

proposed actions are necessary to ensure that we recover the actual costs of providing these services. We are also proposing to provide for a reasonable balance, or reserve, in the veterinary diagnostics user fee account. The reserve would ensure that we have sufficient operating funds in cases of fluctuations in activity volumes, bad debt, program shutdown, or customer insolvency. The Food, Agriculture, Conservation, and Trade Act of 1990, as amended, authorizes us to set and collect these user fees.

#### Estimated Impact of Changes in Veterinary Diagnostic User Fees

The calculation of impacts of the revision of veterinary diagnostic user fees is hindered by the difficulty in determining the elasticities of demand for the covered services and products. Therefore, Government savings are

assumed equivalent to the total additional user fee collections for each category addressed in this proposed rule. Projections of changes in collections are based on estimates of the annual volume of the affected services and products. Estimates of the annual volumes were made by the Financial Management Division of APHIS using actual volumes from prior years and input from the laboratories.

#### Change in Collections

Table 1 summarizes the estimated changes in user fee collections for FY 2004 through FY 2007 that are necessary to recover fully the costs of performing these services. These proposed changes would result in a total increase in annual user fee collections of about \$2.9 million over the period discussed in the proposed rule (from \$2.7 million at current fee levels to \$5.6 million in FY

2007). There would be increases in each year from FY 2004 to FY 2007. There would be an increase of about \$2.4 million in FY 2004, about an additional increase of \$101,200 increase in FY 2005, about a \$231,500 increase in FY 2006, and about a \$98,100 increase in FY 2007. If APHIS were to continue to collect user fees at the current rates over this time period, total collections would be approximately \$10.8 million. At the proposed rates, the total would be about \$21.4 million. Because the proposed changes in user fees are intended to cover cost changes that have already occurred and that are projected to occur over the period covered in the proposed rule, this difference of about \$10.6 million demonstrates the shortfall in cost recovery that would occur absent the changes, and, conversely, the savings to taxpayers associated with this proposal.

TABLE 1.—SUMMARY OF CURRENT AND PROJECTED COLLECTIONS OF APHIS VETERINARY DIAGNOSTIC USER FEES

User fee categories	Collections under current fee levels	Estimated additional annual collections from user fee changes				
		FY 2004	FY 2005	FY 2006	FY 2007	Total
FADDL, all .....	\$164,754	\$140,959	\$9,990	\$10,533	\$10,975	\$172,457
Identification Testing, NVSL .....	431,920	304,900	26,497	22,913	26,067	380,377
Serology Testing, NVSL .....	1,076,474	948,408	7,027	134,273	2,210	1,091,918
Pathobiology Testing, NVSL .....	89,249	29,495	4,050	4,806	4,802	43,153
Diagnostic Reagents, NVSL .....	480,692	591,526	34,045	38,130	32,866	696,587
Other Veterinary Diagnostic Services, NVSL .....	461,153	408,962	19,571	20,851	21,184	470,568
Total .....	2,704,242	2,424,299	101,180	231,506	98,124	2,855,059

The largest increase in collections would occur in FY 2004. The fee increases in FY 2004 cover cost increases that have occurred since the last revision of these fees, in addition to cost increases expected to occur in FY 2004. The increase of about \$2.4 million in veterinary diagnostic user fee collections in FY 2004 would be accounted for in the following manner. Collections from laboratory tests, reagents, and other veterinary services performed at NVSL FADDL would increase by about \$141,000; user fee collections for veterinary diagnostic isolation and identification tests performed at NVSL in Ames would increase by about \$305,000; user fee collections for serology tests performed at NVSL in Ames would increase by about \$948,000; user fee collections for veterinary diagnostic tests performed at the pathobiology laboratory at NVSL in Ames would increase by about \$29,000; user fee collections for reagents produced at NVSL in Ames would increase by about \$592,000; and user fee collections for other veterinary diagnostic services performed at NVSL

in Ames would increase by about \$409,000.

#### Impact on Users

Veterinary diagnostic services and products are provided to animal importers and exporters, veterinarians, State and Federal agencies and laboratories, commercial laboratories, educational institutions, and foreign governments. To the extent that the proposed changes in user fees would impact operational costs, any entity that utilizes APHIS veterinary diagnostic products or services subject to user fees could be affected by the proposed fee increases. The degree to which any entity could be affected depends on its market power (the extent to which costs can be either absorbed or passed on to its buyers). While the lack of information on profit margins and operational expenses of the affected entities, or the supply responsiveness of the affected industry, prevents the precise prediction of the scale of impacts, some conclusions on overall impacts to domestic and international commerce can be drawn.

The increases in user fees in this proposal represent significant percentages, primarily in the first year covered by this proposed rule. In all six categories, the average proposed fee change exceeds 80 percent in the first year and 100 percent in total over the period covered in the proposed rule. If the user fees cannot be passed on to their customers, the profit margins of some entities may decline as user fees are increased. However, new techniques now allow APHIS to better identify the true costs of providing the veterinary diagnostic services and products covered by user fees. These techniques have shown that there are considerable differences between those true costs and the user fees APHIS has been charging. Operating costs have increased since the last time these fees were adjusted. In addition, it has been shown that the direct labor portion of the fee calculations was vastly underestimated for many of the fees in previous calculations. When a user fee does not cover all associated costs, those costs are shifted away from those receiving and benefitting from the service and