these costs. Also, the Packers and Stockyards program would be funded by new license fees of about \$24 million that would be required of packers, live poultry dealers, stockyard owners, market agencies and dealers, as defined under the Packers and Stockyards Act.

Agriculture Marketing Service

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 this mission through a variety of voluntary fee-based services and publicly funded activities that help our customers find ways to better market food and fiber products and improve their profitability.

AMS continually monitors the needs of the agricultural industry, develops strong partnerships with cooperating State agencies, and identifies new technology that can be used to improve their effectiveness. AMS depends on strong cooperative partnerships with State programs and other Federal agencies to facilitate the collection and dissemination of information, provide inspections, and otherwise maximize the value of State and Federal programs by sharing and coordinating the use of available resources. Through increased cooperation, AMS has been able to achieve a number of programmatic goals.

Global Agricultural Marketing. AMS offers a range of services that give sellers of agricultural products a competitive advantage in the global marketplace. In 2002, AMS initiated the Global Market Expansion program to strengthen the support of export marketing for U.S. agricultural products. Under this activity, AMS experts served on, and in several cases headed, U.S. delegations to meetings of international food and fiber standards-setting organizations. AMS also provided technical expertise to the U.S. trade officials in negotiations on international standards. As an example of the critical role AMS plays in the development of international standards, AMS provided the technical support necessary to dissuade China from adopting cotton standards that lack recognized measurement technologies and could have posed a barrier to U.S. cotton exports. AMS also led the development of lamb and poultry quality standards that will serve as models for government and industry throughout Europe. Through such participation, AMS is able to influence the design of food quality standards and model inspection protocols so that they are fair to U.S. shippers and they do not become barriers to U.S. agricultural trade. In 2004, AMS will continue to do its part in helping to reduce trade barriers relating to commodity standards and product testing by serving as delegates and by leading international committees and organizations.

Science and Technology Programs. Through cooperative relationships with the States, AMS is in a unique position to effectively and efficiently develop scientific data that is needed to support domestic and export marketing of U.S. food products. The Pesticide Data Program (PDP) is a unique and valuable source of statistically valid data on pesticide residues in food and water. The program provides information to the Environmental Protection Agency that is vital for

realistic assessments of dietary risk from pesticides on food commodities available in the marketplace. PDP is instrumental in providing data that addresses domestic and international public concerns about the effects of agricultural pesticides on human health and environmental quality. Exporters use PDP data to verify for foreign governments and buyers that U.S. agricultural commodities are safe for consumption. Importantly, PDP is built on Federal-State partnerships with 10 States -- California, Colorado, Florida, Maryland, Michigan, New York, Ohio, Texas, Washington and Wisconsin. These States collect and test commodities for pesticide residues.

AMS' experience with PDP provided the foundation for initiating the Microbiological Data Program. MDP is designed to gather baseline data to assess the risks of microbial contamination of fruits and vegetables, if any. Using the PDP programmatic framework, AMS collects information regarding the incidence, number and species of foodborne pathogens and indicator organisms on domestic and imported fresh fruits and vegetables. In fiscal year 2002, AMS worked with cooperating States and interested industry parties to initiate microbiological data collection and testing. AMS developed operating procedures with FDA, the Centers for Disease Control and Prevention, and State laboratories. During 10 months of sample testing, approximately 19,000 analyses were performed on 9,400 samples. The first report will be published this year with calendar year 2002 data. The data will be provided to public health agencies and the food industry for decision-making and evaluation of procedures intended to reduce or eliminate harmful microorganisms from foods.

National Organic Certification Program. On October 21, 2002, the Secretary launched the implementation of AMS' National Organic Standards Program, which for the first time provides consistent labeling of agricultural products coast to coast. The organic standards were developed with extensive industry input and hundreds of thousands of public comments. Thanks to this effort, any organic agricultural product must meet USDA standards in order to be sold as "organic." Today, consumers know the exact organic content of the food they buy. Consumers can tell organically produced food from conventionally produced food by looking at package labels and watching for signs in the supermarket.

On August 23, 2002, AMS announced that Federal funds appropriated in the Agriculture Risk Protection Act of 2000 and those made available by the Farm Bill were available to defray the cost of organic certification. AMS has entered into cooperative agreements with 45 States to distribute the funds. The remaining 5 States do not charge fees for organic certification and are not eligible for cost-sharing funds.

As directed by the Farm Bill, AMS is drafting a report to Congress on the availability of key inputs into organic production, including the availability of organically produced feedstuffs for the organic production of livestock. AMS has

contracted with Iowa State University to survey grain producers and dealers in Midwestern States to ascertain planting and harvesting intentions for the years 2002-2004. This report should be completed this spring.

Country of Origin Labeling. The 2002 Farm Bill requires USDA to issue country of origin labeling guidelines for use by retailers who wish to voluntarily notify their customers of the country of origin of beef, lamb, pork, fish, perishable agricultural commodities, and peanuts. AMS published the guidelines for voluntary country of origin labeling in October 2002 and is collecting comments on their utility through April of this year. After that, the program will begin developing the mandatory requirements, which are to be published by September 30, 2004. As of January 31 this year, AMS received more than 200 public comments on the voluntary guidelines and 20 comments on the information collection burden it places on industry.

AMS' 2004 Budget Request

For AMS, the budget proposes a program level of \$297 million, of which over 65 percent will be funded through user fees. The budget requests an appropriation of \$76 million for Marketing Services and Payments to States, including increased funding for paycosts, in order to maintain existing program operations. The budget includes a request for \$26.4 million in Section 32, including increases for paycosts, associated with administering marketing agreements and orders and commodity procurement programs.

Conclusion

This concludes my statement. I am looking forward to working with the Committee on the 2004 budget for the Marketing and Regulatory Programs. We believe the proposed funding amounts and sources of funding are vital to protecting American agriculture from pests and diseases and for moving more product to foreign markets. It will provide the level of service expected by our customers -- the farmers and ranchers, the agricultural marketing industry, and consumers. We are happy to answer any questions.