

customers. In addition, the ability to obtain these reagents from APHIS enhances the purchasing laboratory's business, for without the reagents the tests would not be possible.

Other Veterinary Diagnostic Services or Materials Provided at NVSL in Ames

The proposed changes in user fees for other veterinary diagnostic services or materials provided at NVSL in Ames could generate additional annual collections of about \$409,000 in FY 2004, and about \$471,000 by the end of FY 2007. Providing check tests could account for about 47 percent of the total additional collections in this category, about \$221,000. NVSL in Ames certifies laboratories to conduct certain tests, employing "check test kits" to perform the certification. The kits consist of about 20 sera (or live organisms if it is for culture), and the laboratory conducts the test it wants to be certified to perform using the sera in the check test kit. The laboratory must get a predetermined number of the sera right (positive or negative) in order to pass and be certified to run the tests. The proposed user fees for this service should not have a significant impact on the laboratories because being certified by APHIS to conduct a test enhances their ability to attract customers who pay the laboratory to conduct tests. Another large portion of the additional annual collections would be from the proposed fee for fetal bovine serum safety test. The proposed changes to this fee are projected to generate total additional annual collections of about \$131,000 by the end of FY 2007. This fee is for testing fetal bovine serum to be sure it is free of foreign viruses. This serum is needed to grow viruses and is used by biologics manufacturers and diagnostic laboratories. Its value is high even relative to the large fee for the test.

Small Entities

The Regulatory Flexibility Act requires that agencies specifically consider the economic impact associated with their rules on small entities. The Small Business Administration (SBA) has set size criteria according to the categories of the North American Industrial Classification System (NAICS), which is used as a guide in determining which economic entities meet the definition of a small business.

The veterinary diagnostic services provided by APHIS at NVSL FADDL and NVSL in Ames are provided to determine if a disease-causing organism or chemical agent is present in body tissues or cells and to identify those organisms or agents. As such, the users

of these services and products include importers, exporters, non-APHIS veterinarians, commercial laboratories and pharmaceutical manufacturers, State laboratories, universities, and foreign governments. These users may be affected by the proposed changes to user fees for veterinary diagnostic services and products.

The SBA's criterion for a small entity engaged in importing and exporting live animals, poultry, and birds is 100 or fewer employees. The criterion for a small veterinary testing laboratory is \$6 million or less in annual sales. The criterion for a small pharmaceutical manufacturing company is 750 or fewer employees.

The number of entities specifically using the veterinary diagnostic products and services covered in this proposal that would qualify as a small entity under SBA criteria cannot be determined at this time. However, more than 99 percent¹ of the entities in livestock wholesale, poultry wholesale, and other farm product raw material wholesale (including horses and mules) can be considered small. Under NAICS, import and export merchants, agents, and brokers are included in the wholesale trade sector. According to the latest available information,² 94 percent of all testing laboratories, including veterinary testing laboratories, can be considered small. According to the 1997 Economic Census, at least 97.9 percent³ of all chemical manufacturers can be considered small. Pharmaceutical manufacturing is included in this category under NAICS. It is, therefore, likely that the majority of users affected can be considered small. However, because the overall impacts of the proposal are expected to be limited, the impacts on small entities should be limited as well.

Costs and Benefits of User Fees

User fees for veterinary diagnostic services and products are intended to meet broad economic objectives. User fees promote the internalization of the real cost of providing veterinary diagnostic services and products in consumer transaction decisions. User fees also achieve savings in Government expenditures, and, therefore, reduce the tax support necessary for the system to operate at a given level. These tax funds can then be used in other programs or to reduce taxes overall and, thus, diminish the efficiency losses associated

with the generation of taxes (deadweight loss plus collection costs).

Cost of Services

User fees reduce Government expenditures for fee-based services by shifting the burden of financing Federal services from general taxpayers to users and by curtailing the amount demanded for veterinary diagnostic service-related products. The consumer response to user fees is a movement toward a more socially optimal level of demand where users incorporate the cost of veterinary diagnostic services and products into their private costs.

As circumstances affecting the cost of providing services and products change, the amount of the user fees must be reevaluated to ensure that the user fee accurately reflects the cost of providing the services at that point in time. The socially optimal level of output, where the true cost is more fully incorporated into the transaction, is therefore maintained.

Benefits of Services

The net gain associated with the adjustment in consumer demand is quantified by subtracting the consumer welfare losses from the savings in Government expenditures. The magnitude of this gain depends on the elasticities of demand for each particular service or product (consumer responsiveness to changes in user fees). These elasticities are unknown. The demand for veterinary diagnostic services and products is intertwined with the demand for the commodities of which the products and services are inputs. However, there is no evidence to suggest that a significant change in demand for veterinary diagnostics has occurred due to the imposition or alteration of user fees in the past. When consumer adjustment is small, there is a correspondingly low net social gain.

Additional social gain can be expected from the reduction in losses associated with collecting and apportioning taxes to finance the veterinary diagnostic products and services. This reduction in losses arises from the internalization by consumers of the social cost of obtaining veterinary diagnostic products and services, and from the reduction in deadweight losses due to taxation.

Comparison of Benefits and Costs

To evaluate the overall costs and benefits of the user fee program, the two types of net benefits must be compared with the cost of the user fees. Because the demand elasticities for the veterinary diagnostic service-related products are unknown, the only

¹ U.S. Census Bureau, 1997 Economic Census.

² U.S. Census Bureau, 1992 Economic Census.

³ In 1997, 13,187 of 13,474 chemical manufacturing establishments had fewer than 500 employees.