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California Capitol Hill Bulletin

Volume 11, Bulletin 14 – April 30, 2004

To expand communications between Washington and California, the California Institute provides periodic faxed bulletins regarding current activity on Capitol Hill which directly impacts our state. Bulletins are published weekly during sessions of Congress, and occasionally during other periods.

SENATE ENERGY COMMITTEE REPORTS CALFED BILL

The Senate Energy and Natural Resources Committee favorably reported the CALFED reauthorization bill, S. 1097, on Wednesday, April 28, after agreeing to a joint staff substitute negotiated between Republicans, Democrats, and the Administration.. The bill, authored by Sen. Dianne Feinstein and co-sponsored by Sen. Barbara Boxer, represents a long-sought compromise that provides hope for reauthorization this year of the CALFED water restoration and storage program.

The bill, which was approved by voice vote, would authorize $389 million over six years for the program. The bill's initial reauthorization had been set at $880 million over four years, but the reduction was necessary to ensure approval by the Senate Committee. The Administration also supported reducing the authorization.

The substitute closely tracks the initial bill, and includes the same projects -- the enlargement of Los Vaqueros reservoir, the raise of Shasta Dam, Upper San Joaquin surface storage, and Sites Reservoir. According to Senator Feinstein, with these 4 storage projects, California could acquire an additional 3.2 million acre feet of water storage. The bill also authorizes ecosystem restoration projects, water recycling, desalination, and levee stability projects, as well as the Environmental Water Account, which will provide water needed by salmon and other fish without taking from farmers' and cities' supply.

To alleviate the concerns of some Western Senators, the bill requires a cross-cut federal budget that will clarify that the Bureau of Reclamation will not be responsible for providing all funding under the bill; rather it will come from the budgets of several agencies, including the Environmental Protection Agency, Corps of Engineers, and the U.S. Fish and Wildlife Service. The substitute also dropped language requiring that Davis-Bacon prevailing wage provisions apply to projects under the bill.

Senator Feinstein commented on the bill: "This modified CALFED bill addresses the major questions raised by members of the Committee and the Administration, and yet still provides for California's water needs in a balanced manner. All told, this is a strong bill, which I believe has a good chance of passing the Senate." Her comments were reiterated by Senator Boxer, who stated: "This legislation has been carefully crafted to

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ensure a balanced approach for meeting water supply needs, improving water quality, and environmental restoration. I look forward to working with Senator Feinstein to move this bill forward so that we can address California's water needs in a timely and comprehensive manner."

Prior to the markup, Governor Arnold Schwarzenegger sent a letter to Senator Pete Domenici, Chair of the Senate Committee, and Rep. Richard Pombo (Tracy), Chair of the House Resources Committee, supporting S. 1097 and H.R. 2828, as providing the direction needed to ensure "robust federal participation" in the CALFED process.

On the House side, Rep. Ken Calvert's (Corona) bill, H.R. 2828, may be marked up by the full Resources Committee on May 5; it was reported out of the Water and Power Subcommittee, which Rep. Calvert chairs, on September 24, 2003.. The bill calls for an authorization lever of $880 million.

A summary of the joint staff substitute can be obtained through Senator Feinstein's website at: http://feinstein.senate.gov/04Releases/r-calfed-markup.htm .

SENATE PASSES INTERNET TAX MORATORIUM

The Senate passed a modified extension of the moratorium on Internet access taxes on Thursday, April 29, after fending off attempts to add legislation promoting ethanol production and virtually the entire energy bill, both of which have been stalled since last year.

By a vote of 40-59, the Senate failed to invoke cloture on an amendment by Senate Minority Leader Tom Daschle (SD) that would have doubled the production of corn-based ethanol. Then it failed by 5 votes (55-43) to invoke cloture on virtually the entire energy bill. The failure to invoke cloture, and thus limit debate on the proposals, halted further consideration of those amendments. After putting that battle aside, the Senate then voted 64-34 to limit debate on an amendment by Senator John McCain (AZ) to S. 150, the Internet tax moratorium bill and proceeded to consideration of the bill.

The original bill, sponsored by Senators Ron Wyden (OR) and George Allen (VA), would have made permanent the ban on new taxes on Internet access and require 11 states that currently impose access taxes to eliminate them within three years. The Wyden-Allen bill is similar to a bill, authored by Rep. Chris Cox (Newport Beach), that has already passed the House. The previous moratorium on new Internet taxes expired last year.

As amended, the bill will only extend the moratorium for four years. During consideration, the Senate voted 59-37 to table an amendment by Senator Dianne Feinstein that would have retained the grandfather provisions through the term of the moratorium for the 11 states currently imposing taxes. Sen. Feinstein opposed the Allen-Wyden bill as overly broad in its definition of Internet access. Cities and counties have opposed the bill because it jeopardizes their tax revenue streams at a time when they are facing severe budget shortfalls.

SUDDEN OAK DEATH ISSUES DISCUSSED AT BIPARTISAN CALIFORNIA STAFF BRIEFING

The bipartisan California Delegation sponsored a staff briefing on Thursday, April 29, 2004 to address the recent cases of Sudden Oak Death (SOD) in California. Those attending had an opportunity to hear and address several U.S. Department of Agriculture (USDA) officials about USDA's response to the SOD activity in California.

Those attending heard from the following panelists: Mr. Jonathan Jones, Pest Programs Coordinator, National Forest Service; Mr. Paul Eggert, Associate Deputy Administrator for Plant Protection and Quarantine, USDA; and Mr. Bob Spaide, Acting Assistant Deputy Administrator for Surveillance and Emergency Pest Programs, USDA.

Mr. Eggert assured the audience that USDA is working with both the industry and the states in a cooperative manner to ensure the fastest resolution of the SOD cases. He said that USDA has dispatched 37 federal inspectors, and will send an additional 15 this coming Monday to California to work with the California Department of Food and Agriculture (CDFA). Mr. Spaide also noted that despite various surveillance tools available to the USDA, the SOD disease has not been characterized, making it impossible to know all of the plants that could play host to it. In addition, Mr. Jones reminded the audience that this disease was not known in California prior to its initial discovery in 1995. There are no known controls for the SOD disease, which seems to spread with a combination of wind and water. According to Mr. Jones, how the disease will behave if it is established in an environment is also unknown, though efforts to contain and control the disease within the nurseries has been successful.

To recap, the Sudden Oak Death disease was discovered in March of this year on camellias at two Southern California commercial nurseries located in Monrovia and San Marcos. The pathogen was discovered during a statewide survey launched by the CDFA. Following the discovery, several states have banned some or all shipments of California-grown plants. USDA has previously regulated, and still regulates, the movement of plants that could carry the disease from 12 "quarantined" counties in the northern part of the state. In addition, the USDA extended the quarantine area from the 12 counties to the rest of the state on March 26th, and began implementing an all-state quarantine on April 9th. In response, a bi-partisan cross-section of 30 California Members of Congress and Senators wrote a letter on April 13, 2004 to USDA Secretary Ann Veneman urging enforcement of science-based regulations that would permit the shipment of nursery plants that are free of the SOD pathogen and are certified as such. The USDA did issue an order on April 22nd requiring nurseries outside the 12 quarantined counties of northern California to undergo inspections and testing if they wanted to ship host or associated host plants outside of California. One of the consequences of the April 22nd order has been California nurseries' inability to ship their products interstate until the results of testing are back.

Nursery plant cultivation is a $2.35-billion business in California, with commodity value trailing only dairy products and grapes. The state is the nation's largest provider of nursery crops and one of the few sources of mature spring bedding plants for the Midwest and Northeast. Sudden oak death mainly affects forests, and oaks in particular and not adult redwood, though it can cause leaf spotting and twig infections in other plants as well, but it is not fatal to the latter. It has previously killed tens of thousands of wild-growing oaks and tan oaks in 12 central and northern California counties.

This publication has previously reported on the issue of Sudden Oak Death disease in California (for the most recent articles *See, Bulletin, Vol. 11, No. 10 (3/26/04), and No. 12 (4/16/04).*)

HOUSE HOMELAND SECURITY PANEL EXAMINES ODP GRANTS

On Wednesday, April 28, 2004, the House Homeland Security Subcommittee on Emergency Preparedness and Response held a hearing to examine first responder assistance programs administered by the Office of Domestic Preparedness (ODP) at the Department of Homeland Security (DHS).

In an opening statement, Full Committee Chairman Christopher Cox (Newport Beach) stated, "roughly $5.2 billion in Department of Homeland Security (DHS) grant money remains in the administrative pipeline, waiting to be used by our first responders. Further, the Federal dollars are not necessarily going to those first responders who need it most." He added that funds have been distributed according to "a Congressionally-mandated, arbitrary, political formula" and commented, "To its credit, the Administration has requested this formula be changed."

Chairman Cox spoke in support of H.R. 3266 – the Faster and Smarter Funding for First Responders Act – which passed the Homeland Security Committee with unanimous bipartisan support on March 18. See *Bulletin, Vol. 11, No. 9 (3/18/2004)*. The bill, he noted "gives the Secretary a clear mandate to prioritize risk in the grant distribution process and to make sure that there are clear and measurable Federal preparedness goals. In addition, he urged that the federal government "must do a better job of sharing this threat and vulnerability information with state and local officials, so that they too can do a better job in allocating these resources." (The Cox bill would alter the existing formula, which requires only that every state get at least 3/4 of 1 percent of money and under which Wyoming (with just 1/6 percent of the U.S. population), received $38 per capita in 2004, whereas California received $5. The bill instead requires that the Department of Homeland Security assess threats facing the nation and distribute funds to states and regions based on state, regional and local preparedness needs, population density, threat levels, and infrastructure assets.)

Full Committee Ranking Democrat Jim Turner (TX) also spoke in support of H.R. 3266 and revisiting the formula, noting that "Our current system for funding first responders does not work." He criticized the Bush Administration's FY 2005 budget proposal for what he framed as inadequate funding for particular areas, such as the $46 million proposed for port security grants, as well as a shortage of funds to protect commuter rail systems.

ODP's Director, Sue Mencer, testified that ODP soon will have distributed a total of $8.1 billion to state and local first responders. She noted that to date 33 urban areas have received approximately $450 million from the Urban Area Security Initiative (UASI), the majority of the $660 million to be distributed for fiscal year 2004. Mencer cited a recent DHS Inspector General's report that concluded that ODP funds have flowed sufficiently to the states, but that some impediments in some states slowed funding from the state to the local level. Mencer acknowledged that the Administration recommends a change in the formula, but she added, "that does not mean that they believe that there should be no minimum level of funding" to states.

Dennis Schrader, Maryland's Director of Homeland Security, described his state's program coordination, and he urged against cuts in the EMPG program. He also reminded participants that homeland security grants are funded as a reimbursement, making it incumbent on local jurisdictions to submit for funds as rapidly as possible. "Once we allocate funds," he said, "the numbers are presented to local governments, they must often move through local appropriations processes, identify matching dollars, spend the funds, prepare a reimbursement request, and then submit it to us" before checks can be written.

During the question and answer session, Chairman Cox asked Mencer specifically about the Department's process for allocating formula dollars. (The formula requires that every state -- regardless of size -- receive 0.75 percent of the funds available, thereby allocating 40 percent of funds equally to all states and greatly favoring small states over large states.) Cox asked Mencer why DHS chose to allocate the remaining 60 percent of formula funding funds (the amount left after the initial 40 percent is divided equally) in a manner that continued to add extra dollars to small states that already had received a funding windfall. When pressed for an answer by the Chairman, Director Mencer replied, "I do believe the Secretary has the flexibility" to work with the formula to address such allocation concerns.

Noting that New York City has drawn down nearly all of the urban area funding available to it, Rep. King (NY) asked why the 29 other cities on the UASI list have drawn down an average of just 5 percent of their available funds, and rhetorically asked whether perhaps the lack of interest is indicative of a level of need that is less in some areas than others.

For more information about the hearing, visit the House Select Committee on Homeland Security website at: http://hsc.house.gov .

For an analysis of California homeland security grant receipts in 2003 and 2004 and a detailed discussion of the formulas that drive the funding levels, see "*Federal Formula Grants and California: Homeland Security*," a joint publication of the Public Policy Institute of California (PPIC) and the California Institute, at http://www.ppic.org/main/publication.asp?i=481 .

HOMELAND SECURITY COMMITTEE RELEASES ANALYSIS OF FIRST RESPONDER GRANT FUNDING

On Tuesday, April 27, 2004, the House Select Committee on Homeland Security issued a report outlining the flow of funding between the federal government and state and local first responders.

At a subcommittee hearing on April 28 (see above article), House Homeland Security Committee Chairman Christopher Cox (Newport Beach) commented that, "Over the past several months, Committee staff obtained and examined grant allocation and expenditure data from ODP and all 50 States for the largest ODP first responder terrorism grant programs in 2003. We found that ODP has done a good job of obligating the grant funds quickly. In 2003, ODP announced awards to States within 15 days of enactment of its appropriations, and sent out obligation letters within 3 months." Chairman Cox, however, lamented the fact that "the funds have been sent out with little regard for risk or need, in accordance with the shackles of a Congressionally-mandated, arbitrary, political formula that gave every State at least $17.5 million in Fiscal Year 2003."

Cox noted that, "Our staff analysis found that almost one-third of the States simply followed the flawed Federal model when distributing Fiscal Year 2003 ODP grant funds to their localities, resulting in more than $600 million being distributed regardless of risk or need in that one year alone. And most of those States that considered some elements of risk or need did not do so in any standard or significant way." He urged improvements in the flow of threat- and risk-based information from federal and other officials to first responders. In a statement, Chairman Cox said, "As of April 2004, about 85% of the terrorism preparedness grants distributed through the FY2003 budget have not yet been utilized. They have been allocated by DHS, but not spent by states and localities. In Tennessee, for example, only $381,000 out of a $10 million homeland security grant awarded in FY2003 has been spent."

According to the study, DHS has awarded homeland security grants in a timely manner to states; federal grants were often made without a rigorous assessment of need or risk; almost one-third of the states allocated money among internal jurisdictions without regard to need or risk; there are no Federal terrorism preparedness standards to guide the state and local spending of funds, "leading to many instances of questionable expenditures;" and only a small amount of Federal grant funding has been spent to date due to a lack of advance planning and other administrative obstacles at the local level.

The study suggested that a multiplicity of steps may result in major delays in the flow of funds to first responders. The steps include: Congressional appropriation, DHS allocation, DHS approval of state spending, allocation by states, state approval of local spending, local acceptance of funds, local planning, local contracting (often by competitive bid), local purchasing, local submission of receipts for reimbursement, and (finally) payment to the local agency. Among the logjams found were that planning often happened late in the process, local boards and councils are sometimes slow to act, state and local contracting rules slow the process, and some jurisdictions lack the financial capacity to front the funding until reimbursement arrives.

House Committee staff collected data from ODP on major grant programs for FY 2002 and 2003, and interviewed various state officials. The study is available on the Committee's website at http://hsc.house.gov

SENATE JUDICIARY APPROVES COPYRIGHT BILLS

The Senate Judiciary Committee on Thursday, April 29, approved by voice vote two bills aimed at deterring piracy of copyrighted works.

The first bill, S. 2237, would permit the Department of Justice to file civil lawsuits against individuals who share or distribute digital copyrighted works over the Internet. Proponents of the bill, authored by Sen. Patrick Leahy (VT), argue that DOJ has been hindered in enforcing criminal copyright piracy cases because of the difficulty of proving that an individual has engaged in willful illegal conduct when sharing or distributing copyrighted files. The bill also authorizes $2 million for a DOJ training program to educated federal prosecutors on digital copyright law.

The second bill, S. 1932, would make it a felony to use a video camcorder or other recording device to copy a movie being shown in a theater and to copy and distribute online a movie or recording prior to its release. Pre-release piracy, where a movie or song is copied and distributed prior to its release, has become a growing problem for the entertainment industry, according to the bill's supporters. Under S. 1932 uploading onto the Internet and sharing one copy of a pre-released work would be a felony punishable by up to five years in prison, rather than the current criminal standard requiring the distribution of 10 or more copies of works having a total retail value of more than $2,500. Senator Dianne Feinstein is a principal co-author of S.1932 with Sen. John Cornyn (TX).

The House Judiciary Committee on March 30, 2004, also approved legislation that would criminalize using a camcorder to record a movie in a theater for sharing or distributing over the Internet. That bill, H.R.

4077, also provides for the prosecution of individuals who share over the Internet over 1,000 copyrighted works or a work that is worth more than $10,000. *See,* *Bulletin, Vol. 11, No. 11 (4/02/04)*.

TWO-MONTH TRANSPORTATION EXTENSION BILL APPROVED, AFTER SENATE DELAY OVER LONG TERM FUNDING AND CONFERENCE APPOINTMENTS

Two days ahead of an expiration deadline, the House unanimously approved another temporary extension of federal transportation programs on Wednesday, April 28, 2004, by 410 to 0. The House extension bill (HR 4219) maintains current the highway and transit law and keeps surface transportation projects operating through June 30, 2004.

For most of Thursday, the Senate did not yet acted on an extension bill due to a hold placed on the measure by Sen. Christopher Bond (MO) to protest Senate Minority Leader Tom Daschle's (SD) unwillingness to appoint reauthorization conferees to consider a six-year renewal bill.

By Thursday evening, however, Sen. Bond relented, and the Senate approved the 2-month extender by unanimous consent, forwarding it to the President for signature. Had Sen. Bond's hold persisted, the result might have been a shut down or delay of federally funded highway, transit and safety funding, and the furloughing without salaries of 5,000 Department of Transportation (DOT) employees.

Since the 1998 six-year national transportation authorization bill (TEA-21) expired last October, Congress has approved two temporary stopgap measures to give lawmakers time to complete work on a long term renewal. The latest extension law enacted, in February is set to expire April 30. The House and Senate have approved different long-term bills (HR 3550 and S. 1072), neither body has selected conference committee panelists to reconcile the bills' differences, chiefly a $43 billion gap in overall funding levels. The White House has opposed both bills due to their high cost, threatening to veto any bill exceeding $256 billion over the six year period from 2004 through 2009.

Although authorizations in the House ($275 billion) and Senate ($318) bills exceed the Administration's desires, House Speaker Dennis Hastert (IL) -- who supported the $275 billion House bill – has expressed a desire to refrain from naming conferees until a funding-level agreement can be reached between the White House and House and Senate GOP leadership. Meanwhile, Sen. Tom Daschle is demanding Democratic participation in pre-conference transportation bill negotiations before he commits to naming conferees, charging that Democrats have been unfairly frozen out of too many key conference discussions this year.

Two months have elapsed since the Senate approved its transportation bill, the Safe Accountable Flexible and Efficient Transportation Act of 2004 (SAFETEA) by a vote of 78 to 12 on February 12, 2004. The House approved their version of the transportation bill, known as the Transportation Equity Act: Legacy for Users (TEALU), on April 2, 2004, by a vote of 357 to 65.

For a detailed discussion of the House surface transportation bill's provisions and various related matters, visit the California Institute website at http://www.calinst.org/transpo.htm . Much of the information available has been developed pursuant to the *Federal Formula Grants and California* project, a joint venture with the Public Policy Institute of California (PPIC).

COMPANIES & INTERIOR DEPARTMENT CONTINUE TO DISAGREE OVER OIL LEASES

Oil companies holding leases for 36 tracts off the California coast have filed plans with the Department of Interior to drill nine exploratory wells and begin new oil production. The plans were submitted under Court order in the pending lawsuit between the companies and Interior's Minerals Management Service. The oil companies are pushing the Administration to either allow them to drill or to buyback the federal leases at a cost of about $1 billion to cover their investment. The government's proposed price for the leases has been substantially lower. The U.S. District Court has ordered the parties to meet with a mediator at the end of May to try and resolve the situation.

For several years, through congressional and administrative action, new drilling for oil off the coast of Santa Barbara and Ventura Counties has been banned. There are currently 43 offshore drilling platforms operating off the coast. The 36 tracts at the center of the current dispute have been leased to companies and the leases extended several times over the years, but they cannot be developed because of the moratorium.

Interior is determining how much time it will need to review the drilling plans. Before the leases can be extended, however, the California Coastal Commission (CCC) will have to consider whether the plans comply with California's laws to protect the coast. CCC's involvement in the issue was itself the subject of a court case that was eventually confirmed by the U.S. Circuit Court for the Ninth Circuit.

The Administration of Governor Arnold Schwarzenegger has indicated that it will push for the federal government "to purchase or otherwise permanently retire" the leases, according to the California Resource Agency's Crawford Tuttle.

SMALL BUSINESS CONCERNS OVER FASB DRAFT PROPOSAL

On Wednesday, April 28, 2004 the Senate Committee on Small Business and Entrepreneurship held a hearing on the impact of stock option expensing on small businesses. The Committee, chaired by Michael B. Enzi (WY), heard testimony from two panels each consisting of individuals with positive and negative outlooks on the Financial Accounting Standard Board's (FASB) draft proposal to require companies to expense equity-based compensation -- stock options.

Chairman Enzi proclaimed his strong support for the independence of the FASB, but was disturbed that the proposal failed to mention of the small business community and how the proposal might considerably harm small companies. He also cited China's competitive edge because it grants stock options to attract and retain employees and that will put the U.S. on the losing side if stock options must be expensed. Senator Carl Levin (MI) opposed that argument and attested to his support of FASB's decision. Levin said stock options contain value, and therefore should be expensed to prevent disastrous events such as the Enron scandal, where it cooked the books by recognizing a profit without paying taxes because of stock options. He also mentioned that only 3% of small businesses use stock options. However, George Allen (VA), Evan Bayh (IN), and John Ensign (NV) each declared that stock options are good incentives for employees and implementing the new rule would produce severe consequences such as the inability to attract and hold talent and would hurt the overall competitiveness of the U.S. in a global market. Also, opponents of the FASB proposal cited the difficulty in the valuation method applied when expensing options.

In the first panel FASB Chairman Robert Herz and FASB Board Member and Chairman of the Small Business Advisory Committee, George J. Batavick, testified that it was necessary to mandate expensing stock options and commented on the provisions provided for small businesses. Herz reflected on the functions of FASB to provide and improve standards for financial accounting and reporting to both public and private enterprises. Herz also explained that FASB is listening to all sides of the story, and backed that up by staying for the entire hearing. Batavick described the special provisions in the proposal aimed at small businesses. For instance, most small businesses will be able to use value compensation using the intrinsic value method, and the proposal delays by one year the effective date for the standard for nonpublic enterprises. Dr. Douglas Holtz-Eakin, Director of the Congressional Budget Office, made the following points: first, granting stock options is equal to cash resulting as a cost to the company (hence expensing); second, valuation is difficult, but options should be recognized at their fair value; and third, the economic implications remain unchanged only the investor perception and valuation of the company will change.

In the last panel Dr. Keith Carron, CEO of DeltaNu, Jere Glover Esq. of Brand & Fulla, Marc Jones, President and CEO of Visionael, John Kavazanjian, President and CEO of Ultralife Batteries, and Christopher Schnittker, CFO of Cytogen Corporation, all opposed FASB's regulation. Everyone described their dependency on stock options, which have allowed their companies to flourish and for themselves to live the "American Dream," as Jones stated. Stephen F. Diamond, visiting professor of Law at Cornell Law School and Santa Clara University, along with Roberto Mendoza, Founder and Chairman of Integrated Finance Limited, both testified in support of the draft proposal saying it was a necessary step to increase transparency, accuracy, and credibility in the economy and would prove beneficial to small companies.

HOUSE COMMITTEE HEARS AGRICULTURAL TRADE TESTIMONY

On Wednesday, April 28, 2004, the House Agricultural Committee held a hearing to review food and agricultural trade negotiations. The Committee will hold another hearing on the issue on May 19th.

The Committee members heard testimony from the following witnesses: Ann M. Veneman, Secretary of Agriculture, U.S. Department of Agriculture; and Robert B. Zoellick, U.S. Trade Representative, Office of the United States Trade Representative.

According to Secretary Veneman, agricultural exports support 888,000 American jobs, of which 40 percent are in rural areas. In addition, each $1 billion in agricultural exports supports on average 15,000 jobs on farms in processing and manufacturing, and transporting commodities and food products. Ms. Veneman reported to the Committee members that agricultural exports are projected to be $59 billion in FY 2004, which is $2.8 billion above the level set in FY 2003. She testified that the U.S. trading outlook remains extremely positive for FY 2004 despite several setbacks, like the discovery of the "mad cow disease" in Washington state and the incidences earlier this year of low pathogenic avian influenza (AI) in the Mid-Atlantic states.

Noting that this year marks the 10th anniversary of the North American Free Trade Agreement (NAFTA), Secretary Veneman said that NAFTA is a great example of the success of trade liberalization and trade agreements. She stated that since NAFTA's passage U.S. food and agricultural exports to Mexico have doubled, reaching $7.9 billion, and exports to Canada have increased fivefold (currently at $9.3 billion), making Canada the number one destination of U.S. agricultural exports. Ms. Veneman testified that the U.S. is projected to export $9.9 billion in agricultural products to Canada in FY 2004, $7.8 billion to Japan, $7.7 billion to Mexico, and $5.4 billion to China. She noted that China has emerged as the world's top agricultural growth market over the next decade, and that it is currently America's number one market for soybeans, cotton, and hides and skins. Ms. Veneman observed in her concluding remarks that the U.S. is the world's largest agricultural exporter, where small firms account for over 90 percent of all exports.

Mr. Zoellick gave a progress report on the World Trade Organization (WTO) and the ongoing enforcement of trade laws and agreements, and also addressed several bilateral free trade agreements (FTAs) that are currently under negotiation. He testified that the U.S. has been leading the world community in its efforts to re-energize the Doha Development Agenda, the WTO's global trade negotiations. He emphasized that the U.S. continues to believe that WTO members need to agree to eliminate agricultural export subsidies by a date certain, substantially decrease and harmonize levels of trade-distorting domestic support, and seek a substantial increase in real market access opportunities both in developed and major developing economies.

Mr. Zoellick reported to the Committee that the U.S. has completed its negotiations on the Singapore and Chile FTAs, and launched discussions with a number of other countries, including Australia and Morocco (previously a closed market to American exporters). He also spoke about the enforcement of existing agreements and offered an overview of the recent gains for U.S. agricultural exporters. Mr. Zoellick joined Secretary Veneman in praising China as a major market for U.S. agricultural exports. He noted that China is now America's 5th-largest export market for agriculture. He warned, however, that China needs to increase the openness of its market and improve its WTO compliance, specifically with respect to biotech varieties of agricultural products.

For more information about this hearing, or to obtain copies of the testimony, please visit the House Agriculture Committee website at: http://agriculture.house.gov .

HOUSE COMMITTEE CONSIDERS CHANGES TO CRITICAL HABITAT DESIGNATIONS

The House Resources Committee, chaired by Rep. Richard Pombo (Tracy), held a hearing on April 28, 2004 to consider H.R. 2933, which would amend the Endangered Species Act (ESA) to change the process for designating critical habitat. The hearing focused on an ESA requirement that the federal government protect habitat along with endangered species. H.R. 2933 was introduced by another Californian, Rep. Dennis Cardoza (Atwater), and seeks to require a more thorough consideration of the economic consequences of a critical habitat designation before the habitat is protected.

The Committee members heard testimony from numerous witnesses including: Mr. Judge Manson, Assistant Secretary for Fish, Wildlife and Parks, U.S. Department of Interior; Dr. David L. Sunding, Department of Agricultural and Resource Economics, University of California, Berkeley; Ms. Kathleen Crookham, Supervisor, Merced County; Mr. Paul Kelley, Supervisor, Sonoma County; Mr. Mike Martini, Councilmember, City of Santa Rosa; and Ms. Joni Gray, Supervisor, Santa Barbara County.

Assistant Secretary Manson, in his opening statement, stressed the Department's commitment to recovery of threatened and endangered species, though he noted that such efforts oftentimes provide little additional protection for the listed habitat and consume a significant amount of conservation resources. He commended H.R. 2933 as a step in the right direction, and said that the revisions introduced in the bill will not only encompass some of the reforms that the current Administration has carried out in recent years, but will also sufficiently address the Department's concerns about the designation process now in place.

Dr. Sunding provided Committee members with information on the economic costs of the critical habitat designation with the focus on the housing industry, which represents a sector of the economy most impacted by such designations. Other industries impacted by the critical habitat designations include transportation, mining, agriculture and utilities, as well as activities of state and local governments. Dr. Sunding has previously authored a series of studies describing how the economic impacts of the critical habitat designation should be measured and identifying the groups who are most likely to be impacted. He testified that critical habitat designations effectively reduce the amount of land available for development in a region, reduce the regional stock of housing, and create unintended consequences on other resources and local planning processes. He noted that critical habitat designation adds, on average, $10,000 to the price of each housing unit being developed.

Ms. Crookham, Mr. Kelley, Mr. Martini, and Ms. Gray joined Dr. Sunding in his support of H.R. 2933. Reminding her audience that Merced County's primary industry is agriculture, Ms. Crookham described her constituency's frustration with the recently proposed designation of 1.7 million acres as critical habitat for threatened and endangered vernal pool species. That designation would have covered 26 percent – or 50 percent if combined with the already-covered government lands – of Merced County's land area. She recommended that the designation process be changed to provide affected landowners access to information and time to provide feedback to the U.S. Fish and Wildlife Service, and that the economic analysis consider lost revenue to the landowners as well as the federal, state, and local governments.

Similarly, Mr. Kelley testified that the proposed California Tiger Salamander designation would have a significant economic impact on the community he represents. He noted that there is a strategy task force involving a variety of stakeholders that has been created to identify lands to be set aside for conservation, and to craft solutions that are economically sound for the community. He testified that Rep. Cardoza's bill will, in the long run, offer better protection for threatened and endangered species.

Mr. Martini's and Ms. Gray's communities have been affected by the proposed California Tiger Salamander designation as well. Both testified that the designation will inflate their locale's affordable housing shortages, impact their water infrastructures, and disrupt their respective transportation system. Ms. Gray called H.R. 2933 a "balanced approach" in her concluding remarks, and applauded Rep. Cardoza for his efforts on conservation issues.

For more information about this hearing, to obtain copies of the witness testimony, or to view and download a recent white paper authored by Chairman Pombo, visit the House Resources Committee website at: http://resourcescommittee.house.gov .

NEW POLICY ON PACIFIC SALMON PROTECTION ANNOUNCED

On Wednesday, April 28, 2004, the Bush Administration announced that it would count hatchery-bred salmon, when it decides whether it is entitled to protection under the Endangered Species Act. The announcement represents a shift in the federal government's approach to protecting Pacific salmon. The decision means that the number of wild fish will no longer be the sole determinant of whether a salmon species is judged by the federal government to be on the brink of extinction, and could have significant economic consequences for a vast area stretching from northern Washington state to Southern California.

In support of its decision, the Administration argues that for the past 15 years, the $700 million-a-year effort to protect stream-bred wild salmon has resulted in costly environmental, housing, agricultural, and hydroelectricity production decisions. The hatchery fish, on the other hand, can be bred without ecosystem-wide modifications to highways, farms, and dams. Farm, timber and power interests have sued to remove some protections for some fish, while several environmental groups strongly oppose the Administration's decision, arguing that counting fish produced in the hatcheries cannot be relied on to save wild salmon.

According to the Administration, the decision was made in response to a 2001 federal court ruling in Oregon, which found that the federal government made a mistake by counting only wild fish, and not genetically similar hatchery fish, when it listed coastal coho salmon for protection.

House Subcommittee Addresses Resources Legislation in Markup

On Thursday, April 29, 2004, the National Parks, Recreation and Public Lands Subcommittee, chaired by Rep. George Radanovich (Mariposa), of the House Resources Committee held a hearing to consider several pieces of legislation that address noxious weed control, and other park-related bills. The Subcommittee heard testimony on H.R. 3638, which adjusts the boundary of Redwood National Park in California, H.R. 3932, a bill that amends current federal law to authorize the continued use of certain lands within the Sequoia National Park by portions of an existing hydroelectric project, and S. 144, which requires the Secretary of the Interior to establish a program to provide assistance through states to eligible weed management entities to control or eradicate harmful, non-native weeds on public and private land.

Those testifying before the Subcommittee consisted of the following witnesses: Sen. Larry Craig (Idaho); Mr. Walter D. Pagel, Manager, Eastern Region, Hydro Generation, Southern California Edison Co. (SCEC); Ms. Ruth Coleman, Director, California State Parks; Mr. Ed Salcedo, Orick, California; Mr. Don Murphy, Deputy Director, National Park Service; Mr. Scott Cameron, Deputy Assistant Secretary for Performance and Management, Department of Interior; Ms. Brenda Waters, Noxious Weed Coordinator, Idaho State Department of Agriculture; Mr. Steve Schoenig, Senior Environmental Research Scientist, Weed Management and GIS, California Department of Food and Agriculture (CDFA); Mr. Fred Grau, President, Grasslyn, Inc.; Ms. Debbie Hughes, Executive Director, New Mexico State Association of Conservation Districts; and Ms. Gabriela Chavarria, Policy Director for Wildlife Conservation, National Wildlife Federation.

Senator Craig testified that noxious weed is the second most important threat to biodiversity and soil erosion. He called the noxious weed a "quiet wildfire" that ravages not just Idaho's lands but lands across the nation. The Federal Interagency Committee for the Management of Noxious and Exotic Weeds (FICMNEW) attributed a $20 billion annual loss in the productivity of our nation's agricultural sector to damages caused by noxious weeds, according to Senator Craig. S. 144 includes $100 million annually through 2007 to carry out the weed management program. Mr. Schoenig testified that CDFA fully supports this bill. He said that CDFA strongly concurs with the funding level included in the bill, as well as its definition of "noxious weed", its restriction on funding to terrestrial weeds, and retention of the applied research component and the requirement of landowner consent and voluntary nature of the program. He further testified that CDFA is concerned that the states would require an administrative reimbursement (which is capped at 10 percent) to prioritize and select weed management area projects, establish contracts and specific performance measures, and ensure accountability.

The Subcommittee also heard testimony on H.R. 3638 and H.R. 3932. Mr. Murphy testified that the National Park Service (NPS) supports both bills. He said that H.R. 3638 will provide for more efficient and cost-effective management and protection of ecologically important resources in the coastal redwood region of northern California. Similarly, he asserted that the Department has no objection to enactment of H.R. 3932 if it is amended to provide that the permits authorized under the bill require a plan to move toward a fair market value fee for the use of the land and water at Sequoia, and that the proceeds received from the fee be retained by the Sequoia and Kings Canyon National Parks to be used for resource protection, maintenance and other park operational needs.

Introduced by Rep. Mike Thompson (St. Helena), H.R. 3638 concerns an area of ancient redwood forest land known as Mill Creek Property located in Del Norte County. The bill authorizes the National Park Service and the California Department of Parks and Recreation (CDPR) to co-manage the land within the boundary of the Park, and it also increases the statutory acreage ceiling from 106,000 acres to 133,000 acres to accommodate the addition of the 25,500-acre Mill Creek property and about 900 acres of state park lands that have been acquired since the last park boundary adjustment in 1978. Ms. Coleman, testifying on behalf of CDPR, said that the Department supports H.R. 3638. She noted that CDPR and the NPS have been jointly managing park lands at Redwood National & State Parks for the last ten years through a Memo of Understanding, and that the partnership has proved to be successful. Mr. Salsedo, on the other hand, spoke in strong opposition to the bill. He testified that H.R. 3638 would be detrimental to the economy of Del Norte and Humboldt Counties, and would result in a loss of more timber industry-related jobs.

H.R. 3932 concerns the operation of the Kaweah Hydroelectric Project located within the boundaries of the Sequoia National Park. Introduced by Rep. Devin Nunes (Pixley), this legislation will extend Southern California Edison Company's permit to operate the until 2016. The company's current permit expires in 2006. Mr. Pagel testified in support of this legislation. He said that SCEC will work with Mr. Murphy to address any concerns that NPS might have.

For more information about this hearing, please visit the House Resources Committee website at: http://resourcescommittee.house.gov .

Central Valley Survey Reveals More Good than Bad News

The Public Policy Institute of California (PPIC), partnered with the Great Valley Center, released a special addition of the PPIC Statewide Survey, called The Central Valley Survey. The survey looks at the social, political, and economic attitudes and public policy preferences of Central Valley residents. The Central Valley consists of North Valley, Sacramento Metro, North San Joaquin, and South San Joaquin. Issues concerning satisfaction with an individual's area, such as quality of life and problems with the Central Valley, governance and policy preferences, trends in economy, religion, and attitudes over time are some of the areas addressed in the survey of 2,005 participants.

Overall, 75 percent of Central Valley inhabitants consider their city or community a good place to live. Others agreed, with 53% stating that the Central Valley is headed in the right direction, and less than 32% responding it is headed in the wrong direction. Community satisfaction is greater in the North Valley (84%) and Sacramento Metro (81%) than in the North and South San Joaquin Valley (71% and 70% respectively).

When the issue of the economy was raised, some residents were more pessimistic of the future. Numbers were down from 55% (1999) to 38% of local residents feeling that the economy was good or excellent, but optimism was found in certain regions such as the Sacramento Metro area where there was an increase of 39% to 45% despite potential government lay-offs. The survey also revealed some negative feedback from residents about public services and facilities as well as infrastructure being a problem. Air pollution, seen as the most important issue ahead of the economy, jobs, population growth and development, received 45% of the participants' votes as most troublesome up from 28% (1999). Also noteworthy is that 64% of the Central Valley population is willing to have increased local sales tax to fund transportation projects. People also complained about the lack of affordable housing and displayed a decrease in confidence about local streets and roads with one in four stating public spending should give top priority to improve infrastructures.

Growing differences among Latinos and Whites also emerged in the survey, with Whites (83%) more likely to rate their communities good or excellent than Latinos (59%). The disparity is also evident over public services, such as police protection and parks and recreation. Latinos gave lower ratings to police (58%) and parks (56%) than Whites. Also, only 25% of Latinos were pleased with the availability of colleges and universities compare to 37% of white residents. Regardless of ethnic lines, more residents believe public spending should give schools top priority, with 51% of likely voters supporting an increase in property taxes to fund local schools. However, the most significant difference between Latinos and Whites was seen in computer and internet usage. The survey showed a growing gap of 34 points, with Latinos use of the Internet at 25% and Whites at 59%, and ownership of computers unchanged for Latinos compared to an increase in the computer ownership of all Central Valley residents.

Other key discoveries were 38% more residents thought precedence should be given to farms and agriculture for future water policies, as opposed to homes and residents (30%). With regard to personal finances, 37% replied they are better off today than a year ago, 14% were worse off, and 47% felt they had stayed about the same. When surveyed 42 percent of residents described themselves as politically conservative, and 69% were Republican, 22% Democrat. The Central Valley Survey has been a collaborative effort between the Great Valley Center and PPIC with other surveys conducted in 1999, 2001, 2002, and 2003. To view the discussed report online or for more information, visit http://www.ppic.org .